

The London School of Economics and Political Science

**No Experiments:
Federal Privatisation Politics in
West Germany 1949–1989**

Katja Fuder

A thesis submitted to the Department of Economic History of the London School of Economics for the degree of Doctor of Philosophy, London, March 2016.

Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that this is the work of others.

The copyright of this thesis rests with the author. Quotation from it is permitted, provided that full acknowledgment is made. This thesis may not be reproduced without my prior written consent.

I warrant that this authorisation does not, to the best of my belief, infringe the rights of any third party.

I declare that my thesis consists of 92,621 words.

Statement of use of third party for editorial help

I can confirm that my thesis was copy edited for conventions of language, spelling and grammar by Maxine Montaigne.

Abstract

Privatisation has been a key policy in the late 20th century in many countries. In West Germany, the federal government sold most of its corporate industrial shareholdings to private investors between 1949 and 1989. Unlike many other countries, West Germany did not nationalise entire industries after the Second World War. Instead, the portfolio of public enterprises and participations was mainly an inheritance from the Third Reich. The aim of the thesis is to explore the causes of privatisation and the driving and delaying forces in the privatisation process between 1949 and 1989 based on qualitative historical documents.

After the sale of participations stemming from the war economy in the early 1950s, the conservative federal government of CDU and CSU and later the conservative-liberal government of CDU, CSU and FDP under the Federal Chancellors Konrad Adenauer (CDU) and Ludwig Erhard (CDU) pursued a larger scale privatisation programme by issuing people's shares between 1959 and 1965. The programme featured social elements and aimed at the property formation of employees and a wide dispersion of shares in the society. In the 1970s, public enterprises expanded under a social-liberal government of SPD and FDP, until a conservative-liberal government of CDU, CSU and FDP under Federal Chancellor Kohl (CDU) sold most of the remaining federal participations in industrial enterprises between 1984 and 1989. The total volume of privatisation as measured by revenues remained modest compared to other West European countries and strong political resistance within the government parties CDU and CSU manifested in the process.

Findings indicate a high continuity of thought and policy patterns from the 1950s until the end of the 1980s while the main reasons for privatisation shifted slightly. In the 1950s and 1960s, privatisation was primarily motivated by fiscal reasons – access to equity capital proved to be limited for the growing federal enterprises. Privatisation in the 1980s was caused by re-interpretations of the economic situation due to globally changing conditions and increased international competition. Hence, it can be interpreted as a lagged response to market crisis in the 1970s. Ideological shifts of paradigm did not drive privatisation. Rather, advocates of ordoliberalism focused on other economic reforms in the 1950s and liberal ideas in the 1980s co-developed with privatisation politics. For many decades, public enterprises were not viewed as inefficient *per se* as long as they were operating in competitive markets. This perception only began to change slowly in the 1980s.

Acknowledgments

Many people have helped and encouraged me during the process of writing this thesis. First and foremost, I would like to thank my parents for all their support and always believing in me.

Special thanks go to my supervisors Albrecht Ritschl and Oliver Volckart who have been incredibly encouraging and have given me lots of constructive advice over the years. Also, I am particularly grateful to my examiners Ray Stokes and Max Schulze for reading this thesis carefully and critically and for providing valuable feedback.

This thesis has evolved from an interdisciplinary research project on the history of regulation in Germany which was funded by the German Federal Ministry of Education and Research (*Gestaltung der Freiheit – Regulierung von Wirtschaft zwischen historischer Prägung und Normierung*).

The Institut für Demoskopie Allensbach has kindly granted me the permission to use their surveys.

Last but not least, I thank my friends in and out of the LSE for various kinds of support and for sharing good times together.

Contents

List of Tables	iv
List of Abbreviations	v
List of Cited Laws	vii
1 Introduction	1
1.1 Privatisation in West-Germany	3
1.2 Research Question	15
1.3 The International Context: Privatisation around the Globe . . .	18
1.3.1 Variations, Patterns and Contexts	19
1.3.2 Effects	25
1.3.3 Motivations	27
1.3.4 Political Economy	32
1.4 The German Context: A Literature Review	34
1.4.1 Between Myth and Reality: The <i>Wirtschaftswunder</i> and the Question of a Structural Break	41
1.5 Methodology and Sources	44
1.6 Hypothesis	48
1.7 Outline	50
2 Public Enterprises in the Federal Setting	52
2.1 The Origins of Public Enterprises	53
2.2 Under Allied Control	57
2.2.1 Handover of Administrative Responsibilities	58
2.2.2 Saving the Holding Companies	64
2.3 Solving the Ownership Question: Portfolio-Redistribution in the Federal Framework	69
2.4 Public Sector Size and Relevance	71
2.5 The Legal Framework for Public Enterprises	77
3 Orientation Phase	84
3.1 Set-up of the Federal Administration	85
3.2 Portfolio Streamlining and Reorganisation	87
3.2.1 Winding-up of the War Economy	88
3.2.2 Portfolio Reorganisation	91
3.2.3 Parliamentary Veto: The Case of Howaldtswerke	97
3.3 Privatisation Initiatives	102
3.4 The Federal State as an Entrepreneur	106

3.4.1	Limitations and Self-Perception	106
3.4.2	Price Debates 1955 and 1957	111
3.5	Financing Public Enterprises	117
3.6	From Idea to Consensus	121
3.6.1	Government under Pressure	121
3.6.2	Property Formation Policy	125
3.6.3	Dispersed Ownership	129
3.6.4	Summer 1956: Inflation Debate	132
4	People's Shares Privatisations	134
4.1	Conceptualisation	135
4.1.1	People's Shares versus Investment Funds	136
4.1.2	The Government Draft for a Volkswagen Law	138
4.1.3	Federal Elections and Ministerial Reorganisation	142
4.1.4	The Long Negotiations	145
4.1.4.1	Lower Saxony, the SPD and the Foundation Idea	147
4.1.4.2	Banks and the Question of Special Shares	149
4.1.4.3	The Social Question	154
4.2	Preussag: Trial Run for Volkswagenwerk	156
4.3	Volkswagenwerk: Compromise with Lower Saxony	164
4.4	Hesitation and New Initiatives	168
4.4.1	Privatisation versus Consolidation	168
4.4.2	People's Shares for the Private Sector?	174
4.5	VEBA: The Problem Case	177
4.6	Lufthansa Stock Market Launch	189
4.7	Epilogue & Evaluation	190
5	Stagnation 1966–1982	206
5.1	Grand Coalition: From Privatisation to Consolidation	208
5.2	Social-Liberal Coalition: From Reorganisation to Structural Policy	216
5.2.1	Capital Requirements and the Federal Holding Idea	219
5.2.2	The Public Role in VEBA and Volkswagenwerk	231
5.2.3	Structural Policy	233
5.2.3.1	Creating Concentration in the Oil Market	234
5.2.3.2	Expansion and Diversification	240
6	Retreat of the State: De-Investments 1982–1989	248
6.1	“Bonner Wende” 1982	249
6.2	Preparatory Works	252
6.2.1	The First Case: VEBA	253
6.2.2	Defining the Public Interest	258
6.2.3	The Privatisation List	269
6.2.4	The Special Case: Lufthansa	273
6.3	Step-by-Step De-Investment	279
6.3.1	The Ownership Side	282

7	Epilogue & Conclusion	287
7.1	Driving Forces of Privatisation Re-examined	288
7.1.1	Fiscal Arguments	288
7.1.2	Crisis Response	292
7.1.3	Liberal Ideas & Paradigms	293
7.1.4	Property Formation Policy	294
7.2	Epilogue	296
7.2.1	Post-privatisation Developments	296
7.2.2	Privatisation in the 1990s: Network Industries & German Reunification	299
7.3	The Rise and Fall of Public Enterprises in (West) Germany . . .	300
	Archival Sources	315
	Bibliography	316

List of Tables

1.1	Privatisation transactions 1959–1989	6
1.2	Annual privatisation transaction numbers and volumes between 1987 and 2012 according to Privatization Barometer	9
1.3	Selected transaction values 1959–1989	12
1.4	Germany’s rank in privatisation by revenues	14
1.5	Relative privatisation revenues for selected countries 1979–1991	15
2.1	Share of federal enterprises in national production	73
2.2	Share of public enterprises in gross value added	74
2.3	Share of public enterprises in gross fixed capital formation	74
2.4	Share of public enterprises in labour force	75
2.5	Share of public enterprises in GDP	75
2.6	Share of public enterprises in GDP and capital formation in selected countries	76
2.7	Net value added of federal enterprises in 1983	77
4.1	People’s shares privatisation of Preussag 1959	161
4.2	People’s shares privatisation of Volkswagenwerk 1961	167
4.3	People’s shares privatisation of VEBA 1965	185
4.4	People’s share privatisations 1959–1965	193
4.5	Share ownership in West Germany 1953 and 1961	195
4.6	Share ownership in VW 1962	197
4.7	Income distribution among shareholders 1961/1962	198
4.8	Share of population with security papers 1960	199
6.1	Largest public companies 1989	284
6.2	Participation of private investors in selected privatisations	285

Abbreviations

AG.....	.....	Aktiengesellschaft (Joint stock company)
BArch....	.....	Bundesarchiv (German National Archive)
BGBI....	.....	Bundesgesetzblatt (Federal Law Gazette)
BKAmt ...	.....	Bundeskanzleramt (Office of the Federal Chancellor)
BMBes....	.....	Bundesministerium für wirtschaftlichen Besitz des Bundes (Federal Ministry of the Treasury)
BMF.....	.....	Bundesministerium für Finanzen (Federal Ministry of Finance)
BMJ.....	.....	Bundesministerium für Justiz (Federal Ministry of Justice)
BMSchatz..	.....	Bundesschatzministerium (Federal Ministry of the Treasury)
BMWi....	.....	Bundesministerium für Wirtschaft (Federal Ministry of Economics)
CCG.....	.....	Control Commission for Germany
CDA.....	.....	Christlich-Demokratische Arbeitnehmerschaft (Christian Democratic Employees), also CDU-Sozialausschüsse (CDU Social Committees)
CDU.....	.....	Christlich Demokratische Union (Christian Democratic Union)
CEEP....	.....	European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest
CWH....	.....	Chemische Werke Hüls
CSA.....	.....	Christlich Soziale Arbeitnehmerschaft (Christian Social Employees)
CSU.....	.....	Christlich Soziale Union (Christian Social Union)
DAF.....	.....	Deutsche Arbeitsfront (German Labour Front)
Depfa....	.....	Deutsche Pfandbriefanstalt
DIAG....	.....	Deutsche Industrieanlagen Gesellschaft
Div.....	.....	Division
DKBL....	.....	Deutsche Kohlenbergbau-Leitung
DLH.....	.....	Deutsche Lufthansa AG
DM.....	.....	Deutsche Mark
DP.....	.....	Deutsche Partei (German Party)
DSL Bank..	.....	Deutsche Siedlungs- und Landesrentenbank
DVKB....	.....	Deutsche Verkehrs-Kredit-Bank AG
EU.....	.....	European Union
FDP.....	.....	Freie Demokratische Partei (Free Democratic Party)
FVP.....	.....	Freie Volkspartei (Free People's Party)
GBAG....	.....	Gelsenberg AG
GG.....	.....	Grundgesetz (German Constitution)
GmbH....	.....	Gesellschaft mit beschränkter Haftung (Company with limited liability)
IVG.....	.....	Industrieverwaltungsgesellschaft GmbH
KfW.....	.....	Kreditanstalt für Wiederaufbau
KGaA....	.....	Kommanditgesellschaft auf Aktien (limited liability company or partnership limited by shares)
Montan...	.....	Verwertungsgesellschaft für Montanindustrie GmbH
NGCC....	.....	North German Coal Control
NSDAP...	.....	Nationalsozialistische Deutsche Arbeiterpartei

OFP.....	.....	Oberfinanzpräsident (Chief Finance President)
Preussag...	.....	Preußische Bergwerks- und Hütten-Aktiengesellschaft (Prussian Mine and Foundry Company)
Preussenektra.....	.....	Preußische Elektrizitäts AG
Reichswerke .	.....	Reichswerke AG für Berg- und Hüttenbetriebe
RWE ....	.....	Rheinisch-Westfälisches Elektrizitätswerk AG, since 1990 RWE AG
SOE.....	.....	State-owned Enterprises
Subdiv. ...	.....	Subdivision
Treuarbeit ..	.....	Deutsche Revisions- und Treuhand-AG
UFA.....	.....	Universum Film AG
UFI.....	.....	Ufa Film GmbH
US/UK CCG.	.....	US/UK Coal Control Group
VAW.....	.....	Vereinigte Aluminium-Werke AG
VEBA ....	.....	Vereinigte Elektrizitäts- und Bergwerks-AG
VEW ....	.....	Vereinigte Elektrizitätswerke Westfalen AG
VIAG ....	.....	Vereinigte Industrieunternehmungen AG
VW.....	.....	Volkswagen AG
WWI.....	.....	Wirtschaftswissenschaftliches Institut (Economic Institute of the Federation of German Trade Unions)

List of Cited Laws

Name and short Form	Translation	Date and Reference
Allgemeine Kriegsfolgen-gesetz (AKG)	Act regulating the Consequences of War	5.11.1957, BGBl. I p. 1747
Aktiengesetz (AktG)	Stock Company Law	6.9.1965, BGBl. I p. 1089
Gesetz über Aktiengesellschaften und Kommanditgesellschaften auf Aktien (Aktien-gesetz)	Stock Company Law	30.1.1937, RGBl. I p. 107
Bundesgesetz zur Entschädigung für Opfer der nationalsozialistischen Verfolgung (BEG, Bundesentschädigungsgesetz)	Act regulating the Compensation of the Victims of National Socialist Persecution	18.9.1953 (retroactively), BGBl. I p. 1387, passed on 29.6.1956
Betriebsverfassungsgesetz (BetrVG)	Works Council Constitu-tion Act	11.10.1952, BGBl. I p. 681
Bundeshaushaltsordnung (BHO)	Federal Budget Act	19.8.1969, BGBl. I S. 1284
Deutsches Beamtengesetz	Public Service Code (Third Reich)	26.1.1937, RGBl. I, p. 39
Bundesbeamtengesetz (BBG)	Public Service Code	14.7.1953, BGBl. I p. 551
Bundesfassung des Deutschen Beamtengeset-zes	Public Service Code (Fed-eral Republic)	30.6.1950, BGBl. p. 279
Deutsches Beamtengesetz	Public Service Code (Third Reich)	26.1.1937, RGBl. I, p. 39
Einkommenssteuergesetz (EStG)	Income Tax Law	16.11.1934, RGBl. I, p. 1005
Erstes Gesetz zur Förderung des Kapital-markts (Kapitalmarktförderungsgesetz)	Capital Market Aid Act	15.12.1952, BGBl. I No. 53, p. 793
Gesetz über die Abwicklung der Kriegsge-sellschaften	Act regulating the Liqui-dation of War Companies	9.5.1960, BGBl. I p. 303
Gesetz über die Einbringung der Steinkohlen-bergwerke im Saarland in eine Aktienge-sellschaft	Act governing the Estab-lishment of the Saarberg-werke AG	27.7.1957, BGBl. I p. 1103

Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung (D-Markbilanzgesetz)	DM Opening Balance Sheet Law	21.8.1949, Gesetzblatt der Verwaltung der Vereinigten Wirtschaftsgebietes 1949, p. 279
Gesetz über die Gewährung von Prämien für Wohnbausparer (WoPG, Wohnungsbau-Prämiengesetz)	Housing Subsidies Act	17.3.1952, BGBI. I, p. 139
Gesetz über die Investitionshilfe der gewerblichen Wirtschaft (Investitionshilfegesetz)	Investment Aid Act	7.1.1952, BGBI. I, p. 7
Gesetz über die Mitbestimmung der Arbeitnehmer (MitbestG)	Act on Co-Determination	4.5.1976, BGBI. I p. 1153
Gesetz über die Mitbestimmung der Arbeitnehmer in den Aufsichtsräten und Vorständen der Unternehmen des Bergbaus und der Eisen und Stahl erzeugenden Industrie (MontanMitbestG)	Act on the Co-Determination in the Coal, Iron and Steel Industry	21.5.1951, BGBI. I p. 347
Gesetz über die Regelung der Rechtsverhältnisse bei der Volkswagenwerk-Gesellschaft mit beschränkter Haftung	Volkswagen Ownership Act	9.5.1960, BGBI. I, p. 301
Gesetz über die Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung in private Hand (VWgmbHÜG, VW-Gesetz)	Volkswagen Privatisation Act	21.6.1960, BGBI. I, p. 585)
Gesetz über Kapitalanlagegesellschaften (Investmentgesetz)	Investment Company Act	16.4.1957, BGBI. I 378
Gesetz zur Abwicklung und Entflechtung des ehemaligen reichseigenen Filmvermögens	Act regulating the Unbundling of the Reich Film Assets	6.6.1953, BGBI. I, p. 276
Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer (1. VermBG, Erstes Vermögensbildungsgesetz, 312-Mark-Gesetz)	First Capital Accumulation Act	12.6.1961, BGBI I., S. 909
Gesetz zur Regelung der Rechtsverhältnisse des Reichsvermögens und der preußischen Beteiligungen (Reichsvermögen-Gesetz)	Reich Property Act	16.5.1961, BGBI. I, p. 597
Gesetz zur vorläufigen Regelung der Rechtsverhältnisse des Reichsvermögens und der preußischen Beteiligungen (Vorschaltgesetz)	Provisional Act for Prussian and Reich Property	BGBI. I, 21.7.1951, p. 467
Haushaltsgrundsätze-gesetz (HGrG)	Act on Budget Principles	

Reichshaushaltsordnung (RHO)	Reich Budget Act	31.12.1922, RGBl. 1923 II, p. 17
Reichswirtschaftsbestimmungen	Reich Economic Regulations	11.2.1929, Reichsministerialblatt p. 49
Sparprämien-gesetz	Savings Premium Act	5.5.1959, BGBl. I, p. 241)
Umsatzsteuergesetz (Mehrwertsteuer)	Value Added Tax Act	29.5.1967, BGBl. I, p. 545
Vertrag über die Regelung der Rechtsverhältnisse bei der Volkswagenwerk-GmbH und über die Errichtung einer 'Stiftung Volkswagenwerk' (VwGmbHVtr)	Volkswagen Ownership Contract	12.11.1959
Viertes Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer (4. VermBG, Viertes Vermögensbildungsgesetz, 936-Mark-Gesetz)	Fourth Capital Accumulation Act	6.2.1984, BGBl. I, p. 201
Zweites Gesetz zur Änderung des Gesetzes zur Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung (Zweites Volkswagenänderungsgesetz)	Second Volkswagen Law Amending Act	31.7.1970, BGBl. I, p. 1149
Zweites Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer (2. VermBG, Zweites Vermögensbildungsgesetz, 624-Mark-Gesetz)	Second Capital Accumulation Act	1.7.1965, BGBl. I, p. 585

Chapter 1

Introduction

Privatisation has been a key policy in the 20th century in many countries around the globe. In West Germany, privatisation started in the 1950s – significantly earlier than in most other European countries. The West German federal government sold most of its shareholdings¹ in the industrial sector completely to private investors between 1959 and 1989. Federal shareholdings in infrastructure sectors followed from 1989 onwards. The portfolio of public shareholdings was mainly an inheritance of the Third Reich and had been built over decades by the Reich and Prussia. Unlike other Western European countries, Germany had not nationalised entire industries after the Second World War.

The aim of this thesis is to explore the reasons for privatisation in West Germany and to examine the factors which have shaped the privatisation process. To do so, the thesis will draw on an extensive range of sources, primarily government sources. In order to understand privatisation, the relationship

¹ In the context of this thesis, public shareholdings include public enterprises and public participations in enterprises and exclude other forms of public undertakings. Hereafter, the term participation denotes public equity participations of all sizes in enterprises with several owners. Public enterprises include all enterprises with a public (federal, state and/or municipal) participation of at least 50%. The terms federal shareholdings, federal participations and federal enterprises are used accordingly. In a large part of the literature, the term “state-owned enterprises” (SOE) is used. However, the term public enterprise is preferred in the context of this thesis in order to avoid a possible mix-up of the general term “state” and the German states. Yet, the term public enterprise should not be confused with the term “public company”. According to common notion, public companies are companies which are listed at the stock exchange. In Germany, this includes only listed joint stock companies.

between privatisation and the understanding of the role of the state in the economy will be analysed.

West German privatisation as a historical phenomenon has not been extensively studied. Comparative studies reflect the poor level of knowledge, data sets have remained incomplete and the case of West Germany is only rarely or superficially cited despite the distinct features arising from the facts that privatisation started earlier than in most Western European countries and that Germany had not nationalised industries after the Second World War. The abundant qualitative sources allow me to shed light on the politics of privatisation and explore how selling public enterprises has altered the German economy and society.

The following sections will show that the extent of privatisation lagged that of other Western European countries. However, I regard German privatisation as important and will examine it for two reasons: First, the German economy has become one of the largest economies in the world after the Second World War. In particular the economically successful post-war years have been extensively studied and the state has been ascribed several roles in this process. While some scholars emphasise the role of setting the framework for economic activity in line with the ordoliberal view, other scholars have described a more active and economically engaged state. However, the role of the state as a shareholder has not received much attention. Views on public ownership can serve as a window into more general concepts of the state and its role in the economy. Second, the story of industrial privatisations is the pre-story of the larger privatisations in the 1990s which include the privatisation of infrastructures such as telecommunication and postal services and the sale of public enterprises in East Germany after reunification. Understanding the concepts and possible problems of privatisation prior to the 1990s can help us to gain a better understanding of subsequent privatisation policies.

1.1 Privatisation in West-Germany

At the end of the Second World War, West Germany inherited a mixed portfolio of shareholdings which had been built over decades by the Reich and Prussia. Those state-owned shareholdings were the result of a tradition of state-ownership before 1945. The state-owned sector was transferred from the German Reich over to the new West German state. It consisted of a broad range of companies especially in infrastructure, mining, energy, chemical production, banks and insurance.

The federal government started to unwind the war economy and to unbundle and liquidate small-scale enterprises in the early 1950s. A number of small shareholdings were transferred into private ownership by the Ministry of Finance; some of the sales had been provided by the British and American military governments. At the same time, private sector associations and liberal politicians extensively promoted the privatisation of the large industrial federal enterprises and participations. Larger corporate shareholdings were sold in two privatisation waves: the first one under the conservative-liberal governments of Konrad Adenauer (Christian Democratic Union, CDU) and Ludwig Erhard (CDU) between 1959 and 1965, and the second one under the conservative-liberal Kohl government between 1984 and 1989. In between, privatisation was interrupted, first by a grand coalition of CDU, the CDU's sister party in Bavaria Christian Social Union (CSU) and Social Democratic Party (SPD), and later by a social-liberal government coalition of SPD and Free Democratic Party (FDP).

The Adenauer and Erhard governments pursued a larger scale privatisation programme from the mid-1950s onward. Privatisation was implemented by the Ministry of the Treasury, a small ministry which was established for this purpose in 1957.² Over a period of six years, the federal government sold major shares of three large companies by issuing so-called people's shares on domestic stock markets: the car manufacturer Volkswagenwerk GmbH

² Unlike suggested by the name, the Ministry of the Treasury did not replace the Ministry of Finance or the Ministry of Economics; the three ministries co-existed between 1957 and 1969.

(since the first partial privatisation in 1960: Volkswagenwerk AG; since 1985: Volkswagen AG, short: VW), the large energy holding company Vereinigte Elektrizitäts- und Bergwerks AG (short: VEBA, since a merger with VIAG in 2000: E.ON AG) and its energy and mining company subsidiary company Preußische Bergwerks- und Hütten-AG (short: Preussag, since 2002: TUI AG). In 1965, a stock market decline shortly before the federal elections dampened the high expectations of buyers, political approval plummeted and forces of inertia became stronger. In light of these developments, the new grand coalition of CDU/CSU and SPD, which had been formed in 1966 after the conservative-liberal coalition of SPD and FDP had been ended after just one year, abstained from privatisation. Under a social-liberal government which abolished the Federal Ministry of the Treasury and transferred its responsibilities to the Ministry of Finance, federal enterprises expanded and took on public tasks.

Privatisation was resumed after a change of government in 1983. The new conservative-liberal government under Kohl pursued a programme of a 'lean government'. Between 1983 and 1989, industrial shareholdings were sold in the form of traditional share issues, still aiming at dispersed ownership but without social elements. This second privatisation wave included industrial enterprises such as Salzgitter AG,³ Vereinigte Industrieunternehmen AG (short: VIAG, since a merger with VEBA in 2000: E.ON AG) and Industrieverwaltungsgesellschaft mbH (short: IVG; until 1951: Verwertungsgesellschaft für Montanindustrie GmbH, short: Montan). By the end of 1989, most federal industrial shareholdings had been transferred into private hands. Exemptions were the aerospace industry and Saarbergwerke AG. Deutsche Lufthansa AG was only passively privatised by equity increases financed with private capital until 1989.

1989 marks the end of the first privatisation period in Germany. In 1990, a second period began. This had to do with two developments: First, the German reunification led to the necessity to unwind the poorly capitalised,

³ Salzgitter AG was established in 1937 as Reichswerke Hermann Göring; renamed Reichswerke AG für Berg- und Hüttenbetriebe (short: Reichswerke) in 1951 and Salzgitter AG in 1962. I will use the full name Salzgitter AG throughout the thesis in order to avoid a confusion with the town of Salzgitter where the company is located.

inefficient East German public enterprises. Second, by 1989, most shareholdings in manufacturing had been sold to private investors. Privatisation from the 1990s onwards focused on state monopolies and infrastructures and hence reached a new dimension. Yet, public enterprises, in particular in the area of responsibility of the Federal Ministry of Transportation, have increased in recent decades. In many cases, mixed ownership structures with participations of local authorities, such as the Frankfurt airport corporation FRAPORT, have been created. Also, at the local level there has been a recent counter-trend with attempts to re-municipalise privatised municipal enterprises.⁴

Table 1.1 provides an overview of privatisation transactions on the federal level between 1959 and 1989. As can be seen, the government reduced its shares step-by-step. The table contains mainly active privatisation transactions. Not captured is the passive privatisation of Lufthansa, where the government reduced its stake from 100% to 56% between 1953 and 1989 by not participating in equity increases. Between 1987 and 1989, the federal government raised more than 180 million DM from the sale of Lufthansa subscription rights. The passive privatisations of VW, VEBA and VIAG are incorporated to avoid unexplained downward jumps in the government share. The initial federal share in Volkswagen is indicated as non-existent because of the unclear ownership situation of Volkswagenwerk prior to privatisation. Revenues are not recorded in those cases, where the federal government has not been the recipient. This includes the privatisation of indirect shareholdings such as Preussag and Deutsche Verkehrs-Kredit-Bank AG (DVKB), and VW, where revenues have been transferred to the Volkswagenwerk Foundation.

⁴ Libbe, Hanke, and Verbücheln (2011).

Table 1.1: Privatisation transactions 1959–1989

Year	Company	Method	<u>Federal share before</u>		<u>Federal share afterwards</u>		<u>Sold shares</u>		Transaction value (mill. DM)	<u>Federal revenues</u>	
			nom. value (mill. DM)	in % of share capital	nom. value (mill. DM)	in % of of share capital	nom. value (mill. DM)	in % of share capital		(mill. DM)	in % of fed. budget
1959	Preussag	IPO, SR	75.0	100.0	23.5	22.4	81.5	77.6	118.2	n.a.	n.a.
1961	VW	IPO	n.a.	n.a.	120.0	20.0	360.0	60.0	1,029.6	n.a.	n.a.
1965	VEBA	IPO, SR	450.0	100.0	297.0	36.0	528.0	64.0	1,108.8	312.0	0.07
1984	VEBA	PO	737.1	43.8	505.1	30.0	232.0	13.8	802.7	769.2	0.14
1985	VEBA	ES, EOS	505.1	30.0	505.1	25.5	-	-	n.a.	n.a.	n.a.
1986	VIAG	IPO	506.9	87.4	274.9	47.4	232.0	40.0	765.6	730.2	0.12
	VW	SR	240.0	20.0	240.0	16.0	-	-	n.a.	111.4	0.02
	IVG	IPO	110.0	100.0	60.5	55.0	49.5	45.0	163.4	154.9	0.03
1987	VEBA	PO	505.1	25.5	-	-	505.1	25.5	2,525.6	2,418.6	0.40
	Treuarbeit	ESO	9.3	45.0	6.3	30.5	14.5	3.0	n.a.	10.5	0.00
1988	VW	PO	240.0	16.0	-	-	240.0	16.0	1,142.4	1,094.0	0.17
	VIAG	PO	274.9	47.4	-	-	274.9	47.4	1,041.3	1,223.6	0.19
	DVKB	IPO	75.0	100.0	56.3	75.1	18.7	24.9	36.2	n.a.	n.a.
1989	Treuarbeit	ESO	6.3	30.5	5.3	25.5	1.0	5.0	n.a.	4.0	0.00
	DSL Bank	IPO	253.4	99.0	112.7	51.0	105.0	48.0	222.9	225.7	0.03
	Salzgitter AG	PS	425.0	100.0	-	-	425.0	100.0	2,452.0	2,452.0	0.38

Sources: Knauss (1993), p. 155, 164, 169; Erdmeier (2000), p. 114, Annual Federal Budget Reports. For the calculation of transaction values see Table 1.3.
(I)PO=(Initial) Public Offering; ES=Exchange of Shares; ESO=Employee Share Offer; SR=Sale of Subscription Rights; PS=Private Sale

The step-by-step privatisation of industries led to a gradual transformation of ownership structures. In particular, the three partial people's shares privatisations created mixed ownership structures and secured a certain role for the state, following the German tradition of a mixed economy. In some cases, the sale of assets were combined with an increase in equity for the companies.

The framework which was chosen for privatisation until 1965 had a strong social dimension. The means by which the main share of federal shareholdings was sold in the 1950s and 1960s hence became known as a social privatisation. Shareholdings were sold through share issues to small and medium income households featuring financial concessions. This was meant to attract new classes of shareholders and stimulate wealth formation of the lower income classes. People's shares privatisation can be described as a mixed form between share issue and voucher privatisation and was aimed at dispersed ownership. The share issue featured additional social elements to attract low- and medium-income households. This design was embedded in a broader political programme of the conservative party which aimed at private capital formation of small- and medium-income households – a core concept of the conservative employees' association. People's shares became the prominent counter-programme to socialist ideas.

The main features of people's shares were a small denomination and issue conditions with social elements, such as financial discounts for low-income households. Purchase restrictions were imposed to limit the number of shares per buyer and create dispersed ownership. That way, VEBA became the world's second largest public corporation in terms of the number of shareholders after American Telecom. In all three privatisation cases, demand for the issued people's shares was much higher than expected.

Until 1989, privatisation attempts focused on federal enterprises which belonged to the *Erwerbswirtschaft* – a term that described the market-based profit-oriented sector of an economy in contrast to the non-profit sector. This terminology was associated with a dualistic view of the economy which differentiated between the profit-oriented part of the economy which was based on market mechanisms, driven by the profit-maximizing behaviour of the indi-

viduals, and *Gemeinwirtschaft* (non-profit sector) as the part of the economy which was concerned with the welfare of the society and required a continuous form of state intervention and public entrepreneurship. The non-profit sector included all public services such as railways, energy, communication and water supply and was inseparably connected with the idea of *Daseinsvorsorge* (public provision of basic services). This term describes the idea that the state has a duty to supply the services of general interest.⁵ In line with this dualistic view, the German Federal Railway *Bundesbahn* and the German Federal Post Office *Bundespost* were part of the federal administration as special federal assets and not regarded as enterprises with the intention or even suitability to make profits. They were not considered for privatisation until the 1990s. After the European liberalisation of network industries, the German Federal Post Office and the German Federal Railway were transformed into corporations with their own legal entity in the form of joint stock companies. While the newly created Deutsche Bahn AG remained in public hands, Telekom AG and Post AG were partially privatised. In the case of Telekom, the federal government abstained from participating in the equity increase when the so-called *T-Aktien* (T-shares) were issued in 1996. This label was referring to the people's shares privatisations of earlier decades.

⁵ See for example Ritschl (1931).

Table 1.2: Annual privatisation transaction numbers and volumes between 1987 and 2012 according to Privatization Barometer

Year	Transaction value (mill. US\$)	Public offers (mill. US\$)	Private sales (mill. US\$)	Public offers (no.)	Private sales (no.)	Transactions (no.)
1987	275.60	275.60	0.00	1	0	1
1988	816.60	816.60	0.00	3	0	3
1989	1,751.00	682.60	1,068.40	2	1	3
1990	306.87	0.00	306.87	0	2	2
1991	2,877.48	240.70	2,636.78	1	45	46
1992	565.09	0.00	565.09	0	19	19
1993	563.62	0.00	563.62	0	9	9
1994	4,906.99	2,140.00	2,766.99	2	11	13
1995	1,302.98	0.00	1,302.98	0	5	5
1996	13,993.48	12,487.00	1,506.48	1	3	4
1997	6,567.40	2,480.50	4,086.90	1	8	9
1998	3,282.69	814.30	2,468.39	2	8	10
1999	13,356.78	10,365.50	2,991.28	2	7	9
2000	19,373.29	17,391.80	1,981.49	2	6	8
2001	4,571.34	656.90	3,914.44	1	4	5
2002	420.98	0.00	420.98	0	2	2
2003	1,322.52	1,221.40	101.12	1	2	3
2004	15,440.70	6,321.48	9,119.22	2	11	13
2005	3,632.29	3,240.73	391.56	2	3	5
2006	10,546.74	1,652.20	8,894.54	1	6	7
2007	9,163.06	3,258.50	5,904.56	2	7	9
2008	10,177.67	0.00	10,177.67	0	7	7
2009	6,814.53	0.00	6,814.53	0	2	2
2010	5,543.79	0.00	5,543.79	0	8	8
2011	0.00	0.00	0.00	0	0	0
2012	2,465.92	1,224.27	1,241.65	1	10	11
Total	140,039.39	65,270.08	74,769.31	27	186	213

Source: Privatization Barometer, <http://privatizationbarometer.com/> (last access: March 2016).

Table 1.2 provides an overview of privatisation transactions and volumes in Germany between 1987 and 2012 according to the database Privatization Barometer. The data from Privatization Barometer suggest that privatisation only really picked up in the mid-1990s. The number of private sales in contrast to public offers was exceptionally high between 1991 and 1949. This reflects the sale of East German enterprises by the *Treuhandanstalt*, a government agency which had been assigned the task to unwind and privatise the East German economy. The relatively high volume in 1989 reflects the sale of Salzgitter AG.

However, there are some problems associated with the Privatization Barom-

eter database. First, the database does not list accessible and sufficient sources for the data input. Second, the methodology of the calculation of transaction values is not clear. It is not indicated whether the figures are nominal or adjusted. Third, the database contains no data for Germany prior to 1987, although privatisation transactions took place. And fourth, my own calculations (see Table 1.3) find considerably higher transaction values for the privatisations of VEBA and VIAG in 1987 and 1989 than those which are listed in the database.

These problems matter because according to information provided by Privatizationbarometer⁶ and World Bank⁷, Privatization Barometer is the official provider for the World Bank and the OECD of data on European countries. It also provides information on privatisation revenues for the DICE database of the CESifo.⁸

In addition to these issues, there is the question of how to deal with passive privatisations through equity increases. The capital raised in the Telekom AG stock market launch did not involve a sale of government shares. The federal government did not participate in the equity increase and sold its subscription rights, but did not receive revenues other than that. Instead, funds generated through the equity increase in Telekom's IPO remained within the enterprise. Despite this, the Telekom AG public offering is listed with a transaction value of US\$ 12,487 million in the database. Listing passive privatisations can lead to misinterpretations when the transaction volumes are used as proxies for government revenues or revenues from privatisation, since the transaction does not necessarily mean funds for the government but for the enterprise itself. If equity raised by passive privatisations is meant to be included in the transaction volumes, the privatisation volume before 1990 is relatively underestimated because the passive privatisation and reduction of the government stake in Lufthansa from 100% to almost 50% between 1953 and 1989 is missing in the Privatization Barometer database. Another issue is

⁶ <http://www.privatizationbarometer.com/about.php> (last access: March 2016).

⁷ <https://data.worldbank.org/data-catalog/privatization-database> (last access: March 2016).

⁸ <http://www.cesifo-group.de/ifoHome/facts/DICE/Public-Sector/Public-Enterprises-Privatisation.html> (last access: March 2016), see also CESifo (2010).

that a significant number of Telekom and Post shares were sold to the German state-owned development bank *Kreditanstalt für Wiederaufbau (KfW)* (Reconstruction Credit Institute) in 1997, 1998 and 1999. This created revenues for the federal government, but the stakes remained indirectly state-owned owned.

Before Privatization Barometer was launched, data were mainly provided by the OECD. The reports published in 1999 and 2001 differ significantly with respect to sales volumes. The Telekom AG share issue from 1996 seems to be included in the 2000 report but not in the 2002 report, since the 2000 figure of 1996 is exceptionally high, whereas the 2002 figure is not.⁹ Most quantitative studies which use privatisation revenues or volume as a variable use either of the named sources.¹⁰ Hence, it can be assumed that these papers do contain some considerable inaccuracies in the case of Germany. They seem to structurally underestimate the privatisation volume prior to 1990 while government revenues in the 1990s and 2000s can be structurally overestimated, depending on the source.

My own calculation of privatisation transactions in the years 1959 to 1989 is shown in Table 1.3. Transaction values have been calculated as the market value of privatised shares. In the case of Salzgitter AG, the transaction value is the sales price. The data show that early privatisation volumes were larger than the Privatizationbarometer suggests and deserve more attention than they have received to date.

⁹ For a comparison, see tables in OECD (2000), p. 46, and OECD (2002), p. 46.

¹⁰ These include Schneider (2003), Clifton, Comin, and Fuentes (2003), Clifton, Comin, and Fuentes (2006) and many more.

Table 1.3: Selected transaction values 1959–1989

Year	Company	Nom. value of sold	Issue price	Transaction value		Privatization Barometer
		shares (mill. DM)	per 50 DM share	(mill. DM)	(mill. US \$)	(mill. US \$)
1959	Preussag	81.5	72.5	118.2	28.3	-
1961	VW	360.0	143.0	1,029.6	259.4	-
1965	VEBA	528.0	105.0	1,108.8	276.9	-
1984	VEBA	232.0	173.0	802.7	294.7	-
1986	VIAG	232.0	165.0	765.6	329.5	-
1986	IVG	49.5	165.0	163.4	81.3	-
1987	VEBA	505.1	250.0	2,525.6	1,381.5	275.6
1988	VW	240.0	238.0	1,142.4	676.2	675.8
1988	VIAG	274.9	210.0	1,041.3	616.3	129.7
1989	Salzgitter AG	425.0	n.a.	2,452.0	1,307.2	1068.4

Sources: Knauss (1993), p. 155–169; Erdmeier (2000), p. 114, Annual Federal Budget Reports.

All values are in current prices. Exchange rate: first day of the month of transaction.

Such database errors can have an impact when privatisation volumes of several countries are compared. Also, different types of variables for revenues and different time frames can have a strong impact on rankings. The leading role of the UK for example becomes weaker over time when other countries followed.

Table 1.4 provides accumulated revenues and Germany's ranking in different country samples for different periods from five papers. While all papers see Germany on a high rank in terms of absolute privatisation volumes, Germany is ranked low in terms of privatisation volume per head or relative to GDP:

Table 1.4: Germany's rank in privatisation by revenues

Paper	Roberts and Saeed (2012)	Zohlnhöfer and Obinger (2006)	Bortolotti (2004)	Megginson (2005)	Clifton, Comin, and Fuentes (2006)	
Source	PB	OECD 2002	PB	Privatisation Int.	PB	PB
Time period	1988–2006	1990–2001	1977–2003	1977–1999	1977–1992	1993–2003
Country sample	OECD	OECD	Europe	34 countries, mixed	EU 14	EU 14
Unit	mill UD \$ (2000)	mill US \$ (current)	mill US \$ (current)	mill US \$ (current)	mill US \$ (current)	mill US \$ (current)
Volume	113,600	21,711	80,658	71,577	6,593.00	71,430
- Rank	4 of 50	7 of 21	3 of 23	6 of 34	3 of 14	2 of 14
Per head		265			949	
- Rank		20 of 21			13 of 14	
In % of GDP		1.22	4.00	3.54	3.70	
- Rank		20 of 21	21 of 23	23 of 34	13 of 14	

Sources: Roberts and Saeed (2012), p. 55; Zohlnhöfer and Obinger (2006), p. 32; Bortolotti (2004), pp. 10–11; Megginson (2005), p. 92
 Clifton, Comin, and Fuentes (2006), p. 743.

Only a few country comparisons go back further than the 1980s or even the 1990s. Table 1.5 ranks countries for the period before 1990:

Table 1.5: Relative privatisation revenues for selected countries 1979–1991

Country	Privatisation period	Accumulated privatisation revenues as a percentage of average annual GDP over the privatisation period
UK	1979–91	11.9
Portugal	1989–91	4.3
France	1983–91	1.5
Italy	1983–91	1.4
Sweden	1987–90	1.2
Netherlands	1987–91	1.0
Austria	1987–90	0.9
West Germany	1984–90	0.5
Spain	1986–90	0.5

Source: Bös (1993), p. 100, based on Stevens (1992), p. 6.

Table 1.5 clearly shows the pioneering role of the UK. In terms of revenues relative to GDP, West Germany and Spain rank last. However, the paper does not list its sources so the data could not be verified.

Although comparative studies can vary due to the named difficulties, one characteristic of German privatisation becomes evident: Compared to other countries, in particular the UK, German privatisation looks more like a continuous process which has started comparatively early, before the emergence of a neo-liberal, pro-market *Zeitgeist* and global privatisation waves. Maybe it has never received the attention which other countries have attracted because it was so relatively undramatic.

1.2 Research Question

At the end of the Second World War, Germany’s portfolio of public enterprises was similar to that of other Western European countries. In the first legislation

period from 1949 to 1953, the German government had already decided to start selling smaller shareholdings from its portfolio. Privatisation was then pursued on a larger scale in the third and fourth legislation period from 1957 to 1965. On the one hand, this is surprising and it raises the question of what inspired politicians in the 1950s and 1960s to start selling industrial enterprises, while most other European governments were nationalising entire industries. On the other hand, privatisation is unsurprising because it seems to fit well into the idea of a social market economy where the role of the state is to set the framework for economic activity instead of participating in the economy itself.

This thesis analyses privatisation politics in West Germany between 1949 and 1989 against this background and the tension which it creates. It aims to identify driving and delaying forces of privatisation, looks into the political decision-making and negotiation process and evaluates the nature of change which privatisation brought about.

Several dimensions are of interest in order to fully capture the privatisation phenomenon. A first dimension is the actual nature of change which the term privatisation captures. Research distinguishes between two main forms of privatisation: formal and substantial privatisation. Formal privatisation means the shift of government agencies and public corporations into companies regulated by corporate law, but still owned by the state. Substantial privatisation means that the ownership of assets of a company which is already regulated by corporate law is transferred from state to private investors. This is the form of privatisation usually referred to when speaking about privatisation. Formal privatisation is regarded as the first step towards ‘real’ privatisation. It has, however, been controversial to speak of formal privatisation, since the term is misleading.¹¹ Both forms of privatisation include a broad range of varieties. State-owned services can be run more or less directly and strictly by the state. Substantial privatisation can occur in different grades, from small partial sales to keeping controlling shares to full privatisations.

Ownership itself is not a binary variable which takes either the value ‘state’ or ‘private’. State ownership can come in various forms on a contin-

¹¹ Bös (1993), p. 96.

uum with more or less state involvement, so there are different qualities of state ownership with and without private participation. Beyond ownership, the state can control private companies through regulatory measures. Hence, before looking at privatisation, it is necessary to understand how the state itself perceived its role as an enterprise owner, whether it behaved like an active entrepreneur or remained relatively passive in the background and exercised little control over the management. This thesis focuses on substantial privatisation. Hence, the changes in ownership and control structures following the sale of assets will be examined. Central questions are: Was there a desired outcome concerning the new structures? And if there was, how did the state implement the desired outcome and how does it compare to the actual outcome? What was the role of particular interests in this process? And since privatisations in the 1950s and 1960s were aimed at dispersed ownership: how was the reduction in state control meant to be replaced, given that dispersed ownership can lead to monitoring problems?

A second dimension which is closely connected with forms of privatisation is the role of the state in the economy. A central question is whether privatisation was primarily stimulated by a shift in paradigms. With the example of the UK policy under Prime Minister Margaret Thatcher in mind, it is often assumed that privatisation was the result of a change of economic ideas towards a more market-based approach. Whether such ideas, for example in the form of German economic concepts such as ordoliberalism and the social market economy, played a significant role remains to be examined. Ordoliberalism was a specific form of German liberalism which developed in the 1930s. Beyond purely ideological factors, fiscal factors could have been of major importance.

A third dimension is the analysis of political processes. What were the conditions which created change? And in particular: was external pressure necessary or was privatisation more internally motivated? Factors which need to be taken into account are voters and the organisation of the political system, both on the state and party level. The central question focus on how political coalitions were formed and the role which federalism played.

Federalism can be regarded as an important factor in two ways. First, the states of Germany have a significant impact on the federal decision-making process through the second chamber, the *Bundesrat*. Second, the states had considerable stakes in enterprises themselves. The *Landesbanken*, the banks founded and owned by the states of Germany, which were established after the Second World War acquired considerable portfolios of participations. Each state followed its own policy of state ownership and privatisation, based on the respective political majorities, so that a collective examination is rather difficult. The federal state will be the focus of this thesis because this is where the most significant political debates took place and where privatisation began. However, some enterprises had mixed ownership structures with participation of one or more German states and the federal state. Hence, privatisation on the federal level had a possible impact on the state level. One reason why the German states were possibly more reluctant to privatise could be that public enterprises were more important for the states as instruments for regional and structural policy. One example for such a long-term strategic participation is the 20% stake of Lower Saxony in VW.

1.3 The International Context: Privatisation around the Globe

Privatisation has been one of the key policies in different parts of the world since the 1970s and has been discussed intensely in both politics and academia. It has received much attention following the liberalisation and privatisation policies in Western Europe and the breakdown of the communist regimes in Eastern Europe and the Soviet Union. Although a global phenomenon, variations in the timing and intensity of privatisation across the world and Western Europe have occurred. Scholars have tried to identify and explain those different outcomes.

In Western Europe, privatisation has often been seen in the contexts of a new neo-liberal paradigm, the European market liberalisation and fiscal challenges from the European market integration. In post-communist countries,

privatisation has a stronger political connotation. There, privatisation of public enterprises has functioned as a core element of the transition of socialist planned economies into market-based economies. Approaches and outcomes of privatisation varied considerably between countries. The comparative political reform literature has attempted to explain these different results by drawing on interest group theories and the extremely different privatisation methods which have been imposed. A typical approach has been to explain privatisation in terms of regulatory capture in post-communist countries with weak governments and strong interest groups. For Western Europe, capture theories have played a more marginal role.

The literature on privatisation is vast. General research covers four different areas which will be examined in more detail in the next sections: A first group of studies examines patterns of privatisation and correlations with economic and political variables. These variables are often derived from or related to theoretical considerations about factors which might play a role in the privatisation process. A second group focuses on the effects of privatisation. A third group examines motivations for privatisation based on empirical findings, and a fourth group analyses the political process of privatisation.

1.3.1 Variations, Patterns and Contexts

Previous research has noted that there is a huge variability of privatisation policies and experiences across and within countries, even within a relatively small and homogeneous group of countries such as the ‘old’ European Union before its enlargement in 2004. For example, UK and France were the early privatisers, in Scandinavian countries, an active policy of state-ownership has been maintained, where companies are organised in private law form¹² and have to face market competition – similar to Germany – and Spain turned towards a gradual de-investment policy in the 1990s.¹³ Similarly, privatisation in Eastern Europe and the former Soviet Union varies significantly between countries. Experiences range from mass voucher privatisations in Czechoslovakia and

¹² Companies which are governed by private law, such as stock company law, are referred to as private law companies or companies in private law form.

¹³ Clifton, Comin, and Fuentes (2003) and Clifton, Comin, and Fuentes (2006).

early post-communist Poland to share offerings in later post-communist Poland and to asset and block sales in Hungary, East Germany and Russia.¹⁴ Despite the variability, research has identified typical patterns of privatisation and the context in which it is more likely to occur. This can help to identify what motivated privatisation in the first place. A small group of studies focuses on how privatisation is implemented, a larger group looks at factors which determine the privatisation volume.

Jones, Megginson, Nash, and Netter (1999) find that governments often sell large fractions of public enterprises, but not entire enterprises through stock market offering. This procedure is called a share issue privatisation (SIP). Most SIPs are fixed-price offerings. Often, shares are sold at discounted prices and preferably offered to domestic and retail investors. In most cases, offerings are oversubscribed. Typically, a fraction of shares is sold to employees, often with favourable terms such as discounts and lenient payment schedules. In most cases, the government keeps enough shares to be still able to control the privatised company. Furthermore, it is shown that initial returns capturing underpricing are positively correlated with the fraction of the firm's capital sold and the degree of income inequality in a country. This suggests that underpricing is used to attract the support of middle class voters. Those findings have been confirmed by other studies.¹⁵

Given that privatisation often occurs gradually, the question of the choice of companies remains: What factors determine the selection of companies that are privatised first? One theory is that it is the companies with the worst economic performance that the state tries to sell off first for fiscal reasons. Yet, previous research has shown that the opposite seems to be true: privatisation appears to be more likely for companies with a good economic performance. Dinc and Gupta (2011) find that in India, the likelihood of a company being privatised early increases with the profitability. It decreases with the size of the wage bill, when the company is located in regions with strong political competition between parties and when a company is located in the home state of the

¹⁴ As a more recent example, Bayliss (2005) finds significant differences between privatisation policies and outcomes in Serbia and Bosnia Herzegovina.

¹⁵ For a survey of early empirical studies on privatisation see Megginson and Netter (2001), Chapter 3: How do countries privatise, pp. 68–101.

minister in charge. They suggest that a high profitability is correlated with higher privatisation revenues and is therefore more favourable for governments in the short-run.

The second group of studies looks at determinants of the privatisation volume. Transaction volumes or revenues from privatisation have been widely used to measure the level of privatisation. However, the different forms of privatisation, particularly formal and substantial privatisation, make it difficult to measure. Transaction volumes and revenues capture only substantial privatisation and neglect formal privatisation. Yet, the advantage of this variable is that, in contrast to simple measures such as the number of privatised firms, it captures partial privatisation. While they do not identify causalities, those studies have found a number of factors which are correlated with the likelihood of privatisation. The identified factors give us an idea about the potential motivations and intentions which may have played a role in the privatisation decisions of a country. They describe typical contexts in which privatisation occurs and can point to potential causes, accelerating and delaying forces within the process. It should be noted that those studies are based on simplifications and often incomplete datasets. For example, they do normally not account for the fact that there are huge variations in the nature of state ownership prior to privatisation and also in the nature of the relationship between state and firms after privatisation, but rather treat private and state-owned as a binary variable.

Most of the factors which have been studied have been derived from political and economic theories of privatisation. Factors that have been identified as being correlated with the timing and intensity of privatisation can be subdivided into three groups: economic, political and institutional factors. The first group consists of economic and fiscal factors. Regarding the general economic situation of a country, two theoretical hypotheses exist: The “crisis hypothesis” goes back to Rodrik (1996) who suggests that economic crisis causes reforms. On the other hand, favourable economic indicators might lead to more privatisation by increasing the ability of a country to attract capital. Obinger, Schmitt, and Zohlnhöfer (2013) find a strong negative effect between GDP and

privatisation which supports the crisis hypothesis. Also, Belke, Baumgärtner, Schneider, and Setzer (2007) find a positive effect of unemployment on privatisation for a sample of 22 OECD countries between 1990 and 2001, and a negative effect of economic growth. The initial level of state ownership seems to be positively associated with privatisation, as Zohlnhöfer, Obinger, and Wolf (2008) and Obinger, Schmitt, and Zohlnhöfer (2013) show. Zohlnhöfer, Obinger, and Wolf (2008) also find that heavily regulated economies tend to privatise more. Fiscal conditions as measured by the debt ratio of a country have been identified as a main driver of privatisation in Western Europe in previous studies. Bortolotti and Milella (2006), Bortolotti and Pinotti (2008), Bortolotti, Fantini, and Siniscalco (2003) and Belke, Baumgärtner, Schneider, and Setzer (2007) find a negative effect of budget surpluses on privatisation. Yarrow (1999) argues that privatisation is rather driven by fiscal pressure and the demand for public expenditures than by inefficiencies of public enterprises. However, there can be an indirect effect since loss-making public enterprises can have a detrimental effect on a country's balance sheet. Obinger, Schmitt, and Zohlnhöfer (2013) test for the impact of the European Monetary Union and finds it to be positively associated with privatisation. This finding is likely related to a political pressure to reduce debt and raise short-term revenues before the European Monetary Union became effective. Also, globalisation and international economic integration in general seem to have been driving privatisation. Empirical research has suggested that within Europe, the fiscal effect of privatisation is stronger and more important in the South.¹⁶ The hypothesis that European market integration mattered is supported by Belke, Baumgärtner, Schneider, and Setzer (2007). Their results indicates that economic integration in OECD countries is positively associated with privatisation.

The second group comprises factors of a political nature. Two subgroups of factors have been studied: partisan effects and political enforceability. Partisan theory assumes that the political orientation of the government can determine its privatisation strategy. The hypothesis that government prefer-

¹⁶ Jeronimo, Pagán, and Soydemir (2000).

ences and affiliations have an influence on privatisation goes back to Shleifer and Vishny (1994) who established the theoretical prediction that conservative governments are more likely to privatise. Empirically, this hypothesis that privatisation is more likely under right-wing governments has been widely confirmed.¹⁷ Yet, some authors argue that this partisan influence has significantly decreased in the Western world. Bortolotti, Fantini, and Siniscalco (2003) find that the positive partisan effect for 48 countries between 1977 and 1999 disappears for OECD countries. Zohlnhöfer, Obinger, and Wolf (2008) find no partisan effect for OECD countries between 1990 and 2000 and argue that partisanship only matters when the economic circumstances allow for this. When facing economic problems, left-wing governments tend to privatise more. Obinger, Schmitt, and Zohlnhöfer (2013) however suggest that the partisan dimension has continued to matter in OECD countries and was even reinforced by European integration. While secular-conservative parties have a positive – and left-wing parties a negative – effect on privatisation, they find no significant impact of Christian Democratic parties which are ideologically located between the two poles. Liberalisation and privatisation are often seen as twin policies, with liberalisation eventually driving privatisation. Belloc, Nicita, and Sepe (2014) disentangle the two policies. They study network industries in OECD countries and find that while all political camps have pursued both policies, privatisation is more likely under right-wing governments and liberalisation more likely under left-wing governments, which hints at ideological differences. Hence, the relationship between liberalisation and privatisation might be more complex than the hypothesis that market liberalisation drives privatisation suggests. Also, the negative effect of regulation on privatisation could mean that public enterprises are replaced by more regulation. Factors representing political enforceability measure the government’s ability to pursue a given programme within the constraints of a political system. The hypothesis that a government’s ability to implement its desired policy has an impact on privatisation goes back to Alesina and Drazen (1989) and Spolaore (2004)

¹⁷ See for example Opper (2004) for transition economies, Banerjee and Munger (2004) for developing countries, Bortolotti and Pinotti (2008), Saeed (2012) and Belke, Baumgärtner, Schneider, and Setzer (2007) for OECD countries.

who show that lower political cohesion in a country delays reform with distributional consequences. They explain their findings by a war of attrition between the political actors. Veto player theory focuses on the political resistance which needs to be overcome in order to implement change. Tsebelis (2002) argues that a higher number of agents with veto power complicates and slows down the political decision process. Consistent with that, it has been found that political fragmentation is significant in explaining the variation in privatisation. Bortolotti, Fantini, and Siniscalco (2003) find that transaction volumes are higher in democracies than in autocracies. Obinger, Schmitt, and Zohlnhöfer (2013), Bortolotti and Pinotti (2008), Zohlnhöfer, Obinger, and Wolf (2008) and Belke, Baumgärtner, Schneider, and Setzer (2007) find that political fragmentation in democracies significantly delays privatisation. For example, privatisation is stronger in single-party governments than in coalitions, and in majoritarian systems than in consensus systems under proportional electoral rules where more veto players have to agree. Although increasing the number of veto players, a federal setting has also been found to have a positive effect on privatisation, which can be explained by tighter control and budget constraints. Obinger, Schmitt, and Zohlnhöfer (2013) find a positive effect of government incumbency, which means that privatisation takes time and governments who stay in power longer are in a better position to sell off public enterprises. There is evidence from Belke, Baumgärtner, Schneider, and Setzer (2007) and Zohlnhöfer, Obinger, and Wolf (2008) that union strength and industrial conflict are negatively associated with privatisation, possibly weakening a government's ability to implement unwanted policies. However, privatisation has also been regarded as an instrument to weaken unions, as for example Vickers and Wright (1989) argue in the case of the UK.

The third group comprises institutional factors. It has been suggested that a higher quality of institutions should be positively associated with privatisation revenues. Consistent with this, Bortolotti, Fantini, and Siniscalco (2003) and Adams and Mengistu (2008) find a positive relationship between privatisation and institutional quality as measured by government indicators. Biglaiser and Brown (2003) find a remarkable variation of privatisation in Latin

American countries which they partially link to the idea that new governments might find it difficult to privatise as new legislation could be needed first. Bortolotti, Fantini, and Siniscalco (2003) find evidence that privatisation volumes are smaller in civil-law countries. They explain these results with the poorer protection of shareholders, stronger banks and less developed financial markets in such countries. Research has suggested a positive association between financial market development and privatisation while establishing that privatisation revenues are higher in countries with well-developed markets.¹⁸ The question is the direction of this relationship. Roberts and Saeed (2012) suggest that in developed and developing countries, a well-functioning financial system has a positive effect on privatisation, whereas in transition economies, privatisation stimulates financial markets. The idea is that well developed financial markets should have an impact on the conditions for a successful implementation of privatisation and should therefore be positively associated with revenues. However, Bortolotti, De Jong, Nicodano, and Schindele (2007) show that in developed markets, share issue privatisations have a positive impact on stock market liquidity, and that spillover effects also improve the liquidity of private companies. If privatisation has a positive impact on stock market development, privatisation can be used for this purpose. Yet, the relationship between privatisation and financial development is more complex.

1.3.2 Effects

A second strand of literature focuses on the effects of privatisation. Theoretical economic considerations suggest that privatisation should have a positive effect on firm performance. In economic theory, state-ownership is connected with issues such as incentive problems, asymmetric information and soft budget constraints. Based on this view, research has examined the effects of privatisation on firm performance. The empirical results are mixed and indicate that the success of privatisation depends widely on the circumstances, conditions and implementation of privatisation. Some studies carefully support the view

¹⁸ See for example Megginson and Netter (2001), Boubakri and Hamza (2007), Megginson, Nash, Netter, and Poulsen (2004) and Bortolotti and Pinotti (2008).

that privatisation generally leads to an improvement of the operating and financial performance of the selected companies by increasing output, operating efficiency, profitability capital investment spending, dividend payments and decreasing leverage. There has been evidence of an increase in performance indicators and employment of privatised firms.¹⁹ But it has also been suggested and empirically supported that competition is more important than ownership for firm performance.²⁰

However, studying the effects of privatisation on firm performance has massive methodological flaws. First, it is likely that there is a selection bias.²¹ Since research indicates that the best firms are often privatised first,²² there can be an overestimation of positive effects. Another problem is the lack of counterfactuals. We simply do not know what would have happened without privatisation, even more so when privatisation is part of a broader transformation process.²³ Another problem is the question of what to measure. In the 1990s, research measuring the restructuring of privatised firms was mainly based on traditional financial and performance indicators. Studies have led to vary mixed results.²⁴ More recently, scholars have developed alternative measures, accounting for the fact that traditional data might not capture the full effects. Bayliss (2005) distinguishes between defensive (cost-cutting) restructuring such as plant closures and deep (strategic, or revenue-enhancing) restructuring such as the discovery of new markets. Based on this categorisation, Carlin, Fries, Schaffer, and Seabright (2001) find an increase in restructuring directed at new markets after privatisation. In line with that, Bayliss (2005) finds that firms in Serbia and Bosnia Herzegovina were more likely to increase their product ranges and suppliers and to increase investments after privatisation.

¹⁹ For a survey on the literature on privatisation effects until 2005 see Megginson (2005), pp. 44–46; 49–50; 107; 111–112; 122–123.

²⁰ For a survey on the literature on this until 2005 see Megginson (2005), p. 54–55 .

²¹ Bayliss (2005), p. 10–11.

²² See for example Dinc and Gupta (2011), Goud Jr et al. (2002) and Gupta, Ham, and Svejnar (2001).

²³ Bayliss (2005), p. 11–12.

²⁴ Problems regarding such firm data are well summarised by Bayliss (2005), p. 14.

1.3.3 Motivations

The research described above does not look at the initial intentions for privatisation. Identifying factors which are correlated with privatization does not yet prove any causal relationship. However, strong correlations can hint at factors which are worth examining. Unfortunately, the question of why governments decide to privatise has attracted less attention. This might have to do with the difficulty in filtering out one single motivation in most cases. Research has suggested that privatisation is usually inspired by a variety of reasons both across and within countries which change over time.

Research has tried to categorise motivations and has used different typologies to do so. In the introduction to their pivotal edited volume on privatisation, Vickers and Wright (1989)²⁵ describe five categories of motives: ideological, economic, managerial, political and financial. They argue that privatisation can be found on a continuum between neo-liberal ideological and politically inspired privatisations on one side, and pragmatically driven privatisations of mostly smaller scope on the other side. Ideologically driven cases include the UK, France under President Jaques Chirac and the first cohabitation government, Portugal and Norway. Ideological motives comprise those which aim at limiting the state and shifting the boundaries between the private and the public sphere. According to Vickers and Wright (1989), such arguments have received a lot of attention in the UK and France, but much less in Christian Democratic circles in West Germany, Italy, Spain, Belgium and the Netherlands. Two other ideological motivations for privatisations are the limited choice for consumers in state-dominated, subsidised and monopolistic settings, and the wish to create a shareholder democracy as a form of real public ownership. One economic motivation according to Vickers and Wright (1989) is the idea to use privatisation to change the rules of the game, for example by loosening state monopolies and fostering market liberalisation. Other economic motivations include the general inefficiency of state enterprises and the view that it is easier to pursue unpopular business decisions if there is some distance between government and enterprises, for example in shrink-

²⁵ The same is argued by Wright (1994) in an edited second version of the book.

ing sectors such as coal, and the usefulness of privatisation for reorganising asset portfolios in state holdings. Managerial motives describe the benefits from disentangling state and enterprises. Political motives comprise attracting conservative voters and rewarding political friends. And finally, the series of financial motives includes financial revenues, fostering stock markets, improving access for enterprises to equity and capital markets, and the removal of inefficient enterprises and potential cost factors of the state's balance sheets.

The list above is not complete and offers a broad compendium of motivations to reduce state ownership. The categorisation resembles the factors whose impact on privatisation has been examined, as shown in the previous sections. Feigenbaum and Henig (1994) offer a more systematic typology. They distinguish between pragmatic, tactical and systemic privatisation. Pragmatic privatisation seeks to solve a perceived problem, such as the inefficiency of state bureaucracies or a shortage of funds. The authors argue that this type of privatisation which is more technocratic than political can mainly be observed in the US, but also in Italy for example. Tactical privatisation which is political and involves a power game, such as electoral competition or rewards, is interest-driven and benefits particular interests of parties, politicians or interest groups. As examples, Feigenbaum and Henig (1994) cite the cases of the UK under Thatcher and France under Chirac. Systemic privatisation aims at profoundly reshaping and reorganising a society. Examples of this are the privatisations in Eastern Europe and the former Soviet Union after the collapse of communism. Clifton, Comin, and Fuentes (2003) and Clifton, Comin, and Fuentes (2006) group existing explanations for privatisation in the European Union into three categories: the 'multiple logics', the 'European paradigm' and the 'British paradigm' approach. A generalisation of these three explanations leads to the following three hypotheses: First, there is no commonality regarding the intention, but each country has its own, distinct motivational set. Second, there are context-based common rationalities for sub-sets of countries. And third, there is a universal explanation behind all privatisations. According to the 'multiple logics' paradigm, privatisation policies were profoundly different and inspired by diverse reasons. The multiple logics approach goes back

to Feigenbaum, Henig, and Hamnett (1998). They point to the variability of privatisation across countries and do not find a common logic. In particular, they argue that an economics-based view does not reveal any motivations. In other words, what should happen does not explain what happens. Instead, they propose that privatisation depends on unique historical circumstances, so that even though we can create categories, we cannot conclude that privatisation was actually inspired by the same factors. Similarly, Yarrow (1999) does not find a common rationale which could explain the global spread of privatisation in the 1980s and 1990s. He complains that the lack of a positive theory of privatisation is coupled with a lack of a positive theory of state ownership in general, leaving us with textbook models of private enterprise. However, principal-agent theories which theoretically account for efficiency benefits of private ownership do not serve as an explanation of privatisation. He argues that while privatisation does enhance efficiency, it requires another trigger, such as the costs of government debt, which overrides the political benefits which are associated with state ownership. The ‘European paradigm’ sees the European integration and liberalisation policy as the driving force behind privatisation. The withdrawal from state ownership is regarded as a response to state-owned companies facing challenges of increased international competition. Such a trend has occurred worldwide since the 1970s, and has been intensified by the European integration process. Since privatisation in the European Union has picked up from 1993 onwards and there seem to be similar trends in the different sectors, across countries, Clifton, Comin, and Fuentes (2003) and Clifton, Comin, and Fuentes (2006) conclude that the ‘European paradigm’ has the most explanatory power.

One thing should be noted, particularly in the European context. Liberalisation and privatisation are two distinct policies. Article 222 of the Treaty establishing the European Economic Community (TEEC, also Treaty of Rome) from 1957 states: “This Treaty shall in no way prejudice the system existing in Member federal states in respect of property.” This provision has survived all European renegotiations. Hence, the European Union has been neutral regarding private and state ownership from the start. It has, however, enforced

market liberalisation, which might have fostered privatisation. The mechanism by which liberalisation and privatisation are linked is not yet entirely clear.²⁶ In some liberalised service sectors, reverse trends can currently be observed. Dissatisfaction with privatisation outcomes has led to counter movements in some countries. In Germany, this trend has occurred mainly on the level of local service providers since around 2000+ and has been labelled *Rekommunalisierung* (re-municipalisation).²⁷

The ‘British paradigm’ is the most controversial and one of the most prevailing paradigms to explain the move to privatisation. It sees the privatisation activities in Thatcher’s UK as the crucial turning point. According to the ‘British paradigm’, privatisation has been mainly ideology-driven: experiences in the UK have shown that privatisation enhances the efficiency and competitiveness of the privatised enterprise and was hence perceived positively. The UK privatisations have therefore proven the universal superiority of private against state actors in the economic sphere. Due to spill-over effects, these experiences have triggered pro-market beliefs and a subsequent shift in the attitude of other Western European countries and have thus led to a withdrawal of the state from the production sphere across the European Union since the late 1970s.²⁸ Commonly, the post-war history of public enterprises in Western Europe is based on the British paradigm and tells the story of a rise of state-ownership during large nationalisation programmes in the 1950s and 1960s followed by a decline of state-ownership and a privatisation trend emanating from the UK in the late 1970s.²⁹ Yet, this non-linear story does not apply to all Western countries to the same extent. In West Germany, no nationalisation of industries took place after the Second World War. The case of West Germany was not the only exception from the general trend of the rise and fall of public enterprises in post-war Western Europe. Several authors have tackled the ‘British myth’. Clifton, Comin, and Fuentes (2003) and Clifton, Comin, and Fuentes (2006), who observe and analyse privatisation patterns across Europe for different sectors such as manufacturing, energy, transporta-

²⁶ See also Belloc, Nicita, and Sepe (2014).

²⁷ For an overview on *Rekommunalisierung*, see Libbe, Hanke, and Verbücheln (2011).

²⁸ Examples are Clarke and Pitelis (1993) and Dininio (1999).

²⁹ Toninelli (2000).

tion and banking, point to the wide variety of privatisation policies in the European Union. They criticise the evolutionist perspective of privatisation as a homogeneous process which countries had to follow if they wished to stay internationally competitive, such as the British paradigm suggests.

Some authors have pointed to the fact that the UK was by far not the first country to privatise. Bel (2011b) names the sale of public enterprises and privatisation of monopolies in fascist Italy between 1922 and 1925 as the first case of privatisation. Bel (2010) writes about privatisation in Germany in the 1930s. Burk (1988) describes the British denationalisation in the iron and steel industry under Churchill as the first case of privatisation in Europe after the Second World War and Bel (2011a) names the privatisations in Puerto Rico between 1948 and 1950 as the first privatisations in Latin America. Yotopoulos (1989) describes the Chilean case where companies were privatised under Salvador Allende in the 1970s. And a few authors point to the privatisations in Adenauer's West Germany around 1960.³⁰ None of these privatisations gained the popularity which later privatisations did. This might have had to do with the poorer implementation and the smaller scope of these privatisations, both in terms of depth and quantity. However, these earlier cases pose the question of why the privatisation trend has picked up in the late 1970s and not earlier. Also, while it seems that state ownership in Europe has been largely abandoned in manufacturing, this looks slightly different in the transportation, banking and energy sectors. Here, the state often, and in some cases increasingly, still plays a big role in providing these services.

A relatively new strand of research examines diffusion effects, based on the idea that countries learn from each other,³¹ give in to pressure from reference groups,³² and adopt strategies from similar countries.³³ Findings from this literature could add some aspects to the story of a diffusion of ideas and hence support the 'British paradigm'. Empirical evidence seems to confirm the existence of such diffusion effects. Most of this research is based on network

³⁰ See p. 34.

³¹ Meseguer (2004), Meseguer (2009).

³² Henisz, Zelner, and Guillén (2005).

³³ Schmitt (2011), Fink (2011).

industries.³⁴ Results suggest that economic relationships between countries are more important than ideological similarities between governments for the existence of diffusion.³⁵

What can be taken from research on motivations is that privatisation experiences within and across countries are manifold. Therefore, research has found it difficult to agree on a common hypothesis. In particular, it seems difficult to disentangle initial intentions and triggers, fostering and hindering factors. Schneider and Häge (2008) for example find empirical evidence for an impact of market integration and partisanship, but support the hypothesis that privatisation was triggered by a shift in the economic discourse in the 1970s and has only been fostered by European market integration and right-wing governments, while Clifton, Comin, and Fuentes (2006) see integration itself as a trigger. Given these difficulties, the current debate could benefit immensely from moving from cross-sectional studies to case studies on single countries in order to find further evidence and gain insights about policy discussions. Until now, it remains rather unclear how exactly factors such as experiences in other countries, the changing global economic discourse and pressure from market competition have stimulated and shaped national discourses and debates about state ownership and privatisation.

1.3.4 Political Economy

The process of privatisation is political and subject to the influence of interests groups, party politics and ideologies. Research focusing on the political economy dimension has examined how the process and the resulting privatisation outcomes can be explained. A rather small strand of literature has focused on the political economy side of reform. One main focus thereby was on the dimension of political capture, rent-seeking and particular interests in countries with a weak state, such as former communist Soviet and Eastern

³⁴ For recent literature see Schmitt (2014), also Schmitt (2011), Fink (2011) and Henisz, Zelner, and Guillén (2005); beyond network industries Jordana, Levi-Faur, and i Marín (2011) and Levi-Faur (2005).

³⁵ For network industries in 15 European countries, it has been shown that economically connected countries tend to move towards the same direction. Schmitt (2014), pp. 625–630.

European countries or Latin America. It has been examined to what extent different approaches and pre-conditions favour an insider-based privatisation model which can be prone to rent-seeking behaviour. Gould (2011) applies a simple political economy model to former communist Eastern European transition countries. He finds that a lack of developed competitive market structures and an insider-oriented former communist elite leads to a higher degree of insider trade. Corrales (1998) explains privatisation policy in Argentina at the end of the 1990s as a result of a reorganisation of particular interest groups.

In the 1980s and 1990s, researchers with a focus on theoretical political economy have struggled to find a theoretical approach to explain privatisation in the Western world with the classical models of political economy, interest groups and political capture. Privatisation was regarded as a pro-market reform, and there was a general lack of theory on how pro-market reforms can be rationally explained, since, according to the assumption, a turn towards markets tends to eliminate rent-seeking opportunities in the longer run.³⁶ Later, authors have turned to electoral competition and the organisation of the political decision-making process. In particular, veto power theory has served as a theoretical tool. The veto power approach points out that ideas and arguments are not enough, but that the ability to implement change depends on the ability of the group which is interested in change to integrate all potential veto groups in the decision-making process. The number of veto players tends to be high in systems with government coalitions, several chambers and federalism. In such systems, the balancing of interests and ability to find compromise is a complex task, which can make policy reform very slow. Hence, more recent research has focused on compensations as a mechanism to overcome political resistance. The compensation approach can be useful in political systems where broad majorities are required in order to impose reforms. Governments can use certain modes of privatisation to compensate specific interest groups for disadvantages and increase the acceptance of pro-market policies. Schamis (2002) argues for example that privatisation-based benefits for working class households have served in the case of British privatisation policy. Similarly,

³⁶ Tommasi and Velasco (1996).

Etchemendy (2011) shows that in Argentina, specific forms of privatisation have been used to compensate groups for disadvantages from market liberalisation. He calls this the “market-share-compensation” in contrast to more direct subsidies. For West Germany, Mayer (2006) argues that a large number of veto players and low cohesion retarded privatisation significantly in the 1980s.

1.4 The German Context: A Literature Review

German privatisation has been addressed in the international comparative literature and in more detail in the German literature. In the context of international and comparative literature, the 1950s and 1960s privatisations have frequently been mentioned as one of the earliest cases of privatisation, whereas in total, Germany is seen as one of the smaller and later privatisers. Different authors have pointed to different aspects of German privatisation politics. The first internationally acknowledged article on privatisation in Germany is Esser (1988).³⁷ He describes German privatisation as symbolic, given the fact that the privatisation volumes in other countries had been much larger. Also, he argues that federal privatisation efforts have been counteracted by the German states who resisted strongly against privatisation, in particular Bavaria, and bought back a number of assets which had been sold by the federal government. Similarly, Clifton, Comin, and Fuentes (2003) and Clifton, Comin, and Fuentes (2006) describe West Germany as “a case of federal resistance” in which the states partially counteracted national privatisation attempts.³⁸ Megginson and Netter (2001) describe German privatisation as the first large scale privatisation programme which did not survive the stock market downturn in the mid-1960s.³⁹ Clifton, Comin, and Fuentes (2006) regard privatisation in Germany as tactical and opportunistic, where shares were sold when the market conditions were good; the result of this approach were irregular revenues. A few authors point to the popular capitalism dimension of German

³⁷ A later version of this article is Esser (1994).

³⁸ Clifton, Comin, and Fuentes (2003), pp. 55–56.

³⁹ Megginson and Netter (2001), p. 323.

privatisation. Hawkins (1991) argues that the 1950s and 1960s West German privatisation model was in some ways similar to the later English model, both attempting to popularise shares in the working and middle class. Bortolotti, De Jong, Nicodano, and Schindele (2007) name the Adenauer privatisations as the first experiment to foster the domestic stock market through privatisation.⁴⁰ Bortolotti and Milella (2006) however calls them a failed attempt.⁴¹ Bös (1993) finds the Adenauer privatisations were also not very successful since they did not result in a nation of small-scale shareholders and initial investors re-sold their shares quickly instead. Bös (1993) compares privatisation in the UK and West Germany in the 1980s. He argues that the privatisation volume was much smaller in West Germany for five reasons: First, there was less public ownership therefore less to privatise. This assumes that the initial level of state ownership has an impact on privatisation, which has been empirically confirmed. Second, public enterprises performed better. Third, there was no political incentive to reduce trade union power such as it was the case in the UK, since unions behaved more reasonably. Fourth, there was less interest in privatisation on state and local levels, and fifth, ideological conservatism was less rigorous in Germany. However, he does not prove that these factors actually had an impact.

In the literature which focuses on Germany, privatisation has hardly attracted any academic attention until the end of the 1980s. The few descriptive studies comprise Bukow (1965) and Knauss (1978). At the same time, a small group of German economists rather unsuccessfully tried to establish a positive theory of public ownership in the framework of the before-mentioned *Gemeinwirtschaftslehre* and to normatively justify the existence of a mixed economy with public ownership.⁴² Later descriptions of public enterprises in the post-war economy, their legitimisation and the corresponding legal framework were provided by Fasbender (2004) and Knauss (1986), Knauss (1988) and Knauss (1990). Fritz Knauss was himself an official in the Federal Ministry of Finance

⁴⁰ Bortolotti, De Jong, Nicodano, and Schindele (2007), p. 298.

⁴¹ Bortolotti and Milella (2006), p. 3.

⁴² See the various publications of Thiemeyer and the publication series of the Gesellschaft für öffentliche Wirtschaft, for example Thiemeyer (1970). For the early foundations of *Gemeinwirtschaftslehre* in the 1930s see Ritschl (1931), and for a conclusive overview Ortlieb and Rittig (1972).

in the 1970s and had access to additional material to the federal reports. Only Dietrich (1996) and Nicolaysen (2002) thoroughly analyse the early privatisation policy around 1960. Both emphasise the unique setting of privatisation policy at that time and its embeddedness in a wider socio-economic context. They suggest that early privatisation and the concept of people's shares were strongly determined by Christian democratic ideas of property formation of low- and medium income households which was a centrepiece of left conservatives in the 1950s and 1960s. Hence, privatisation has to be seen through the lens of social policy. Dietrich (1996) argues that people's shares were one of several measures of property formation and the result of an internal compromise between the liberal business wing and the employees' faction.⁴³ It will have to be assessed to what extent the balancing of interests within the CDU/CSU motivated privatisation or rather shaped its design after the general decision to privatise had been made. Zohlnhöfer (2003) and Mayer (2006) use the veto player theory to show that reforms by the Kohl government in the 1980s, including privatisation, were only incrementally imposed. They ascribe this to the low degree of cohesion within the government coalition and to low economic pressure on the ground of a stabilizing global economy. However, they leave aside that the incremental nature of privatisation can also be the result of a conscious decision, based on the idea that it can be beneficial to implement policies gradually. Tofaute (1994) and Wellenstein (1992) focus on the partisan dimension and view the privatisations in the Kohl era primarily as the result of a shift of the German Christian democratic ideology towards a more market-oriented policy, embedded in the rhetoric of a lean state. Yet, none of them was able to access internal government documents at that time. Tofaute (1994) is a commissioned work by the Hans-Böckler-Stiftung, a foundation of the German Confederation of Trade Unions. Not surprisingly, he has a rather critical approach. This becomes clearly evident in the title "The big sell-out".⁴⁴ Still, the book contains a chronicle of the industrial privatisations in the 1980s and explains the union argument against privatisation. Based on a survey, the author admits that, despite initial concerns from the union side, the privatisa-

⁴³ See Dietrich (1996), pp. 229–269, 321–335.

⁴⁴ "Der grosse Ausverkauf"

tions have not led to a decrease in employment of the privatised companies or worsening of working conditions.⁴⁵ Wellenstein (1992) summarises the public and political discussions about the state as an entrepreneur. He sees the 1960s people's shares as an attempt to popularise the social market economy among the population, and the 1980s privatisations as a conservative counter movement to Keynesian policies in the 1970s. However, the implementation was made difficult by the heterogeneity within the conservative-liberal spectrum.⁴⁶ Wellenstein (1992) examines privatisation not only on the federal level but also in the states Baden-Württemberg, Rhineland-Palatinate, Hesse and Lower Saxony. He depicts the diversity of their industrial property and the interweaving of state and federal shareholdings. Also, he shows that privatisation in the German states started significantly later, strongly depended on the political orientation of the respective governments and in some cases counter-acted federal policy.⁴⁷ Since Wellenstein (1992) bases his book on published sources and newspaper articles, his argumentation needs to be verified with the government sources which have in the meantime become accessible.

Privatisation has also been addressed by company history literature. Recent histories of VW, Preussag, Lufthansa, VIAG and IVG have used historical documents and hence represent a valuable source. Laufer and Stier (2005) analyse the history of the former Prussian mining company Preussag between 1923 and 2003 and focus on how the company's development was shaped by state ownership. The study portrays the company's path of reconstruction, consolidation and orientation in the early post-war period⁴⁸ including its partial privatisation through people's shares in 1959.⁴⁹ They find that the company management was reluctant towards privatisation plans.⁵⁰ Nicolaysen (2002) describes the partial privatisation of Volkswagenwerk in 1959 by focusing on the establishment of the Volkswagenwerk Foundation. He draws on a broad variety of sources from the VW archive and some government records. He highlights that the first impulse towards privatisation did not come from Er-

⁴⁵ Tofaute (1994), pp. 300–316.

⁴⁶ Wellenstein (1992), p. 461.

⁴⁷ Wellenstein (1992), pp. 351–459.

⁴⁸ Laufer and Stier (2005), pp. 393–445.

⁴⁹ Laufer and Stier (2005), pp. 446–466.

⁵⁰ Laufer and Stier (2005), pp. 451–452.

hard and the representatives of the paradigm of social market economy but from business circles.⁵¹ Other valuable works on VW are Edelmann (1999) and Tolliday (1995). Pohl (1998) describes the development of VIAG between 1923 and 1998. He mentions attempts of Bavaria, which was a co-owner of some of VIAG's subsidiary companies, to take over parts of VIAG's shareholding⁵² and not-implemented privatisation plans in the 1960s.⁵³ It remains slightly open why these plans failed, but Pohl mentions likely difficulties resulting from the strong horizontal and vertical integration of VIAG and the economic crises in the late 1960s as possible explanations.⁵⁴ Hopmann (1996) tells the story of IVG and focuses on the involvement of the company in the war economy of the Third Reich and the first years after the Second World War until 1951. The later development is only briefly outlined. She finds that IVG was used for military purposes in the 1960s under Defence Minister Strauß.⁵⁵ She also briefly depicts the circumstances of its gradual privatisation between 1986 and 1993.⁵⁶ Additional information about Strauß and his interest in IVG for the Bavarian aircraft industry can be found in Milosch (2006), who describes the history of the modernisation of the Bavarian economy from 1949 to 1969.⁵⁷ Bozdag-Yaksan (2008) outlines the history of Lufthansa and covers the period between its formation in 1926 until the late 1990s. She includes valuable information about the company's partial privatisation since 1953 and its full privatisation in the 1990s and argues that the company's immense need for equity capital after its re-establishment in 1951 led to the government's pragmatic decision to allow private investment as early as the 1950s.⁵⁸ Less analytical are Radzio (1979) and Birnbaum (1980). Radzio (1979), a commissioned work by VEBA, episodically tells the history of Preussag's mother company VEBA. He focuses on the personalities which had a strong influence on the company's development and specific company milestones. Birnbaum (1980) is more an

⁵¹ Nicolaysen (2002), p. 71, see also Dietrich (1996), p. 214.

⁵² Pohl (1998), pp. 223–258.

⁵³ Pohl (1998), pp. 278–291.

⁵⁴ Pohl (1998), pp. 288–289.

⁵⁵ Hopmann (1996), pp. 199–206.

⁵⁶ Hopmann (1996), pp. 215–218.

⁵⁷ Milosch (2006), pp. 105–116.

⁵⁸ Bozdag-Yaksan (2008), pp. 105–129.

autobiographic source than an analysis of the history of Salzgitter AG between 1945 and 1979. Hans Birnbaum was involved in many ways with the company and was one of the influential German industry managers whose career began in the ministerial bureaucracy: Between 1947 and 1949, Birnbaum had been working for the British military government; from 1949 to 1961 he had been an official in the Ministry of Finance in Lower Saxony, the Federal Ministry of Finance and the Federal Ministry of the Treasury. In 1961, Birnbaum became a board member and commercial manager of Salzgitter AG, from 1968 until 1979 he was the company's chief executive director. Also, Birnbaum was chairman of the supervisory board of VW from 1974 to 1979.

Privatisation has briefly been addressed in the literature on corporate governance and ownership structures. Gonser (2014) describes the growth of consumer banking in the 1950s and 1960s and the role which people's shares played in this process.⁵⁹ Aside from that, it still remains to connect privatisation and people's shares with the corporate governance literature. In general, the corporate governance literature emphasises the traditionally strong role of banks in the German system.⁶⁰ So the question is how the transfer of ownership from the state to private investors fits into the framework. Yarrow, King, Mairesse, and Melitz (1986) argues that privatisation can lead to monitoring problems since government ownership provides better monitoring than dispersed private ownership.⁶¹

The question of socialisation and nationalisation is naturally connected with the question of public ownership and privatisation. Neither the federal government nor state governments nationalised entire industries in post-war West Germany, although some attempts had been made in the later 1940s and early 1950s: In 1948, North Rhine-Westphalia adopted a law concerning the socialisation of the coal industry but was rejected by the British military government with the justification that the law affected national property whose future had to be decided by a new German federal government. In 1947, Hesse decided to transfer key industries and public utilities into public owner-

⁵⁹ See the chapters about investment funds and people's shares in Gonser (2014), pp. 68–76 for the 1950s and pp. 142–149 for the 1960s.

⁶⁰ See for example Edwards and Nibler (2000) and Fohlin (2005).

⁶¹ Yarrow, King, Mairesse, and Melitz (1986), pp. 329–333.

ship as so-called social entities (*Sozialgesellschaften, Sozialgewerkschaften* or *Sozialgenossenschaften*).⁶² The question as to whether socialism was an actual alternative and whether history could have turned out differently has been answered in different ways. Some historians have drawn the conclusion that a nationalisation of industries was an actual option but was not implemented. The most common explanation ascribes this to the fact that the US military government inhibited such plans and that subsequently British intentions to socialise the coal and iron industry in the Ruhr region were given up.⁶³ Other authors find contradictory opinions about public ownership within both the US and the UK government.⁶⁴ Some authors also point to the lacking domestic support in politics and the society. Winter (1974) for example finds that the SPD was too weak and uncoordinated to exert an influence on immediate Allied post-war planning. Hook (2002) argues that there was no nationalisation of heavy industries after 1949 due to a lack of cohesion in the left political spectrum. Faced with the US American rejection of socialisation, the SPD shifted their priority from the ownership question to the co-determination of employees. According to Prowe (1992), the German political desire for socialisation has to be understood as a pragmatic response to the economic crisis and low level of supply of essential goods in the early post-war years and that these economic difficulties had led to a broad consensus in favour of a socialisation of key industries. The Hessian socialisation law for example was backed by a broad coalition and even the FDP favoured a limited socialisation. Political support among the population was proven by a 72% majority in favour of Article 41 of the Hessian constitution in a December 1946 plebiscite. By 1948, socialisation laws had been passed in several German states and nationalisation of industries was anchored in most state constitutions. When the German economy started to blossom again in the early 1950s and the crisis

⁶² “Rechtsform der Sozialisierung unter besonderer Berücksichtigung der Sozialisierung in Hessen”, Speech of the Hesse Minister for Economics Koch at a meeting of the German lawyers association in Bad Godesberg, 30.9./1.10.1947, Special Publication of the Central Legal Gazette for the British Zone 1947, Gesetz und Recht Verlag GmbH, Hamburg.

⁶³ See for example Abelshauser (1975), Rudzio (1978), Steininger (1988) and Winkler (1965). On the reluctant attitude towards socialisation in the US military government see Gimbel (1968).

⁶⁴ See for example Abelshauser (1975) and Winkler (1965).

was overcome, the wish for socialisation was weakened within the whole political spectrum except for the radical left. Prowe (1992) explains that this pragmatic behaviour of the traumatised German population was driven by fears of a concentration of power. This argument is supported by the specific ideas on socialisation that were prevalent in all political parties. As the view of history at that time was that private industrial cartels drove Germany into the recession that brought Hitler to power, who was then supported by these cartels. The idea was hence that socialisation would avoid direct state control and a concentration of power.

1.4.1 **Between Myth and Reality: The *Wirtschaftswunder* and the Question of a Structural Break**

One of the major research topics on post-war Germany has been the question of whether there was a structural break in West Germany after the Second World War which led to a reorganisation of the economy. Olson (1982) was the first one who pointed at a structural break in the form of a disruption of distributive coalitions during the Third Reich and the Allied occupation. Moreover, he argued that the West German super-growth (*Wirtschaftswunder*) in the 1950s was mainly caused by this structural break. Since then, a narrative has become popular both in the political and the public world, which involves the setup of a new 'economic order' dubbed a social market economy which provided the basis for West Germany's post-war growth. It involves the idea of a planned economy during the Third Reich and the transition into a market economy after 1945, with the Antitrust Law from 1957 as a core element.

The social market economy has been connected with the ideas of ordoliberalism. Ordoliberalism can be described as a German version of liberalism which originated in the 1930s and is associated with a group of economists in Freiburg around Walter Eucken. Ordoliberalism started to develop in the aftermath of the Great Depression in the 1930s and was built on the idea of a general supremacy of market mechanisms and private economic activity within

free markets. It was based on Eucken's theory that market forms determine market results. Ordoliberalism emphasised the importance of a strong state as a safeguard for economic competition which restricts economic power in order to maximise competition and restrict the political influence of particular interest groups. Hence, the theory suggested that economic policy should focus on establishing a framework and enforcing general rules of competition.⁶⁵ After 1945, the school of thought became popular through the social market economy paradigm and its political promoter Ludwig Erhard (CDU), who became the first Federal Minister of Economics. Scholars have argued that after 1945, ordoliberalism found a vacuum in which it could exercise both academic and political influence.⁶⁶ The German and in particular the Christian Democratic self-perception is to a large extent based on the legacy of the social market economy, foremost its representative Erhard. The success of the German economy is ascribed to its ordoliberal foundation. Hence, ordoliberalism has received broad attention and appraisal in the year of the 50th anniversary of the social market economy in 1997, celebrated by politicians of the Christian Democratic Party.

The structural break view has been criticised because it neglects the existence of legal and structural continuities. Therefore, in the past decade, emphasis has turned to structural and legal continuities which go back to the Third Reich, Weimar Republic and the German Empire. Abelshauser argues that a reorganisation of economic interest groups had already taken place in the early 1950s.⁶⁷ Other authors emphasise personal continuities between the Third Reich and the Federal Republic, both in the political and the economic sphere.⁶⁸ Ritschl (2004) and Ritschl (2005) describe legal continuities in the form of sector-specific regulatory laws: During the early National Socialist economic policy between 1933 and 1936, a number of such laws were created under the leadership of Hjalmar Schacht, Minister of Economics between 1934 and 1937. Many of these laws remained in effect for decades after 1945 until

⁶⁵ For the theoretical foundation of ordoliberalism see Eucken (1939).

⁶⁶ Of the vast academic literature see Goldschmidt (2005), Blumenberg-Lampe (1973), Ptak (2004) and Müller (1988) on ordoliberalism and its implementation.

⁶⁷ Abelshauser (1983), pp. 76–88.

⁶⁸ Berghahn (1986), pp. 182–259, Grunenberg (2006) and Paqué (1996).

new, federal laws replaced them. This is referred to as “the long shadow of Hjalmar Schacht”. Similarly, Ambrosius (2008) identified the beginning of a regulatory continuity in 1933 which is marked by a sovereign public law regulation, whereas previously, economic regulation had been based primarily on private law. However, the regulation acts of the Third Reich were not Nazi innovations but trace back to earlier ideas, rules and practices. Authors show this for several sectors in Bähr and Banken (2006). Beyond the question of a structural break, the phenomenon of post-war growth is much more complex.⁶⁹

The gap between myth and reality has recently been addressed again during the Eurozone crisis. It has been noted that the German response to this crisis was widely characterised and shaped by ideas going back to ordoliberalism. The German prescription has been criticised for focusing too much on austerity and neglecting the dangers and side effects of such a policy.⁷⁰ Hesse (2010) argues that ordoliberalism did not embody the modernisation of German economics with which it is often related. According to Hesse (2010), a real modernisation only took place with the implementation of Anglo-American economics in the 1950s and 1960s. He pointed out that instead of moving towards liberalism, the idea of state interventionism remained abundant in academic economics until a change of generations in the 1960s. This included the above described idea of *Gemeinwirtschaftslehre* which combines both market mechanism and state activity.

The continuities described above led to a gradual adoption of pro-market reforms in small steps. Similarly, the public enterprises which were inherited from the Third Reich remained in state ownership for decades and were privatised step by step. This finding does not fit well into a story of structural breaks. State ownership in the industrial sector does not seem to comply with an ordoliberal framework. It remains to be examined whether and how ordoliberal ideas shaped privatisation discussions.

⁶⁹ For a discussion see Eichengreen and Ritschl (2009).

⁷⁰ Young (2014).

1.5 Methodology and Sources

This thesis provides a comprehensive analytical narrative of German privatisation politics between 1948 and 1969 based on qualitative primary sources. The length of the first German privatisation period makes it a valuable case for studying the political process of privatisation. Abundant qualitative sources allow us to look into the black box of privatisation, evaluate the decisions and conceptions of policymakers and identify internal and external interests. Hence, it goes beyond research which focuses on observable or measurable outcomes. Historical sources are an opportunity to look into thoughts, ideas and motivation. They do not only reveal what happened, but also what did not happen and which ideas fell by the wayside. This can add important elements to a narrative.

The aim of this thesis is not to test a theory, hence, it would only be somewhat helpful to impose a limiting framework. Instead, the West German privatisation path is described narratively. Factors which have been identified as possibly having an impact on privatisation in previous research are taken into consideration. Given the broad nature of the topic of the thesis, such a narrative style will be necessarily episodic. Events and developments have been examined to a very different extent by previous research. Also, the way that events are reflected in the qualitative sources can differ considerably, based on a variety of circumstances. This applies to the historical background and broad economic and political developments as well as company histories.

The thesis mainly draws on government sources. Previous research on individual enterprises such as VW, Preussag, VEBA and Lufthansa have made more or less extensive use of company archives. Therefore, these have not been reviewed again. Also, Dietrich (1996) has sufficiently analysed the decision-making processes within the CDU until the early 1960s, so that I can draw on his research. Most of the government sources used in this thesis have not been examined and evaluated before and hence provide new information. I will assume that even when decisions are taken informally, possibly in small circles or unofficial meetings of politicians and lobby groups, this will in some

way appear in the documentation of the ministerial administration. Hence, it can be concluded that what does not show up there has not been decisive for the process or can simply not be observed. Government sources consist mainly of the documentation of the three involved ministries and the Office of the Federal Chancellor. Taking into account several state departments has the advantage that the sources correct and complement each other and that a biased view from the angle of just one ministry is avoided. All governmental sources can be found in the *Bundesarchiv*, the German national archives, in Koblenz.

This approach focuses on the administrative side, although decisions are political in the end. However, it can be assumed government debates and decisions are mirrored in the governmental administration. Furthermore, influence mechanisms can work in both directions: Political tendencies are picked up by the administration, and the administration is an important source of knowledge and ideas for the political side. Leading politicians have to cover a broad spectrum and are often not able to take care of the details. Hence, ministers and secretaries of state might be only as strong as their administrative support allows.

The most important unpublished accessible sources are government records from 1945 until 1984 concerning federal industrial property. This includes records from the Federal Ministry of Economics (BArch B102), the Federal Ministry of Finance (BArch B126), the Federal Ministry of the Treasury (BArch B115) and the Office of the Federal Chancellor (BArch B136). Relevant records comprise more than 100 folders containing letters, internal memorandums, relevant newspaper articles, reports, excerpts from *Bundestag* discussions and minutes of board meetings. One small drawback is that the sources might be incomplete. An unknown number of documents is still stored within the ministries and has not been handed over to the national archives yet. It is very likely that this mainly concerns those documents that are still of actual relevance and documents that were of relevance for Germany's reunification. These could include documents about the allocation of public enterprises between the federal state and the German states. An additional source in the

national archives are documents left behind by the former Secretary of State Ludwig Kattenstroth⁷¹ who was a long-standing government official and in charge of state ownership and privatisation for many years. Government files remain closed for 30 years so that only records until the mid-1980s can be taken into account. For later years, the thesis has to rely on previous research and public documents.

Another important set of sources are the minutes of the federal cabinet and the economics committee of the federal cabinet which have been published as an online edition by the national archives (“Die Kabinettsprotokolle der Bundesregierung” online).⁷² Parliamentary records are partially published by the federal government as *Bundestagsdrucksachen*. Published documents include *Bundestag* debates. The minutes of the *Bundestag* committees, where important preliminary decisions are taken, are being held at the *Parlamentsarchiv des Deutschen Bundestages* (Parliamentary Archive, short: PA). Of particular importance are the economic policy committee and the budget committee and their subcommittees, for example the subcommittee for federal industrial property in the first, second and third legislative period. In the fourth legislative period, a committee for federal property was introduced. Government records have revealed that banks, especially Deutsche Bank, might have actively tried to shape privatisation policy. Thus, records in Deutsche Bank archive have been used as an additional source. The minutes of the scientific advisory bodies of the Ministries of Economics and Finance which are stored at the *Institut für Zeitgeschichte, IfZ* (Institute of Contemporary History) in Munich have been reviewed for the purpose of this thesis. However, these sources have not

⁷¹ From 1940 to 1941, Kattenstroth had been working for the Reich commissariat for the occupied Dutch territories and for the military administration in France. After the war, he was employed by the documentary division of the International Military Tribunal from 1947 to 1948 and transferred to the combined economic administration of the Bizone in 1949. From 1949 to 1962 he was working in the Ministry of Economics, from 1949 to 1954 as head of division II (general policy), from 1954 to 1956 as head of the central division, from 1956 to 1962 as head of division III (mining, energy and water, iron and steel, EGKS). From 1962 to 1963 he was employed in the Federal Chancellor Office as head of division II (economics, finance, social questions), from 1963 to 1965 as secretary of state in the Ministry of the Treasury. After a disagreement with the later Minister of the Treasury Werner Dollinger (CSU), he transferred to the Ministry for Labour and Social Affairs as secretary of state until 1969.

⁷² <http://www.bundesarchiv.de/cocoon/barch/00/k/index.html> (last access: March 2016).

proven to be relevant, contrary to what can be assumed given the notion of an 'expert culture' of economic policy in post-war Germany.⁷³

Very valuable published sources are the annual reports on federal enterprises. They include statistical data such as the number, size and value of shareholdings, balance sheet data, data on important capital investments and the names of the members of the executive boards and supervisory boards. The Ministry of Finance has published information on federal enterprises in the annual budget reports since 1955. From 1959 until 1969, the Ministry of the Treasury has published annual reports about the development of public enterprises. These have been additionally been attached to the annual budget reports of the Federal Ministry of Finance. Since 1973, the Federal Ministry of Finance has published annual reports (*Beteiligungsberichte*) on the federal participations of which it was in charge. These are available online for all years since 2001.⁷⁴ An incomplete overview of privatisation transactions can also be found in an online publication of Subdivision VIII B2 of the Ministry of Finance, dated April 2014. Information about transaction values and net revenues are however not listed in either of these sources. Additional information from the Federal Ministry of Finance can be found in publications of Knauss, civil servant for many years in the 1970s and 1980s.⁷⁵

Additional sources include newspapers and magazines. These might not only provide relevant background information on public opinion and reveal cross-connections between managers, politicians and high officials. They also provide insights into the way that the public evaluated government policies. Copies of many relevant articles can be found in the relevant government documentation, sometimes with a comment in the case that the articles contain incorrect information. This limits the danger that these articles are misleading.

⁷³ Nützenadel (2005), pp. 123–174.

⁷⁴ http://www.bundesfinanzministerium.de/Web/DE/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungs politik/Privatisierungspolitik/privatisierungspolitik.html (last access: March 2016).

⁷⁵ Knauss (1993).

1.6 Hypothesis

In this thesis, I will argue that privatisation was motivated by a combination of fiscal and ideological reasons. Weighing the advantages and disadvantages of state ownership, it became more and more evident over time that there were no good enough reasons to maintain full state ownership while better alternatives existed. However, since economic and political pressures were small, privatisation remained a slow process.

Previous research has established the idea that economic crisis can motivate change, both under right-wing and left-wing governments. A crisis can be the result of a lack of growth, deteriorating fiscal conditions, low profitability of public enterprises, market pressures due to increasing international competition or external factors such as the European market liberalisation and fiscal rules.

At first view, the crisis hypothesis seems to have little explanatory power for German privatisation. Growth was abundant in the 1950s and seemed to pick up again in the 1980s, state debt was comparably small and public enterprises were doing comparably well. Also, the revenues from privatisation were too small to have a big effect on the federal budget. However, fiscal factors deserve some more attention.

Privatisations both in the 1950s and 1960s and in the 1980s were often combined with equity increases, which hints to the fact that fiscal elements might have played a role. If a state wants to keep a stake in a company, it is forced to capital injections though equity increases according to this stake, otherwise it puts its enterprises at risk of being under-financed. If the federal state was forced to increase its investment consistently over a long period of time, this might have led to debates about the necessity and costs of state ownership. This has possibly motivated the government to withdraw entirely from public enterprises, even though they were not necessarily highly unprofitable. Since no external fiscal limits were imposed until the 1990s, the willingness of the government to fund equity increases was probably much more important than the ability to do so. These two factors are not necessarily perfectly cor-

related. It is possible that there was a preference for austerity even without external rules.

Avoiding equity increases seems to have been more important than creating revenues. Comparative quantitative studies have shown that the German privatisation revenues have only caught up in the 1990s, although the revenues in the 1980s have been underestimated. But still they remained rather small compared to the federal budget. Also, the main share of the revenues from the sale of VW shares had to be passed on to the Volkswagenwerk Foundation and the revenues from the sale of Salzgitter AG were used to establish the DBU foundation. This suggests that creating revenues was no major motivation.

The role of ideas and ideologies is more difficult to capture. It is likely that a general preference for private economic activity over state economic activity has been an important factor for the early move to privatisation. However, ordoliberalism only argued for a general superiority of markets. Theories for a regulation of markets where competition does not arise naturally were only developed later and remained vague. This left a wide scope for defining exceptions and legitimise existing public enterprises. This theoretical gap was only filled when ideas from economic theories of regulation were applied in the course of the liberalisation of state monopolies in the 1990s.

Until the end of the 1980s, privatisation was adopted only by conservative-liberal governments. This observation is congruent with the partisan hypothesis that right-wing governments privatise more. However, the SPD did not re-nationalise public enterprises in the 1970s, as has happened in the UK, and the SPD-led government of Lower Saxony approved the partial privatisation of Volkswagenwerk in 1961. Also, the partisan effect diminishes in the 1990s when privatisation was adopted both by CDU-led and SPD-led governments.

Another fact which deserves some attention is that the FDP left the conservative-liberal government coalition in 1966 which led to a grand coalition first and a social-liberal coalition later. It can be concluded that differences in economic ideologies between the parties were either politically not that decisive around that time or that they had converged. Economic ideologies became more distinct in the 1980s. As a result, the FDP went back to a conservative-

liberal coalition. This development might initially have been motivated by domestic factors, however, over the course of the 1980s, neoliberal ideas and expressions seem to manifest more and more. It is likely that a global diffusion of neoliberal ideas has played a role in this context. International experiences provided a background against which domestic privatisation supporters probably found it easier to convince others of their ideas and promote privatisation publicly.

Beyond differences on the party level, the internal negotiation process of the CDU/CSU is an important factor. The hypothesis that privatisation was the result of CDU-internal negotiations about the social question can only be part of the answer why conservative governments were more prone to privatise. The adoption of privatisation policy requires an internal agreement about the tasks of the state in the economy which goes beyond an agreement on the design of selling state-owned companies. It is likely that the internal differences became smaller due to a diffusion of neoliberal ideas in the 1980s and that the party has subsequently become much more homogeneous with respect to economic ideas.

1.7 Outline

The first chapter examines how the portfolio of state enterprises which was left behind by the Third Reich was integrated in the new German state. First, a brief look is taken at the history and origins of state ownership to help explain the composition of the portfolio. Next, the question will be addressed how this portfolio was affected by the Allied occupation and whether any important preliminary decisions about the enterprises or the future institutional setting were taken during that time. Third, the size and relevance of the portfolio of state enterprises for the German economy will be examined. Last, the legal foundations of how federal enterprises were managed and how these changed over time will be described.

The second chapter covers the orientation phase of the new federal government of CDU, CSU and FDP in the first and second legislation period.

It will be addressed how inherited enterprises were distributed between the federal level and the German states, how the enterprises which were assigned to the federal level were organisationally integrated and which first steps towards a reorganisation were implemented. The government's scope to exercise influence on its enterprises and how it was challenged by financial demands of growing enterprises will be examined.

The third chapter deals with the partial privatisation of Preussag, Volkswagenwerk and VEBA through the issue of people's shares in the third and fourth legislation period between 1959 and 1965. It examines how the negotiation processes within the government parties led to the design of shares and shaped the issue conditions which favoured low and middle income households. Also, it addresses the question of what happened to ownership and control structures after the partial privatisations and how government control was, or was not, replaced.

The fourth chapter covers the grand coalition between 1966 and 1969 and the social-liberal coalition from 1969 to 1982. For privatisation, this was a time of stagnation. The chapter examines how the perception of state ownership changed throughout this time. It addresses the question as to whether this was affected by external factors such as the increasing importance of oil and the internationalisation of markets.

The fifth chapter explains the return to privatisation between 1983 and 1989. It looks at the opinion-forming and negotiation process within the new government coalition of CDU, CSU and FDP and evaluates the outcome of an almost complete withdrawal from industries.

Finally, the sixth chapter concludes and connects the findings with later privatisation policies.

Chapter 2

Public Enterprises in the Federal Setting

Federal enterprises which were later subject to privatisation were not federal property from the start. The public enterprises and participations which the Reich and Prussia left behind were at first labelled “heirless property” and became subject to conflicts between the federal government and the German states. This chapter explores how these conflicts arose, how they were solved and what they were actually about.

The first section will explore the historical circumstances of and reasons for the establishment and expansion of public enterprises. The second section will address how public enterprises were administered under Allied control and ask whether important preliminary decisions were made during those years. The third section explores how the federal government and states negotiated and came to an agreement about the heirless property. The fourth section explores how important public enterprises were in the economy and in specific sectors, and the last section looks at the institutional setting and analyses how control was organised and imposed. This includes both the legal basis and informal control structures. The chapter as a whole will focus on the enterprises which were subject to federal privatisation until 1989.

2.1 The Origins of Public Enterprises

Germany entered the post-war period with a set of state-owned shareholdings operating in the energy sector, postal service and communications, railways, manufacturing, banking and insurance. There had been no systematic establishment of state sectors in Germany. Due to the combination of a federal structure and several regime changes, a continuous public enterprise policy had hardly been possible. The result was that, with a few exceptions, there was a mix of state and private ownership in competitive and oligopolistic markets and markets were to different extents dominated or affected by state ownership. The heterogeneous conglomerate of industrial shareholdings which West Germany inherited included a variety of companies with different historical backgrounds. Most of the industrial participations were bundled in four large corporations: the Prussian holding company VEBA, the holding company of the Reich VIAG, Verwertungsgesellschaft für Montanindustrie GmbH (short: Montan, since 1951: Industrieverwaltungsgesellschaft GmbH, short: IVG) and Reichswerke Hermann Göring in Salzgitter. Other industrial enterprises were Volkswagenwerk, the shipbuilding company Howaldtswerke and Deutsche Lufthansa AG which was liquidated in 1951.⁷⁶ Other shareholdings existed in the infrastructure and service sector, including large national companies such as Reichspost and Reichsbahn, municipality-owned public utilities, state banks and public savings banks.

Public enterprises and enterprises with mixed public-private ownership structures were established for a variety of reasons during the German Empire, the Weimar Republic and the Third Reich. They served as an instrument of economic policy to ensure the state's influence in certain markets, as an instrument of regulation and information, to meet the needs of the state and of other public enterprises, for war and for fiscal reasons. Sectors in which the state played a major role as an entrepreneur included infrastructure and services such as transportation, communication, banking, insurance and the

⁷⁶ Deutsche Lufthansa AG was founded in 1926 as Deutsche Luft Hansa AG. Today's Deutsche Lufthansa AG (short: Lufthansa) is not a legal successor of the old Deutsche Lufthansa AG, but has acquired the naming rights.

supply of gas, water and electricity as well as mining and related industries. All political levels – municipalities, the states of Germany and the federal level – were involved. That way, a very heterogeneous state-owned sector with complex ownership structures was built up over decades. Public entrepreneurship was connected to the general view that the state should both complement and regulate private economic activity. This idea was widely and for a long time accepted among economists, politicians and the public and was theoretically developed in the *Gemeinwirtschaftslehre*. The history of state-owned enterprises in Germany is characterised by a wide-spread use of mixed public-private ownership structures and the involvement of three political levels in the federal framework. As a result, public ownership on the three political levels was connected. In particular, the German states and the federal level were interwoven due to complicated and joint shareholding structures. A number of subsidiary companies of the holding company VIAG for example were situated in Bavaria and jointly owned by VIAG and Bavaria – a fact which would later cause numerous disputes. The municipalities constituted a significant factor in the energy market due to their municipal shareholdings, including the energy sector. An example of an intertwining of federal and municipal state-ownership was Preussenelektra AG. The federal share in Preussenelektra was 83,67%, the rest was partially owned by local authorities. Given that municipal energy suppliers were in different ways horizontally connected to federal energy companies, which produced a major part of the German energy supply, they might turn out to be a relevant factor in the privatisation discussion.⁷⁷

Until the First World War, municipalities and the German states had been major players in public enterprises. The federal level became more important during the First World War because of the perceived need for state interventions in the war economy. In 1923, VIAG was founded as a holding company for participations of the Reich in the energy and chemical sectors which had been acquired to a large extent during the war. However, the states remained the driving forces of economic activity during the Weimar Republic. The centralisation of economic control and regulation in the Third

⁷⁷ For an overview of public enterprises in Germany see Wengenroth (2000).

Reich led to a shift of responsibilities and ownership to the federal level. This tendency was reversed with the revival of the federal political structure after 1945. Municipal entrepreneurship was concentrated in public utilities such as the supply of water, electricity, gas and local transportation and was linked to the expansion of municipal tasks due to urbanisation. Fiscal reasons only played a minor role; often pragmatic reasons such as quality and security of supply led to the formation of municipal enterprises or the takeover of private companies. In many cases, limited financial resources of municipalities led to mixed public-private ownership in these sectors.⁷⁸ Historically, public services were largely organised on the municipal level. Local authorities have been important political levels in the German federal system since the Weimar Republic. The German constitution (*Grundgesetz, GG*) from 1949 has anchored the principle of municipal self-government in Art. 28 Abs. 2 Satz 1 GG. The framework for municipal economic activity are the municipal codes of the German states which were adopted after 1945. They replaced the national German municipal code from 1935 which had abolished the federal structure during the Third Reich. On the municipal level, privatisation discussions did not play an important role until the late 1980s, when some authorities started to privatise public services. The states of Germany played a dominant role in the transportation and communication sectors. While in the middle of the 19th century public and private ownership still coexisted, concentration towards the end of the 19th century led to nationalisation and the formation of monopolistic state companies. Among the five largest employers in the German Reich, four were public enterprises, two of them railway companies owned by the states: the Prussian-Hessen Railway Company and the Royal Bavarian Railway Company. The third large employer was the Prussian Mine and Foundry Company Preussag, founded in 1923 as a holding company for the Prussian mining industry. Only the fourth enterprise, Reichspost, was owned by the Reich. Mining and energy formed a second focus of state entrepreneurship. Prussia in particular developed a very active entrepreneurial policy. In need of coal for its extended railway network, Prussia started to

⁷⁸ See Ambrosius (1995).

engage in the coal business in the second half of the 19th century. Between 1904 and 1917, the Ruhr coal mining company *Hibernia AG*, established in 1855 as a private company in Herne, was taken over against the strong resistance of private companies and banks.⁷⁹ In the 1920s, the large number of small shareholdings were bundled with the aim to allow for horizontal and vertical integration and to raise profitability. In 1923, two large umbrella companies were formed besides Hibernia: Prussia's mining shareholdings became part of the Prussian Mine and Foundry Company; shareholdings in electricity production and supply were bundled as Preussenelektra. In 1929, VEBA was founded as a holding company of the three large Prussian mining and energy enterprises.⁸⁰ Except for Reichspost, the Reich did not play a significant role as an entrepreneur or shareholder until 1914. This began to change during the First World War, when a large number of regulations and war-related companies, for example in chemical industries, were set up. Later, many of these were bundled in the holding company VIAG. In 1924, Deutsche Reichsbahn-Gesellschaft was formed as an independent, Reich-owned holding company of the state railways. Since the 1920s, the Reich government also engaged actively in the aircraft industry: In 1926, Deutsche Luft Hansa AG was founded as a merger of two partly state-owned aircraft companies Deutsche Aero Lloyd and Junkers Luftverkehr AG, part of Junkers Flugzeug- und Motorenwerke AG. During the Third Reich, public enterprises were to a large extent used for military purposes as part of the war economy. Due to political and economic centralisation, the federal structure was abandoned or became insignificant and the German states and municipalities lost influence. In 1937, Reichswerke Hermann Göring AG, a large iron and steel producer, was established: The soil around Braunschweig was known for its low content of iron ore; nevertheless, it was needed for war production. When the mining companies in the Ruhr district refused to establish production sites in Salzgitter, Göring decided to form Reichswerke as a public enterprise. Another important industrial enterprise was the de facto takeover of the Montan AG. Montan served as a lessor for industrial estates owned by the army. This policy of veiled state interven-

⁷⁹ On the history of Hibernia see Bleidick (1999).

⁸⁰ See Winkler (1965).

tionism in the war industry became later known as *Montan-Schema*. In 1937, Volkswagenwerk was founded by the National Socialist trade union organisation German Labour Front (*Deutsche Arbeitsfront, DAF*) with the purpose of producing Volkswagen cars, yet the factory was used to manufacture military vehicles. Both Reichswerke and Volkswagenwerk were established as part of the war industry.

2.2 Under Allied Control

After the end of the war, public enterprises were subject to Allied⁸¹ control. Participations were among the property taken under control by the military government. All companies had to be registered and provisional trusteeships were established. As in the private sector, public enterprises were affected by war destructions and losses, liquidations and dismantling of industries.⁸²

At the end of the Third Reich, the situation of public enterprises was unclear. Prussia was officially liquidated by the Allied Supreme Command in 1947, so that the large amount of Prussian industrial property had become ownerless. A large part of these shareholdings were located in the British zone of occupation, in particular in the Ruhr district. In addition to this, it was an open question whether a new German state would be a legal successor of the German Reich and would automatically inherit public enterprises.

The question of public ownership did not play a major role during the Allied occupation and the military government left key decisions to the new German government. This might have been influenced by the fact that public enterprises were engaged primarily in industries which were of fundamental importance for German and European reconstruction. The power vacuum and the lack of an Allied concept regarding the question of state ownership led to a rather chaotic initial situation for public enterprises. Hence, individual resolute actions dominated the immediate post-war situation. Eventual socialisation plans, in particular in the Ruhr district, had no direct effect on the

⁸¹ In most of the cases in this chapter, the term Allied or Allies refers predominantly to the British and US military government.

⁸² Wengenroth (2000), pp. 118–119.

administration of existing public enterprises. To the contrary, first initiatives towards selling shareholdings were already made by the Court of Audit in the British zone before 1949.

Administrative decisions of the military government had an impact on the future ownership situation of shareholdings. Crucial for the further development was that the states of Germany, except for Saarland, were established before the federal state. That way, the states played an important role in the administration of the public enterprises between 1945 and 1949. The administration of this heirless property was quickly handed over to the German finance administration, both in the American and British zone. This put the German states in a very strong position. In some cases, sector specific controls and strong position of chief finance presidents protected companies from the grasp of the states.

On 10 November 1948, law no. 75 of the US and the British military governments “Reorganisation of German coal and iron and steel Industries” became effective. The attached schedule named VEBA, RWE, Vereinigte Elektrizitätswerke Westfalen AG (VEW) and VIAG and declared that “these assets, if not already under such control, are hereby placed under control pursuant to the provisions of military government law no 52” about the “blocking and control of property”. In its preamble, law no. 75 declared that the “question of the eventual ownership of the coal and iron and steel industries should be left to the determination of a representative, freely elected German Government”. This finally postponed a decision about the question of public ownership, nationalisations and privatisations and left it to the future German state.

2.2.1 Handover of Administrative Responsibilities

The administration of shareholdings was organised within zonal borders. Additionally, a unit for the administration of former Prussian and Reich property was established in the Bipartite control office in 1947.

US military government law no. 52 about the blocking and control of property in combination with general order no. 1 named the companies under control. Control was handed over to the property control branch, which

initially was part of the economics division of the military government, later of the finance division. When the finance division was dissolved in March 1948, property control became a branch of the new property division. A gradual transfer of responsibility to German authorities began in the latter half of 1946. Authority was assigned to the Land property control chiefs and the German Land civilian agency heads.⁸³ One reason for this early transfer of control might have been the sheer amount of controlled property. For the shareholdings, trustees were appointed.

The British military government handed responsibility over to the chief finance presidents (*Oberfinanzpräsidenten, OFP*). The chief finance presidents were the intermediate authority of the Reich finance administration under the supervision of the Reich Finance Ministry between 1919 and 1945. Later, they became part of the finance administration of the German states. The finance administration was controlled by the British property control branch which itself was based in Minden. Regional administration was handed over to the local finance administration. Just as in the US zone, provisional trusteeships for the management of shareholdings were established.

The British zone which included the industrially important Ruhr district became a centre for many shareholdings. A majority of headquarters, in particular of holding companies, was located or relocated here. This included VIAG, VEBA and its three subsidiary companies Preussag, Preussenelektra and Hibernia, Howaldtswerke in Hamburg and Kiel, Volkswagenwerk and Reichswerke. VEBA had relocated its headquarters from the Soviet sector in Berlin to Hamburg, VIAG established second headquarters in Hannover. Also located in the British zone were VEBA's subsidiary companies Hibernia, Preussenelektra and Preussag. Preussenelektra had relocated its headquarters from the Soviet Sector of Berlin to Hannover, Preussag, which was also based on the Soviet Sector of Berlin, established second headquarters in Goslar. Also, the owner-less Volkswagenwerk and Howaldtswerke were based in the British zone.

A report of the audit court in the British zone identified approximately

⁸³ Office of Military Government for Germany (US): Property Control in the U.S.-occupied area of German 1945–1949, Special Report of the Military Governor, July 1949.

420 companies which were either located in the British zone or had property in the British zone, most of them private law companies in the form of AG or GmbH. Of these, 35% were direct shareholdings and 65% indirect shareholdings; 71% were located in the British zone and 29% outside.⁸⁴ The nominal value of Reich and Prussian shareholdings in the British zone was estimated to be 1,717,887,000 RM (Reich) and 676,170,000 RM (Prussia).⁸⁵

In the British zone, shareholdings were better protected from the grasp of the German states because the state finance administration did not have a decisive role in the administration of state property. Chief finance presidents reported directly to the military government. At first, they were entrusted with investigations about heirless property located in their regions. Later, the property control section of the finance branch of the British military government gradually transferred control of companies with significant shareholdings of the Reich to the chief finance presidents. The chief finance presidents then replaced and appointed members of the management board and supervisory bodies, executives and trustees according to economic principles.⁸⁶

On 3 December 1947, the British property control branch established a zonal coordination committee for Reich and NSDAP property, the *Zonenausschuss für die Verwaltung von Reichs- und Staatsvermögen*, based in Hamburg.⁸⁷ This was based on a suggestion of the Court of Audit to establish a superior institution that would, similar to the Reich Finance Ministry beforehand, control compliance with regulations.⁸⁸ Members of the committee were the president of the Court of Audit, the president of the central office of the finance administration, the director of the zonal budget office and the chief

⁸⁴ BArch B102/75789, “Die Überprüfung der Beteiligungen des Reiches und des ehemaligen Landes Preußen in der britischen Besatzungszone durch den Rechnungshof des Deutschen Reichs (Britische Zone) in Hamburg, Vortrag auf der Tagung des Unterausschusses für Beteiligungen des Zonenausschusses für die Verwaltung von Reichs- und Staatsvermögen am 7. September 1948 in Stadthagen”.

⁸⁵ BArch B102/75789, “Verwaltung und Nutzung des Reichs- und Staatsvermögens in der Britischen Besatzungszone”.

⁸⁶ BArch B326/309, Der Oberfinanzpräsident, Hamburg, August 1946: “Erfassung und Verwaltung des Reichs-, Partei- und Wehrmachtsvermögens”.

⁸⁷ BArch B326/263, Rechnungshof des Deutschen Reichs (Britische Zone), to: Verwaltung für Ernährung, Landwirtschaft und Forsten des Vereinigten Wirtschaftsgebiets, Hamburg, 14.5.1948.

⁸⁸ BArch B102/75789, “Verwaltung und Nutzung des Reichs- und Staatsvermögens in der Britischen Besatzungszone”.

finance presidents.⁸⁹ Later, state delegates were added.⁹⁰

That the chief finance presidents were in charge led to disputes with the German states which tried to decentralise the management of Reich and NS-DAP property.⁹¹ Without success, the states requested parity between the chief finance presidents and the state administrations concerning the administration of property and positions in the supervisory boards of the companies under control.⁹² A “Handbook of Property Control” confirmed the status of the chief finance presidents.⁹³ The status of the chief finance presidents was confirmed again later by an order of the military government which determined that the chief finance presidents were custodians and as such directly subordinated to the military government, and not part of the finance administration of the German states.⁹⁴

Transfer of ownership to the federal level was prepared by three simultaneously enacted directives: US law no. 19 from 10 April 1949,⁹⁵ British directive No. 202 and French directive 217. All directives established trusteeship of the German states until further regulation would have been adopted by the future German government, but in different ways.⁹⁶

British law no. 202 placed public enterprises under fiduciary administration of the German states while the question of ownership was left to the future

⁸⁹ BArch B326/264, Property Control Section, HQ Hansestadt Hamburg, to Präsident des Rechnungshofes für die Britische Zone, 10.12.1947.

⁹⁰ BArch B326/256, “Geschäftsordnung des Zonenausschusses für die Verwaltung von Reichs- und Staatsvermögen in Hamburg. (In der Fassung des Beschlusses vom 30. November 1948)”.

⁹¹ BArch B326/309, OFP to Präsident der Leitstelle der Finanzverwaltung, 2.12.1946.

⁹² BArch B326/262, “Niederschrift über die Besprechung zwischen den Abteilungsleitern und Referenten der Oberfinanzpräsidenten, der Finanzleitstelle, des Zentral-Haushalts-Amts und des Rechnungshofs am 20. und 21. Januar 1948 in Hamburg über Einrichtung der den Oberfinanzpräsidenten übertragenen Verwaltung von Reichs- und Staatseigentum”.

⁹³ BArch B326/264, Property Control Instruction No. 24 (S), see “Handbuch der Vermögenskontrolle”, published by the Control Commission for Germany (BE), sent to Chief Finance President, Section V3, 22.1.1948.

⁹⁴ BArch B326/262, Transcript: “ Zonenausschuss für die Verwaltung von Reichs- und Staatsvermögen – Zuständigkeit der Oberfinanzpräsidenten”, Property Control Branch Minden, to Property Control Branches Düsseldorf, Hanover and Kiel, 20.7.1948.

⁹⁵ US Law No. 19 about the “Disposing of Properties in the United States Zone of occupation and the United States Sector of Berlin Having Belonged to the Former German Reich and to the Former German States, Länder or Provinces (including the State of Prussia)”.

⁹⁶ For an overview see BArch B102/75787, “Verwaltung für Finanzen: Niederschrift über die Sitzung am 23. September 1949 betr. das Reichsvermögen und das Vermögen des früheren Landes Preußen”, 23.9.1949, Bad Homburg.

federal government. Article VI conferred powers upon the future German government but confirmed that “land authorities” remained in charge. The military government later clarified that the emphasis was on ‘authorities’, and not on ‘land’, so that the chief finance presidents would stay in charge.⁹⁷ Article II specified the property which would remain under British control, amongst this *Wehrmacht* property, moving picture property and property which was subject to disarmament.

US Law No. 19 and French Directive No. 217 attributed property the fiduciary ownership of the respective German state. An exemption was made in case of a majority participation in an entity which was located in another state. In these cases, the state where the participation was located had to be assigned a stake in the parent company.⁹⁸ This applied particularly to subsidiary companies of VIAG which were located in Bavaria.

A special case was Volkswagenwerk, which had been established by the German Labour Front, the National Socialist trade union organisation, in 1937. The question of its ownership was legally debated for more than a decade because it was not clear whether the German Labour Front was part of the Reich or constituted its own legal entity.⁹⁹ Therefore, it did not count as former Reich Property. Here, the hesitant approach of the British military government for a trend-setting decision became most evident. Since it did not constitute Reich property, Volkswagenwerk did not fall under the general British rules and required special regulations. In September 1949, responsibility for Volkswagenwerk was delegated to the federal government and Lower Saxony as trustee. According to previous research, the British military government preferred public ownership over private ownership.¹⁰⁰ In 1949, the British government handed responsibility directly over to Lower Saxony which should as a trustee administer Volkswagenwerk until the new federal government would take further decisions.¹⁰¹

⁹⁷ BArch B326/256, “Landesamt für Vermögenskontrolle: Niederschrift über die Tagung der Oberfinanzpräsidenten – Reichs- und Staatsvermögensstellen – der Finanzministerien der brit. Zone und des Rechnungshofes für Sonderaufgaben, Hamburg, in Bad Meinberg am 4. November 1949”, 7.11.1949.

⁹⁸ US Law No. 19, Art. 5 (6) and Art. 5 (7)

⁹⁹ Nicolaysen (2002), pp. 13–61.

¹⁰⁰ Edelmann (2003), p. 89; Mommsen and Grieger (1996), p. 978.

¹⁰¹ Verordnung 202 of the British Military Government. This regulation was confirmed by

The Court of Audit in the British zone became an important institution and participated as an advising body in many decisions concerning the administration of shareholdings. The idea to make use of the Reich finance administration and chief finance presidents for administering heirless enterprises goes back to a suggestion of the Court of Audit in the British zone in the summer of 1945.¹⁰² In August 1945, the military government entrusted the zonal Court of Audit in Hamburg with a review of the activity of the Reich and Prussia as shareholders.¹⁰³ The court internally assumed that a final decision of the military government about the Reich and Prussian property would follow the suggestions of the German administration.¹⁰⁴ Evidently there was a functioning cooperation between the finance administration and the British military government.

The benchmark for the investigation of the audit court was the Reich Budget Act (*Reichshaushaltsordnung, RHO*). According to § 47 RHO, state ownership required a public interest that could not be satisfied in another way. At a meeting of the subcommittee for Reich and state property of the zonal committee, a delegate of the Court of Audit presented preliminary results. He concluded that “a public interest for state-owned shareholdings does in many cases not exist anymore due to the end of the war and changed public tasks. Therefore, it has to be examined in which cases the shareholdings of the Reich or Prussia should be kept and in which cases they should be given up”.¹⁰⁵ An exemption was made for those industries that were subject to

Allied Law No. A 16 from 1951. See documentation in BArch B102/76389, Div. II B BMF, 1.7.1953. (Dietrich (1996), p. 215).

¹⁰² BArch B102/75789, “Verwaltung und Nutzung des Reichs- und Staatsvermögens in der Britischen Besatzungszone – Kurzfassung”.

¹⁰³ BArch B102/75789, Rechnungshof des Deutschen Reichs (Britische Zone) to Verwaltung für Wirtschaft des Vereinigten Wirtschaftsgebietes, “Beteiligungen des Reiches und des ehemaligen Landes Preußen”, Hamburg 3.8.1948.

¹⁰⁴ BArch B102/75789, Transcript: “Verwaltung und Nutzung des Reichs- und Staatsvermögens in der Britischen Besatzungszone – Kurzfassung.”

¹⁰⁵ “ein Interesse der öffentlichen Hand, selbst Gesellschafter von öffentlichen Unternehmen zu sein, besteht infolge des Kriegsausgangs und der veränderten staatlichen Aufgaben häufig nicht mehr. Es ist deshalb geboten, zu prüfen, in welchen Fällen die Beteiligung des Reichs und Preussens beizubehalten sowie in welchen Fällen sie aufzugeben ist”, BArch B102/75789, “Die Überprüfung der Beteiligungen des Reiches und des ehemaligen Landes Preußen in der britischen Besatzungszone durch den Rechnungshof des Deutschen Reichs (Britische Zone) in Hamburg, Vortrag auf der Tagung des Unterausschusses für Beteiligungen des Zonenausschusses für die Verwaltung von Reichs- und Staatsvermögen am 7. September 1948 in Stadthagen”, p. 4.

socialisation plans: “The decision about the shares of the Reich and Prussia has to be postponed for those industries whose socialisation (transfer into public ownership) is planned. This applies particularly to enterprises in the coal mining industry and iron and steel production.”¹⁰⁶ This was probably a reference to the recent socialisation decisions in North Rhine-Westphalia and Hesse. Nevertheless, the court had made clear that state-ownership had to comply with the regulations in place which were inherited from the Reich. The burden of proof for the necessity of state ownership was according to the RHO on the side of a government which intended to create or keep public enterprises.

2.2.2 Saving the Holding Companies

The Reich and Prussian corporate property was defended on two sides in the post-war years: Against dismantling and against the grasp of the German states. The Potsdam Treaty stipulated that the German armaments industry should be dismantled as a part of the war reparations. The list of companies which should be partially or completely dismantled was reduced in the Petersberg Agreement from 16 October 1948, and in January 1951 the three Western Allied high commissioners announced the end of all dismantling. Special regulations were imposed for the Reich owned film assets and the air transport industry.¹⁰⁷

Hibernia was affected by production restrictions through its participations in Scholven and Chemische Werke Hüls (CWH). Both companies were on the dismantling list but removed in the Petersberg Agreement. Despite this, neither Scholven nor Chemische Werke Hüls had the permission to resume to production. Scholven regained its full legal capacity in 1952. Chemische Werke Hüls was partially owned by I.G. Farbenindustrie AG. It was classified as a “prohibited industry II” and had to find new production fields since the

¹⁰⁶ “Die Entscheidung über die weitere Beteiligung des Reichs und Preussens wird bei den Unternehmen derjenigen Wirtschaftszweige zurückgestellt werden müssen, deren Sozialisierung (Überführung in Gemeineigentum) geplant ist. In Betracht kommen hier in allererster Linie die Unternehmen des Kohlenbergbaus sowie der Eisen- und Stahlerzeugung.”, *ibid.*

¹⁰⁷ See p. 89

manufacture of its main product Buna was forbidden. The company resumed production in 1953.¹⁰⁸

The Reichswerke group was included in the dismantling list based on the Potsdam Treaty. A number of plants were shut down and demolished from 1947. Due to the high inflow of German refugees, rising unemployment and subsequent unrest of the population in 1950, the British occupation decided to save the Salzgitter steel industry and to stop dismantling. In 1953, the company was renamed AG für Bergbau- und Hüttenbetriebe. In 1948, the zonal committee requested to postpone the dismantling of the Reichswerke group from the Control Commission.¹⁰⁹ The reconstruction of the iron and steel works in Salzgitter began in 1953. In the same year, the companies which belonged to Reichswerke were released from Allied control and responsibility for reorganising the Reichswerke complex was handed over to the West German government.

The distribution of subsidiary companies of the large holdings over several occupation zones led to difficulties for the managers to hold ‘their’ companies together. Even more so, as the states became increasingly interested in taking over those assets. This will be shown on the examples of VEBA and VIAG. Both companies already suffered from the loss of many valuable production facilities in former Eastern Prussia and Eastern countries.¹¹⁰

VEBA was mainly located within the British zone, but cohesion was complicated because of split custody. In the British zone, Hermann Schilling was appointed general custodian of VEBA by the property control, but custody for the subsidiary companies Preussag and Preussenelektra was with the chief finance president Hanover. Schilling complained about this, but the split custody was confirmed by an order of the military government from 5 July 1948.¹¹¹

¹⁰⁸ Radzio (1979), pp. 183–187.

¹⁰⁹ BArch B326/256, “Zonenausschuss für die Verwaltung von Reichs- und Staatsvermögen: Niederschrift über die Tagung des Zonenausschusses für die Verwaltung von Reichs- und Staatsvermögen am 4. Mai 1948 in Hamburg”, 13.5.1948.

¹¹⁰ Pohl (1998), pp. 227–228; Laufer and Stier (2005), pp. 393–395

¹¹¹ BArch B326/256, “Zonenausschuss für die Verwaltung von Reichs- und Staatsvermögen: Niederschrift über die Tagung des Zonenausschusses für die Verwaltung von Reichs- und Staatsvermögen am 4. Mai 1948 in Hamburg”, 13.5.1948; BArch B326/262, “Niederschrift über die Tagung des Unterausschusses für Reichsbeteiligungen in Stadthagen”, 7.12.1948.

VEBA's survival as a holding company in the immediate post-war years succeeded mainly due to the influence of Hermann Schilling. Schilling had been managing-director of Preußische Staatsbank and as such executive board member of VEBA since 1933. As has been reported, Schilling transferred VEBA from Berlin to Hamburg as the legal representative of the company. He introduced himself as VEBA's representative to Hamburg's financial administration and successfully requested that the company would put under British property control. Officially, Schilling did not have the power to represent VEBA. But nevertheless he was successful – the normative power of the factual had won.

Schilling organised the appointment of a supervisory board with Hermann Brekenfeld as chairman. Brekenfeld had been on the management board of VEBA since 1929 and was comparably politically unburdened as the only board member who had been appointed before 1933. He had also been a member of the supervisory board of Preussag. Together with Otto Klewitz, Brekenfeld was appointed a member of the management board in 1945. The other management board members had been dismissed due to their involvements with the National Socialists. When Brekenfeld was imprisoned by the Soviets because he had been assistant director of the Preußische Staatsbank, Schilling himself took his position in the supervisory board, became chairman in January 1946 and kept this position until 1959.

While VEBA as a holding structure had been kept together, the cohesion of the plants and factories of the three main subsidiary companies Hibernia, Preussag and Preussenelektra was still unclear. Hibernia's top managers Wilhelm Tengemann and Stein were imprisoned and Walther Fimmen had gone into hiding. Mining councillor Walter Bälz held the fort at the company's headquarters in Herne and kept the production going. On 13 August 1945, Bälz was officially appointed trustee of Hibernia and its subsidiary companies by the *North German Coal Control* (NGCC) which wanted him to work towards output maximisation. It has been argued that it was advantageous for VEBA that Hibernia was under the control of the NGCC and as such protected from the grasp of North Rhine-Westphalia.¹¹² The chairman of the

¹¹² Laufer and Stier (2005), p. 398. The NGCC was established and charged with the administration of black coal production in the British zone. In 1947, the US joined

bizonal economic council requested that the bipartite control office should be considerate of functional economic units such as Preussenelektra and not to split them into several parts.¹¹³

In the case of VIAG, it was problematic that factories and subsidiary companies were distributed over large areas and hence part of several occupation zones. Bayernwerk, Innwerk and Süddeutsche Kalkstickstoff-Werke, all important subsidiary companies of VIAG, were based in the US zone. This threatened the company's cohesion, it became increasingly difficult to hold the large holding companies together. VIAG's headquarters were relocated from the Soviet sector to the British sector in Berlin where the company was registered on 23 May 1945 by Hans Rosinsky, accountant of VIAG. The finance authority supported the company's resumption of business. Yet, VIAG had no management board. All former board members were either dead, imprisoned or had escaped. In June 1945, Ludger Westrick and Georg Rotzoll were appointed commissary board members. Westrick later became secretary of state in the Ministry of Economics.¹¹⁴ VIAG's first general assembly took place on 5 July 1945 and served to dismiss former Nazi members from the supervisory board. Heinrich Nickel was appointed trustee by the Soviets. Production was only gradually resumed in the plants. In 1948, Innwerk, subsidiary of Vereinigte Aluminium-Werke AG (VAW) was granted the permission to produce aluminium as the first West German factory. Westrick's influence on VEBA grew when he became trustee of some of VIAG's shareholdings in the Western occupation zones. On 10 June 1947, Ludger Westrick was one of two appointed general and authorised administrators of the West German plants of VAW, which was subject to a ban of production because of its previous military equipment production, the Vereinigte Leichtmetall-Werke AG,

and the organisation was renamed in *US/UK Coal Control Group* (US/UK CCG) (later *Deutsche Kohlenbergbau-Leitung* (DKBL)).

¹¹³ BArch B102/75787, Vorsitz der Verwaltungsrates des Vereinigten Wirtschaftsgebietes (Hermann Pünder) to Bipartite Control Office, Joint Secretariat Frankfurt, 14.5.1949.

¹¹⁴ Ludger Westrick had been working for the VAW, one of VIAG's largest subsidiary companies, since 1933 and in 1939 he had transferred as chairman and managing-director to VIAG. Between 1939 and 1945, he served as main trustee of the company and as such belonged to the *Wehrwirtschaftsführer*, the elitist group of Nazi top managers. After the German surrender, he was imprisoned by the Soviet but set free shortly afterwards. Between 1948 and 1951, Westrick was financial manager of the DKBL.

the Rheinische Blattmetall AG and the Vereinigte Werke by the chief finance president of Cologne.

A large number of the remaining plants of VIAG and its subsidiary companies were located in Bavaria and put under Bavarian trusteeship. This became a difficult situation given the closed off borders between the occupation zones. Accountant Rosinsky was the only one allowed by the Soviets to travel to Bavaria to visit VIAG's industrial property and to confirm VIAG's claims of ownership. The situation became worrying when the US property control assigned trusteeship for VIAG's subsidiary company BAWAG and Bayernwerk, which was owned by the Bavarian state, to one and the same trustees to the disadvantage of VIAG. Westrick and his team feared that the Bavarian state would try to control the Bavarian energy market with the help of Bayernwerk. The conflict between Bavaria and VIAG worsened when Bavaria started to appoint members for the subsidiary boards of the subsidiary companies under its trusteeship. Westrick finally travelled himself to Munich and insisted on seats for VIAG representatives in the boards. On the Bavarian side, Ludwig Erhard (CDU), at that time Minister of State, argued against him. Negotiations between Bavaria, VIAG and later also the federal government continued for years. As a holding company, VIAG's business system depended on the horizontal integration of energy production and supply from Bavaria and the production of energy-intensive aluminium and nitrogen.¹¹⁵ According to Radzio, Gerhard Breme, specialist advisor of the chief finance president in Hamburg, later remembered about attempts from the side of the states to take over heirless property: "Most eager in this matter were the Bavarians, especially concerning VIAG plants and factories. But also Lower Saxony was not idle. It wanted to take over Preussag and Preussenelektra."¹¹⁶ VIAG's ownership situation was not resolved until the adoption of the Reich Property Act in 1961. In the meantime, the company set up a second headquarter in Bonn in order to be closer to the federal government.¹¹⁷

¹¹⁵ Pohl (1998), pp. 223–254.

¹¹⁶ "Am begierigsten waren in in den ersten Nachkriegsjahren in dieser Beziehung die Bayern, besonders, was die Werke der VIAG anging. Aber auch Niedersachsen war nicht untätig. Es wollte die Preussag und die Preussenelektra übernehmen." Radzio (1979), p. 188.

¹¹⁷ Pohl (1998).

2.3 Solving the Ownership Question: Portfolio-Redistribution in the Federal Framework

With the foundation of the Federal Republic of Germany, a new phase began. In the centre of the beginning reorganisation of shareholdings stood the question as to who would exert the rights of the shareholder of the companies which had so far been labelled as heirless. The ownership question was discussed between the federal government and the German states for more than a decade, a final allocation was settled by law in 1961.

Article 134 of the German constitution assigned property of the Reich and the former state of Prussia in principle to the federal level. It provided that details about the distribution should be specified by law. This law required the approval of the federal Council, the second chamber representing the states. It was however not entirely clear whether the federal government had already become the owner or whether he held administered the property as trustee until further legislation had been passed. One major issue was the character of Art. 134 Abs. 1 GG: In case of an identity of the Federal Republic and the former Reich (identity theory), Art. 134 GG only had declaratory character. This was the view adopted by the federal level. However, the German states insisted on the provisional character of Art. 134 and on their position as trustees.

It was obvious early on that Art. 134 GG might lead to problems. An internal note of the chief finance president Hamburg from 19 May 1949 mentioned the two different approaches of the US and the British military governments and their consequences for the state property. According to the note, the British military government assumed that the German Reich continued to exist. This would have meant that control over the property within the zones would continue to be exercised by the zonal administration. The US view did not assume a legal continuance which made the property a 'hereditas iacens' (ownerless property) which would later belong to the newly established Federal

Republic.¹¹⁸

A meeting of the bipartite administrative council for the economy on 23 September 1949 confirmed the position of the federal government that the Federal Republic was the legal successor of the Reich (Identity theory) and Art. 134 Abs. 1 GG therefore had only declarative character but did not provide a new legal basis. It was advised to sign standstill agreements with the states in the US and French occupation zone to prevent them from changes of the status quo of public enterprises that would be difficult to reverse later. At this point it was still assumed that the military government might command the unbundling of public enterprises and a re-distribution of shareholdings.¹¹⁹

At this point, the Allied military laws were still legally binding. Records of the courts of audit reveal that the auditors were still worried that the Allies might allocate public enterprises to the German states.¹²⁰

Finally, Allied law no. A-16 from 4 May 1951 repealed British decree no. 202, US law no. 19 and French decree no. 217 and left the decisions over public enterprises to the German government.¹²¹ Subsequently, the chief finance presidents and finance administrations gradually transferred control of state property over to the Ministry of Finance. In reverse, the Ministry of Finance entrusted the administration with tasks such as liquidation of companies.¹²²

The attempt to come to a solution with the states in form of an administrative agreement failed. Even though there was a conservative majority in both chambers, *Bundestag* and *Bundesrat*, the interests of the federal government and the state governments were too different, so that party affiliation was not decisive in this case. State legislation did sometimes not comply with the German constitution: The Hessian Constitution for example provided that

¹¹⁸ BArch B326/262, Internal note: “Besprechung grundsätzlicher Fragen mit dem Rechnungshof des Deutschen Reiches (Britische Zone) – Abwicklungsstelle”, 19.5.1949.

¹¹⁹ BArch B102/75787, “Niederschrift über die Sitzung am 23. September 1949 betr. das Reichsvermögen und das Vermögen des früheren Landes Preussen”.

¹²⁰ BArch B102/75789, “Verwaltung von Reichseigentum durch die Verwaltung des Vereinigten Wirtschaftsgebietes”, Presidents of the Courts of Audit in the British Zone and Bizone to the President of the Administrative Board of the Bizone, Hamburg, 20.4.1949.

¹²¹ Gesetz Nr. A -16: “Aufhebung von Rechtsvorschriften der Besatzungsbehörden über das Vermögen des früheren Reiches und der Länder”, in: *Gazette of the Allied High Commission of Germany*, p. 881.

¹²² BArch B326/265, OFD Hamburg, Verwaltungsstelle für Reichs- und Staatsvermögen, to BMF, 15.12.1951.

all Prussian property located within Hesse was transferred into Hessian property. This would have affected mainly VEBA plants. The German states based their ownership claims on Allied regulations which had assigned administrative tasks to the states.¹²³

The federal government therefore opted for a legislative provisional solution as soon as Allied legislation had been lifted. The Provisional Prussian and Reich Property Act (*Gesetz zur vorläufigen Regelung der Rechtsverhältnisse des Reichsvermögens und der preußischen Beteiligungen*, short: *Vorschaltgesetz*) confirmed the federal government as the legitimate owner, but listed a number of companies which were of no national importance and whose administration was assigned to the states. The law assigned a majority of seats in the supervisory bodies of public enterprises to the federal level. The final regulation was left to a future federal law, as was already provided in Art. 134 Abs. 4 and 135 Abs. 6 GG.

Negotiations continued for an entire decade. Since 1949, meetings with representatives of the German states regularly took place in Bad Ems nearby Frankfurt.¹²⁴ The federal position was that enterprises with regional importance should be transferred to the states, while enterprises with super-regional importance should remain with the federal level. The Reich Property Act (*Gesetz zur Regelung der Rechtsverhältnisse des Reichsvermögens und der preußischen Beteiligungen*, short: *Reichsvermögen-Gesetz*) from 1961 finally clarified the ownership rights and widely confirmed the working solution.

2.4 Public Sector Size and Relevance

The public corporate sector which came under Allied control and was later handed over to the new German state was a heterogeneous and unstructured portfolio of shareholdings. Unfortunately, no data are available about the volume of public enterprises in immediate post-war Germany. In the early 1950s, the federal government started with an inventory of state property. From the

¹²³ For the negotiations, see documentation of the BMF in BArch B126/10211, 10214, 10215 and 10217.

¹²⁴ The minutes can be found in BArch B102/75766.

mid-1950s onwards, the Ministry of Finance published lists of federal shareholdings in the annual budget reports. The federal administration measured public enterprises in the number of directly and indirectly owned shareholdings and the volume in nominal capital. Heinz Maria Oeftering,¹²⁵ head of division in the Ministry of Finance, suggested in an internationally published article to use the workforce as measurement for the importance of state ownership since no better data was available.¹²⁶

According to the Ministry of the Treasury, in 1958, the federal industrial complexes VEBA, VIAG, Volkswagenwerk, Saarbergwerke and Howaldtswerke had 318,540 employees. This is just 1.3% of the total of 24,180,000 employees in 1958.¹²⁷ Also, since the currency reform, the concerns had invested 8.236 billion DM and had achieved a turnover of 10.373 billion DM in 1958.¹²⁸ Since 1953, federal enterprises had been paying dividends, which had increased from 6,256 million DM in 1953 to 39,008 million DM in 1957. A main share of investments can be ascribed to high internal financing opportunities : 77% of the investments of 872 million DM in 1957 had been financed by special depreciations. In 1955 and 1956, depreciation opportunities based on the Investment Aid Act (*Gesetz über die Investitionshilfe der gewerblichen Wirtschaft, Investitionshilfegesetz*) from 1952 were even higher. While some enterprises did not pay dividends at all until the mid to late 1950s, federal enterprises (without Saarbergwerke) paid an average dividend of 8.8% by 1960.¹²⁹

By 1957, the nominal value of federal enterprises had slightly increased to 1.7 billion DM from 1.5 billion DM in 1954, excluding Volkswagenwerk. However, according to a publication of Deutsche Bank, this did not reflect the real value. One problem was the issue of accounting. Since none of the shareholdings were traded, accounting basis was the corrected nominal capital with some exemptions. This led to a structural underestimation of the value of shareholdings. The book shareholders' equity of VEBA, VIAG and

¹²⁵ Oeftering was a lawyer and worked for the Ministry of Finance from 1950 to 1957. From 1957 to 1972, he was president of the German Federal Railway and from 1972 to 1977 president of the company's supervising board.

¹²⁶ Oeftering (1953).

¹²⁷ German Statistical Yearbook 1961, p. 142.

¹²⁸ Bundesministerium für wirtschaftlichen Besitz des Bundes (1960), pp. 12–13.

¹²⁹ Bundeschatzministerium (1962), pp. 10–12.

Salzgitter AG was already 2.5 billion DM. Estimations of the real value of federal enterprises fluctuated. The value of federal enterprises in 1957 excluding Volkswagenwerk was estimated to be five billion DM.¹³⁰ In the *Bundestag* debate about the Volkswagenwerk privatisation in 1958, values of up to seven billion were suggested, including Volkswagenwerk, which accounted for a fifth to sixth of this sum.¹³¹ In 1960, the value had increased to estimated nine billion DM.¹³²

Some data is available on the relative importance of federal enterprises in specific markets. Table 2.1 contains the share of domestic production of federal owned state enterprises in specific sectors in 1958 and for comparison in 1983, as it was published in the annual federal reports. The data cover the enterprises where the federal government was a majority shareholder. Earlier data for the period since 1955 exist, but they do not yet include Saarbergwerke and Volkswagenwerk.

Table 2.1: Share of federal enterprises in national production

Industry	National	Federal share	Federal share
	production	1958	1983
Coal	148,838,000 t	25.7	12.4
Lignite	93,487,000 t	9.2	5.4
Coke	42,967,000 t	15.1	
Steel bars	25,713,000 t	5.1	8.7
Rolled steel			10.2
Oil	4,432,000 t	16.3	9.9
Aluminium	137,000 t	70.1	50.3
Electricity	98,243 mill kWh	16.2	28.9
Car industry	1,365,000 pc.	40.3	36.3
Shipbuilding	1,251,000 brt	18.0	14.1

Sources: Bundesministerium für wirtschaftlichen Besitz des Bundes (1960) pp. 11–12 and Bundesministerium für Finanzen (1984).

¹³⁰ Bundesministerium für wirtschaftlichen Besitz des Bundes (1958), pp. 2–4.

¹³¹ DBA V01/2143, “Das Bundesvermögen”, in “Wirtschaftliche Mitteilungen DB März 1958”, p. 4.

¹³² Bundeschatzministerium (1962), pp. 10–12.

For the year 1961, now without VW and Preussag, the Ministry of the Treasury estimated the share in total West German industrial production to be 2.5%.¹³³

In the 1980s, the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) collected and published data on public sector size. Table 2.2 contains the share of public enterprises in gross value added in West Germany for the years 1979 to 1982. Correspondingly, Table 2.3 and Table 2.4 contain the proportions in gross fixed capital formation and in the labour force. These data include all political levels, federal level, German states and municipalities.¹³⁴

Table 2.2: Share of public enterprises in gross value added

Year	Gross value added (nominal billion DM)			Share of public enterprises (PE) (in %)	
	All Sectors	Corporate	Public	All Sectors	Corporate
	1979	1,342.7	1,158.8	140.5	10.5	12.1
1980	1,425.8	1,226.5	145.1	10.2	11.8
1981	1,493.3	1,280.8	155.1	10.4	12.1
1982	1,559.3	1,339.4	167.2	10.7	12.5

Source: CEEP (1984)

Table 2.3: Share of public enterprises in gross fixed capital formation

Year	Gross fixed capital formation (nominal billion DM)			Share of PE (in %)	
	All Sectors	Corporate	Public	All Sectors	Corporate
	1979	304.8	255.3	36.2	11.9	14.2
1980	338.0	282.8	43.0	12.7	15.2
1981	338.2	286.1	46.4	13.7	16.2
1982	329.1	281.8	48.4	14.7	17.2

Source: CEEP (1984)

¹³³ Bundeschatzministerium (1962), p. 8.

¹³⁴ Earlier accounts of CEEP statistics can be found in Corti (1976).

Table 2.4: Share of public enterprises in labour force

Year	Share of PE (in %)		
	Labour force	Employees all sectors	Employees corporate sector
1979	7.5	8.6	10.9
1980	7.6	8.7	10.9
1981	7.7	8.8	11.1
1982	7.8	8.9	11.4

Source: CEEP (1984)

According to a World Bank publication, the share of public enterprises in GDP in West Germany has decreased from 8.3% to 6.4% between 1978 and 1985. These figures are based on the CEEP data and include transport, industry and commerce on federal, state and local levels, and exclude housing, credit and insurance. Table 2.5 shows data for Germany, France, Italy and the UK in comparison.

Table 2.5: Share of public enterprises in GDP

Country	Share of PE in GDP in %										
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
France ^a	9.3	9.1			11.3			12.9			10
Germany ^b	8.3	8.4			6.4	6.5	6.5	6.4			
Italy	6.6				6.8						5.6
UK	6.1	5.6	6.2	6.4	6.6	6.4	5.2	4.4	4.4	3.4	3

Source: World Bank (1995), pp. 268–271.

^a excluding housing and the financial sector

^b excluding housing, credit and insurance

Short (1984) estimates the share of public enterprises in GDP in several countries from the 1950s onward. Some results are shown in Table 2.6. He estimates that in West Germany, the share in GDP was 10.3% for the period from 1976 to 1977 and 10.2% for from 1978 to 1979, slightly higher than the world average of 9.4% and the industrial countries average of 9.6%. The share in gross fixed capital formation has slightly increased from 10.4% in the period from 1962 to 1965 to 10.8% in the period from 1978 to 1979, with a peak of

14.5% from 1974 to 1975. This is slightly under the world average of 13.4% and the industrial country average of 11.1%. The numbers include all sectors excluding housing and includes enterprises in which at least 50% of the equity or voting capital are publicly owned. His data are based on CEEP data and Keyser and Windle (1978).¹³⁵ These findings indicate an expansion of public enterprises in the mid-1970s.

Table 2.6: Share of public enterprises in GDP and capital formation in selected countries

Country	Year	Share in GDP at factor cost (in %)	Share in gross fixed capital formation (in %)
France	1959–61	12.7	23.0
	1962–65	12.8	20.6
	1966–69	12.8	19.0
	1970–73	12.2	15.4
	1974	11.9	14.0
Germany	1962–65		10.4
	1966–69		11.0
	1970–73		12.3
	1974–75		14.5
	1976–77	10.3	12.3
	1978–79	10.2	10.8
UK	1958–61		21.3
	1962–65	10.3	19.8
	1966–69	10.4	20.1
	1970–73	10.0	16.3
	1974–77	11.3	18.6
	1978–8	10.9	16.8
	1982	11.2	17.1

Source: Short (1984), pp. 116–117.

From the federal annual reports, we also have information about the net value added by selected federal enterprises, excluding states and local services. Table 2.7 contains those data for 1983.

The data on public enterprises show that the federal enterprises represent only a small part of the economy and the public sector. They account for about 1 to 2% of the working population. In all federal annual publications, information about the Lufthansa AG are missing unfortunately. This had to do with different political responsibilities: The Ministry of Transportation was in charge of Lufthansa, hence the Ministry of the Treasury did not

¹³⁵ Short (1984), p. 184.

Table 2.7: Net value added of federal enterprises in 1983

Company	Net value added in 1983
	in billion DM
<i>Majority Shareholdings</i>	
Salzgitter	2.342
VIAG	1.857
Saarbergwerke	1.695
IVG	0.323
Total Majority Shareholdings	6.217
 <i>Minority Shareholdings</i>	
VEBA	6.662
VW	9.381
Total Minority Shareholdings	16.493
 Total	 22.710

Source: Bundesministerium für Finanzen (1984).

reveal any information. Also, the German Federal Railway and the German Federal Post Office are missing. Those two were not considered as enterprises but as special assets and as such part of the federal administration. In charge were the Ministry of Transportation and the Ministry of Posts and Telecommunications. For many decades, the German Federal Railway and Bundespost were the largest employers in West Germany. However, a transfer into legally independent, incorporated enterprises was not considered before the 1990s, so that they will not play a significant role in the scope of this thesis, despite their size.

2.5 The Legal Framework for Public Enterprises

Post-war Germany not only inherited state enterprises, but also the corresponding legislative framework. The most important legal foundation for state ownership was the Reich Budget Act from 1922 and the Reich Economic Regulations (*Reichswirtschaftsbestimmungen*) from 1929. The framework was completed by specific laws for types of enterprises and the public service code. As will become evident, these regulations were incomplete and even contradictory in some cases.

The Reich Budget Act provided conditions for the establishment of and control and surveying of shareholdings. According to § 48 RHO, Reich shareholdings were restricted to private law companies with supervisory boards. This only included joint stock companies (*Aktiengesellschaft, AG*), limited liability companies (*Gesellschaft mit beschränkter Haftung, GmbH*) and partnerships limited by shares (*Kommanditgesellschaft auf Aktien, KGaA*). Legally responsible was the Minister of Finance. The purchase of a participation required his approval. The Law provided that the government had to exert the necessary influence on the public enterprises, in particular by sending members to the supervisory boards. § 47 specified that a sale of a participation had to be at market prices. In the case of exceptions from this rule, parliamentary approval was required.

Within the first decades, it became obvious that the rules and regulations codified in the Reich Budget Act were incomplete. In particular, the role of the *Bundestag* was very limited and unclear. Hence, the law was interpreted such that the Federal Minister of Finance had to seek permission of the *Bundestag* for the sale of and capital injections for direct shareholdings in the value of 250,000 DM or more.¹³⁶ In 1969, the Reich Budget Act was replaced by the Federal Budget Act (*Bundeshaushaltsordnung, BHO*) and the Act on Budget Principles (*Haushaltsgrundsätzegesetz, HGrG*) which clarified the role of the *Bundestag* and restricted the powers of the Minister of Finance. The Federal Budget Act from 1969 provides two options for privatisation: privatisation can either be integrated in the annual budget plan by disclosure of the revenues, or the Minister of Finance can seek approval in a direct decision from *Bundestag* and *Bundesrat*.

Both Reich Budget Act and Federal Budget Act assign a supervisory function to the Federal Court of Audit. The court's role is to control not the companies, but the government as a shareholder. For that purpose, supervisory board documents, minutes and reports of the federal representatives in the supervisory boards have to be submitted to the Federal Court of Audit

¹³⁶ Hellwig in Parliamentary Debate, *Bundestag Plenarprotokoll* 03/63, 20.2.1959. See also *Bulletin der Bundesregierung* no. 36, 24.2.1959, p. 339, copy in BArch B102/75797, and BArch B126/40185, Federal Audit Court to BMF, 6.8.1952.

according to § 69 BHO. The court examines the ministerial administration according to § 92 BHO and is also entitled to examine the companies directly if a company receives subsidies (§ 91 Abs. 1 Nr. 3 BHO) or if audit rights are specified in the company statutes (§ 54 HGrG). The Federal Court of Audit reports to the *Bundestag*.

The Federal Budget Act additionally regulates the acquisition and sell-off of participations when the purchasing or selling company was either a direct shareholding or an indirectly held participation in which a state-owned parent company holds a majority stake. § 65 Abs. 2 BHO lists the business transactions which require the approval of the Minister of Finance:

- change of the nominal capital
- change of the company objectives
- change of the impact of the federal government
- acquisition and sale of participations
- exertion of subscription rights and renunciation of such rights
- liquidation of companies
- agreement, change and termination of controlling agreements
- change of legal form
- mergers and contributions

In all cases, documents have to be passed on to the Federal Court of Audit according to § 69 BHO. These regulations extend ownership rights defined by private law regulating private law companies, which is the second legislative pillar. Still, they seem to have been widely adopted and were not questioned by the respective companies.

The Reich Budget Act and Federal Budget Act only set the general framework. Additionally, the law regulating private law companies applies and specifies the ownership rights of the state. VIAG, VEBA, Reichswerke, Howaldtswerke, Saarbergwerke and Lufthansa were organised in the form of joint stock companies; Volkswagenwerk and IVG had initially the form of limited liability companies. Volkswagenwerk was transformed into a joint stock

company during its partial privatisation in 1960. Both types of companies left only little scope for the state as an owner to exert influence.

Joint stock companies were regulated by the stock company law (*Gesetz über Aktiengesellschaften und Kommanditgesellschaften auf Aktien*) from 1937 until it was succeeded by a new law in 1965 (*Aktiengesetz, AktG*). The state as the owner of a joint stock company forms or participates in the shareholder's assembly, represented by the Minister of Finance. The shareholder's assembly is one of three main bodies of joint stock companies but its role is fairly limited. The most important decisions made by the general meeting are capital increases, which was relevant for later privatisation decisions. It also appoints the supervisory board, which in turn appoints and controls the management board. The law regulating private companies protects public enterprises to some degree against too much state interference: The law provides that companies have to operate in a profit-oriented manner. This allows public enterprises to argue against measures that would inhibit their profitability.¹³⁷

In practice, this did not imply that the federal government effectively controlled the advisory board and also indirectly the management board. First of all, stakeholders had to be considered. Similarly to privately owned stock companies, representatives of banks and other stakeholders had seats on the board. Second, the states were granted the right to send delegates to the supervisory boards because of ongoing ownership conflicts between the federal government and the states. Third, regulations that specified the co-determination of employees would later limit the influence on the constitution of the supervisory boards further. VIAG, Reichswerke, Hibernia and Preussenelektra were affected by the Act on the Co-Determination in the Coal, Iron and Steel Industry (*Montan-Mitbestimmungsgesetz, MontanMitbestG*) from 1951. The law provided that in mining companies which were organised as joint stock companies or companies with limited liability, half of the members of the advisory boards and management boards had to be appointed by the employees. All other companies fell in the scope of the Works Council Constitution Act (*Betriebsverfassungsgesetz, BetrVG*) from 1952 and the Act on

¹³⁷ Laufer and Stier (2005), pp. 428–429.

Co-Determination (*Gesetz über die Mitbestimmung der Arbeitnehmer*, short *Mitbestimmungsgesetz* or *MitbestG*) from 1976 which both provided a lower degree of co-determination of employees compared to regulations for the coal, iron and steel industries. For indirectly held shareholdings, § 32 MitBestG specified that the representatives of shareholders in the supervisory boards of the parent company appoint the shareholder representatives in the supervisory boards of the subsidiary companies.

The legal situation was complicated by conflicts between the stock company law and the civil service code. Until 1953, the relationship between the federal government and its civil servants was regulated by a version of the Reich civil service code from 1937 (*Deutsches Beamtengesetz*) which had been modified in 1950 (*Bundesfassung des Deutschen Beamtengesetzes*); in 1953 it was replaced by the federal civil service code (*Bundesbeamtengesetz*). The civil service code provided that appointed civil servants in the advisory boards were generally bound by instruction of their superiors, lastly the respective minister him- or herself (§ 62 BBG) Civil servants had to advise and support their superiors and follow their orders and principles with the exception of such cases, where they were explicitly not bound to instructions or had to follow specific laws. The question of whether the private company law accounts for such an exception has never officially been clarified by a court decision, to my knowledge. The contradictory legislative framework led to an ambivalent situation: The minister in charge (superior) had to orient his or her actions towards the benefit of the state whereas the civil servant who represented the state had to orient his or her actions towards the benefit of the company (§ 111 AktG). As will be seen later, this legislative conflict led to a severe political conflict in the case of the privatisation of VEBA in 1965.¹³⁸

The analysis of the legislative framework shows that there was little scope for the government to determine management decisions of shareholdings on a legal basis. In practice, this became apparent in the mid-1950s during the debates on shareholdings as public policy instruments.¹³⁹

According to the budget law, the Ministry of Finance had the lead-

¹³⁸ See chapter 4.5.

¹³⁹ See chapter 3.4.2.

ing responsibility for federal participations. Due to overlapping competences, the Ministry of Economics was co-responsible. The Ministry of Transportation took on responsibility for participations in the transport sector, such as Lufthansa. The German Federal Post Office and the German Federal Railway did not fall in the scope of the budget laws and laws regulating private companies since they were regarded as special assets of the government and not corporations. Instead, they were treated as part of the federal administration and assigned to the Ministry of Transportation and the Ministry of Posts and Telecommunications .

Given the institutional framework, the Ministry of Finance was faced with two different problem sets: Smaller shareholdings with a value up to 250,000 DM and those above that value. According to the legal view of the time, a *Bundestag* approval for the purchase (and also for capital increases) of indirect shareholdings and of direct shareholdings in a value of less than 250,000 DM was not necessary. Based on the Reich Budget Act, the Minister of Finance had the decision-making powers concerning these shareholdings. Above 250,000 DM, approval of the *Bundestag* was required for the sale and capital increase.

Parliamentary approval followed the general *Bundestag* decision-making process, which was based on a committee system. Proposed motions were passed on to the corresponding *Bundestag* committee or committees and sometimes further to a subcommittee or subcommittees. When motions were accepted in the subcommittees and committees, they were passed back to the *Bundestag* for a final decision. Hence, committees had a veto position in the *Bundestag* decision mechanism. In 1951, the *Bundestag* budget committee, economics committee and legal committee formed a joint subcommittee for Reich property.

State-owned enterprises initially benefited from three substantial tax privileges, but two of these were removed or restricted in the 1960s and 1970s. First, enterprises in full state ownership were exempted from paying wealth tax. The normal tax rate was 0,6% for corporations. This privilege was substantially restricted in the wealth tax reforms 1961 and 1974 and wealth tax

as a whole was abolished in 1995 due to legal issues. Second, public enterprises benefited from a turnover tax privilege. This was removed in the Value Added Tax Act in 1967. The third exemption which still exists is that enterprises which are 100% in public hands are exempt from paying company tax if they served the public interest. Historically, this was interpreted broadly; Lufthansa AG was for example excluded from paying company tax before private investors were allowed to participate.¹⁴⁰ However, the exemption is not directed at public enterprises in general but aims at supporting public authorities in providing public goods. Nowadays, this applies mainly to municipalities where public services are organised in the form of private law companies instead of administrative units.

A final fact which is worth mentioning is that there were no financial incentives for civil servants to serve as supervisory board members. The remuneration for state officials who were members of supervisory boards as part of their jobs was fairly low. According to § 8 “Verordnung über die Nebentätigkeit der Bundesbeamten” from 1964, officials were allowed to keep between 1,500 and 3,000 DM per year. The rest, approximately 500,000 DM per year in 1964, had to be passed on to the federal state because the positions were treated as a secondary employment. Also, in 1983, the Federal Court of Audit noted that the remunerations were usually lower than remunerations in the private sector.¹⁴¹

¹⁴⁰ Bozdag-Yaksan (2008), p. 111.

¹⁴¹ BArch B126/136047, Bundesrechnungshof VIII 5, 31.5.1983, Attachment 3: Internal Note by II A3.

Chapter 3

Orientation Phase

Public enterprises were not a central topic during the first post-war years and existed rather in the shadow of debates about the future economic system. In the second legislation period, the topic of public enterprises was put on the political agenda. The federal elections in September 1953 confirmed the existing government coalition of CDU, CSU and FDP which was joined by the national-conservative Deutsche Partei (DP) in 1953. Konrad Adenauer (CDU) remained Federal Chancellor, Fritz Schäffer (CSU) Minister of Finance and Ludwig Erhard (CDU) Minister of Economics. After an administration for public enterprises had been set up, the Ministry of Finance under Schäffer started to sell participations to single investors and groups of investors. But it soon became apparent that political approval for this form of privatisation was very limited. Both CDU/CSU business wing and employees association criticised the resulting concentration of ownership. As a consequence, new forms of privatisation were developed.

The FDP clearly favoured private ownership and expressed that in several *Bundestag* motions and requests. The DP only a marginal role for economic policy, the role of agenda-setting regarding privatisation was in the hands of the CDU/CSU. The CDU/CSU represented a broad political spectrum and was characterised by a high degree of heterogeneity. Interest groups in the CDU/CSU have been organised as internal associations. Today, there are seven such organisations. Of particular importance for the privatisation pro-

cess were the business wing (*Mittelstands- und Wirtschaftsvereinigung*) and the employees' faction (*Christlich-Demokratische Arbeitnehmerschaft (CDA)*, Christian Democratic Employees, or *CDU-Sozialausschüsse*, Christian Social Committee). The internal associations have been formally recognised in the party statutes. The broad spectrum of opinions of CDU and CSU was reflected in a high degree of proportionality in the *Bundestag* faction and the government. Therefore, the decision-making process had to be organised in a consensus-orientated way. The differences between the market-oriented wing and the employees' wing of the CDU had a strong impact on the party's early economic programme. The Ahlen Program, the economic and social party programme of the North Rhine-Westphalian CDU from 1947, still spoke of the nationalisation of key industries and had been largely influenced by the party's left wing. It was later revised by the Düsseldorf Principles (*Düsseldorfer Leitsätze*) in 1949, the party programme for the first federal elections, which can be understood as a success of the liberal-economic forces around Ludwig Erhard (CDU) and a commitment of the party to the paradigm of a social market economy. Still, a high degree of heterogeneity between the party factions continued to exist and led to a number of conflicts over policy directions in the following decades.

3.1 Set-up of the Federal Administration

In 1949, no administration for public enterprises existed on the federal level, so responsibilities had to be organised. Based on the Reich Budget Act, the Federal Ministry of Finance became in charge of the largest part of the portfolio of participations. The Reich Budget Act assigned responsibility for public enterprises in general to the Finance Ministry, But given that the Ministry of Economics was in charge of fundamental policy decisions in sectors where public enterprises operated, the ministry argued that it should have decisive role in the control of shareholdings by taking over seats on the advisory boards. The result was a shared responsibility between the ministers which led to a number of conflicts between the ministries.

In the leading Ministry of Finance, a division for federal assets and a subdivision for federal enterprises and participations were established. In charge of federal enterprises in the Ministry of Finance was Friedrich Krämer. As a lawyer, Krämer had been working for the Prussian and the Reich administration until he was entrusted with the liquidation of state-owned property in 1945.¹⁴² He was supported by Hans Birnbaum, who later became chief of Salzgitter AG, and Gerhard Breme. Breme had been specialist advisor of the chief finance president in Hamburg after 1945 and had in this position been in charge of the administration of public enterprises. Later, Breme transferred to the Ministry of the Treasury where he remained, probably until his retirement, until the end of the 1960s.

In the Ministry of Economics, Secretary of State Schalfjew appointed Ludwig Kattenstroth to be personally in charge of public enterprises.¹⁴³ At that time, Kattenstroth, a lawyer, was head of the economic policy division and had the reputation of a hard-working, meticulous, intelligent man. He became a very influential ministerial official in the 1950s and 1960s and a confidant of Erhard (CDU).¹⁴⁴ As Kattenstroth was personally in charge, he took the task with him when he switched first to the central division and later to the energy division. On behalf of the Ministry of Economics, Kattenstroth was also in charge of negotiations with the states about the ownership question.¹⁴⁵

Kattenstroth's team in the Ministry of Economics was small. For many years, he was assisted by Werner Fenge and Henneberg.¹⁴⁶ Fenge and Henneberg formed the subdivision ZA2 which was directly subordinated to Kattenstroth as head of the central division.¹⁴⁷ Both transferred with him to division

¹⁴² Laufer and Stier (2005), pp. 407–408.

¹⁴³ This can be drawn from BArch B102/75766, Lübke, Verwaltung für Wirtschaft, to Kattenstroth, III, 1.3.1950, and Josten to Kattenstroth, 14.3.1951, including Kattenstroth's handwritten notes from 22.3., 6.4., and 4.6.1951.

¹⁴⁴ See Löffler (2002), p. 234.

¹⁴⁵ BArch B102/75766, Circular note to other Divisions, Kattenstroth (Div. II), 24.2.1950.

¹⁴⁶ Fenge had been working for the Reich Ministry of Justice from 1935 to 1938 and became district court councillor in 1938. From 1938 to 1945, he was working in the presidential office, interrupted by military service. In 1953, he was employed by the Ministry of Economics. From 1958 to his death in 1966, he was on leave and board member of VEBA's subsidiary mining company Braunschweigische Kohlenbergwerke in Helmstedt. Information from ministerial schedule of responsibilities and personnel files in "*Die Kabinettsprotokolle der Bundesregierung*" online.

¹⁴⁷ Löffler (2002), p. 219.

III later on¹⁴⁸ and were involved in the conceptualisation of privatisation.

The federal government exercised its ownership rights by sending leading ministry officials to the supervisory bodies. For large and important companies, these were mainly secretaries of state. Since 1955, the annual published reports on the federal budget and later the reports of the Ministry of the Treasury contained information about the composition of the supervisory boards. In 1955, the federal government was represented in the supervisory boards of VEBA and its subsidiary companies Hibernia, Preussenelektra and Preussag, VIAG and its subsidiary companies Innwerk, Bayernwerk and VAW, Saarbergwerke, IVG and AG für Berg- und Hüttenwerke and its subsidiary company Hüttenwerk Salzgitter by only eight ministerial officials: the three Secretaries of State Alfred Hartmann (Ministry of Finance), Eduard Schalfjew (Ministry of Economics) and Ludger Westrick (Ministry of Economics), and the higher government officials Hans Birnbaum, Josef Rust, Johannes Schwandt, Heinz Maria Oeftering, and Carl Krautwig. Most of these officials had already been part of the Reich ministerial bureaucracy or the Reich economic administration before 1945.

3.2 Portfolio Streamlining and Reorganisation

Within the first decade after the end of the Second World War, an inventory of state ownership took place and the federal government took possession of and reorganised its portfolio. According to the federal budget report of 1955, the federal portfolio consisted of 83 direct participations which had been ascribed to the federal level by the Provisional Prussian and Reich Property Act and additionally 68 participations in companies in liquidation. The complete list of participations in which the federal government held 25% or more comprised 306 companies.¹⁴⁹

Of the nominal capital of 1.5 billion DM, 1.1 billion DM belonged to VEBA, VIAG and AG für Berg- und Hüttenbetriebe. In 1953, dividend pay-

¹⁴⁸ There, they probably formed one of three divisions which were directly subordinated to Kattenstroth. See schedule of responsibilities.

¹⁴⁹ Bundesministerium für Finanzen (1955), pp. 359–365; 373–385.

ments had resumed with a total dividend of 6 million DM, mainly from VIAG. The low dividend payments, in particular in the case of VEBA, had to do with special depreciation opportunities in the framework of the Investment Aid Act.¹⁵⁰ The group of (re-)established companies consisted of 20 enterprises in 1955, including Lufthansa AG and IVG. Between 1950 and 1955, capital injections for participations had added up to 77 million DM. Of these, the main shares had been for the reconstruction of the smelting plant of AG für Berg- und Hüttenbetriebe (35 million DM) and for the Bavarian electricity infrastructure development of VIAG (30 million DM). Also, credit in the volume of 19.9 million DM had been granted; 14.9 million for the reconstruction of Scholven-Chemie AG, and 5 million for Deutsche Werke Kiel AG. Eight smaller direct and indirect participations had been sold by 1955. Not included yet in the list of owned participations were Volkswagenwerk due to its unclear ownership situation and Saarbergwerke AG which was only re-established in 1957.¹⁵¹

3.2.1 Winding-up of the War Economy

The first task for the new government was to take care of the war economy from the Third Reich and streamline the portfolio of shareholdings. The Ministry of Finance under Minister Fritz Schäffer (CSU) conducted a number of liquidations and sales of divested firms. The initial portfolio comprised numerous corporations which had been part of the war economy. Some of these had been directly under the control of the Speer Ministry. Others belonged to the asset complex Bank der deutschen Luftfahrt AG (short Luftfahrtbank or Aerobank), which had been used for financing the NS aircraft industry.¹⁵² Most of these corporations had lost their reason to exist, some had lost a substantial part of their assets due to the war and its aftermath. Another large complex was UfA Film GmbH (UFI) which comprised the film assets of the Third Reich. The first report about the volume of state ownership counted

¹⁵⁰ See p. 129.

¹⁵¹ Bundesministerium für Finanzen (1955), pp. 327–331.

¹⁵² Bank der deutschen Luftfahrt AG was established in 1940 and goes back to Luftfahrtkontor GmbH, a bank which had been set up in 1933 for the takeover and administration of the aircraft company Junkers. See Bähr (2006).

67 companies in liquidation which were directly held by the federal government.¹⁵³ This number decreased to 52 in 1959, still including Ufa Film GmbH and Bank der deutschen Luftfahrt AG.¹⁵⁴

The dissolution of UFI took several years. According to Allied regulations, UFI had to be unbundled and liquidated.¹⁵⁵ In 1956, the two remaining subsidiaries Bavaria¹⁵⁶ and Universum Film AG (UFA)¹⁵⁷ were outsourced. Bavaria was sold to a consortium including Deutsche Bank and Commerzbank and is the foundation of today's Bavaria Film GmbH. UFA was sold to a consortium led by Deutsche Bank, where it served as the basis for the newly established Universum-Film AG. Ufa-Film GmbH remained in the list of companies in liquidation until its dissolution in the 1960s.

Bank der deutschen Luftfahrt was in liquidation from March 1954, and finally liquidated in the 1960s. The process involved outsourcing and selling several subsidiaries, among these Rheinmetall-Borsig and Mitteldeutsche Spinnhütte GmbH. Rheinmetall-Borsig, subsidiary of Bank der deutschen Luftfahrt, was sold to privately owned Röchlingsche Eisen- und Stahlwerke GmbH¹⁵⁸ in June 1956. In August of the same year, Borsig was separately resold to the state-owned Salzgitter AG.¹⁵⁹

A liquidation of war companies (*Kriegsgesellschaften*) required the settling of their debts. War companies were exempted from the Act regulating the Consequences of War (*Allgemeines Kriegsfolngengesetz*) from 1957 which regulated the conversion of debts into DM. The Act regulating the Liquidation

¹⁵³ Bundesministerium für Finanzen (1954), pp. 192–193.

¹⁵⁴ Bundesministerium für Finanzen (1959), pp. 525–527.

¹⁵⁵ “Lex UFI” from September 1949 was imposed by the American and British military government. In June 1953, the German *Bundestag* decided the liquidation of UFI by law (*Gesetz zur Abwicklung und Entflechtung des reichseigenen Filmvermögens*). For the cabinet decision see “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the 96th meeting on 7 September 1955, agenda item 8: “Gesetz zur Abwicklung und Entflechtung des ehemaligen reichseigenen Filmvermögens”.

¹⁵⁶ Bavaria had been established in 1919 as a private company and fully integrated in the UFI in 1942.

¹⁵⁷ UFA had been established as a private company in 1917 and had become part of the Reich-owned UFI in 1942.

¹⁵⁸ Today Saarstahl; the company was the operating company of the ironwork Völklinger Hütte, located in Saarland, until its closure in 1986.

¹⁵⁹ “*Die Kabinettsprotokolle der Bundesregierung*” online, Economics Committee of the Federal Cabinet, minutes of the 55th meeting on 27 July 1956, agenda item 2: “Verkauf der Beteiligung der Bank der Deutschen Luftfahrt AG i.L. an der Rheinmetall-Borsig AG an die Röchling'sche Eisen- und Stahlwerke GmbH”.

tion of War Companies from 1960 (*Gesetz über die Abwicklung der Kriegsgesellschaften*) provided the liquidation of war companies and defined war companies as companies which had been established with the purpose of warfare and war financing in the Third Reich and had belonged to the Reich. The liabilities of these companies of about 64.4 million DM were converted with a ratio of 10:1. A list of 19 companies which had been classified as war companies up until that point can be found in the draft law which was presented to the *Bundestag*.¹⁶⁰

As a consequence of the law, the list of public enterprises in liquidation or without business operation in the annual federal report dropped from 52 in 1959 to 35 in 1960. It was also reported that up until 1960, 92 corporations had been liquidated and 73 corporations dissolved for lack of assets. Additionally, 83 corporations had been dissolved after transferring their assets onto their parent companies. 88 companies were still in liquidation, and 16 directly and 87 indirectly federal participations had been sold.¹⁶¹ According to a report of the Ministry of the Treasury from 1963, 62 participations under the responsibility of the ministry had been sold to private investors by then, including UFA, Bavaria and subsidiary companies of the Bank der Deutschen Luftfahrt AG.¹⁶²

Not much is known about the revenues of asset sales in the course of the dissolution of the war economy. At a meeting of the *Bundestag* subcommittee for federal property in February 1955, Oeftering, head of division in the Ministry of Finance, declared that by then, participations to the value of 20 million DM had been sold and that negotiations about the sale of shareholdings of the value to 100 million DM were pending.¹⁶³ The latter sum probably included the Howaldtswerke, for which negotiations were conducted at that

¹⁶⁰ List of companies in *Bundestagsdrucksache* 03/1421, “Entwurf eines Gesetzes über die Abwicklung von Kriegsgesellschaften”. See also “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the 77th meeting on 9 September 1959, agenda item 3: “Entwurf eines Gesetzes über die Abwicklung der Kriegsgesellschaften”. Documentation on the preparation in the Ministry of Finance can be found in BArch B126/8929.

¹⁶¹ Bundesministerium für wirtschaftlichen Besitz des Bundes (1960), pp. 10–11.

¹⁶² BArch B126/34720, “Bericht an den Herrn Bundeskanzler über die Entwicklung im wirtschaftlichen Zuständigkeitsbereich des Bundesschatzministers in den Jahren 1949–1962”, 24.6.1963.

¹⁶³ BArch B126/40181, Minutes of the 2. meeting of the subcommittee *Bundesbeteiligungen* on 8 February 1955.

time. A *Bundestag* debate prior to the Preussag privatisation in February 1959 revealed that by then, 33 companies and participations had been sold which had led to revenues of more than 85 million DM.¹⁶⁴ The largest part of this sum probably stemmed from the privatisations in the contexts of UFI and Bank der deutschen Luftfahrt.

In the course of winding up the war economy, all privatisations were block sales to private investors, or groups of investors. Since most of these were sales of a small scope, they took place behind closed doors, administered by the Ministry of Finance. No *Bundestag* decision and hence no broad political approval was needed. A public debate about how privation should be implemented was not led yet. But in the mid-1950s, it became obvious that the privatisation design of block sales was not fully accepted.

3.2.2 Portfolio Reorganisation

Most participations which did not belong to the war economy were bundled in the large holding companies. Since these had developed in different historical circumstances, a reorganisation and adaptation of shareholdings was being discussed in the mid-1950s. However, the Ministry of Finance and the Ministry of Economics could not agree on a joint strategy which inhibited larger plans. In 1951, the Ministry of Finance developed the idea to create a federally owned bank called *Bank der Bundesunternehmen* which was intended to be jointly held by federal enterprises for financing purpose and limited regarding normal banking business, following the example of Preußische Staatsbank.¹⁶⁵

Adenauer found the idea interesting, Erhard's Ministry of Economics however

¹⁶⁴ "Große Anfrage der FDP betr. Privatisierung des Bundesvermögens", *Bundestag Plenarprotokoll* 03/63, 20.2.1959. Summary of the debate in *Bulletin der Bundesregierung* no. 36, 24.2.1959, p. 339, copy in BArch B102/75797.

¹⁶⁵ Preußische Staatsbank, also Seehandlungsbank or Preußische Seehandlung, was originally founded in 1772 as Seehandlungsgesellschaft, a public enterprise that had its own fleet with the task to promote Prussian foreign trade. In 1820, it officially became an independent trade and financial institution, following the broadening of its field of operation. In 1904, it was renamed as Königliche Seehandlung (Preußische Staatsbank), and in 1918 as Preußische Staatsbank (Seehandlung). The bank served financial, military and trade purposes and worked closely with Prussian state enterprises, particularly VEBA. After Prussia had officially ceased to exist in 1947, the bank was put in liquidation. After its final liquidation in 1983, its capital was the basis for the foundation Stiftung Preußische Seehandlung.

opposed strongly and the idea was buried at the end of 1951.¹⁶⁶

Nevertheless, the Ministry of Finance assumed that privatisations and a reorganisation of the large corporations in the federal portfolio would have to take place at some point.¹⁶⁷ At the same time, the Ministry of Finance was aware of the difficulties which could come along with a large-scale privatisation. In an article in English which was published in the *Annals of Collective Economy* in 1953, Oeftering, official in the Ministry of Finance, pointed to the difficulties in the context of the ownership unbundling of the steel and coal industry. He assumed that investors with the capacity and willingness to purchase large share volumes could only be found abroad.¹⁶⁸

In 1954, the Ministry of Finance made inquiries about re-privatisation options on a larger scale and asked Deutsche Bank for advice. In particular, the Ministry was worried about the absorption capacity of German stock markets. Franz Heinrich Ulrich, member of the management board of Norddeutsche Bank¹⁶⁹ met with Birnbaum to discuss options and summarised his advice in a subsequent letter to Birnbaum. He warned against a fixed schedule and design because the state-owned portfolio was in his view too big. Since each privatisation case would face unique social, political and economic problems, Ulrich also found it inadvisable to integrate all participations in one holding company or to pass them on to a bank consortium. Instead, he recommended selling those shareholdings for which there was an interested investor or group of investors, such as Howaldtswerke, in order to draw attention to the policy. According to Ulrich, the capital markets were developed enough to be able to absorb considerable asset volumes. However, since the overall success of privatisation policy was immensely dependent on how the first case would be publicly perceived, he advised starting with a small share volume. To secure a successful placing, the first asset sale through initial public offering should be a first-class company and a low sale price should incentivise investors to purchase shares. Since it would impede the sale success considerably if the

¹⁶⁶ Documentation about this can be found in BArch B102/75783.

¹⁶⁷ BArch B126/40183, BMF, IIB (Krämer/Birnbaum) to IV4, 7.5.1952.

¹⁶⁸ Oeftering (1953).

¹⁶⁹ Norddeutsche Bank was part of Deutsche Bank since 1929. In 1957, Ulrich became member of the executive board of the reunited Deutsche Bank.

federal government kept a majority of shares in the long-run, Ulrich suggested starting with a sale of shares of a first class company with a nominal value of approximately 25 million DM. If demand was high enough, a bank consortium should place additional shares in several tranches for the same price within a certain time window. If the demand was strong enough, this could lead to an immediate full privatisation. Ulrich further highlighted the importance of a good issuing potential of the consortium participants and suggested a small bank consortium where Deutsche Bank, Dresdner Bank and Commerzbank would take the lead.¹⁷⁰ Following this conversation, Ulrich even contacted Schirner from VIAG himself about a possible privatisation of the Vereinigte Aluminiumwerke. Schirner seemed interested, but indicated possible problems due to the cross-links with public electricity providers. Ulrich further suggested that Deutsche Bank chief Abs should discuss the topic with Secretary of State Westrick (Ministry of Economics).¹⁷¹

However, no larger privatisation was conducted in the next couple of years. In 1954, an offer from a US investor for the mining company Hibernia, subsidiary company of VEBA, was rejected by the cabinet committee for economics. A US group had signalled an interest to purchase a company of the coal and iron or chemical industry of the value of 20 to 100 million US Dollars. However, at a meeting of the cabinet economics committee in September 1954, Schäffer expressed his concerns about an increase of foreign influence on the German coal industry. Similarly, Secretary of State Westrick (Ministry of Economics) declared that he was not in principle against foreign investors, but that Hibernia was Germany's second largest coal company and the sale could therefore disturb the internal German coal market organisation. The cabinet decided not to start negotiations.¹⁷²

Instead of privatisations, two new public enterprises were re-established until the end of the 1950s: Lufthansa and Saarbergwerke. The predeces-

¹⁷⁰ DBA V01/2143, Letter from Ulrich to Birnbaum, 31.7.1954; the letter can also be found in BArch B126/40186.

¹⁷¹ DB A2143, Internal Note for Abs, 11.9.1954.

¹⁷² *“Die Kabinettsprotokolle der Bundesregierung” online*, Economics Committee of the Federal Cabinet, minutes of the 42nd meeting on 2 September 1954, agenda item 4: “Veräußerung von Bundesvermögen, hier: Bergwerksgesellschaft Hibernia AG, Herne/Westfalen”.

sors of both Lufthansa and Saarbergwerke had been state-owned companies. Lufthansa was newly established as Luftag on 6 January 1953 with an equity capital of 6 million DM and set up as a state-owned joint stock company. This legal form was chosen to allow for more flexibility than a public unit such as the German Federal Railway. Due to the chosen legal form, private capital participations were generally possible. The *Bundestag* committee for transport suggested a nominal value of 100 DM for shares. Minister of Transportation Hans-Christoph Seebohm (DP, since 1960 CDU) however followed the advice of Hans M. Bongers, a former transport manager of the old Lufthansa whose consultancy prepared the foundation of the new Lufthansa, and decided for a nominal value of 1,000 DM. Possibly, the decision for such a large nominal value would not have been accepted politically later on, but at this time the concept of small shareholders was not prominent enough yet. Seebohm attempted to establish Lufthansa on a broad shareholder basis and asked the states to participate with a share of 24.5%, but the states, except for North Rhine-Westphalia, refused because they feared a commitment to cost contributions. Except for Scandinavian Airlines, no other European airline was running profitably at that time, so this concern was not unjustified. The initial shareholder constellation was the federal level with 75% (4.5 million DM), North Rhine-Westphalia with 8.3% (0.5 million DM) and the German Federal Railway with 16.7% (1 million DM).¹⁷³ Saarbergwerke were re-established in 1957 as a joint stock company by law. Saarland held 26% of the shares and the federal government 74% of the shares.¹⁷⁴

Other than Lufthansa and Saarbergwerke, there were no intentions in the government coalition to actively extend public enterprises. This played a role during the rearmament debate. In January 1955, Minister of Economics Ludwig Erhard (CDU) announced that the rearmament would be based purely on market mechanisms. In particular, no federal in-house undertakings should be used for providing military commodities and the federal government would not allow armament cartels, such as in 1936. The market mechanism would

¹⁷³ On the establishment of Luftag see Bozdag-Yaksan (2008), pp. 105–110.

¹⁷⁴ *Gesetz über die Einbringung der Steinkohlenbergwerke im Saarland in eine Aktiengesellschaft*, see *Bundestagsdrucksache* 02/3420.

make sure that, in contrast to 1936, the channelling of capital in the armament industry would not decrease living standards. He assumed that financing the necessary investments for rearmament through capital markets would not pose a problem.¹⁷⁵ Erhard passed a corresponding note in the Ministry of Economics. There, he enforced that the most important principle was that the military commodities had to be provided as part of the market-based economic order and that it had to be ensured that the armament industries did not develop a “life of their own”¹⁷⁶ A confidential internal note from Fenge to Kattenstroth dealt extensively with the question of shareholdings and the state in the rearmament process. Fenge noted that the financing of armament investments through federal shareholdings would be “the strongest form of a subsidy of armament projects”¹⁷⁷ and had to be strictly rejected. Investments were to be financed by the corresponding companies themselves. Subsidies in the form of interest subsidies on loans and special loans and federal guarantees were rejected by the department. The only subsidies discussed were accelerated depreciation allowances. Fenge considered the takeover of shareholdings in the armament industry as dangerous because this would lead to a further concentration of industries in public hands like before and during the Second World War.¹⁷⁸ The Ministry of Economics and Ministry of Finance agreed in February 1955 that IVG would not be involved in the rearmament process. The company should solely keep its status as a holding for liquidation companies.¹⁷⁹ In contrast to Erhard’s plans, the Federal Ministry of Defence later became increasingly involved with in-house undertakings and shareholdings for the purpose of military equipment. In the early 1960s, Franz Josef Strauß was for that reason accused of trying to transform IVG into a new armament company.¹⁸⁰ The secretary of state in the Defence Ministry, Rust, was appointed to the supervisory board of IVG in 1958 to secure the interests of his Ministry.

¹⁷⁵ “Rüstung nach marktwirtschaftlichen Grundsätzen”, *Bulletin der Bundesregierung* no. 7, 12.1.1955, p. 53.

¹⁷⁶ “Eigenleben”, BArch B102/75797, Erhard to heads of departments, 1.7.1955.

¹⁷⁷ “die stärkste Art einer Subventionierung von Rüstungsvorhaben”, BArch B102/75797, Fenge to Kattenstroth, 25.11.1955.

¹⁷⁸ BArch B102/75797, Fenge to Kattenstroth, 25.11.1955.

¹⁷⁹ BArch B102/75797, Fenge to Kattenstroth, 15.2.1956.

¹⁸⁰ Hopmann (1996), pp. 199–206.

Federal enterprises were not maintained under all circumstances. During the 1950s, two unprofitable plants of Preussag were closed: the coal mine Steinkohlenwerk Barsinghausen and the lead ore mine Gewerkschaft Mechernicher Werke. The mine Barsinghausen, located close to Hanover, was part of the hard coal mining industry in Lower Saxony. The mines were not profitable and it was highly questionable whether investments would be able to turn them into profitable mines. The energy crisis in 1951 and the subsequent price increase for coal and investment aids for the coal sector deferred the decision to shut down the mines. Instead, Preussag suggested establishing a consolidation company for all state-owned hard coal mines. This would allow for cross-financing and loss compensation for the Lower Saxon coal mining industry. The idea was rejected by Secretary of State Westrick (Ministry of Economics), who pointed out that it was VEBA's responsibility to find a solution. A loss of 13 million DM in 1953 of the coal mines in Obernkirchen and Barsinghausen stressed that further consolidation efforts had to be made. At the same time, public discussions about the profitability of shareholdings followed reports of the Federal Court of Audit. In 1954, Preussag decided to shut down Barsinghausen mine despite protests from employees and from the SPD federal *Bundestag* group. However, the final agreement included large compensatory measures that cost the Preussag five million DM. (Preussag was later able to pass a share of the costs involved with the shutdown over to the European heavy industry, using subsidies from the European Coal and Steel Community.) Also, Preussag and the Ministry of Finance sought an enterprise that would relocate to Barsinghausen in order to create new jobs. Hopes that Volkswagenwerk would establish a new factory in Barsinghausen were dashed when Volkswagenwerk decided on a location closer to Hanover – Oeftering's interventions as chairman of the supervisory board of Volkswagenwerk had remained without success. Finally, negotiations with the bakery Hermann Bahlens Keksfabrik KG and Alfred Teves GmbH were successful. Gewerkschaft Mechernicher Werke, which had already been unprofitable when Preussag was forced to take over the mine in 1937, was shut down in 1957.¹⁸¹

¹⁸¹ Laufer and Stier (2005), pp. 413–414.

3.2.3 Parliamentary Veto: The Case of Howaldtswerke

Besides the rejected sale of Hibernia, another case which revealed the lack of political approval for single investor purchases was Howaldtswerke. The example shows that the question of the privatisation design was inherently important for the necessary consensus in the 1950s and 1960s. The single investor design failed to address two points: preventing ownership from falling into foreign hands and preventing a concentration of ownership.

In Winter 1951/52, the Ministry of Finance had started negotiations about a sale of Howaldtswerke Hamburg and Kiel AG with several groups of investors.¹⁸² However, the sale failed because the *Bundestag* did not give its consent. Resistance in the *Bundestag* subcommittee in charge led to a failure of the privatisation although the ministry had found a purchase consortium, sales negotiations had taken place and the contract had already been signed by the purchasers. The Ministry of Finance had been negotiating with potential buyers since 1951. After some offers had been received, the issue was discussed in a cabinet meeting on 11 December 1951. As a result, Minister of Finance Schäffer was authorised to conduct sales negotiations. The supervisory board of Howaldtswerke discussed the possible privatisation in a meeting in February 1952. Except for the two chairmen of the works council, there was wide support for privatisation.¹⁸³ Furthermore, Hamburg's state government agreed to the privatisation.¹⁸⁴

The Ministry of Finance proceeded particularly carefully in its choice of potential investors. The prospective sale was the largest in the history of the Federal Republic and affected many employees. Negotiations with the first potential buyer, a US American group of investors, failed. One factor seems to have been the German concern that no more than 49% of the firm should come under foreign control.¹⁸⁵ Another interested purchaser, a consortium of Rheinische Röhrenwerke AG and Thyssen AG, withdrew their offer due to

¹⁸² BArch B126/40181, "Stichworte für den Bericht vor dem Unterausschuss 'Bundesbeteiligungen' am 8.2.1955".

¹⁸³ BArch B115/3212, Subdiv. II B to Secretary of State, 11.2.1952.

¹⁸⁴ BArch B115/3213, Behörde für Wirtschaft und Verkehr der Stadt Hamburg to Schecker, 18.8.1954.

¹⁸⁵ BArch B115/3212, press announcement, 22.8.1952.

financial difficulties.¹⁸⁶ A third potential buyer, Henry S. Thomas, was considered as too financially unreliable. Thomas was the brother-in-law of industrialist Alfred Krupp and offered ten million DM for the Howaldtswerke Hamburg.¹⁸⁷ He was considered to have access to financial resources stemming from the Krupp property.¹⁸⁸ Thomas owned the main share of the company Vent und Co. which was engaged in litigation with Deutsche Werke Kiel and tried to combine the purchase of Howaldtswerke with a settlement of the litigation to lower the purchase price. The Ministry of Finance regarded this as inadmissible and doubted Thomas' financial situation.¹⁸⁹ At first, Thomas dropped out of negotiations¹⁹⁰ but later increased his offer to 12.5 million DM¹⁹¹ and then to 15 million DM, but the ministry was no longer interested.¹⁹² In 1954, an anonymous Austrian consortium approached the Ministry of Finance¹⁹³ but the Ministry rejected the offer because of the buyer's anonymity.¹⁹⁴

A valuation report of the federally-owned Deutsche Revisions- und Treuhand-AG (Treuarbeit) from 11 November 1952 estimated an intrinsic value of 69 million DM for both Howaldtswerke Hamburg and Kiel. According to the Ministry of Finance, 36 million DM were attributable to Hamburg and 33 million DM to Kiel.¹⁹⁵ In 1953, Howaldtswerke Hamburg and Kiel were separated. The main reason was that the sale of a single company was considered easier.¹⁹⁶ After 1954, serious negotiations about a sale of Howaldtswerke Hamburg were conducted with a consortium of Dortmund-Hörder Hüttenunion AG (Dortmund-Hörde), Siemens and Deutsche Bank. The Ministry of Finance considered Dortmund-Hörde as an adequate investor, as it operated in the heavy industry sector. Therefore, a true economic interest was assumed. Dortmund-Hörde would purchase 48% of the shares and Siemens and Deutsche Bank 26% each.

¹⁸⁶ BArch B115/3212, Sal. Oppenheim to Oeftering, 29.9.1954.

¹⁸⁷ BArch B115/3213, Thomas to Schäffer, 25.11.1952.

¹⁸⁸ BArch B115/3213, Subdiv. II B to Secretary of State, 25.9.1952.

¹⁸⁹ BArch B115/3213, Subdiv. II B to Secretary of State, 25.9.1952.

¹⁹⁰ BArch B115/3213, Thomas to BMF, 9.12.1952.

¹⁹¹ BArch B115/3213, Internal note, 18.2.1953.

¹⁹² BArch B115/3213, BMF to Thomas, 28.10.1953.

¹⁹³ BArch B115/3212, Haerpfer to BMF, 2.2.1954, as well as Haerpfer to BMF, 16.7.1953.

¹⁹⁴ BArch B115/3212, BMF to Haerpfer, 18.2.1954.

¹⁹⁵ BArch B115/3213, Internal note about the valuation report from 13 November 1952 (Report H 3052), 4.12.1952.

¹⁹⁶ BArch B115/3213, BMF to Secretary of State (BKAm), Attachment "cabinet proposal", 1.8.1954.

This was a compromise that would make sure that Dortmund-Hörde owned less than half of the shares. Dortmund-Hörde was owned by the Dutch steel company Koninklijke Nederlandsche Hoogovens en Staalfabrieken which was in turn partially owned by the Dutch State and the Amsterdam municipality.¹⁹⁷

At a cabinet meeting on 8 September 1955, Schäffer presented a cabinet paper about the sale. He expressed concerns regarding the purchase price of 20 million DM but assumed that this would not be a sufficient reason for a failure of the sale.¹⁹⁸ Surprisingly, Schäffer also expected that the fact that Dortmund-Hörde was partially in foreign ownership would not play a decisive role. However, Adenauer and Erhard found the offered price too low. Also, the resulting foreign influence was highly criticised during the meeting. The Minister of the Interior demanded that defence interests should be considered before the sale. Finally, Schäffer was asked to continue negotiations, to examine the adequacy of the purchase price and to demand a higher participation of Siemens and Deutsche Bank. Also, it should be examined whether it was possible to integrate terms to secure social and economic situation in the contract. Additionally, the government considered a distribution of shares through more than one purchasing consortium. After an agreement within the cabinet could be reached, on 9 June 1955 the federal government announced that it intended to sell Howaldtswerke Hamburg to the consortium led by Dortmund-Hörde at a price of 26,250,000 DM and that it would request approval from *Bundestag* and *Bundesrat*. A new valuation report had assumed a value of 21 to 30 million DM for Howaldtswerke Hamburg.¹⁹⁹ The purchasers had by then already signed the contract.²⁰⁰

Resistance from the *Bundesrat* and *Bundestag* was not expected. The minutes of the meeting of the supervisory board of the Howaldtswerke Hamburg on 4 July 1955 assumed that approval would be granted within a few weeks.²⁰¹ But, until this point, negotiations had only been discussed within the cabinet and the ministries. The *Bundestag* had not been involved.²⁰² The

¹⁹⁷ BArch115/3213, Internal note, 11.8.1954.

¹⁹⁸ BArch B115/3213, Oeftering to Ziegeler, 29.9.1954

¹⁹⁹ *Bundestagsdrucksache* 02/1433, 3.6.1955.

²⁰⁰ BArch B115/3213, BMF to Howaldtswerke Hamburg, 1.7.1955.

²⁰¹ BArch B115/3213, Internal Note about the meeting, 4.7.1955.

²⁰² Response to oral request no. 24, 18.2.1955, *Bundestagsdrucksache* 02/1199.

Bundesrat committee in charge approved to the sale on 30 June 1955. Hamburg's representative Senator Schulze-Schlutius abstained from voting and announced the start of negotiations with the Ministry of Finance about an investment loan.²⁰³ The *Bundesrat* finally gave its approval on 8 July 1955.²⁰⁴

It was expected that the *Bundestag* would also approve. This was obviously a misjudgement, the bill did not pass the *Bundestag* subcommittee for federal property. In June, Birnbaum from the Ministry of Finance warned that the subcommittee should not be a retarding element for privatisation and should decide the case before the summer break.²⁰⁵ The request of the federal government for approval for the sale of Howaldtswerke Hamburg was discussed at a meeting on 5 July 1955. A representative of the Ministry of Finance defended the request. Worries from the side of the SPD focused on the purchase price which was perceived as being too low. Heinrich Deist (SPD) expressed concerns about private ownership in the wharf industry. He referred to the susceptibility of this sector to crisis and wondered whether in bad times, the federal government would have to take over again. Kurlbaum (SPD) worried about the influence of Siemens becoming too strong, as a partial sale of 30% of Howaldtswerke Kiel to Siemens was also considered at that time. He questioned in general the advantage of public-private mixed-ownership companies. Sabaß (CDU) shared these worries.²⁰⁶ At the next meeting on 7 July 1955, the subcommittee criticised the incompleteness of valuation documents and doubted the valuation method of the Treuarbeit. Finally, a proposal from Sabaß (CDU) was accepted which requested further negotiations with the aim of a higher purchase price from the government.²⁰⁷ Despite the conservative-liberal majority in the subcommittee, a majority for the sale could not be found until the summer break. Schäffer had made the mistake of not integrat-

²⁰³ Hamburg requested that the federal government should defer the purchase price payment to allow for an early repayment of an investment loan that the Hamburg State Bank had given to the Howaldtswerke. This was confirmed by a public statement of Hamburg's state government. BArch B115/3213, BMF to Howaldtswerke Hamburg, March 1955; Howaldtswerke Hamburg to BMF, 17.3.1955.

²⁰⁴ BArch B115/3213, BMF to Howaldtswerke Hamburg, 30.6.1955.

²⁰⁵ BArch B126/40181, Birnbaum to Secretary of State Hartmann, 10.6.1955.

²⁰⁶ BArch B126/40181, Minutes of the 7th meeting of the *Bundestag* subcommittee *Bundesvermögen* on 5 July 1955.

²⁰⁷ BArch B126/40181, Minutes of the 8th meeting of the *Bundestag* subcommittee *Bundesvermögen* on 7 July 1955.

ing the parliamentarians early enough in the process. After this fiasco, the Ministry of Finance dropped the idea to sell Howaldtswerke. Instead, public-private-partnerships between Howaldtswerke Hamburg and Dortmund-Hörde were considered.

In 1956, the Ministry attempted to build a ship repair wharf with private participation. The Ministry and the purchase consortium considered that the privately owned Dortmund-Hörder Hüttenunion AG should participate in a new military repair wharf in Wilhelmshaven instead of purchasing Howaldtswerke Hamburg. That way, they could circumvent *Bundestag* approval.²⁰⁸ Erhard approved this plan and recommended that Howaldtswerke Hamburg should only keep a veto minority of 25% instead of the initially planned 51%. The veto minority was requested by the Ministry of Defence with the warning that otherwise, the Ministry would consider building its own repair wharf.²⁰⁹ Later, for an unknown reason the plan was changed such that Dortmund-Hörde should participate with a veto minority in Howaldtswerke Hamburg to finance the latter's share in Wilhelmshaven.²¹⁰ The Ministry of Finance suggested that Howaldtswerke Hamburg could purchase the wharf Schichau-Bremerhaven as a basis for the planned repair wharf.²¹¹ However, this led to the earlier problem again because a 25% veto minority of Dortmund-Hörde in Howaldtswerke would require *Bundestag* consent.²¹² Apparently, all plans to integrate Dortmund-Hörde in a public-private-partnership project failed. In 1957, the German Navy started to establish its own naval bases and repair wharfs.

²⁰⁸ BArch B115/3214, Internal note about the supervisory board meeting on 18 June 1956, 6.6.1956.

²⁰⁹ BArch B126/3214, BMF to Howaldtswerke Hamburg, 13.12.1956.

²¹⁰ BArch B126/3214, Internal note, 4.1.1957.

²¹¹ BArch B126/3214, Notes about the supervisory board meeting of Howaldtswerke Hamburg on 2.3.1957.

²¹² BArch B126/3214, Internal note about the meeting with Howaldtswerke Hamburg on 7 May 1957 (Korff), 11.5.1957.

3.3 Privatisation Initiatives

In 1952, industrial circles started a campaign against public enterprises.²¹³ The campaign became more intense after Adenauer's conservative-liberal government coalition had won the federal elections in 1953. Key business organisations were the BDI and the DIHT as well as their affiliated media and research institutes, the Cologne Institute for Economic Research (Deutsches Industrieinstitut, today IW Köln) and the Institut Finanzen und Steuern. In the federal election year 1953, the campaign was enforced.²¹⁴ The Cologne Institute for Economic Research was an economic research institute founded in 1951 and financed by an affiliation of enterprises. Director of the Cologne Institute for Economic Research between 1951 and 1959 was the MP Fritz Hellwig (CDU). Hellwig was one of the key members of the CDU who represented the connection between the party's market-oriented wing and business interests.²¹⁵ As will be seen later, Hellwig became an important connection between banks, industry and government.

The National Taxpayers Association, a business association which represents primarily small and medium enterprises, sharply criticised the lack of publicly available information about public enterprises, accounting practices and low dividend payments. The lack of publicity had already been criticised by the Federal Court of Audit in a report on the federal budget in 1949 and 1950. The court identified many shortcomings concerning the publicity and control of shareholdings.²¹⁶ According to the federal government, the nominal value of corporate shareholdings was 1.5 billion DM in 1955. In a publication from 1954, the association argued that the real value was much higher, at

²¹³ The oldest found newspaper articles dates back to August 1952: Dr. Duhmer (from the industry-related Institut Finanzen und Steuern, working group *Öffentliches Vermögen*, see Dietrich (1996), p. 214): "Eine große Unbekannte", *FAZ* 7.8.1952.

²¹⁴ From the numerous articles see for example: "Reprivatisierung von industriellem Bundesvermögen", *Kölnische Rundschau*, 14.5.1953; "Reprivatisierung von Bundesvermögen", *Handelsblatt* 15.5.1953.

²¹⁵ Hellwig was Chairman of the *Bundestag* committee on economic policy from 1956 to 1959 and the subcommittee for federal property from 1959 to 1965.

²¹⁶ "Bericht des Bundesrechnungshofes zu den Bundeshaushaltsrechnungen für die Rechnungsjahre 1949 und 1950 nebst Bericht über die Prüfung von Unternehmen mit eigener Rechtspersönlichkeit § 107 RHO, Denkschrift des Präsidenten des Bundesrechnungshofes zu den Bundeshaushaltsrechnungen für die Rechnungsjahre 1949 und 1950."

least 3.2 billion DM.²¹⁷ Dividends amounted to 9 million in 1954/1955 and to 23.5 million DM 1955/1956 which corresponded to only 0.73% and was much lower than dividends in the private sector. The association criticised the low dividends as a discrimination against private enterprises and added that the resulting hidden reserves were like subsidies for otherwise unprofitable public enterprises. It suggested selling public enterprises and bringing revenues from the sale of shareholding into a special fund which should be used for the benefit of all German citizens.²¹⁸

From 1953 onwards, the FDP started to promote a privatisation of industrial participations.²¹⁹ Before the federal elections in autumn 1953, the FDP presented a privatisation programme named after its inventor Karl Atzenroth. The idea was to unite all shareholdings in one holding company. This holding company would then release share certificates to creditors of the Reich, whose debts were still outstanding. This was considered as infeasible because the general opinion was that the problem of outstanding debts had to be solved independently,²²⁰ so that the idea was not followed up on.²²¹

After the conservative-liberal government coalition had won the federal elections in September 1953, the FDP reinforced the debate with numerous *Bundestag* questions and motions. A couple of inquiries addressed the practice that federal agencies awarded service contracts to so-called *Regiebetriebe*. The term describes non-corporate public in-house undertakings which were part of the public administration. These in-house undertakings existed mainly

²¹⁷ Bund der Steuerzahler (1954).

²¹⁸ Bund der Steuerzahler (1955).

²¹⁹ See for example Atzenroth: "Privatisierung des Bundesvermögens", in *Rheinischer Merkur*, 15.7.1955.

²²⁰ This was accomplished by the Act regulating the Consequences of War (AKG) from 1957 as part of the German Restitution Laws along with other acts including the Act regulating the Compensation of the Victims of National Socialist Persecution (BEG).

²²¹ Documentation in BArch B102/75798. Shortly after the elections of 1957, a similar suggestion was made by Gerhard Ziemer, chief executive director of the Lastenausgleichsbank (Bank für Vertriebene und Geschädigte). However, the plan was classified as not realistic and put aside. Documentation in BArch B126/34720: "Vorzeitige Erfüllung der Hauptentschädigungsansprüche durch Aktien-Zertifikate", Ziemer to Lindrath, 13.11.1957, including suggestion from 5.11.1957; Internal note (Referat Beteiligungen) "Vorzeitige Erfüllung der Hauptentschädigungsansprüche durch Aktien-Zertifikate (Ziemer-Plan)"; Minutes of a meeting on 23 January 1958, 24.1.1958; Minutes of a Department Meeting on 23 January 1958, 25.1.1958; Minutes of a meeting with the chairmen of the federal corporations, 7.3.1958.

on the municipal level in the public services sector, but also on the state and federal level. A considerable number of in-house undertakings were part of the German Federal Railway and the German Federal Post Office. In November 1954 for example, the FDP complained that dredging works in canals were increasingly accomplished as public works by the waterways authority.²²² In February 1955, Matthes (DP) requested information about the resulting competition between the private and state sector.²²³ All these motions and inquiries stimulated a public debate about state-ownership and attracted considerable media attention. Nevertheless, concrete ideas about how privatisation could be implemented were still missing. Apart from the Atzenroth-Plan, constructive suggestions remained scarce, even from the FDP.

In 1956, at the end of the legislative period, the FDP presented a legislative proposal to limit economic activity of public authorities.²²⁴ The bill suggested restricting state participation in economic enterprises on all levels to cases in which the following four preconditions were fulfilled: (a) an urgent public purpose exists, (b) that purpose cannot be fulfilled with the same quality and efficiency by private enterprises, (c) private enterprises are not discriminated against and (d) the size of the public enterprise is proportionate to the size of the public authority. The FDP suggested that existing public enterprises should be examined accordingly by a *Bundestag* committee and, if they did not fulfil the preconditions, be sold, dissipated or liquidated. Furthermore, the bill suggested restricting public in-house undertakings to cases in which they were irrefutably necessary and would produce better results. The suggested bill clearly went beyond the legal responsibilities of the federal government. As an internal note in the Ministry of Economics confirmed, the law interfered with the legislative powers of states and municipalities and with the constitutional rights of the states to decide on the legal requirements for

²²² “Kleine Anfrage 122 der Fraktion der FDP betr. Baggerarbeiten in den norddeutschen Hauptstromgebieten”, 3.11.1954. As a more general example see “Kleine Anfrage 169 der Abgeordneten Wieninger und Genossen betr. Abbau der Regiebetriebe in bundeseigenen Behörden vom 31. März 1955”, *Bundestagsdrucksache* 02/1318, 31.3.1955, answered in *Bundestagsdrucksachen* 02/2013, 5.1.1956, 02/936, 3.11.1954 and 02/1088, 16.12.1954.

²²³ Oral request Matthes (DP) about competition between the public and the private sector, *Plenarprotokoll* 02/68, 23.2.1955, p. 3464.

²²⁴ “Entwurf eines Gesetzes über die wirtschaftliche Betätigung der öffentlichen Hand”, *Bundestagsdrucksache* 02/2712, 26.9.1956.

state ownership and privatisation. Beyond this, the bill suggested extending the rights of the *Bundestag* and hence to transfer executive tasks to the legislative branch.²²⁵ It can be concluded that the legislative proposal had only demonstrative character and that the FDP did not assume that it would be adopted and implemented. The *Bundestag* discussed the bill in January 1957 and passed it on to the committee for economic policy.²²⁶ However, it was not approved and passed back to parliament.

Similarly to private initiatives, the FDP requested more information about public enterprises from the government. Like private companies, public enterprises had to present annual balance sheets from 1949. An FDP motion from November 1954 asked for disclosure of balance sheet information and investment plans of Volkswagenwerk.²²⁷ Another motion from December 1954 demanded that the government should pass on information about public enterprises to the *Bundestag* subcommittee *Bundesvermögen*.²²⁸ Also, a removal of tax privileges for public authorities was unsuccessfully being discussed since the mid-1950s²²⁹, after the FDP *Bundestag* faction had brought in a motion for a removal of the wealth tax privilege in 1956.²³⁰

While the business wing of the CDU/CSU remained rather quiet regarding public enterprises in the first half of the 1950s, there were already some signs of a critical assessment. While parliamentarians did not yet address existing public enterprises, the extension of public entrepreneurial activities was sharply criticised. In February 1952 already, earlier than similar FDP initiatives, the CDU/CSU *Bundestag* faction requested a critical assessment of in-house undertakings and demanded that the government should avoid using them wherever possible.²³¹ In March 1952, Secretary of State Westrick (Ministry of Economics) declared in *Bundestag* that in-house undertakings were only used internally and to accomplish sovereign tasks, so that no competition

²²⁵ BArch B102/75798, Kattenstroth to Erhard and Secretary of State (Draft), 27.11.1956.

²²⁶ In the same session, a first initial draft for the privatisation of Volkswagenwerk was discussed and passed on to the committee for economic policy.

²²⁷ *Bundestagsdrucksache* 02/936, 3.11.1954.

²²⁸ *Bundestagsdrucksache* 02/1088, 16.12.1954.

²²⁹ Documentation in BArch B126/40171.

²³⁰ *Bundestagsdrucksache* 02/2062, 2.2.1956.

²³¹ *Bundestagsdrucksache* 02/3133, 2.2.1952.

between the private and the state-owned sector existed.²³²

Hence, it would be wrong say that the FDP and the private sector initiated the debate. Critics of public ownership within the CDU also warned about the expansion of the public sector early on. In February 1954, Hellwig criticised the expansion of the public sector at a meeting of the CDU economic advisory council and warned of a cold socialisation (*kalte Sozialisierung*).²³³

3.4 The Federal State as an Entrepreneur

While the privatisation debate accelerated in the mid-1950s, the fundamental question about the role which the federal state should fulfil in the economy remained open. However, it did become evident over the years that the power which the federal state could exercise on its enterprises was fairly limited. While public in-house undertakings were easy to control, the role of the owner in incorporated enterprises was limited by company law. This circumstance was publicly discussed in the context of inflation concerns in 1956 and again in 1959.

3.4.1 Limitations and Self-Perception

The question of the role of the federal state as an entrepreneur has two dimensions. First, to what extent the federal government had control over shareholdings, and second, in what way it wanted to use its power. As described above, the control of the shareholder is limited by the law governing private law companies. Main influence channels were the general meeting and seats in the supervisory boards.²³⁴ The public influence through supervisory boards was even further restricted by the fact that the number of federal representatives in the boards was relatively small for three reasons: First, in the German corporate system, other stakeholders such as banks and insurance companies and trade partners were traditionally represented on supervisory boards. Second,

²³² Bundestag *Plenarprotokoll* 01/201, 26.3.1952, pp. 8654–8656.

²³³ “Eine ernste Gefahr für die private Wirtschaft. Scharfe Kritik an der Reisetätigkeit der öffentlichen Hand vor dem Wirtschaftsbeirat der Union”, *Tagesanzeiger (Regensburger Anzeiger)*, 3.2.1954.

²³⁴ See chapter 2.5.

the Provisional Prussian and Reich Property Act reserved some positions in the supervisory boards for the states. And third, co-determination of employees limited the influence of the federal government further. Co-determined public enterprises included Hibernia, Preussenelektra, and Reichswerke/AG für Berg- und Hüttenbetriebe. Here, it should be noted that the federal government did not serve as a role model regarding co-determination but tried to secure its own seats in the supervisory boards instead. In the case of the Preussag for example, the government successfully argued against a co-determination.²³⁵ On average, public officials only had two to three seats in supervisory boards which consisted of 15 or 21 members in total. Since the federal government did not have much influence on the decisions of the supervisory boards, its influence on the selection of managers and control over management decisions was also limited.

Maybe even more decisive were the weak connections between politicians and managers. The post-war managers of federal enterprises probably did not feel as accountable to the government as it might have been the case when the enterprises were first set up prior to 1945. As seen above, the choice of managers of the large holding companies were often based on historical circumstances and not an active choice of the government. In most cases, managers were even chosen before the first post-war government was established, such as Hermann Schilling (VEBA). Most of these managers knew their enterprises better than public officials ever could. VEBA probably had the closest relationship with the government. Alfred Hartmann became chief executive director of VEBA in 1959 after having served as secretary of state in the Ministry of Finance for ten years. Symptomatically, the company's seat was relocated from Hamburg to Bonn and settled in the building of the Ministry of Family Affairs. Hartmann did not perceive himself as a manager, but more as an administrator. The relationship between other federal enterprises and the federal government probably became closer later on, when some ministerial officials transferred to federal enterprises, which tightened the connection between politics and management: Heinz Maria Oeftering was appointed chief executive

²³⁵ Laufer and Stier (2005), pp. 440–442.

director of the German Federal Railway in 1957. Hans Birnbaum, official in the Federal Ministry of Finance from 1950 to 1957 and in the Ministry of the Treasury from 1957 to 1961, transferred to the Salzgitter AG management board in 1961. There, he initially served as commercial director, becoming deputy director in 1966 and managing director in 1968.²³⁶

The relationship between the federal government and Volkswagenwerk was particularly difficult. The British had appointed Heinz Nordhoff as chief executive director who remained in this position until his death in 1968. Nordhoff had a very strong patriarchal position in the company and was a member of “Speer’s kindergarden” in the Third Reich: He was one of approximately 6000 young managers who were in charge of implementing Speer’s armaments programme on the company level and was therefore well connected with the managers so-called “*Wundertäter*” who participated in rebuilding the West German economy.²³⁷ Unlike men who had an administrative background such as Hartmann (VEBA), Birnbaum (Salzgitter AG) and Brekenfeld (VEBA), Nordhoff considered himself as a business man and did not let the federal government dictate any business decisions. One example was the controversial price increase of Volkswagenwerk in 1951. The price increase was a reaction to shortages in the supply of coal and steel.²³⁸ Another example was the introduction of employee profit sharing schemes of Volkswagenwerk in 1953. The Ministry of Economics worried that this would create a costly precedent and that the company’s excellent employees’ policy could lead to claims for a nationalisation of industries, but it did not manage to stop the measure from being implemented.²³⁹ Yet, Volkswagenwerk was an exception in several ways. First, it did not previously have a tradition of state-ownership such as VEBA and VIAG. Since Volkswagenwerk was organised as a limited liability company at that time, establishing a supervisory board was not required. However, in October 1949, the formation of an advisory board was recommended at the last meeting of the Allied Control Council under British Colonel Radclyffe.²⁴⁰

²³⁶ Information from “Birnbaum, Hans” in Munzinger Online/Personen – Internationales Biographisches Archiv.

²³⁷ Grunenberg (2006), p. 28.

²³⁸ Edelmann (2003), pp. 123–124.

²³⁹ Edelmann (2003), p. 155.

²⁴⁰ Edelmann (2003), p. 108.

The Ministry of Finance sent Heinz Maria Oeftering, head of division in the Ministry of Finance from 1950 to 1957, as a delegate to the advisory board. The relationship between Nordhoff and Oeftering has been described as cordial, although Nordhoff kept his autocratic leadership style and the advisory board lived in his shadow.²⁴¹ Even the later partial privatisation hardly affected Nordhoff's autocratic position. The supervisory board met regularly but did not have much influence. It has been described that in the 1960s, the relationship between Erhard and Nordhoff cooled off. In 1962, Erhard tried without success to prevent Volkswagenwerk's ill-timed price increase of 5%.²⁴² The price increase was a reaction to the appreciation of the DM in 1961 which hit the export industries hard and also to the realisation that the satisfaction in the car market signalled that the golden 1950s were over.²⁴³

How did the ministerial administration perceive the role of the state as an owner? There is no indication in government sources that there was an attempt to systematically set up advantages for state-owned enterprises. The self-perception was rather that of a responsible owner. Secretary of State Westrick (Ministry of Economics) declared at a meeting of the *Bundestag* subcommittee for federal property in February 1955 that shareholdings were not considered an alien element in a market economy if they were perfectly integrated in economic competition and were not disproportionately advantaged or disadvantaged because of state-ownership. Therefore, the starting conditions had to equal those of private companies with whom shareholdings competed. Tax benefits or other forms of benefits should be analogous to those for privately owned firms. Second, the dividend policy had to equal that of privately owned companies. Third, shareholdings had to apply business principles. Fourth, no public money should be used to support shareholdings. And fifth, public enterprises should not be discriminated against because of the fact that they were publicly owned. Westrick considered these conditions as generally met and did not see a fundamental difference between public and private companies. Oeftering, head of division in the Ministry of Finance, supported

²⁴¹ Edelmann (2003), pp. 129–131.

²⁴² Grunenberg (2006), p. 232.

²⁴³ Grunenberg (2006), p. 227.

Westrick's line of argument.²⁴⁴ However, the argument had some weaknesses. Public ownership did make a difference. First, regarding the condition of equal starting conditions, an important exception existed: Entirely publicly owned companies did not have to pay net wealth tax. This became a concern during the partial privatisation of VEBA in 1965. Although there were voices in the administration to abolish tax benefits for the public sector, no political majority could be found for that until the tax reforms in the 1960s.²⁴⁵ A second exception was that federal enterprises were asked to come to the rescue of companies. The Hessian copper slate mining company Sontra was taken over by Preussag in a rescue operation that was initiated by the federal government and turned out to be very beneficial for Preussag.²⁴⁶ Also, MUAG and VTG were taken over by Preussag. The coal mine *Emscher-Lippe* was integrated in Hibernia after the unbundling of Krupp corporation – which turned out to be a good deal for Hibernia since the takeover was cheap and tax free. It should be noted that the companies could not have been forced into these takeovers. However, in many cases, the government seems to have reached financial compromises with the relevant enterprises. Third, many public enterprises benefited strongly from the Investment Aid Act in 1952. However, this was more due to the fact that most public enterprises operated in bottleneck industries such as coal and steel rather than due to the fact that they were publicly owned. Also, while some federal enterprises benefited from the law, others were disadvantaged. It cost Volkswagenwerk for example seven to eight million DM – a fact which complicated the relationship between the Ministry of Economics and the company further.²⁴⁷

Westrick's justification for public ownership addresses a broader question: If public enterprises were not necessarily an alien element in the economy, what role did they have in economic policy, and did the current form of shareholdings allow them to serve their purpose? Strictly following the above argumentation, shareholdings must not be used as policy instruments as this

²⁴⁴ BArch B126/40181, Minutes of the second meeting of the subcommittee *Bundesbeteiligungen* on 18 February 1955.

²⁴⁵ See p. 82.

²⁴⁶ Laufer and Stier (2005), pp. 427–428, 488.

²⁴⁷ Edelmann (2003), pp. 125–126.

would interfere with competition and disturb the market mechanism. Nevertheless, these questions did arise during the inflation debate in the mid-1950s. Until then, a reassessment of traditional justifications for public entrepreneurship had not taken place yet, possibly because there had simply been no need for it. Public enterprises seemed to integrate well in the blossoming economy and their performance was acceptable, given their difficult starting points. But in light of the economic boom in the mid-1950s and subsequent worries about inflation and an overheated economy, these overdue debates finally took place. Traditional justifications for state ownership were reconsidered. The privatisation debate was hence accompanied by a general debate about the role of public enterprises in the economy, initiated by fears of inflation in 1955, and the coal price debate in 1957.

3.4.2 Price Debates 1955 and 1957

The management decisions of public enterprises could neither be controlled directly through the general meetings nor through the supervisory boards. Hence, the cooperative behaviour of public enterprises could not be enforced. An example of this provide the price debates in 1955 and 1957. In 1955, the booming German economy led to inflation concerns. In this situation, the question of public enterprises as an instrument of public policy came up. The SPD, some media and parts of the CDU/CSU urged the government to force public enterprises not to take part in price increases, hoping that such a policy would have spill over effects on market prices. As a response, the Ministry of Economics requested a moderate price policy from public enterprises which in turn informed the Ministry about their measures.²⁴⁸ While some public enterprises committed to not participate in price increases in the near future,²⁴⁹ this was not considered to be sufficient. That the suitability of public enterprises as public policy instruments was limited was not recognised throughout the political sphere. In the big *Bundestag* debate on the topic, the SPD pointed to the

²⁴⁸ BArch B102/75792, Küster (VIAG) to Fenge, 11.11.1955; also VEBA to Fenge, 22.11.1955.

²⁴⁹ Erhard: "Preisgestaltung bei Erwerbsunternehmen der öffentlichen Hand", *Bundestagsdrucksache* 02/2110.

responsibility of shareholdings and urged Erhard to increase his efforts. It was primarily the ministerial administration which recognised the contradictions between wish and reality.²⁵⁰

One historical justification for public enterprises was their function as a corrective mechanism in a market economy that was generally based on private ownership. In this dualistic view of the economy, public enterprises had the task of influencing the price setting in different markets according to public wishes. This function was based on cartel mechanisms: If a public enterprises had a large enough share in a market, it was able to exert a certain influence on the cartel price setting. If the federal state was able to exercise sufficient influence on the public enterprises, it had an indirect market control mechanism. The influence on public enterprises worked relatively well until 1945, as previous research has shown.²⁵¹ However, the removal of cartels as a price setting institution for the entire sector changed this situation fundamentally. The price influence mechanism through cartels did not function anymore. Cartels only continued to exist in the Ruhr coal industry in the form of sales companies, but the shares of public enterprises in these sales companies were too low to exert any influence on prices, as the later coal price debate in 1957 revealed. Theoretically, shareholdings only were able to have an impact on market conditions, if they had a large enough share in oligopolistic markets. This would hence still presuppose that the government has an influence on public enterprises.

The government's position about public enterprises as policy instruments seemed ambivalent. When asked whether federal enterprises could be used as instruments for economic policy, Westrick argued that this was possible only as an exception and only if the measures were not implemented at the expense of profitability.²⁵² Ministerial official Fenge argued similarly when he prepared a speech about public enterprises and business cycle stabilisation policy for Westrick for a meeting of the Association of the Bavarian Industry in November 1955. In the preparatory notes, Fenge addressed the central

²⁵⁰ BArch B102/75792, Internal note, ZA2 (Kattenstroth), 3.11.1955.

²⁵¹ See for example Winkler (1965).

²⁵² BArch B126/40181, Minutes of the 2. meeting of the subcommittee *Bundesbeteiligungen* on 8 February 1955.

question of whether public enterprises had a special responsibility for monetary stabilisation policy. He came to the conclusion that they did not have a direct responsibility. But public enterprises had an indirect responsibility because they had to integrate the interests of their owner into their decisions. According to Fenge, the special tasks of public enterprises arose from the fact that the interests of their owner were not solely of fiscal nature but comprised a broad range of policy interests including political and social elements. In the current situation, public enterprises therefore had the obligation to implement a moderate price policy, but not at the expense of their profitability. The ambivalence that public enterprises should take public interests into account but that this should not decrease profitability was never resolved, and reappears throughout the entire inflation debate and also in the coal price debate in 1957. Fenge concluded that selling public enterprises would release the federal government from its ambivalent position as shareholder and policy maker. The economic boom would be advantageous for privatisation as it stimulated the demand for shares. It would be important to make sure that privatised companies in “politically fragile”²⁵³ regions would not be relocated, and that the capital markets would not be troubled by too large privatisation transactions.²⁵⁴

The FDP used the situation as an opportunity to request more detailed information about the possibilities of the federal government exerting influence on business policies of federally owned enterprises in a *Bundestag* motion.²⁵⁵ The motion was passed on to the committee for economic policy and, after consultations, the committee recommended that the *Bundestag* should accept the motion and demanded that the government examine the price policies of federally owned companies, making sure that all possibilities of price reductions were exploited, urging states and municipalities to do the same and reporting

²⁵³ “politisch gefährdeten”, this probably hinted at zonal border areas. BArch B102/75792, “Kurze Gedankenführung zu dem Vortrag ‘Konjunkturpolitische Verantwortung der Betriebe der öffentlichen Hand, Möglichkeiten der Privatisierung’”, Fenge to Westrick, 17.11.1955

²⁵⁴ *ibid.* Here, Fenge foreshadowed what would become the political programme in summer 1956, see chapter 3.6.4.

²⁵⁵ “Antrag der Fraktion der FDP betr. Preisgestaltung bei Erwerbsunternehmen der öffentlichen Hand”, *Bundestagsdrucksache* 02/1766.

back about these measures.²⁵⁶ Committee members criticised that the subcommittee *Bundesbeteiligungen* had not yet been consulted and commented on the question of whether ministerial civil servants in the supervisory bodies of federally owned companies were subject to directives from the federal government and were obliged to report to the *Bundestag* committees.²⁵⁷ Erhard explained the actions taken by his ministry and its achievements to the *Bundestag*: He had requested that federally owned companies examine possible price reductions, postpone investments and avoid capacity expansions. Also, Erhard had demanded by decree that all civil servants who represented his ministry in the supervisory bodies should enforce moderate price policies. In November, Erhard and Schäffer jointly repeated their request. The price reductions which Erhard listed as consequences of his actions included reductions in the electricity sector that corresponded to approximately 30 million DM shortfalls in receipts, reductions in the gas, aluminium, coal and chemical industry sector, and some postponements of investments.²⁵⁸ The SPD news service ascribed this small success to the control that the government still had over public enterprises.²⁵⁹

The lessons learned from the 1955 price debate were apparently small. A similar discussion took place shortly after the elections in 1957 in form of the coal price debate: Right before the elections, the government had announced that no price increases in the coal market would have to be expected in the near future. Now, shortly after the elections in September 1957, the *Ruhrverkaufsgesellschaften* (Ruhr district sales companies) decided to increase the price for black coal by 4.70 DM per tonne on average and for coke by 6.20 DM per tonne on average as a response to price releases in the coal market, with effect from 1 October 1957. Not surprisingly, the government was not too happy with these price increases. Adenauer requested that Erhard prevent the federally owned coal companies from participating in the increase and to urge them to try to annul the decision. Also, he demanded an examination about the question of

²⁵⁶ "Schriftlicher Bericht des Ausschusses für Wirtschaftspolitik (21. Ausschuß) über den Antrag der Fraktion der FDP – Drucksache 1766 – betr. Preisgestaltung bei Erwerbsunternehmen der öffentlichen Hand", *Bundestagsdrucksache* 02/1922, 3.12.1955.

²⁵⁷ BArch B102/75792, Internal note (ZA2) 2.12.1955.

²⁵⁸ *Bundestagsdrucksache* 02/2110, 17.2.1956.

²⁵⁹ BArch B102/75792, press announcement in *Volkswirtschaft*, SPD Press Service, 1.3.1956.

whether shareholdings would be able leave the sales companies.²⁶⁰

According to the Treaty of Paris, the German federal government was not allowed to interfere in the coal price policy. These rights had been passed on to the High Authority of the European Coal and Steel Community. The government could only act as an owner. The federal government owned the following shares in the Ruhr coal industry: Hibernia (100%) through VEBA, Emscher-Lippe Bergbau AG (49%) through Hibernia/VEBA, Bergbau AG Ewald-König Luwdig (90.1%) through AG für Berg- und Hüttenbetriebe, Gewerkschaft des Steinkohlenbergbaus Haus Aden (90.1%) through Bergbau AG Ewald-König Luwdig/AG für Berg- und Hüttenbetriebe and Märkische Steinkohlengesellschaft (100%) through AG für Berg- und Hüttenbetriebe. Hibernia, Emscher-Lippe, Ewald-König Ludwig and Aden were part of the sales company *Mausegatt Ruhrkohlenverkaufsgesellschaft mbH* and held 436 of 1000 votes; Märkische Steinkohle had a share in the *Präsident Ruhrkohlenverkaufsgesellschaft mbH* and 68 of 1000 votes.²⁶¹ It was obvious that federally owned coal companies did not have a majority in either of the sales companies so that any attempt to reverse the price increases would only have a demonstrative character. The only result of Erhard's interference was that Preussag agreed to postpone its participation in the price increase until 1 November 1957.²⁶² Again, the Ministry of Economics started internal inquiries about the legal possibilities for the government to interfere in the coal market through shareholdings business policies.²⁶³ The response confirmed the very limited possibilities. Also, federal enterprises were not able to leave the sales companies, as a termination clause was not part of the companies' contracts, which were valid until 31 March 1959.²⁶⁴

One can wonder whether the coal price issues did not come in handy for Erhard. The move from coal to oil was unavoidable and Erhard was against protective measures for the coal industry. His goal was rather to enhance competition in the energy market and threaten the monopolistic position of the

²⁶⁰ BArch B102/75797, Adenauer to Erhard, 30.9.1957.

²⁶¹ BArch B102/75797, Fenge to Kattenstroth, 8.10.1957.

²⁶² BArch B102/75797, Fenge to Kattenstroth, 3.10.1957.

²⁶³ BArch B102/75797, Kattenstroth to Fenge, 4.10.1957.

²⁶⁴ BArch B102/75797, Thiesing to Kattenstroth, 4.10.1957.

coal mining industry, including federal enterprises. On 5 October, Erhard sent his ideas for a cabinet note about immediate measures to improve competition to Adenauer. The suggestions were based on the assumptions that the price for black coal would increase strongly in the future due to the high share of labour costs, that the price for imported energy would increase slightly, and that the price for nuclear energy would fall. The first suggested measure was to abolish extra taxes on imported coal (*Umsatzausgleichssteuer*) in the amount of 2.40 DM per tonne, leading to a shortfall of tax income of approximately 31 million DM for the government. Second, extra taxes on heating oil should be abolished, leading to a shortfall of tax income of approximately nine million DM for the government, and third, railway freight tariffs for domestic and imported coal should be adjusted. For the coal industry, Erhard proposed reconsidering the participation of federal enterprises in sales associations and to reorganise the Ruhr coal industry in general, including de-cartelisation and shutting down under-performing mines, and the promotion of investments in nuclear energy.²⁶⁵

Erhard defended his position to abstain from pursuing immediate actions in the coal industry in an article in the newspaper *FAZ* from 12 October 1957. He pointed to the legal independence of the Ruhr coal cartel and appealed instead to the cartels responsibility to serve the public interest after having received state aid in different forms over the previous years, including tax reductions and subsidies from the Investment Aid Act. Furthermore, he suggested an amendment of the European Coal and Steel Community treaty to increase control of price increases.²⁶⁶ What he did not say was that he probably was against such measures anyway. Ollenhauer (SPD) mocked Erhard for his apparently desperate attempts to exert influence on the companies' price setting and for neglecting his pro-market ideals and concluded that he had lost his "pro-market consciousness". He then used the circumstances as a proof that the SPD was right in demanding more state influence in the energy markets.²⁶⁷ An article of the SPD press service judged the government's inability

²⁶⁵ BArch B102/75797, Erhard to Adenauer, 5.10.1957.

²⁶⁶ Erhard: "Kohlenpreis und Wettbewerb", *FAZ* No. 237, 12.10.1957.

²⁶⁷ Ollenhauer in *Bundestag Plenarprotokoll* 04/3, 5.11.1957, p. 87.

to impact on coal prices harshly and accused the government of “shameful powerlessness”.²⁶⁸ It concluded that the social democratic “demand for controlling the economy, its costs and price policy was not unrealistic”²⁶⁹ and also criticised the governments dependence on the private economy and its inability or unwillingness to make use of its capabilities, neglecting the fact that these possibilities were simply non-existent. In a later press announcement, the SPD pointed to the inconsistency of the government which had initially promoted the idea of free markets and now unsuccessfully tried to regain some impact. The SPD criticised the government for having failed to create the necessary conditions for using public enterprises as policy instruments in previous years. Therefore, the article demanded different measures which should create these conditions, such as reforms of the Federal Budget Acts and the law on stock companies, a final agreement with the states about the question of Reich and Prussian property and a reorganisation and adjustment of shareholdings and ministerial responsibilities.²⁷⁰

While the political consequences that the SPD proposed were a contestable political matter, the lack of reorganisation of public enterprises was a fact. It had become obvious that public enterprises in their current form had lost their initial reason for existence to some extent. One can speculate whether this result was to some extent intended or at least willingly accepted by Erhard who up to this point had not made any attempts to support his colleague Schäffer in reorganising public enterprises. A reorganisation of federal shareholdings would potentially have confirmed the status of public enterprises in the economy.

3.5 Financing Public Enterprises

While the political impact on management decisions of public enterprises was small, the federal government’s task of providing funds for enterprises was

²⁶⁸ “Die beschämende Ohnmacht der Regierung”, in: *Volkswirtschaft*, SPD press service, 26.9.1957, copy in BArch B102/75797.

²⁶⁹ “Forderung nach Kontrolle der Wirtschaft, ihrer Kostenlage und Preispolitik, keine unrealistische Forderung war”, *ibid.*

²⁷⁰ BArch B102/75797, “Der Einfluss des Bundes auf seine Unternehmen”, SPD Press Service, 8.10.1957.

substantial. Federal enterprises were growing, restructuring and adapting to the new circumstances in a world which increasingly relied on oil. On top of this, the re-establishment of Lufthansa and Saarbergwerke required large amounts of capital.

Access to capital for public enterprises depended to a high degree on the federal budget and was hence restricted by political decisions. Each increase of capital stock needed parliamentary approval, either separately or by approval of the annual budget, and required therefore a broad acceptance within the government coalition. The result was that the capital ratio of equity to debt was declining strongly in some cases. To some extent, the resulting financing issues were solved passively through internal financing. Accumulated profits were a substitute for otherwise necessary capital increases. Internal financing opportunities were considerably increased based on depreciation opportunities in the early 1950s.²⁷¹ The federal government refrained from demanding high dividends. This was much easier than organising a political majority for capital increases. Additionally, the federal government deferred dividend payments. A study by the Cologne Institute for Economic Research confirms the high degree of internal financing of federal enterprises. In 1958, the average dividend payment of shareholdings was 4%, whereas the average payment of privately owned companies was on average 9.3%. While private enterprises had a rate of 70.6% of internal financing to total investments, the rate of public enterprises was 77%. The private sector denounced this as a discrimination against private enterprises.²⁷²

Among the enterprises with the highest capital and investment needs in the 1950s were Salzgitter AG, Preussag and Lufthansa. In each case, the federal government reacted in a different way: Preussag was the first company to be partially privatised through issuing people's shares, Salzgitter AG remained entirely state-owned and -financed, and Lufthansa AG was co-financed early on by private equity investment. Salzgitter AG was not considered feasible for a participation of private investment due to its insecure and highly unprofitable

²⁷¹ See p. 129, also Bundesministerium für Finanzen (1955), p. 330.

²⁷² "Selbstfinanzierung der Bundesbetriebe. Quote betrug 1958 rd. 77 vH der Gesamtinvestitionen", *Kölnische Rundschau*, 7.10.1960, copy in BArch B102/75792; see also Breidbach (1960).

situation. The federal budget plan for 1955 suggested an equity increase of 12 million DM financed by a special budget. The FDP requested that this be cancelled.²⁷³ In the *Bundestag* debate, Atzenroth (FDP) made clear that he did not see the necessity for a capital injection by the government and demanded that the increase should be financed by a large share issue.²⁷⁴ Minister of Finance Schäffer (CSU) regarded Atzenroth's suggestion unfeasible. He argued that it was unrealistic that Salzgitter AG would be able to place an issue of such a volume. He added that under the current circumstances, even a bond placement of a comparable volume was not possible without federal guarantees.²⁷⁵ The SPD welcomed the equity increase.²⁷⁶ Hermann Lindrath (CDU), who became the first Federal Minister of the Treasury in 1957, defended the equity increase but took the opportunity for a general critique. He described public enterprises as a "considerable amount of state capitalism within an economic order of a social market economy"²⁷⁷ and demanded stronger disclosure provisions and more participation rights for the *Bundestag*.²⁷⁸

Preussag suffered from severe losses during and after the war. It had lost its coal mines in Upper Silesia, its Middle German potash industry and property located in Austria. With the first two losses, Preussag had lost its major income sources. The company's system which had been based on internal revenue sharing was threatened. Unprofitable plants which had received regular subsidies until 1945 now caused serious problems. The DM opening balance sheet in October 1951 for the reference date 21 June 1948 as well as the annual financial statement for 1950 took into account the severe asset erosion and the losses carried forward since the currency reform. The capital stock was reduced from 250 million RM to 75 million DM. Non-current assets were valued at the upper limit at 100 million DM to allow for high depreciations within the following years. Hence, in 1949 and 1950, balance sheet profits of

²⁷³ "Änderungsantrag der Fraktion der FDP zur zweiten Beratung des Entwurfs des Haushaltsgesetzes 1955, Anlage 6, 2", *Bundestag Plenarprotokoll* 02/90, 22.6.1955, p. 5111.

²⁷⁴ *Bundestag Plenarprotokoll* 02/90, 22.6.1955, pp. 5095–5097.

²⁷⁵ *Bundestag Plenarprotokoll* 02/90, 22.6.1955, p. 5098.

²⁷⁶ Ritzel (SPD) in *Bundestag Plenarprotokoll* 02/90, 22.6.1955, p. 5088.

²⁷⁷ "beachtliches Stück Staatskapitalismus innerhalb einer Wirtschaftsordnung der Sozialen Marktwirtschaft", *Bundestag Plenarprotokoll* 02/90, 22.6.1955, p. 5052.

²⁷⁸ *ibid.*

1.4 and 5.54 million DM were achieved, leading to an interest yield of 7.4% for 1950. Nevertheless, in 1951 it became evident that the investment needs for repair, replacement and renewal works were high and that the company would have high financial needs within subsequent years.²⁷⁹ Before 1952, Preussag made profits mainly in the oil and metal industry. In 1950, prices for zinc and lead had been released from control, which led to price increases. Preussag also benefited from the Korea Boom and the subsequent metal purchases of the US government which increased prices further. The Investment Aid Act from January 1952 improved the situation again. It allowed for generous depreciations that in turn reduced tax payments and allowed for a higher degree of internal financing. The law led to a doubling of investments in the relevant industries. The value of additional depreciations amounted to 55 million DM between 1952 and 1956 for Preussag. Additionally, the Capital Market Aid Law from 1952 (*Erstes Gesetz zur Förderung des Kapitalmarkts*) lowered taxes on interest earnings for bonds and provided an incentive for debt financing. Preussag used the additional financing sources for a widespread investment programme that planned to invest 114 million DM of which 41 million DM were financed by depreciations. Nevertheless, due to sharp price decreases in the metal market in 1952, Preussag did not make enough profits to be able to use the full depreciation options. The shut-down of *Gewerkschaft Mechnischer Werke* and *Barsinghausen*²⁸⁰ was not sufficient to close this financial gap. This added to the motivation to make Preussag the first company which issued people's shares in 1959.²⁸¹

In the case of Lufthansa, the government was highly pragmatic. Since private investors were not interested in convertible bonds in the company, the government offered shares to private investors in December 1953 after an equity increase of 19 million DM to 25 million DM had been decided. 19,000 bearer shares with a nominal value of 1,000 DM were issued. 123 companies purchased shares in a volume of 2.4 million DM. The main share of 1.3 million DM was acquired by banks. The federal government participated in the equity increase

²⁷⁹ Laufer and Stier (2005), pp. 408–409.

²⁸⁰ See p. 96.

²⁸¹ See chapter 4.2.

and the federal share increased to 84.5%. Five more equity increases between 1956 and 1960 raised the nominal capital to 250,000 million DM. Also, Luftag was renamed as Deutsche Lufthansa AG in 1956. The participation of private investors remained under 10%, the federal share over 85%.²⁸²

3.6 From Idea to Concensus

In the mid-1950s, privatisation discussions in conservative circles accelerated. Due to the political constellation, advocates of privatisation were not able to pursue their goals without the approval of the CDU/CSU's employees' faction. At the same time, the employees developed their ideas of property formation in the working class and needed the business wing's approval in order to implement measures. The result was that the CDU/CSU agreed on a social form of privatisation which combined both sides. The common denominator was the idea of a wide distribution of corporate ownership which should establish a new class of shareholders from low-income households. The agreement was possible because of the underlying insight that full public ownership was not necessary in many cases. With this in mind, supporters of privatisation accepted some social concessions, in order to raise support from politicians whose focus was on the private asset accumulation.

3.6.1 Government under Pressure

Early on, the privatisation campaign focused on the case of Volkswagenwerk. Yet, in the run-up to the elections, Minister of Finance Schäffer (CSU) publicly declared that he would not support a privatisation of Volkswagenwerk.²⁸³ Shortly after the election, Erhard advocated a privatisation of Volkswagenwerk internally, as an exchange of letters with Adenauer and Schäffer reveals.²⁸⁴ The federal government knew that they had to come up with an idea to protect its interests in Volkswagenwerk from Lower Saxony. A very early note from the

²⁸² See Bozdag-Yaksan (2008), pp. 111–114.

²⁸³ See for example “Volkswagenwerk unter Bundesrecht”, *Handelsblatt* 24.8.1953; “Der mißverstandene Pionier”, *Deutsche Zeitung und Wirtschaftszeitung*, 29.8.1953.

²⁸⁴ BArch B102/76368, Erhard to Schäffer and Adenauer, 29.9.1953.

Ministry of Economics assumed that Lower Saxony considered coupling the company with Reichswerke and re-channelling Volkswagenwerk profits to Reichswerke.²⁸⁵ Despite this, the federal government did not pursue any actions yet.

It can only be speculated how interested Erhard was in the matter at that time. In any case, privatisation was not a priority. Rather, resources were bound because he had to defend his idea of a social market economy against various interests. The implementation of an antitrust law alone which was an essential legal foundation for competitive markets took many years and many disputes.²⁸⁶ Another time and energy absorbing topic in the mid-1950s was a controversy about the independence of the Bundesbank. Adenauer did not develop an interest in the matter of privatisation until 1954. In 1953, Adenauer was asked whether he would consider a privatisation of public enterprises after a speech in Chicago. His response was that in general, he preferred less public involvement. However, privatisation was not a priority at the time because there were more severe problems to solve. The matter would have to be discussed at a later time.²⁸⁷

Schäffer's role in this context is slightly controversial. He has often been regarded as an opponent of privatisation because he tried to block the privatisation of Volkswagenwerk later on. But his role during the attempted sales of Howaldtswerke contrasts with this view. Previous research has already pointed to the inconsistency of his behaviour.²⁸⁸ Schäffer often pointed to the problem of the unclear ownership situation of Volkswagenwerk. A court decision about property right claims from private investors was awaited in the mid-1950s. Yet, it has been suggested that the real reason behind Schäffer's hesitant approach to a Volkswagenwerk privatisation might have been fiscal policy interests. Schäffer was known for his strict austerity policy. His budget surplus was dubbed *Juliusturm* by his contemporaries.²⁸⁹ Schäffer was the

²⁸⁵ BArch B102/76026, Internal note, 18.9.1950.

²⁸⁶ For the long negotiations and the implementation of the antitrust law see Murach-Brand (2004).

²⁸⁷ BArch B102/75797, BKAm (Haenlein) to BMWi (Kattenstroth), 21.5.1953.

²⁸⁸ Dietrich (1996), pp. 215–217.

²⁸⁹ The *Juliusturm* (Julius tower) is the part of the Spandau Citadel in Berlin where the Prussian government stored 120 million marks in gold coin, part of the war reparations

only Federal Minister of Finance who managed to make a budget surplus since 1945. It has been indicated by government officials that Schäffer was concerned that large extra revenues would lead to permanent financial claims from other ministries.²⁹⁰

Things began to turn in 1954. In response to the increasing public attention on public enterprises, Adenauer requested information from Schäffer about how and at what value public enterprises and participations could be transferred into private ownership in May 1954.²⁹¹ Schäffer replied that he generally supported the privatisation of shareholdings if these did not fulfil public tasks. He suggested using privatisation revenues for the redemption of Reich liabilities in the framework of the planned law regulating the consequences of war. This idea seems to support the above hypothesis that Schäffer's intention was to avoid the expected financial desires of other departments in the case of extra funds. Upon Adenauer's request,²⁹² Schäffer sent Adenauer a list of profits and losses of state enterprises.²⁹³

A newspaper report from June 1954 about the losses in the publicly owned wharf Deutsche Werke Kiel AG²⁹⁴ led to a second initiative Adenauer's: In a cabinet meeting on 23 June 1954, the Federal Minister for Affairs of the Federal Council mentioned the article and suggested that the cabinet should investigate the case. Adenauer joined in the criticism and found it an "intolerable situation that control over Reich property was mainly allocated to the Ministry of Economics and Ministry of Finance without publicity and control of the delegates in the supervisory boards. A reorganisation had to follow soon."²⁹⁵ Deutsche Werke Kiel was liquidated after the Howaldtswerke Kiel

paid by France after the Franco-Prussian War of 1870/71, until its restitution to France in 1919. It has since become a synonym for government budget surpluses.

²⁹⁰ This was for example indicated in BArch B126/40185, internal note, 17.5.1954.

²⁹¹ BArch B136/2345, Adenauer to Schäffer, 1.5.1954 and 14.5.1954.

²⁹² BArch B136/2345, Adenauer to Schäffer, 27.7.1954.

²⁹³ BArch B136/2345, Schäffer to Adenauer, 18.7.1954.

²⁹⁴ "Millionenverluste in Kiel. Wenn der Staat wirtschaftet", Heinz Brestel in *FAZ*, 22.6.1954.

Deutsche Werke Kiel AG was founded in 1925 as a result of a merger in the shipbuilding industry. The company suffered from massive losses during the war and was subject to serious dismantlement. Parts of the company were hived off and reorganised as the privately owned Maschinenbau Kiel (MaK) which later became part of the Krupp concern.

²⁹⁵ "unhaltbarer Zustand, daß das frühere Reichsvermögen im wesentlichen auf die Bundesministerien der Finanzen und für Wirtschaft aufgeteilt und die von den beiden Ressorts benannten Aufsichtsräte ohne ausreichende Kontrolle und Publizität tätig seien. In der gesamten Frage müsse schnell und wirksam Ordnung geschaffen werden.", in: *Die*

had taken over its two remaining dry docks in 1954.

In October 1954, Adenauer asked Minister of Finance Schäffer repeatedly which shareholdings were suitable for privatisation. Additionally, he demanded a privatisation design and ideas for an appropriate usage of the revenues.²⁹⁶ Later in the same year, Adenauer let Erhard and Schäffer know that he expected plans for a privatisation of Volkswagenwerk as soon as the federal supreme court had rejected the claims of the so-called “Volkswagen savers”.²⁹⁷ Under pressure, the Ministry of Finance passed on the Deutsche Bank expert report on privatisation from July 1954 which it had commissioned. Warned by this, Secretary of State Westrick (Ministry of Economics) responded that privatisation should under no circumstances lead to a dominant position of banks. Instead, priority should be given to a widespread distribution of shares.²⁹⁸ Here, Westrick mentioned an element which would later become the core principle of privatisation: to aim at a wide distribution of small shares in order to avoid concentrations of power and ownership. Just a few days later, the Deutsche Industrie-Institut suggested a broad distribution of shares in the form of people’s shares as a privatisation mechanism for Volkswagenwerk.²⁹⁹ From this moment on, the direction was clear. Only the timing was not right yet. Since Schäffer did not respond to Adenauer’s request from October 1954, Erhard send a list of companies which he considered suitable for privatisation to Adenauer and Schäffer in January 1955, including notes on suggested principles of privatisation. Erhard recommended the privatisation of only those shareholdings which were not incorporated or only loosely connected to other shareholdings and did not fulfil public tasks.³⁰⁰ Evidently, he was not considering selling the holding companies themselves yet. This found Schäffer’s approval.³⁰¹

Privatisation was discussed at a meeting of the economic committee of

Kabinettsprotokolle der Bundesregierung” online, Federal Cabinet, minutes of the 36th meeting on 23 June 1954, agenda item D.d.

²⁹⁶ BArch B136/2345, Adenauer to Schäffer, 12.10.1954.

²⁹⁷ BArch B136/2340, Globke (BK Amt) to Erhard and Schäffer, 31.12.1954.

²⁹⁸ BArch B126/40186, Westrick to Oeftering, 3.1.1955.

²⁹⁹ Deutsches Industrieinstitut: “Volkswagenwerk – Brücke zur Volksaktie?”, *DII Schnelldienst*, 7.1.1955.

³⁰⁰ Erhard to Adenauer, 19 January 1955, BArch B136/2345.

³⁰¹ BArch B136/2345, Schäffer to Adenauer, 17.2.1955.

the federal cabinet in February 1955. Here, it became obvious that the cabinet was only at the start of an opinion-forming process. In the meeting, Erhard favoured privatisation in the form of a transformation of the company from a limited liability company into a joint stock company and subsequent stock market issue of shares. Schäffer argued that a public offering was not possible before a final settlement of debts from the NS regime because of potential financial burdens of the company. These risks would lower the sale price significantly. Schäffer's second main argument against a stock market privatisation was the limited capacity of the stock market to absorb such a share volume – a problem which had been brought forward by Deutsche Bank. The meeting ended without concrete decisions. It was only decided that Erhard's privatisation conception would serve as a foundation for the subsequent opinion-forming process of the federal cabinet.³⁰² In spring 1956, the Office of the Federal Chancellor had given up hopes that Schäffer could be convinced to agree to a privatisation of Volkswagenwerk any time soon and decided to not follow up on this matter further.³⁰³

3.6.2 Property Formation Policy

Increasing the participation of employees in capital accumulation was the main political goal of the employees' faction of the CDU in the 1950s. Private capital formation was already being discussed and promoted at the CDU Hamburg party convention in 1953.³⁰⁴ The employees' faction had been founded in 1946 as *Christlich-Demokratische Arbeitnehmerschaft (CDA)* (Christian Social Employees or Christian Social Committees). Since then, it constituted one of the main groups within the party. It is recognised in the party's constitution and has to be regarded as an important factor in the decision-making process within the party. On the side of the CSU, something similar existed in the form of the *Arbeitnehmer-Union (CSA)* (workers' union). The employees' factions did not represent the average German employee. Within the first

³⁰² "Die Kabinettsprotokolle der Bundesregierung" online, Economics Committee of the Federal Cabinet, minutes of the 25th meeting on 18 February 1955, agenda item 1: "Bundesvermögen".

³⁰³ BArch B136/2340, Internal Note (Haenlein), 9.5.1956.

³⁰⁴ "Eigentum für alle Schichten des Volkes", in Hintze (1995), p. 41. See also Zolleis (2008).

post-war decades, the large German Trades Union Confederation (*Deutscher Gewerkschaftsbund, DGB*) was closely connected to the SPD. Also, the relationship of CDA and CSA to the small Christian unions that were unified in the Christian Trade Union Federation of Germany (CGB) was only loose. In 1947, the CDA had a huge impact on the *Ahlener Programm*, an economic and social programme of the North Rhine-Westphalian CDU.³⁰⁵ The programme was a compromise formula between bourgeois conservatives around Adenauer and the Social Christian CDA. It comprised rather vague proposals for a co-determination of employees, a socialisation of key industries and public economy. It was revised by the stronger market-oriented *Düsseldorfer Leitsätze* in 1949 which laid the party-political foundation of the social market economy. With respect to social policy, the Düsseldorf programme recommended a broad distribution of national wealth and assigned only secondary importance to the question of a socialisation of industries.³⁰⁶

The employees' faction had since the early 1950s been working on how to increase the savings and property formation for lower- and middle-income classes. Their concepts were highly influenced by different social movements and doctrines which had developed in response to the social question in the 19th century. These include the Catholic social doctrine and the bourgeois social reform movement. The social question arose with industrialisation, the decreasing significance of real property and the competition between labour and capital. Whereas Marxism saw the answer in removing private ownership, the solution for Catholic and bourgeois reformists was to change and equalise the distribution of property. When the advancing industrialisation opened up new opportunities for social policy, the ownership question lost significance but remained a central issue in both reform movements. In 1891, the papal encyclical *Rerum Novarum* of Pope Leo XIII which became the ideological foundation of Catholic social doctrine in the 20th century justified the institution of private property but advocated a more equal distribution. After a period where representatives had focused on the importance of private sav-

³⁰⁵ "Ahlener Programm", Zonenausschuß der CDU für die britische Zone, Ahlen / Westfalen, 3.2.1947.

³⁰⁶ Dietrich (1996), pp. 124–134.

ings, the ownership question won significance again after the First World War. Christian and bourgeois ideas of co-ownership of employees and their participation in profits contrasted with ideas of socialisation. The property formation concept was connected with the idea of an abolition of the class society by a de-proletarianisation of the working class.³⁰⁷ After the Second World War, economic circulation theories in which distributional effects played a decisive role theoretically underpinned ideas of property and income formation. Three different concepts of property formation were developed: intra-corporate co-ownership and profit-sharing schemes, investment wages, and supra-company co-ownership.³⁰⁸

The most discussed idea in the Christian Social Committee in the 1950s was investment wages (*Investivlohn*).³⁰⁹ The basic idea was that employees should invest a proportion of their salary in an investment saving scheme which was, depending on the concrete concept, more or less subsidised and organised by the state. One of the most important spokesmen for investment wages was Erwin Häussler (CDU).³¹⁰ In 1954, Häussler and his colleague German Stehle (CDU) presented a detailed concept for private capital formation including investment schemes for employees, based on 15 laws. For this purpose, they considered a privatisation of federal enterprises aiming at dispersed ownership through investment companies.³¹¹ When Erhard suggested privatisation via investment companies in 1956, it is possible that he was indirectly influenced by the Häussler-plan.

The Federation of German Trade Unions strongly criticised intra-company solutions. Co-ownership and profit-sharing were regarded as a cheap substitute for the primary objective of co-determination rights for employees and as an attempt to increase the dependency of workers from their employer. Another criticism was that co-ownership would lead to a self-exploitation of workers.

³⁰⁷ Dietrich (1996), pp. 26–30.

³⁰⁸ Dietrich (1996), pp. 26–48.

³⁰⁹ The term *Investivlohn* was first used in 1953 by trade union official Karl Hinkel.

³¹⁰ Häussler was strongly influenced by the Catholic social doctrine. From 1951, he was member of the CDU Nordwürttemberg Regional Executive. He also was a member of the *Bundestag* from 1953 to 1961 and from 1964 to 1972. Between 1965 and 1969, he was deputy chairman of the *Bundestag* committee for federal property.

³¹¹ Dietrich (1996), p. 71.

Instead, the German Federation of Trade Unions favoured supra-company conceptions such as the Gleitze-plan.³¹² In contrast to wage increases, a direct participation of employees in the companies' capital accumulation was considered advantageous because it would not be absorbed by inflation.³¹³

During the second legislation period, a number of financial private savings incentives were successfully implemented. The Housing Construction Premium Act (*Wohnungsbausprämien-gesetz*) from 1952 and the Capital Market Aid Act (*Erstes Gesetz zur Förderung des Kapitalmarktes, Kapitalmarktförderungsgesetz*) from 1952 subsidised private housing savings.³¹⁴ In the third and fourth legislation period, measures to subsidise private savings were extended, beginning with the Savings Premium Act (*Sparprämien-gesetz*) from 1959 and financial benefits for employee shares (*Belegschaftsaktien*) in 1960. The First Capital Accumulation Act (*Gesetz zur Förderung der Vermögensbildung für Arbeitnehmer*, short *Erstes Vermögensbildungsgesetz*, also *312-Mark-Gesetz*) from 1961 became the foundation for later property formation policy. It introduced a general savings bonus scheme. The savings volume which was subject to benefits was later extended to 624 DM in 1965 (Second Capital Accumulation Law), and to 936 DM in 1983 (Fourth Capital Accumulation Act). In 1990, the Fifth Capital Accumulation Act introduced the employee savings allowance scheme *Arbeitnehmersparzulage*.

Private capital formation remained a major debate until the mid 1960s. In 1964, the Protestant Church published two memorandums, pointing out the importance of material security of each individual as a foundation for freedom and social and economic participation.³¹⁵ While property formation policy was being discussed, the ownership concentration increased, in particular the concentration of productive capital. A study which was initiated by the grand coalition found that in 1960, 1.7% of the households possessed 35% of total

³¹² Bruno Gleitze was director of the Economic Institute of the Federation of German Trade Unions. He suggested that large companies should have to account a share of their capital gain achieved through internal financing as "social capital". This capital would become part of a supra-company investment fund which would issue shares to employees.

³¹³ Dietrich (1996), pp. 76–83.

³¹⁴ Abelshauser (1983), p. 144.

³¹⁵ "Empfehlungen zur Eigentumspolitik" and "Eigentumsbildung in sozialer Verantwortung", published in: Kirchenamt der evangelischen Kirche in Deutschland (1991).

assets and 70% of the productive capital.³¹⁶ Dietrich (1996) does not believe that there was a causal link between ownership concentration and demands of the employees' faction, since hardly any data were available yet in the 1950s. Still, there might have been a desire on the employees' side to participate in the economic boom. Also, some knowledge was already available at that time: the Bank deutscher Länder reported in its annual publication that in 1955, the public sector accounted for 41% of all capital formation and large stock companies for another 30% whereas private involvement was low.³¹⁷

One of the reasons for the increased concentration of ownership was that in the first legislation period, the federal government had implemented a series of measures to increase the productive capital stock for the purpose of industrial reconstruction. As a consequence, a number of state subsidies in the form of tax reductions and special depreciation allowances allowed for a high degree of internal financing. These measures included § 36 of the Investment Aid Act from 1952, the DM Opening Balance Sheet Law (*Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung, short DM-Eröffnungsbilanzgesetz*) from 1949 and § 7 Income Tax Law. These indirect subsidies increased the capital of comparably already wealthy industrial elites.³¹⁸ In this situation, the idea of a "neutral privatisation" was a very obvious solution: Public enterprises constituted property which could be allocated by avoiding a more direct redistribution. A subsidised sale of shares to employees would increase the low- and middle-income households' net asset position and at the same time provide financial resources for the industry.

3.6.3 Dispersed Ownership

Advocates of privatisation and property formation became increasingly connected in the mid-1950s. The result were two privatisation concepts: privatisation via small shares and via investment funds. Both concepts aimed at a broad dispersion of shares. Two facts had become obvious in light of the failed sale of the Howaldtswerke: first, there was a broad political consensus

³¹⁶ Abelshausen (1983), p. 141.

³¹⁷ Jahresbericht der Bank deutscher Länder für 1955, p. 56.

³¹⁸ Abelshausen (1983), p. 143.

against an increase of the concentration of ownership. Second, block holdings by foreign investors were strongly rejected. Hence, the desired privatisation method had to make sure that shares were widely distributed in small packages to domestic shareholders. This reduced the options of possible designs considerably.

The idea of small shares (*Kleinaktien*) had been circulating since the early 1950s. In January 1953 for example, Osthoff, an official in the Ministry of Foreign Affairs, published an article about small shares as the “security paper of the future” in the *Bulletin der Bundesregierung*. He pointed to the culture of share ownership in the US and referred to a possible privatisation of public enterprises via small shares. The article was not received well in the Ministry of Finance.³¹⁹ Secretary of State Westrick (Ministry of Economics) defended the concept of a widespread distribution of shares against the Ministry of Finance in 1955.³²⁰ In March 1955, Erhard adopted the idea of a broad distribution as the privatisation design for Volkswagenwerk.³²¹ About the same time, in January 1955, the Cologne Institute for Economic Research published a press announcement that suggested a privatisation of Volkswagenwerk in the framework of a widespread distribution of small shares.³²² The term *Volksaktie* was used for the first time in this article. Most likely, it was adopted from the Austrian partial privatisation of banks in the form of issuing non-voting preferred shares.³²³ In Germany, the term was first used without a clear definition while the terminology implied that the shares should be affordable and available to everyone. The economics committee of the Rhineland CDU under the leadership of Konrad Adenauer Junior and lawyer Host Rheinfels, who later was a founding member of the first people’s share association *Aktionärsverein Düs-*

³¹⁹ BArch B126/40184, Birnbaum to Secretary of State Hartmann, 2.10.1956, and copy of the article, Osthoff: “Die Klein-Aktie, das volkstümliche Wertpapier der Zukunft?”, in *Bulletin der Bundesregierung*, 1.10.1953, p. 1651.

³²⁰ BArch B126/40186, Westrick to Oeftering, 3.1.1955.

³²¹ BArch B102/76368, Erhard to Schäffer, 15.3.1955.

³²² “Volkswagen – Brücke zur Volksaktie?”, Cologne Institute for Economic Research Press Service, 7.1.1955; also: “Volkswagen-Aktie als Brücke zur Volksaktie?”, *Süddeutsche Zeitung*, 12.1.1955.

³²³ Stiefel (2011).

seldorf,³²⁴ played a central role in promoting the people's shares concept.³²⁵ The second idea involved investment funds. This idea possibly goes back to Erwin Häussler (CDU) and circles in the Baden-Wuerttemberg CDU. Häussler was one of the key figures in the CDU's employees association. The idea that an investment company should take over shareholdings and issue certificates to employees in turn became known as the "*Häussler-Plan*".³²⁶ At that time, a law governing investment funds was being prepared but had not been passed yet.

At the CDU National Party Conference on 29 April 1956, a joint resolution for a privatisation of industries featuring a dispersed distribution of shares and favourable conditions for employees was passed. It demanded a "privatisation of federally owned companies in such a way as to avoid a new concentration of wealth unless companies necessarily have to remain in public ownership. A wide distribution of shares in smallholdings should be ensured. Favourable conditions for employees should be granted".³²⁷ It can be speculated whether industrial circles accepted a social dimension of privatisation because they were afraid of stronger distributional measures such as investment wages. Erhard himself had no sympathy for the idea of co-ownership. He argued that "acquiring ownership is better than acquiring co-ownership".³²⁸ Yet, after the party conference, the ground was prepared for a broad initiative for the privatisation of Volkswagenwerk. All it needed was an additional impulse which was delivered with the inflation debates of summer 1956. In some respect it can be said that the intended privatisation scheme was consistent with ordoliberal core ideas: One of the key ordoliberal ideas was the positive relationship between concentration of ownership and concentration of power. In order to prevent capture and the dominance of particular interests, owner-

³²⁴ See for example: Horst Rheinfels, "Volksaktie contra Werksgenossenschaft", *Industriekurier* No. 37, 9.3.1957.

³²⁵ Dietrich (1996), pp. 220–222.

³²⁶ Dietrich (1996), p. 221.

³²⁷ "Privatisierung bundeseigener Erwerbsunternehmen unter Vermeidung neuer Vermögenskonzentrationen, soweit dieser Besitz nicht zwingend in der Hand des Staates bleiben muß. Auf Streuung dieser Anteile in Kleinbesitz ist zu achten. Arbeitnehmern sind Vorzugsbedingungen einzuräumen", Documentation: 6. Bundesparteitag der CDU, 26.–29. April 1956 in Stuttgart, p. 138.

³²⁸ "Eigentum zu erwerben ist besser, als Miteigentum zu erwerben", Erhard in *Bundestag*, 26.6.1956, *Bundestag Plenarprotokoll* 02/153, p. 8306.

ship had to be de-concentrated. This was exactly what the consensus agreed on.

3.6.4 Summer 1956: Inflation Debate

Erhard used the inflation debate in summer 1956 to bring the privatisation topic back to the cabinet table. Faced with a booming economy and price inflation, the *Bank deutscher Länder* had increased the discount rate from 3 to 3.5% on 4 August 1955, and later to 5.5%. In this situation, the federal reserves which Minister of Finance Schäffer (CSU) had accumulated over the years were strongly criticised. A CDU committee, the so-called *Kuchenausschuss*, had set about distributing those reserves and subsequently state expenditures rose. The restrictive measures of the central bank were criticised sharply by Adenauer who began to question the independence of the central bank.³²⁹ For Erhard and the market oriented party wing, the independence of the central bank was one of the pillars of the social market economy. In the summer of 1956, the rift between Adenauer on one side and Schäffer, Erhard and the central bank on the other side was deep and the party was faced with low polls. In order to save the federal elections in autumn 1957, the CDU needed to come up with something.

Another key figure in those years was Franz Etzel (CDU). Etzel was a representative of the CDU liberal wing and at that time vice president of the European Coal and Steel Community (ECSC). In order to absorb purchasing power as a measure against inflation, he suggested promoting shares in stock companies and improving tax conditions for share ownership.³³⁰ Maybe it was this suggestion which prompted Erhard to promote privatisation as a measure against inflation. In a meeting of the economics committee of the federal cabinet in June, he suggested using investment companies for the privatisation of shareholdings. The plan was that investment companies would take over shareholdings and then issue shares which would be bought by employees. This would absorb purchasing power, increase private capital formation and

³²⁹ This refers to the well-known “*Gürzenich-Rede*”, held at the BDI on 23 May 1956.

³³⁰ Dietrich (1996), pp. 231–235.

decrease consumption.³³¹ Only a day earlier, Erhard, Hellwig and Rheinfels had discussed this policy in the *Presseclub*, a popular political TV talk show.³³²

The idea to sell participations through investment funds was accepted by the government committee despite the resistance of Schäffer and became part of the economic programme against inflation of the federal government from 22 June 1956. It was announced that “in order to provide new, additional savings incentives for the broad masses of savers, the federal government intends to grant the savers access to an equity participation in shareholdings through the purchase of securities of small nominal value from investment companies”.³³³ As a direct consequence of the inflation debate, the Investment Company Act which had been delayed for some time was finally adopted.

³³¹ “*Die Kabinettsprotokolle der Bundesregierung*” online, Economics Committee of the Federal Cabinet, minutes of the 51st meeting on 12 June 1956.

³³² See Dietrich (1996), p. 247.

³³³ “Um der breiten Masse der Sparer neue, zusätzliche Sparanreize zu geben, hat die Bundesregierung die Absicht, dem Sparer über entsprechende Investment-Gesellschaften eine Beteiligung an Bundesunternehmen durch Kauf von kleingestückelten Investmentpapieren zu ermöglichen”, Government Statement from 22.6.1956, *Bundestag Plenarprotokoll* 02/152, 22.6.1956, p. 8147.

Chapter 4

People's Shares Privatisations

Between 1959 and 1965, the federal government partially privatised Preussag, Volkswagenwerk and VEBA through the sale of people's shares. Volkswagenwerk's partial privatisation was initially intended to be the first project but it was delayed significantly by internal conflicts of the CDU/CSU about the design of people's shares and by the ownership conflict between the federal government and Lower Saxony. Instead, the government chose Preussag as the first subject of privatisation in 1959. Volkswagenwerk followed in 1961 and VEBA in 1965. In the cases of Preussag and VEBA, the privatisations were connected with equity increases.

Parliamentarians brought a first legislative draft for the privatisation of Volkswagenwerk into parliament in July 1956. Until this point, the government and politicians had discussed a possible privatisation behind closed doors and in small circles. The legislative draft opened the public debate. Supporters made huge efforts to popularise the idea of people's shares, culminating in the decision of the CDU party convention in Hamburg to turn the Volkswagenwerk privatisation into one of the primary topics for the federal elections in autumn 1957. The core element of people's shares was the segmentation of equity into small units of shares combined with a broad distribution of shares in the population. Beyond these features, the design of shares and issue conditions in all three partial privatisations differed slightly and each adaptation was a result of the respective political conditions.

As argued above, the implementation of a Volkswagen law required a broad majority because the approval of both political chambers *Bundesrat* and *Bundestag* was necessary. In order to gain sufficient political support in the sister parties CDU and CSU, an adoption of the law required an agreement between the left and the right party wings. In addition to this, the government needed to reach an agreement with Lower Saxony about the open ownership question of Volkswagenwerk. In the pivotal year 1959, the CDU/CSU groups found a joint solution which was to sell the shares to a large number of people and to support the household's formation of property thereby. Symptomatic of that is what Hans Katzer (CDU),³³⁴ representative of the CDU Social Committee, said in a *Bundestag* debate in 1959: the socio-political goal of the CDU/CSU was not privatisation, it was "property for all".³³⁵

4.1 Conceptualisation

After Erhard had suggested to sell public enterprises through investment funds in order to absorb purchasing power and reduce the risk for inflation in the economics committee of the federal government, parliamentarians of several parties brought a legislative proposal for a Volkswagenwerk privatisation into the *Bundestag* in July 1956. Parallel to this, the energy division in the Ministry of Economics under Ludwig Kattenstroth conducted work on a draft law. In 1957, the ministerial officials provided a draft which became the basis for the first government proposal in *Bundestag*. The government proposal served as a foundation for the privatisation designs of Preussag, Volkswagenwerk and VEBA. Hence, the years between the summer of 1956 and the Preussag privatisation in 1959 can in hindsight be regarded as a conceptualisation period. However, even after 1959, the privatisation design was developed and adapted to the specific cases.

³³⁴ Hans Katzer was a founding member of the CDU. He was a member of the CDU Social Committee and Federal Minister for Labour and Social Affairs from 1965 to 1969.

³³⁵ Parliamentary debate about "Große Anfrage der FDP betr. Privatisierung des Bundesvermögens", *Bundestag Plenarprotokoll* 03/63, 20.2.1959. Summary in BArch B102/75797, *Bulletin der Bundesregierung* no. 36, 24.2.1959, p. 339.

4.1.1 People's Shares versus Investment Funds

Around the time of the inflation debates, the MPs Alexander Elbrächter (DP, since 1958 CDU) and Rudolf Vogel (CDU) agreed on a joint initiative for a Volkswagenwerk privatisation. Their first legislative proposal for a privatisation of Volkswagenwerk, the *Elbrächter Antrag* (Elbrächter proposal),³³⁶ was officially proposed in the *Bundestag* in July 1956 and was signed by a group of MPs of CDU, CSU, Free People's Party (FVP)³³⁷ and DP. Among the signatories were the initiators of the proposal, Alexander Elbrächter (DP) and Rudolf Vogel (CDU), the later Ministers of the Treasury Hermann Lindrath (CDU), Werner Dollinger (CSU) and Kurt Schmücker (CDU), and Hellwig (CDU). The Elbrächter proposal suggested the following:

- Volkswagenwerk GmbH to be transformed into a joint stock company.
- Shares to have a nominal value between 100 DM and 1,000 DM.
- Up to 25% of the share capital could be sold to investment companies.
- 25% of the shares to be registered shares.
- The revenues to be brought into a foundation for the promotion of science and academic and technical education and development.

The Elbrächter proposal was a first idea of how Volkswagenwerk could be transformed into a mixed-ownership enterprise and served as a starting point for further considerations. It suggested only a restricted participation of investment companies. The reason why the authors of the bill intended to sell 25% of the shares as registered shares with restricted transferability was that this would avoid that foreign investors would sell large blocks of shares. However, the bill was withheld in the *Bundestag* economics committee after it had been passed on and was not even discussed in plenary before the end of the legislation period.

Parallel to this, works in the ministerial administration had begun. When Erhard announced privatisation through investment certificates in the government programme against inflation in 1956, this idea was new to the officials

³³⁶ *Bundestagsdrucksache* 02/2614, 5.7.1956.

³³⁷ The Free People's Party (Freie Volkspartei) was a small short-lived political party which had seceded from the FDP in 1956. Just a year later, it merged into the German Party DP.

in the Ministry of Economics. The lack of documents in the Ministry of Economics before the meeting suggests that Erhard had not consulted with his ministry about the idea before. After the programme had been presented, Erhard gave orders to start working on possible solutions but did not want to become involved himself. He was not interested in the practical side of privatisation and left the work with Kattenstroth who had just become head of the energy division. In September 1956, Kattenstroth noted that Erhard wanted the problem to be solved but that he did not care about the details: Erhard was “fine with everything” and did “not care about how the problem would be solved, it just had to be solved”.³³⁸

The advantage of using investment companies was that the associated risks for the future shareholders were smaller compared to directly held shares. Yet, after works had begun, the officials realised that there were severe practical problems. In particular, the Investment Company Act from 1957 provided that investment companies were not allowed to invest more than 5% of their equity capital in shares of one company. The volume of federal shareholdings which were meant to be brought into investment funds would therefore require a large number of investment companies.³³⁹ Because of the problems associated with investment companies, Henneberg and Fenge considered establishing a new special form of investment companies. They suggested that the federal government in cooperation with banks would establish people's shares-investment companies as special companies with specific regulation. These companies would take over federal shareholdings which would be brought into a special investment fund, and issued people's shares would certify rights in this fund.³⁴⁰ These so-called *Volksaktien-Gesellschaften (VAG)* (people's shares investment companies), a mix of people's shares and investment companies, were designed to reduce risks associated with shares.³⁴¹

³³⁸ “mit allem einverstanden (...) es sei ihm egal, wie das Problem gelöst würde, nur müsse es gelöst werden.”, BArch B102/76101, Internal note, Kattenstroth, 5.9.1956.

³³⁹ BArch B102/76101, Internal note (Fenge), 28.8.1956.

³⁴⁰ BArch B102/75795, “Gedanken über die Erweiterung der Privatisierungsmöglichkeiten”, Internal note (Henneberg), undated.

³⁴¹ BArch B102/76101, “Entwurf eines Gesetzes über die Errichtung von Volksaktien-Gesellschaften und die Übertragung von der Bundesrepublik Deutschland gehörenden Aktien auf diese Gesellschaften”, 9.4.1957.

Yet, the idea to set up special investment companies solely for the purpose of privatisation faced strong resistance. In the Ministry of Economics, the division for money and credit sharply criticised the idea.³⁴² Birnbaum (Ministry of Finance) had in 1955 already declared that he considered privatisation via investment companies as infeasible due to the legal restrictions.³⁴³ Nevertheless, the ministerial officials in the Ministry of Economics held on to the idea of privatisation through investment companies until the 1960s, even after the first people's shares privatisations.

4.1.2 The Government Draft for a Volkswagen Law

CDU/CSU and DP proposed the government draft for a Volkswagenwerk privatisation law in *Bundestag* in May 1957.³⁴⁴ It was clear that there would be no decision before the end of the legislation period. The government's main goal was to initiate an open debate and to speed up the privatisation process, in particular negotiations with Lower Saxony as part of this process. The key idea was to transform Volkswagenwerk GmbH into a joint stock company and to transfer the shares into private ownership by a share issue favouring domestic natural persons. The government draft did not rely on investment funds as privatisation vehicles. Why the Ministry of Economics had turned against the idea of investment funds is not addressed explicitly in the documents reviewed for this thesis. It seems likely that the decision was due to a combination of internal resistance and the fact that the establishment of people's shares investment companies would require a new special legislation. The fact that there was hardly any internal communication about people's shares investment companies also suggests that Fenge and Henneberg developed this idea further without the consent of Kattenstroth and Erhard. In detail, the government draft provided the following:

- Shares to be registered shares with restricted transferability. (A transfer of shares needs to be approved by the supervisory board.)
- At least 25% of the share capital has to be issued as shares with a nominal

³⁴² BArch B102/76101, Internal note, Subdiv. VIAI, 13.9.1956.

³⁴³ BArch B126/40187, Birnbaum to Secretary of State, 20.9.1955.

³⁴⁴ *Bundestagsdrucksache* 02/3534, 22.5.1957.

value of 50 DM.

- Only natural persons (not legal entities) to be allowed to purchase shares.
- The purchase of shares per person to be restricted to 1/20,000 of the nominal share capital.
- Voting rights per person to be restricted to 1/20,000 of the nominal share capital.
- Proxy voting to be restricted to 1/500 of the nominal share capital per proxy.
- Voting rights for investment companies according to the Investment Company Act to be restricted to 1/100 of the nominal share capital.
- Credit institutions to not be allowed to purchase shares.
- Domestic credit institutions can act as proxies; proxy voting for all domestic credit institutions together to be restricted to 1/3 of the nominal share capital.
- German purchasers with an annual income of 9,000 DM or less to receive a 20% discount; purchasers with an income between 9,000 DM and 15,000 DM to receive a discount of 10%.
- If shares are re-sold within three years after the initial purchase, the discount has to be paid back.
- Employees can purchase shares up to a nominal value of 1,000 DM with a financial discount.

The legislative proposal of the government was discussed in *Bundestag* on 31 May 1957. The FDP criticised the intended financial subsidies, whereas the SPD found that a successful example of public ownership such as Volkswagenwerk should not be given up and that privatisations were not a feasible instrument to equalise the distribution of national wealth.³⁴⁵ Yet, the coalition partners did not yet approve the draft bill.

The draft intended to issue voting shares with a nominal value of 50 DM which was the lowest possible denomination for shares at that time and suggested shares which contained voting rights because generating a real participation of small investors was the core intention of left-conservative property policy. This suggestion differentiated from the policies in Austria where

³⁴⁵ Bundestag *Plenarprotokoll* 02/214, 31.5.1957, pp. 12594–12596 and pp. 12603–12608.

people's shares were used to partially privatise the nationalised Creditanstalt-Bankverein and Länderbank AG. There, 10% of equity capital (in total 75 million OES) was issued as bearer shares, mainly to party-associated institutional investors, and 30% of the equity capital (in total 225 million OES) was issued as non-voting preferential shares with an intentionally low issue price. This form of privatisation reached an over-subscription of 81%, shares were preferentially allocated to smallholders.³⁴⁶ Beyond the intention to use voting shares, the government draft contained a number of special clauses. In particular, the draft did not allow financial institutions to purchase shares. Also, proxy voting was limited. Earlier drafts of the law from February 1957 had even more restrictive features. There, the officials from the Ministry of Economics had suggested to restrict voting rights to 1/50,000 of nominal share capital and to exclude proxy voting entirely.³⁴⁷ By suggesting registered shares with restricted transferability, the government officials aimed at avoiding a situation in which single shareholders, particularly foreign shareholders, could gain a major influence on the company. Possibly, this was initially a concession to concerns in the Ministry of Finance. While the issue conditions ensured an initial wide dispersion of shares, the government officials recognised the possibility of large share purchases after stock market flotation. Using registered shares was an idea of the legal division in the Ministry of Economics as a response to these concerns.³⁴⁸ The involved ministries agreed early on that one could only abstain from registered shares if the possibility of block-building and foreign infiltration could be excluded in another way.³⁴⁹ The financial concessions for low-income households and the intended favourable purchase conditions for employees were probably included for political reasons.

Like Germany, other European countries made attempts to increase share-ownership among small and medium income households in order to stimulate the supply of funds to finance the post-war reconstruction. The German me-

³⁴⁶ DBA V01/2143, "Volksaktie. Unterlage aus dem Vortrag vor der Industrie- und Handelskammer für Rheinhessen, am 28.5.57".

³⁴⁷ BArch B102/76368, Drafts from 11.1. and 4. and 9.2.1957.

³⁴⁸ BArch B102/76101, Fenge to Kötter, 20.10.1956.

³⁴⁹ BArch B102/76101, III3 (Henneberg), Preparatory notes for a departmental meeting on 25 September 1957 with representatives of the Ministry of the Treasury, Ministry of Economics, Justice Ministry and Treuarbeit, 21.9.57.

dia observed such experiences attentively, reported extensively on asset sales abroad which looked remotely like the planned people's shares privatisation and subsumed them under this terminology. In most of the cases, enterprises abroad issued non-voting shares. International examples include the issue of certificates in the French oil companies Société Nationale d'Aquitaine and Compagnie Française des Petroles where each share was divided into four or five certificates.³⁵⁰ The Italian government offered registered shares of the partially state-owned steel company Cornigliano Soc. per Az. Genua to 60,000 employees of the Finsider state-holding which was part of the IRI group (Istituto per la Ricostruzione Industriale, Institute for Industrial Reconstruction).³⁵¹ The media reported that in the UK, where nominal values of shares were traditionally low, the conservative government planned to abolish the stamp tax in order to encourage small-scale equity investments.³⁵² Multiple articles referred to the plans of the Swedish government to finance its state debt by issuing bonds of small nominal values as people's bonds.³⁵³

The Board for Social Formation of Capital (*Kuratorium für Soziale Eigentumsbildung*) became a platform for an exchange between academic, economic and political circles, in particular the CDU and industry. The board was formed in autumn 1957 as a mixed advisory board without any formal rights or function; the president and founding member was Karl Arnold (CDU).³⁵⁴ Among the 25 members besides Arnold were the CDU politicians Erwin Häusler, Horst Rheinfels, Hans Katzer, Fritz Burgbacher and Bernhard Tacke (member of the CDU Social Committee and deputy head of the German Federation of Trade Unions) and from the administrative side Hans Birnbaum

³⁵⁰ "Volksaktien in Frankreich", *Die Welt*, 26.9.1957.

³⁵¹ "Volksaktien für Italien", *Handelsblatt* no. 2011, 31.7.1959; "Volksaktie und Aktienomninität in Italien", *Neue Zürcher Zeitung*, 31.7.1959.

³⁵² "Auch in Großbritannien Volksaktien? Londoner Wertpapierbörse arbeitet Vorschläge aus", *Die Welt* no. 66, 19.3.1958; "Auch England ist für die Volksaktie. Pläne zur Beseitigung der Stempelsteuer", *FAZ* no. 81, 8.4.1958; "England sucht einen eigenen Weg zur Volksaktie", *FAZ* no. 265, 14.11.1958; "Diskussion über 'Volksaktie' in England", *Frankfurter Rundschau*, 19.3.1958

³⁵³ "Die neue schwedische 'Volksanleihe'", *Neue Zürcher Zeitung*, 4.11.1960; "Schweden legen eine Volksanleihe auf", *FAZ*, 29.10.1960; "'Volksobligation' wieder im Gespräch. Schwedisches Vorbild regt die Überlegungen an", *Handelsblatt* no. 14, 19.1.1961.

³⁵⁴ Karl Arnold was the second minister-president of North Rhine-Westphalia from 1947 to 1956 and the first president of the *Bundesrat* before the election of Theodor Heuss. He was a member and chairman of the CDU Social Committee.

(Ministry of Finance). The main financier was private industry which was represented amongst others by representatives of the companies Bayer, Mannesmann, Rheinpreussen and Dresdner Bank. However, after Arnold's death in June 1958 the board slowly disappeared.³⁵⁵ The board does not appear to have played an active role in the privatisation process, but it is not unlikely that it had an impact on the conceptualisation process in an informal way. Besides the board, other informal discussion spaces might have helped to spread the privatisation ideas further. Hans Janberg for example, member of the management board of Deutsche Bank, was a member of the Rotary Club in Düsseldorf where he promoted the planned privatisation through people's shares.³⁵⁶

4.1.3 Federal Elections and Ministerial Reorganisation

The planned Volkswagenwerk privatisation and the ideas of private capital accumulation and people's shares dominated the federal election campaign of the CDU in 1957. Erhard and Katzer promoted the idea of people's shares at the CDU party conference in May 1957 whereas suggestions of investment wages and co-ownership in enterprises had widely disappeared. Erhard and the chairman of the CDU Social Committee Karl Arnold jointly promoted the privatisation of Volkswagenwerk in the form of a widespread distribution of shares.³⁵⁷ The leading slogan for this form of privatisation was the policy of 'property for everyone', based on the title of Arnold's speech at the party conference. The slogan promoted the idea that ordinary people should be enabled to participate in the market economy and the post-war boom by becoming co-owners of large industrial companies themselves. In a government publication, Erhard identified the accumulation of capital in modern societies as a major problem which could be solved by spreading ownership of the means of production more broadly across society.³⁵⁸ Volkswagenwerk seemed like the

³⁵⁵ Dietrich (1996), p. 285.

³⁵⁶ DB ZA40/37, "Zum Meinungsstreit über die Volksaktie. Bericht von Rotarier Hans Janberg im Rotary-Club Düsseldorf-Pempelfort am 6.6.1957."

³⁵⁷ Karl Arnold: "Eigentum für jeden", in *Bundesparteitag der CDU*, p. 163; Ludwig Erhard: "Wohlstand für alle", in: *Bundesparteitag der CDU*, pp. 151–154.

³⁵⁸ BArch B126/32513, "Miteigentum durch Volksaktie. Mittel zu einer weiteren Befreiung des Menschen aus kollektivistischen Bindungen", *Bulletin der Bundesregierung* no. 126,

perfect choice for the popularisation of people's shares: like a phoenix from the ashes, the company was not only profitable and growing steadily, it was also the most popular public enterprise at the time and regarded as a symbol of post-war reconstruction. Therefore, not only was it considered a vote-winner, it was also assumed that purchasing shares would be relatively risk-free for the investors. On top of that, the government wanted to avoid the impression that the federal state wanted to take over the ownerless company and enrich itself thereby. Press coverage before the elections was high and the ideas generally well received. The popularisation was supported by media reports which for example pointed to the idea of a 'people's capitalism'.³⁵⁹

In the 1957 federal elections, the CDU/CSU won an absolute majority. The CDU candidate Arthur Enk won the direct *Bundestag* mandate in Wolfsburg where Volkswagenwerk was located despite the announcement to privatise the company. Before the elections, the CDU local group in Wolfsburg had positioned itself in the debate with the following statement: the best option for Volkswagenwerk would be the *status quo* of a trustee administration. However, it was unlikely that this status could be maintained in the long-run. If they had to decide between a nationalisation and a privatisation, privatisation was the better option. A special status of public property was not acceptable because it would be a quasi-nationalisation.³⁶⁰ That the CDU won the direct mandate was hence an important signal for the broad acceptance of the privatisation plan among the local voters. Konrad Adenauer who was re-elected as chancellor announced the privatisation of shareholdings in his first government statement. He also suggested extending people's shares to the private economy.³⁶¹

The federal election result led to a ministerial reorganisation which was favourable for privatisation policy because Fritz Schäffer (CSU) was removed from the position of Minister of Finance. That in the end the 'right' people for privatisation were in the right positions was the result of a series of difficul-

13.7.1957, p. 1189.

³⁵⁹ BArch B126/32513, "Volkskapitalismus", *FAZ*, 1.10.1957.

³⁶⁰ BArch B102/76371, "Stellungnahme der Wolfsburger CDU zur VW-Privatisierung: Lieber Privatbesitz als Funktionärswirtschaft."

³⁶¹ Government declaration, *Bundestag Plenarprotokoll* 03/3, 29.10.1957.

ties during the government formation: Adenauer wanted to replace Schäffer as Minister of Finance because Schäffer focused too much on austerity policy in his view. As the CSU insisted on Schäffer remaining a member of the cabinet, Adenauer's plan was to create a new ministry with a small range of duties for Schäffer, the Federal Ministry of the Treasury. This seems surprising given that Adenauer was aware of Schäffer's reservations against a privatisation of Volkswagenwerk. When Schäffer refused and became Minister of Justice instead, Hermann Lindrath (CDU) was selected mainly for proportional reasons. Franz Etzel (CDU) who became the new Federal Minister of Finance was a trusted partner of Adenauer and Erhard in economic matters.³⁶² The Ministry of the Treasury was established by organisational decree of the Federal Chancellor from 30 October 1957.³⁶³ Hans Busch, until then secretary of state in the Ministry for Labour and Social Affairs, became secretary of state, and Hans Birnbaum transferred from the Ministry of Finance to the Ministry of the Treasury and remained in charge of federal enterprises and participations.

In his government speech after the elections in 1957, Adenauer declared that a "dispersion of ownership on a large scale is necessary in order to raise a sense of self-assurance and belonging to the whole of the nation among the citizens. (...) The implementation of the Housing Act and the introduction of people's shares, which should not be limited to federal enterprises, are some of the best measures to increase savings."³⁶⁴ What exactly people's shares

³⁶² On the circumstances around the formation and reorganisation of the federal cabinet see "*Die Kabinettsprotokolle der Bundesregierung*" online, Federal Cabinet, 1957, Introduction, 3. "Bundestagswahlen und Regierungsbildung".

³⁶³ BArch N1256/96, Secretary of State of the Federal Chancellor to the Federal Ministers, 30.10.1957. The Ministry of the Treasury was officially named Federal Ministry for the Federal Patrimony at first. Unofficially, it was called Ministry of the Treasury from the start and it was officially renamed in 1961. In 1969, the Ministry of the Treasury was abolished by the first social-liberal coalition under Chancellor Willy Brandt. During the ministry's twelve years of existence, five ministers followed each other: Hans Wilhelmi (CDU) succeeded Lindrath after his death in 1960. After the federal elections in 1961, the FDP claimed the position and Hans Lenz (FDP) took over. When he resigned in the aftermath of the 'Spiegel affair' in 1962, he was followed by Werner Dollinger (CSU), who after six years succeeded Walter Scheel as Minister for Economic Cooperation and Development in 1968. The last Minister of Economics was Kurt Schmücker (CDU). Quick personnel changes also occurred in the highest administrative position of the ministry: in its twelve years of existence, there were seven secretaries of state. The short periods of office might have weakened the ministry compared to the Ministry of Economics and Finance.

³⁶⁴ "Streuung von Besitz in weitem Umfang ist nötig, um einer möglichst großen Zahl von Staatsbürgern Selbstgefühl und das Gefühl der Zugehörigkeit zum Volksganzen zu geben.

should be was however not clear yet. The conceptualisation received new momentum when Lindrath came into office as Minister of the Treasury. In an interview in December 1957, he underlined that people's shares had to be full-value shares, not non-voting shares like in Austria. A division of the stock market into two classes of shares should be avoided. In contrast, "one should aim at making shares *per se* people's shares".³⁶⁵ According to Lindrath, the main reason for the low level of share-ownership in the society was a lack of knowledge about shares and joint stock companies. In order to popularise shares, it was therefore not sufficient to improve the legal and tax conditions. Also, media activities and better public information were necessary. Lindrath's approach to privatisation was highly pragmatic. The procedure should be kept simple and decided case by case, one should not aim at a comprehensive privatisation programme. At several occasions, Lindrath highlighted that the implementation would need to be "as simple as possible, even primitive" and understandable for the common people.³⁶⁶ A universal recipe for privatisation could and should not exist.³⁶⁷ He reinforced this in a *Bundestag* debate in June 1958.³⁶⁸

4.1.4 The Long Negotiations

On 20 December 1957, the CDU/CSU *Bundestag* group introduced the Volkswagenwerk privatisation bill unchanged for the second time.³⁶⁹ The bill was discussed in a *Bundestag* debate in January 1958.³⁷⁰ Given the ongoing dispute with Lower Saxony about the ownership question, none of the proposals had a chance to be implemented. Although privatisation discussions were ac-

(...) Die Durchführung des Familienheimgesetzes und die Einführung der Volksaktie, die sich nicht etwa nur auf Betriebe, die dem Bund gehören, erstrecken soll, sind einige der geeigneten Mittel, die Spartätigkeit anzuregen." *Bundestag Plenarprotokoll* 03/3, 29.10.1957

³⁶⁵ "Man sollte (...) bestrebt sein, die Aktie schlechthin zur Volksaktie zu machen.", *Bulletin der Bundesregierung* no. 232, p. 2142, 14.9.1957.

³⁶⁶ "möglichst einfach, ja geradezu primitiv", BArch B102/75795, "Breite Streuung des Eigentums", *Bulletin der Bundesregierung* no. 42, 4.3.1959, p. 398. See also Lindrath on privatisation in *Bulletin der Bundesregierung* no. 208, 30.10.1957.

³⁶⁷ *ibid*; also: "Die Privatisierung beginnt", *Industriekurier* No. 19, 5.2.1959, p. 1, copy in BArch B102/75795.

³⁶⁸ *Bundestag Plenarprotokoll* 03/30, 12.6.1958.

³⁶⁹ *Bundestagsdrucksache* 03/102, 20.12.1957.

³⁷⁰ *Bundestag Plenarprotokoll* 03/8, 22.1.1958, pp. 251–291.

celerating in the election year, things were far from moving fast. Rather, the federal elections in 1957 marked the beginning of a long negotiation period.

Volkswagenwerk chief Nordhoff had not been officially informed about the planned privatisation until it was brought into the *Bundestag*. Erhard explained to him that this was due to the intention to keep the draft secret, but promised a closer communication in the future. An internal note from June 1957, before the elections, declared that Nordhoff did not have fundamental objections against a dispersed ownership privatisation and that he would support the government.³⁷¹ However, just shortly afterwards, Nordhoff criticised the privatisation plans harshly, so that the Ministry of Finance found it necessary to demand that Nordhoff should not comment on the privatisation publicly.³⁷² Nordhoff might have been concerned that Volkswagenwerk could lose its employment tariff independence in the case that more representatives from banks and industry would join the supervisory board after a privatisation. The special Volkswagenwerk employment tariff *Haustarif* was the basis for wages which were significantly above average. The high wages had repeatedly been criticised by Erhard who feared that this could adversely affect his price stabilisation policy.³⁷³

After the first government draft had been proposed to parliament, criticism from various sides became louder. The state elections in Lower Saxony on 5 May 1959 made the situation even more difficult: Prior to the elections, the federal CDU wanted to abstain from shedding bad light on the current conservative state-government under Heinrich Hellwege (CDU) by arguing about Volkswagenwerk.³⁷⁴ However, CDU and DP lost the elections and SPD, FDP and BHE formed a government coalition and Hinrich Wilhelm Kopf (SPD) became the new minister-president. The law which was finally adopted was less restrictive than the original government draft and implied more generous financial concessions. These changes were the result of long negotiations both within the CDU/CSU and with external interest groups.

³⁷¹ BArch B102/76371, Internal note about a meeting of Erhard and Nordhoff on 14 June 1957, 2.7.1957.

³⁷² BArch B102/76371, Secretary of State (BMF) to Nordhoff, 2.7.1957.

³⁷³ Edelmann (1999), pp. 64; 70.

³⁷⁴ Edelmann (1999), p. .

4.1.4.1 Lower Saxony, the SPD and the Foundation Idea

A special issue in the case of Volkswagenwerk was the question of what to do with the revenues from privatisation. This was of particular importance because Volkswagenwerk was classified as ownerless. The federal government was keen to prevent the impression that the federal state enriched itself by retaining the revenues. In 1957, the idea to use the revenues to establish a foundation came up. Where the idea originated from is not entirely clear. Possibly it goes back to an article of chief editor Wirsing in the Christian journal *Christ und Welt* from 1958 which he also sent to the Ministry of Finance.³⁷⁵ The Ministry of Finance, Ministry of the Treasury and Ministry of Economics agreed that in general, earmarking of revenues was not possible, but that Volkswagenwerk was a special case where special rules could be applied.³⁷⁶ Wirsing had met Volkswagenwerk chief Nordhoff in December 1957 already and was able to convince him of the idea. Now, they attempted to convince those circles within the CDU/CSU which had so far remained reticent.³⁷⁷

Volkswagenwerk was a difficult case for the SPD. This was still the time before the adoption of the Godesberg programme, in which the SPD officially distanced itself from socialist ideas of a nationalisation of key industries. However, the automobile plant was not officially classified as publicly owned nor was it a key industry which required nationalisation. On the other side, the party argued that the company had never been private, so why should it be transferred into private ownership now. Hence, the SPD needed to develop a suggestion which would avoid both federal ownership and privatisation. A second argument of the SPD against a privatisation of Volkswagenwerk was that the government should not sell its most prosperous enterprise. This fiscal argumentation would actually become the most fundamental difference between social-democratic and conservative views for many decades. The ar-

³⁷⁵ BArch B126/20879, Wirsing to Secretary of State (BMF) Hartmann, 17.1.1958, attachments: "Nationalstiftung für den technischen Nachwuchs", „Um die Zukunft des Volkswagenwerkes. Der Vorschlag einer Nationalstiftung“, in: *Christ und Welt*, special print, Stuttgart, January 1958.

³⁷⁶ BArch B126/20879, VI A6 (Bennigsen), 28.2.1958, Internal note for Secretary of State about a departmental meeting in BMBes on 25 January 1958.

³⁷⁷ Edelmann (1999), p. 66.

gument that the federal government should not sell off the family silver and be left only with the loss-making enterprises can be found repeatedly during the second privatisation wave in the 1980s.³⁷⁸

In general, the SPD welcomed the intended increase in private savings of employees. But they criticised the fact that people's shares would only re-channel existing income and not create a new source for generating savings.³⁷⁹ Similarly, Deist (SPD) argued later in a debate about the Preussag privatisation that the rate of internal finance of large enterprises should be reduced and that the share of private savings in funding enterprises should increase.³⁸⁰ In 1960, the SPD presented their own concept for private capital formation where privatisation did not play a role.³⁸¹

The German Federation of Trade Unions, which was politically linked to the SPD, had protested against a privatisation of Volkswagenwerk since such an idea was first brought up.³⁸² A statement of the Federation of German Trade Unions from May 1957 demanded that public enterprises which had never been privately owned should remain in public ownership. Also, the government should also keep its profitable shareholdings in order to balance the losses of those enterprises which could never become profitable because they were fulfilling public tasks. In the long run, this would reduce the tax load.³⁸³

Left with the problem of having to come up with an alternative, the SPD adopted the idea to establish a foundation and extended it. In January 1958, just five days after Wirsing's article which suggested the establishment of a foundation and about month after the government bill had been brought into parliament for a second time, the SPD parliamentary faction introduced a proposal to transform Volkswagenwerk itself into a foundation which would

³⁷⁸ See p. 267.

³⁷⁹ Ollenhauer (SPD) in *Bundestag Plenarprotokoll* 04/3, 5.11.1957, p. 50.

³⁸⁰ *Bundestag Plenarprotokoll* 03/63, 20.2.1959. Summary in *Bulletin der Bundesregierung* no. 36, 24.1.1959, p. 339, copy in BArch B102/75797.

³⁸¹ "Eigentum für Arbeiter. Gegenvorschlag der SPD zum Gesetzentwurf der Regierung", *Die Welt* no. 216, 15.9.1960, p. 8, copy in BArch B102/75792.

³⁸² For documentations on this, see Dietrich (1996), p. 215; Edelmann (1999), p. 63; Nicolaysen (2002).

³⁸³ Citation of the statement in: "DGB trennt die Probleme: Zur Volksaktie wird nichts gesagt. VW Privatisierung wird abgelehnt", *Handelsblatt* no. 61, 24.5.1957.

promote young technical talent.³⁸⁴ That way, the company would be protected from large private investors and could be regarded as a real people's company. After the SPD had won the elections in Lower Saxony in 1959, the new state government under Kopf took over the idea and demanded that Volkswagenwerk should be transformed into a foundation.³⁸⁵ In 1960, a compromise was reached: the federal government and Lower Saxony each kept 20% of the shares and the other 60% were sold to private investors. The revenues from selling shares were brought into a foundation. This was not only a concession to Lower Saxony, also parts of the CDU/CSU were convinced by this idea.

4.1.4.2 Banks and the Question of Special Shares

The initial government draft for a Volkswagen law featured special and restrictive conditions. Some of these conditions were criticised sharply, primarily by financial institutions, and changed for the final draft. Not debated was the provision that in the initial offering, only persons and not legal entities should be allowed to purchase shares and that the purchase of shares per person should be restricted. Also, it was relatively undisputed that voting rights per person should be restricted. The restriction was however loosened in the final law and increased from 1/20,000 to 1/10,000 of the nominal share capital. Also, the decision to issue voting shares instead of non-voting shares was widely welcomed in industry and bank associations.³⁸⁶ Three main points were discussed: whether shares should be registered shares with restricted transferability, whether voting rights for investment companies should be limited to 1/100 of the nominal share capital and whether and how much proxy voting should be restricted.

The types of shares were intensely discussed in negotiations which involved several ministries. The Ministry of the Treasury under Herrman Lindrath (CDU) and the Ministry of Finance under Franz Etzel (CDU) argued

³⁸⁴ "Antrag der Abgeordneten Dr. Deist und Genossen betr. der Errichtung einer Stiftung 'Deutsches Volkswagenwerk'", *Bundestagsdrucksache* 03/145, 22.1.1958.

³⁸⁵ Edelmann (1999), p. 68.

³⁸⁶ For example DBA ZA15x/2052, Bundesverband des privaten Bankgewerbes, Comment on the draft for a Volkswagen law from 6 February 1958, signed by Pferdenges and Dermittel.

that ordinary shares should be used rather than registered shares. Their main reason were concerns about the effect of a limited tradeability on the attractiveness of shares.³⁸⁷ Birnbaum argued that bearer shares with a small nominal value and voting right restrictions would best represent the idea of people's shares and were easy to administer. He suggested that in order to avoid block building, the government should only sell 48% of shares and transfer the remaining shares into a foundation, for example for the promotion of technical talent, as the articles by Wirsing had suggested.³⁸⁸ Lindrath argued that a restriction of voting rights was sufficient as a protective measure against block-building.³⁸⁹ Gessler from the Office of the Federal Chancellor highlighted that small shareholders would have to be able to sell their shares off and that block-building could not be forbidden. This was of particular importance because of the idea that people's shares should be adopted by the private sector later on.³⁹⁰ The ministerial concerns were shared by Volkswagenwerk chief Nordhoff. Nordhoff was against registered shares because these were not fully tradeable and might hence produce mistrust in shares. Instead, Nordhoff preferred bearer shares in combination with a restriction of voting rights.³⁹¹ On the other side, the officials in charge in the Ministry of Economics, supported by the Ministry of Justice, insisted on strict measures to prevent future foreign infiltration and block-building of shares and wanted to use special shares for this purpose. They argued that only registered shares with limited tradeability could effectively avoid unwanted majorities³⁹² However, registered shares were not supported by everyone in the Ministry of Economics. Division VI (Money and Finance) in the Ministry of Economics was much more liberal and seemed to cooperate with officials in the Ministry of Finance in order to

³⁸⁷ For the Ministry of the Treasury see BArch B126/20879, VIA6 (BE: Birnbaum) to Secretary of State Hans Busch, 8.11.1957; for the Ministry of Finance see BArch B126/20879, Note of Div. III3 about a meeting on 25 September 1957 in the BMWi, contributions of Korff (BMF).

³⁸⁸ BArch B126/20879, VIA6 (Birnbaum) to Secretary of State, 8.11.1957.

³⁸⁹ BArch B126/20879, VI A6 (Bennigsen), 28.2.1958, Internal note for Secretary of State about a departmental meeting in BMBes on 25 January 1958.

³⁹⁰ BArch B126/20879, Note of Div. III3 about a meeting on 25 September 1957 in the BMWi.

³⁹¹ BArch B102/76371, Internal Note about a meeting with Minister and Nordhoff on 14 June 1957, 2.7.1957.

³⁹² BArch B126/20879, VI A6 (Bennigsen), Internal note for Westrick about a departmental meeting on 25 January 1958, 28.2.1958.

avoid registered shares.³⁹³ Hence, the Ministry of Economics officials realised early on that there was a tendency to adopt bearer shares with restriction of voting rights.³⁹⁴

The next question was the restriction of voting rights which was considered necessary in the case of bearer shares. Division IV in the Ministry of Economics suggested that voting rights should be restricted to only 1/1,000 of the equity capital.³⁹⁵ The Ministry of the Treasury suggested an exemption for the federal government from the voting right restriction and a legally implemented veto minority for the government of 25% for five years, and was supported herein by the Ministry of Finance. Yet, such an extra role for the government was rejected by Division III in the Ministry of Economics. The Ministry of Justice suggested solving this question in the company statutes, not by law.³⁹⁶ Similar differences between the ministries and divisions existed with respect to proxy voting. In the initial draft, Kattenstroth and his team had intended to restrict proxy voting to 1/500 of the nominal share capital. Birnbaum from the Ministry of the Treasury argued that proxy voting should not be excluded because it was a question of the general stock corporation law and not of a special Volkswagen law.³⁹⁷ Division VI A 4 in the Ministry of Economics also found proxy voting less problematic. To accommodate desires for a proxy voting restriction, they suggested that instead of regular proxy voting, banks should only be allowed to exert voting rights on behalf of their clients only with a specified mandate for each individual decision and stating their clients names and nominal values of shares.³⁹⁸

When faced with the Elbrächter proposal for a Volkswagen law, the Confederation of German Employers' Associations (BDA) and the Federation of

³⁹³ BArch B126/20879, Unknown to Korff, 11.3.1958, Anhang: 2 internal notes from Division VI (vom Hofe) which the unknown sender had confidentially received.

³⁹⁴ BArch B126/20879, Note of Div. III3 about a meeting on 25 September 1957 in the BMWi.

³⁹⁵ BArch B126/20879, BMWi, Div. VI A 4 (vom Hofe) to Kattenstroth, 3.10.1958, referring to a meeting from 25 September. Earlier, they had argued that a voting right restriction of 3% of the share capital was sufficient. BArch B126/20879, BMWi, Div. VI A4 (vom Hofe) to Div. III 3, 19.2.1958.

³⁹⁶ BArch B126/20879, VI A6 (Bennigsen), 28.2.1958, Internal note for Secretary of State about a departmental meeting in BMBes on 25 January 1958.

³⁹⁷ BArch B126/20879, VIA6 (Birnbaum) to Secretary of State, 8.11.1957.

³⁹⁸ BArch B126/20879, BMWi, Div. VI A 4 (vom Hofe) to Kattenstroth, 3.10.1958, referring to a meeting from 25 September.

German Industries (BDI) formed a joint working group on the topic. They were concerned that it would be difficult to achieve much change since the topic was so highly political.³⁹⁹ The financial sector had an ambivalent attitude towards people's shares and the government draft for a Volkswagenwerk privatisation law. On the one hand, financial institutions welcomed measures to increase the popularity of shares and the sale of public enterprises through asset sales. On the other hand, they found investment certificates, for which the legal foundation had just been established with the Investment Company Act, less risky and hence better investment opportunities for small incomes.

A report from the German banking association welcomed the idea of using voting shares. Registered shares with restricted transferability and without blank endorsement were uncommon in the German market, impractical for an issue of this size, and would hinder the attractiveness of shares immensely.⁴⁰⁰ The same point was raised by the Association of German Stock Exchanges. They demanded that shares should be fully tradeable, with no disadvantages due to the share type.⁴⁰¹ The banking association report found that in general, Volkswagenwerk was a good choice to start privatisations because it was an excellent example of a well-managed company in public ownership but beyond the role of the state. Also, the idea of people's shares was generally seen positively. Yet, the banking association found that general measures to make shares more attractive, in particular the removal of tax disadvantages, would be more beneficial and appropriate than people's shares in order to foster share-ownership. Also, investment certificates were considered to be more suitable for small investments than people's shares because the associated risks were smaller and better distributed.⁴⁰²

Similarly to the report of the banking association, an internal note of Deutsche Bank from October 1957 contrasts people's shares with investment

³⁹⁹ DBA ZA 40/37, Vallenthin to Janberg, 29.10.1957.

⁴⁰⁰ DBA ZA15x/2052, Bundesverband des privaten Bankgewerbes, Comment on the draft for a Volkswagen law from 6 February 1958, signed by Pferdenges and Dermitzel.

⁴⁰¹ DBA ZA15x/2052, "Auszug aus der Niederschrift über die Sitzung der Arbeitsgemeinschaft der deutschen Wertpapierbörsen am 7. Februar 1958".

⁴⁰² DBA ZA15x/2052, Bundesverband des privaten Bankgewerbes, Comment on the draft for a Volkswagen law from 6 February 1958, signed by Pferdenges and Dermitzel. Similar: DBA ZA 40/37, Wilhelm Vallenthin, "Zusammenfassung einiger Grundgedanken aus meinem Referat vom 23.10.1957", 28.10.1957

certificates and suggests that investment saving in comparison would be the much better option for small private investors, since the risks associated with investment certificates were much smaller. In general, people's shares can be regarded as a suitable instrument to privatise state ownership. However, it was doubted that the concept would be more successful than investment companies to create a new class of shareholders. Also, share price falls could lead to doubts about the economic order among new shareholders and the expenditure-income ratio for a share with a small nominal value were disproportionate and did not make sense financially, even more so due to the double taxation and a dividend tax of 25%. Despite all criticism, the authors of the note recommend that banks should 'sceptically restrain' for the moment and only criticise the privatisation plan openly in the case that the planned Volkswagen law would be presented unaltered for approval to the *Bundestag*.⁴⁰³ In line with Ulrich's earlier advice to Birnbaum and the Ministry of Finance, an internal article from Deutsche Bank recommended a step by step sale of assets. A full privatisation of the federal corporate shareholdings would require an absorption capacity of four to five billion DM. This was almost as much as the entire capital flow into the German security market in 1957.⁴⁰⁴

While the banking sector generally welcomed privatisation, they criticised one element of the Volkswagen law sharply: the suspension of proxy voting rights. Proxy voting by banks on behalf of their clients has a long tradition in the German corporate system and has led to a close connection between banks and enterprises. In addition to proxy voting rights, banks owned considerable shares in industrial enterprises. This applied especially to the 'big-three' banks, Deutsche Bank, Dresdner Bank and Commerzbank.⁴⁰⁵ Banking association representatives, supported by German industry associations, were worried that a solution which would restrict proxy voting rights could set a precedent. They assumed that the Volkswagenwerk people's shares would become a prototype for people's shares privatisations and hence, that the specifications could become a precedent. This was perceived as even more

⁴⁰³ DBA V01/2143, Internal Note, "Volksaktien", 7.10.57, signed by two unknown authors.

⁴⁰⁴ DBA V01/2143, "Das Bundesvermögen", in "Wirtschaftliche Mitteilungen DB März 1958", p. 4.

⁴⁰⁵ Fohlin (2005), pp. 257–258.

dangerous because a revision of the law governing corporations was still outstanding. So they urgently appealed to not create some kind of special share type. Alarmed, the banking association referred to bad experiences associated with the suspension of proxy voting in unbundled corporations after the Second World War.⁴⁰⁶ There, banks were only allowed to act as a proxy if shareholders submitted written instructions. Since most shareholders did not do this, shareholder participation was very low as a result. The report argued that the underlying assumption that banks would utilise their powers in their own interest was wrong. To the contrary, it was argued that banks tended to support management decisions and that these were usually beneficial for the shareholders. Also, banks were obliged to report objectively to their clients and these reports were subject to public control. Besides, proxy voting should not be regulated in the Volkswagen law but should be addressed more generally in a reform of the law regulating stock companies.⁴⁰⁷

The final decisions about share types and proxy voting were outsourced to the CDU/CSU working group "*Eigentum*" ("ownership") which included Hellwig, Burgbacher and Katzer. The working group decided on ordinary shares with a nominal value of 100 DM and to restrict voting rights to 1/20,000 of the nominal share capital. Also, the working group initially decided to pass on the question of proxy voting rights to the imminent reform of the stock corporation law.⁴⁰⁸ However, a restriction of proxy voting rights of 1/50 of the nominal shares capital was reintroduced due to pressure from the CDU employees' wing.

4.1.4.3 The Social Question

The initial government draft for a Volkswagen law provided significant financial discounts for low-income households. German purchasers with an annual income of 9,000 DM or less would receive a 20% discount for purchases of

⁴⁰⁶ For a Deutsche Bank report on this topic see DBA ZA40/37, "Bericht über die bei der Entflechtung mit der Einführung von Namensaktien gemachten Erfahrungen", 21.1.1958.

⁴⁰⁷ DBA ZA15x/2052, Bundesverband des privaten Bankgewerbes, Comment on the draft for a Volkswagen law, 6.2.1958, signed by Pferdmeiges and Dermittel.

⁴⁰⁸ BArch B126/20879, Busch to Lindrath about a meeting with Burgbacher on 9. March 1959, 12.3.1959.

shares up to a nominal value of 1,000 DM, and purchasers with an income of 9,000 DM to 15,000 DM a discount of 10%. These provisions represented more a political concession to the CDU employees' wing than the conviction of the ministerial officials. A letter from Erhard to Theodor Blank, Defence Minister from 1955 to 1956 and Minister for Labour and Social Affairs from 1957 to 1965, dated from May 1957 indicated that social concessions were necessary to bring the employees' wing on board and to avoid more unwanted measures such as investment wages. In the letter, Erhard expects that the employees' wing will bring in a suggestion about co-ownership, and continues: "It will be necessary to agree on a statement about the problem of property formation which highlights the importance of a promotion of property formation of employees, but remains within the boundaries of our economic and social order and can be supported by the CDU/CSU as a whole. (...) It will require some considerations and a cooperation of all those who want to find a way between ownership concentration and collectivisation of property. (...) I believe that making parts of the federal property available for this purpose is a good start which can serve as an example and maybe lead to similar actions from the private economy."⁴⁰⁹

In the ministerial administration, the social question was seen differently. Concerns about financial discounts prevailed not only in the Ministry of the Treasury, but also in the Ministry of Finance, the Ministry of Economics, and the Ministry of Justice. Officials worried that social concessions would camouflage the risky nature of shares. Hence, alternatives such as a low issue price, the possibility of instalment payments and priority allocation of shares to certain population groups was considered.⁴¹⁰ Erhardt disapproved of the

⁴⁰⁹ "Es wird hierbei wichtig sein, zu einer Stellungnahme zu dem Gesamtproblem der Eigentumsbildung zu kommen, die die Bedeutung der Förderung der Eigentumsbildung in Arbeiterhand unmißverständlich herausstellt, die Bemühungen hierum aber in Bahnen lenkt, die den Grundsätzen unserer Wirtschafts- und Sozialordnung voll entsprechen und von der CDU/CSU als ganzer vertreten und getragen werden können. (...) Es wird daher noch mancher Überlegungen und eines Zusammengehens aller derer bedürfen, die den Weg zwischen einseitiger Besitzanhäufung und Kollektivierung des Eigentums gehen wollen. (...) Ich glaube, dass gerade die Zurverfügungstellung eines Teils des Bundesvermögens hierfür ein guter Anfang sein wird, der beispielhaft wirken und vielleicht weitere Aktionen auch in der privaten Wirtschaft nach sich ziehen kann." BArch B102/76101, Erhard to Blank, 7.5.1957.

⁴¹⁰ BArch B126/20879, Subdiv. VI A3, Internal note, 27.11.1958; BArch B126/20879, VI A6 (Bennigsen), Internal note for Secretary of State about a departmental meeting in

concept of employee shares in general because the holders of employee shares would bear a double risk of losing their job and losing asset value in the case that enterprises were performing badly.⁴¹¹ Lindrath however argued that it would not be possible to get the required *Bundestag* approval without a social discount scheme when he presented his cabinet proposal from February 1959 in a meeting of the cabinet economics committee in April 1959. His suggested compromise was that only those who would comply with a blocking period before reselling shares should benefit from the discount. In the framework of the Savings Premium Act, this blocking period was five years. Lindrath indicated that personally, he would prefer to remove the discount and only offer a “social” issue price at the lower bound. Etzel was strictly against discounts but found the option of a social price feasible. He achieved that the federal cabinet decided against financial discounts was taken.⁴¹² This raised resistance from the left wing of the CDU/CSU and Häussler protested sharply.⁴¹³

Since the partial privatisation of Volkswagenwerk required the approval of the *Bundestag*, a compromise had to be found. The problem was outsourced to the working group “*Eigentum*” of the CDU/CSU *Bundestag* faction.⁴¹⁴ The working group gave in to the protest of the employees’ wing and decided to implement financial concessions instead of a ‘social’ issue price. Burgbacher and Katzer agreed on financial discounts for employees and a blocking period for shares which would be bought with subsidies under the framework of the Savings Premium Act.⁴¹⁵

4.2 Preussag: Trial Run for Volkswagenwerk

Since the negotiations about Volkswagenwerk took such a long time, the government decided to focus on the partial privatisation of Preussag first. Preussag

the BMBes on 25 January 1958, 28.2.1958.

⁴¹¹ BArch B126/20879, Div. III3, Minutes of a meeting on 25 September in the BMWi, statement of Kattenstroth.

⁴¹² “*Die Kabinettsprotokolle der Bundesregierung*” online, Economics Committee of the Federal Cabinet, minutes of the 14th meeting on 2 April 1959.

⁴¹³ BArch B126/20879, Erwin Häussler to Franz Etzel, 23.9.1958 and 28.1.1959.

⁴¹⁴ Dietrich (1996), p. 329.

⁴¹⁵ BArch B126/20879, BMF, Secretary of State to Minister about a meeting with Burgbacher on 9 March 1959, 12.3.1959.

was initially chosen for fiscal reasons. The decision to start with Preussag can also be understood as a trial run for the privatisation of Volkswagenwerk. A share issue with a planned volume of 30 million DM was much smaller than the intended volume of a partial privatisation of Volkswagenwerk. This enabled the government to observe the effects of a people's share issue on stock markets in a smaller scale.

Preussag's situation had improved due to a boom in the petroleum market and rationalisation efforts since the mid-1950s. Preussag was able to pay a dividend of 5% in 1955 and 7% in 1956. At the same time, the capitalisation worsened because the restructuring was costly. The equity ratio decreased from 53% in 1949 to 28% in 1956.⁴¹⁶ In 1957, it was estimated that Preussag needed additional capital of approximately 30 million DM. VEBA was already slightly undercapitalised and not able to support an equity increase. The impulse to consider a partial privatisation in order to solve these financial difficulties came in March 1957 from Secretary of State Alfred Hartmann (Ministry of Finance) who was chairman of VEBA's supervisory board.⁴¹⁷ In the summer of 1957, the idea was discussed with Preussag and VEBA. When it became evident by the end of the year that the privatisation of Volkswagenwerk would take longer because of difficulties with Lower Saxony and within the CDU/CSU, the government focused on Preussag first. The partial privatisation of Preussag was much easier to implement because it did not require *Bundestag* approval. According to the legal view at that time, the *Bundestag* did not have any participation rights concerning the privatisation decision because Preussag was not a direct shareholding. The equity rise simply had to follow the provisions of the law on stock companies which required a resolution of the general meeting, in that case of the VEBA management. Since all purchases and sales of participations by public enterprises had to be approved by the Ministry of Finance, a cabinet decision was required. The modalities of the privatisation could be decided on the ministerial level, without a complicated negotiation process like in the case of Volkswagenwerk.

The board of the German Federation of Trade Unions informed Lindrath

⁴¹⁶ Laufer and Stier (2005), pp. 418–445.

⁴¹⁷ BArch B102/76017, Hartmann to BMWi, 18.3.1957, and BMWi to BMF, 5.4.1957.

that they rejected a partial sale strictly, but were not heard.⁴¹⁸ Also, the supervisory and management board of VEBA were sceptical, but finally convinced by the argument that it was financially necessary for the company. VEBA Director Schilling then promoted the privatisation in the Preussag supervisory board, where he served as the chairman.⁴¹⁹ In December 1958, the suggestion to partially privatise Preussag was approved by the federal cabinet.⁴²⁰ The decision was confirmed by the supervisory board of Preussag in a crucial vote of 18 to 8 votes in January 1959, against the employees representatives votes.⁴²¹

Etzel's Ministry of Finance and Lindrath's Ministry of the Treasury agreed that it was in line with the goals of the government to generate these resources on capital markets. But the Ministry of Finance immediately declared that they would under no circumstances approve discounts for low income households and employee shares because these measures would limit the capital inflow and hence be costly for Preussag. If the government wanted to implement a social dimension, it would have to be financed in another way. The Ministry of the Treasury had suggested a social discount of 15% for households with an income of up to 16,000 DM per year like in the case of Volkswagenwerk. A discount would be a "squandering of federal property" with negative consequences for the wage structures. Measures to support the purchase of normal-priced shares were acceptable.⁴²² Lindrath's Ministry of the Treasury however insisted on social discounts for low-income households and families with many children, including a sales restriction for discounted shares. Secretary of State Hans Busch (Ministry of the Treasury) shared the concerns of the Ministry of Finance, but saw it as an obligation to create social discounts since it was the declared goal of the government to combine it with

⁴¹⁸ BArch B102/76017, DGB Bundesvorstand to Lindrath, 25.4.1958.

⁴¹⁹ BArch B102/76017, Minutes of the VEBA Supervisory Board meetings on 24 February and 12 April 1958; also *ibid.*, Fenge to Kattenstroth, 27.2.1958; BArch B115/3283, Internal note (Birnbaum) 26.2.1958.

⁴²⁰ BArch B102/76017, cabinet paper of the Ministry of the Treasury, 4.12.1958; "*Die Kabinettsprotokolle der Bundesregierung*" *online*, Federal Cabinet, minutes of the meeting on 19 December 1958; see also BArch B136/2348, press announcement, 20.12.1958.

⁴²¹ Minutes of the supervisory board meeting on 19 January 1959. BArch B115/3283, Internal note (Birnbaum) 20.1.1959. For more details about the course of events see Laufer and Stier (2005).

⁴²² "Verschleuderung von Bundesvermögen", BArch B126/9002, Internal Note about a supra-ministerial meeting on 12 November 1958, Division VIA3 (Sturm/Rannow/Bennigsen), 10.11.1958; *ibid.*, letter from BMBes from 5.11.1958.

people's shares.⁴²³ The Ministries finally agreed to not implement discounts. The CDU *Bundestag* faction was so dissatisfied with this decision that as a political concession it was decided to choose an issue price at the lower bound of the reasonable commercial price range.⁴²⁴

The modalities were jointly finalised in December 1958: Bearer shares with a nominal value of 100 DM should be sold. The terms of issue provided that the right to purchase shares was restricted to Preussag employees and to persons with a maximum income of 8,000 DM for singles or 16,000 DM for married couples. Additionally, the purchase was restricted to a maximum of 5 shares per person. In case of an over-subscription, employees would receive the full allocation of the shares they had demanded, all other investors a proportional allocation. Financial concessions for employees and low income households, which were being discussed for Volkswagenwerk, were not granted. Instead, the issue price was fixed at 145%. This was the lower bound of the acceptable price range set by the auditors and was therefore referred to as a "social price".⁴²⁵ The initial plan was to raise equity capital from 75 million DM to 120 million DM and finance this increase by issuing shares in the volume of 90 million DM, which corresponded to a privatisation of 75% of the nominal share capital.⁴²⁶ This plan was replaced by a new plan with a lower degree of privatisation: Nominal share capital was to be raised by 30 million DM, from 75 million DM to 105 million DM through the sale of 300,000 shares to the nominal value of 100 DM. This corresponded to a privatisation of 28.6% which would have led to a capital inflow of more than 40 million DM.⁴²⁷

The demand for Preussag shares was unexpectedly high. An internal note dating before the end of the offering period mentioned a triple oversub-

⁴²³ BArch B126/9002, Internal Note about a supra-ministerial meeting on 12 November 1958, VIA3 (Rannow, Bennigsen) to Secretary of State, 19.11.1958.

⁴²⁴ BArch B126/9002, Minutes of a meeting in the BMBes on 17 February 1959, VIA3 (Rannow) to Secretary of State, 19.2.1959.

⁴²⁵ BArch B126/9002, cabinet paper of the BMBes, 5.11.1958; BArch B126/20880, Statement of the BMF on the cabinet paper of the BMBes, 25.11.1958; *ibid.*, cabinet Paper of the BMBes, 4.12.1958.

⁴²⁶ BArch B115/3287, BMBes to Schilling, 14.2.1958; BArch B102/76017, Fenge to Kattenstroth, 27.2.1958; *ibid.*, Internal note Henneberg to Westrick about the supervisory board meeting on 12 April 1958, 14.4.1958.

⁴²⁷ "Die Kabinettsprotokolle der Bundesregierung" online, Federal Cabinet, minutes of the meeting on 25 March 1959.

scription and discussed three possibilities of dealing with it. First, allocating shares to the nominal value of 30 million DM as planned. This was considered psychologically unwise as it might lead to frustration among those who would not get the shares for which they had subscribed. Also, a corresponding high demand for the shares after stock market flotation bore the danger of a quick resale. Second, allocating all subscribed shares. In this case, a full privatisation that was intended in the medium run would soon be possible. Third, keeping only a blocking minority of 26% and allocating the rest of the shares.⁴²⁸ Lindrath informed Adenauer about the positive result and recommended an extension of the share allocation to prevent disappointment.⁴²⁹ The issue was discussed in two federal cabinet meetings and a meeting of the economics committee of the federal cabinet in March and April 1959.⁴³⁰ The cabinet decided to extend the allocation of shares, but not to the full extent of the subscriptions. That limitation can be ascribed to resistance from the Federal Chancellor who favoured a VEBA blocking minority in order to allow the federal government to protect smaller shareholders.⁴³¹ At the end of the offering period on 31 March, 216,119 individuals had subscribed for shares in the nominal value of 100,088 million DM. Among the subscribers were primarily employees and many women. Preussag employees subscribed for fewer shares than expected.⁴³² The officials in the Ministry of the Treasury agreed on an allocation of 83 million DM and decided that a blocking minority of 25% for VEBA was neither economically nor politically desirable or necessary. But it was also agreed that the federal government had to keep an influence “in order to secure a fruitful development of the first people’s share.”⁴³³ The government cabinet approved despite earlier resistance.⁴³⁴ An additional 51.5

⁴²⁸ BArch B115/3288, II B (Birnbauer) to Lindrath, 1.4.1959.

⁴²⁹ BArch B115/3288, Lindrath to Adenauer, 1.4.1959.

⁴³⁰ “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the meetings on 25 March and 3 April 1959; BArch B126/9002, Kabinettsausschuss für Wirtschaft 2.4.1959.

⁴³¹ This was indicated in a letter from the Ministry to the Chancellor which mentioned that at Adenauer’s suggestion, the sale of shares was stopped on 31 March and for the employees on 3 April 1959. BArch B115/3288, BMBes to Adenauer, 1.4.1959.

⁴³² BArch B115/3288, Preussag to BMBes, 30.4.1959.

⁴³³ “um eine gedeihliche Entwicklung der ersten Volksaktie zu gewährleisten”, BArch B115/3288, Internal note on a meeting in the Ministry of the Treasury, 2.4.1959.

⁴³⁴ “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the 61st meeting on 3 April 1959, agenda item C: “Zeichnungsergebnis und Höhe der

million shares were allocated so that 77.6% (81.5 million DM) of the nominal equity capital were transferred into private ownership. VEBA kept shares in the volume of 22.4% (23.5 million DM). This meant that everyone received their subscribed shares; only those who had subscribed for five shares received four. Instead of a blocking minority, maximum-voting rights of one thousandth of the share capital and a secured right for VEBA to delegate four members to the supervisory board were introduced by amending Preussag's statutes.⁴³⁵ VEBA had not only lost its blocking minority but also the tax privilege of a substantial holding that applied to shareholdings of 25% and more. Only in 1965, VEBA bought shares back to regain this privilege.

Table 4.1: People's shares privatisation of Preussag 1959

Equity increase	30 million DM (from 75 to 105 million DM)
Remaining share of VEBA	22.39 %
Nominal value of public offering	81.5 million DM (30 million DM new shares plus 51.5 million DM old shares)
No. of shares sold to private investors	815,000
Issue price	145% ("social price")
No. of applicants / purchasers	216,119
- of these: Preussag employees	2,384
Purchase restricted to	German citizens, minimum age 21 years or less when in employment
Max. eligible income of purchasers	16,000 DM (taxable income)
Subscription limit	5 shares per person
Max. allocation	4 shares per person
Special conditions for employees	- No income limit (except for executives) - Preferential allocation
Staggered allocation	Yes, based on taxable income
Restriction of voting rights	1/1,000 of share capital
Restriction of proxy voting rights	No
Delegation right for VEBA	4 seats in the supervisory board according to the company statutes
Bank consortium	51 banks
Lead management	Deutsche Bank
Co-leaders	Dresdner Bank, Commerzbank
Recipient of revenues from sale of shares	VEBA

Sources: Bundesministerium für Finanzen (1960), pp. 326–327; BArch B102/49880, "Einzelfragen zur Teilprivatisierung der VEBA".

Resistance against the privatisation came from various sides, in particular Preussag employees, unions and the SPD. Although the *Bundestag* was officially not involved in the decision, the privatisation was discussed in plenary in

⁴³⁵ Zuteilung von Preussag-Aktien".

⁴³⁵ BArch B115/3288, Preussag to Ministry of the Treasury, 30.4.1959.

June 1958, following a request from the SPD.⁴³⁶ One argument against privatisation was the important role which Preussag would play in case of a German reunification.⁴³⁷ Other arguments referred to the subsidies that Preussag had already received and was still receiving, and to the oligopolistic situation in markets in which Preussag operated.⁴³⁸

In the case of Preussag, the deep ambivalence of the early privatisation policy becomes evident: On the one hand, only companies with a good and stable performance were considered eligible for privatisation. But one of the main incentives for the choice of Preussag was financial distress of the company in the midst a restructuring process. It has therefore been argued that the lack of publicity for the internal problems of the company might have led to the low subscription of Preussag employees, because they knew the actual situation of the company better than outsiders.⁴³⁹ While this might be true, it is fairly safe to say that Preussag would not have been partially privatised if the government had assumed that this might lead to difficulties. Since the sale of Volkswagenwerk shares was imminent, the government would not have risked a negative development and subsequent disappointment.

Politicians of the CDU/CSU raised concerns about a small influence of smallholders on the company after the privatisation.⁴⁴⁰ Shareholders had two ways of exerting influence: via the general meeting and through their representatives in the supervisory board. Yet, in both bodies, the influence remained rather limited. The main reason were proxy voting rights of financial institutions which managed the portfolios of private investors. At the first general meeting after the partial privatisation, financial institutions represented 96.4% of the votes based on proxy voting rights. This result reflects that the voting right restriction per shareholder of one thousandth of the nominal share capital

⁴³⁶ *Bundestagsdrucksache* 03/335.

⁴³⁷ This argument was also brought forward by Berlin's mayor Willy Brandt (SPD), BArch B115/3287, Brandt to BMBes, 17.5.1958, and by the Minister-President of Lower Saxony, B115/3288, Minister-President of Lower Saxony to Lindrath, 23.4.1959.

⁴³⁸ Bundestag *Plenarprotokoll* 03/30, 12.6.1958, pp. 1626–1674; press announcement of the SPD *Bundestag* group, 13.1.1959, copy in BArch B115/3287; and for the government response: *“Die Kabinettsprotokolle der Bundesregierung” online*, Federal Cabinet, minutes of the meetings on 12 February and 11 June 1958.

⁴³⁹ Laufer and Stier (2005), pp. 465–466.

⁴⁴⁰ BArch B115/3284, Adenauer to BMBes, including note on a meeting on 6 July 1959, 9.7.1959; BArch B115/3287, Häussler to BMBes, 29.1.1959.

also applied to VEBA. Of these 96.4%, 55.1% were represented by large banks. To a request from Lindrath, Wilhelm Vallenthin, chairman of Deutsche Bank, responded that the wishes of the shareholders were being correctly expressed at the general meeting.⁴⁴¹ However, shareholder associations sharply criticised the strong influence of the banks.⁴⁴² The low influence of smallholders was reflected in the composition of the supervisory board which was elected at the first general meeting after the share issue. Of the 21 seats, seven were reserved for the employees and four for VEBA. Of the remaining ten seats, three were assigned to banks, three to industrial circles, one to an auditor and only three to smallholders and shareholder associations. The idea to implement an advisory body with delegates of smallholders was considered by the ministerial administration but dropped again. This was mainly due to legal concerns and resistance from the employees who feared the influence of return-oriented shareholders.⁴⁴³ Instead, the Ministry of the Treasury and Preussag agreed on strengthening the communication between management and small shareholders by supporting shareholder associations.⁴⁴⁴ However, no further steps were taken to actively support such associations. Instead, in addition to the general assembly, regional shareholder meetings were introduced in 1962 and attracted approximately 10,000 of initially 216,000 total shareholders per year.⁴⁴⁵ Horst Rheinfels, one of the initiators of the German people's shares, was among the critics of the failed restriction of banking power. He argues that a restriction of voting rights for shareholders was not enough, as the latest Preussag general meeting had shown. To increase transparency, he suggested that the names of all the shareholders which were represented by banks through proxy voting should be displayed. Also, banks should maintain close relationships with the shareholders who it is representing and, for example, initiate local shareholder

⁴⁴¹ BArch B115/3288, Deutsche Bank (Vallenthin) to BMBes, 2.7.1959.

⁴⁴² See for example BArch B115/3288, Interview with Franz Ove, founding member of the shareholder association *Bund der Volksaktionäre e.V.*.

⁴⁴³ BArch B102/76015, Draft Henneberg for Kattenstroth for the supervisory board meeting of the Preussag on 28 March 1960, 24.3.1960; see also BArch B102/76015, draft Henneberg for Kattenstroth, 21.5.1960; BArch B126/40692, Minutes of the "Studienausschuss des Aufsichtsrates für die Frage der Bildung eines Aktionärsbeirats bei der Preussag", 2.5.1960; *ibid.*, Internal note.

⁴⁴⁴ B115/3288, Note about the supervisory board of the Preussag, 6.8.1959; Preussag to BMBes, 23.10.1959.

⁴⁴⁵ Laufer and Stier (2005), p. 464.

meetings. On top of that, the Preussag management should organise regional meetings.⁴⁴⁶ Two of these ideas were later taken up again: the idea of regional shareholder meetings in the case of VEBA, and the idea to display the names of represented shareholders in the case of Volkswagenwerk.

4.3 Volkswagenwerk: Compromise with Lower Saxony

After the partial privatisation of Preussag in 1959, it took two more years until Volkswagenwerk GmbH was finally transformed into the joint stock company Volkswagenwerk AG and partially privatised in 1961. Since no agreement was in sight in 1959, the federal government forced Lower Saxony with a new initiative to finally consent to an agreement: on 10 July 1959, the CDU/CSU *Bundestag* group introduced a bill which would transfer ownership to the federal level.⁴⁴⁷ After that, Lower Saxony agreed to a contract which finally clarified the ownership rights and transferred 20% of the shares to Lower Saxony.⁴⁴⁸ The federal government also kept 20% of the shares, and the remaining 60% were privatised according to the Volkswagen Privatisation Act (*Gesetz über die Regelung der Rechtsverhältnisse bei der Volkswagenwerk-Gesellschaft mit beschränkter Haftung*) from May 1960.

Compared to the Preussag privatisation, there were two main differences: First, in addition to a relatively low subscription price, financial concessions for low-income households were introduced. Second, proxy voting rights were restricted. These special terms were a concession to left circles within the CDU/CSU. Still, the Volkswagen law was much less restrictive than the initial draft had been. Subscribers with an annual income of 6,000 DM (12,000 DM for couples) received a discount of 20%, those with an annual income of 8,000 DM (16,000 DM) 10%; families with two or more children received an

⁴⁴⁶ Rheinfels: "Können Kleinaktionäre praktisch mitwirken? Die Ausübung des Stimmrechts bei den privatisierten Gesellschaften", *Handelsblatt*, 30.12.1959.

⁴⁴⁷ "Gesetz über die Regelung der Rechtsverhältnisse bei der Volkswagenwerk GmbH", *Bundestagsdrucksache* 03/1217.

⁴⁴⁸ *Bundestagsdrucksache* 03/1522, "Vertrag über die Regelung der Rechtsverhältnisse bei der Volkswagenwerk-GmbH und über die Errichtung einer 'Stiftung Volkswagenwerk'", 12.11.1959.

additional discount of 5%. The discount had to be repaid if the purchaser sold his or her shares within two years. Purchasers could subscribe for up to five shares, employees received a preferential allocation. Voting rights were restricted to 1/10,000 of the share capital. Yet, the federal government and Lower Saxony were exempted from the voting right restriction, but the exemption was limited to only five years. Lower Saxony had insisted on an unlimited exemption. Proxy voting was restricted to 2% of the nominal share capital per institution. This restriction had been suggested by the *Bundestag* economic committee. Hence, banks were not allowed to represent all of their customers. According to a newspaper report, this played a role mainly in the case of three large banks: Deutsche Bank had been awarded mandates for representation for 12% of all small shareholders, Dresdner Bank 8 to 9%, and Commerzbank 8%. This meant that 22% of small shareholders would not be represented at all at general meetings.⁴⁴⁹ The restriction of proxy voting was sharply criticised from different sides. A group of people's shares associations filed an unsuccessful constitutional appeal against the provision. They argued that the restriction offended the principle of equal treatment. An opinion of the legal department of Deutsche Bank had actually expressed doubts that the clause was in conformity with § 3 GG, the principal of equal treatment. Also, the clause enabled an arbitrary choice of represented shareholders by financial institutions.⁴⁵⁰ However, Deutsche Bank decided to not make the latter point public.⁴⁵¹ Another appeal had been filed regarding the "social" price of the share issue. However, the federal constitutional court rejected the appeal. It argued that while it was the government's duty to demand a reasonable price, a certain deviation from the market price was acceptable for socio-political reasons and the actual price was still within the government's scope of discretion.⁴⁵² A group of financial and industrial sector associations consisting of the Federal Association

⁴⁴⁹ "VW-Aktionäre kündigen Verfassungsbeschwerde an", *Deutsche Zeitung* no. 143, 24.6.1961.

⁴⁵⁰ DBA ZA40/38, Opinion about the "Verfassungsmässigkeit der Vorschläge des Wirtschaftsausschusses des Bundestages zu dem Komplex 'Vertretung bei der Stimmrechtsausübung'", probably from March 1960.

⁴⁵¹ DBA ZA40/38, Deutsche Bank Zentrale Frankfurt to Zentrale Düsseldorf and Hamburg, 21.3.1960.

⁴⁵² Decision of the Federal Constitutional Court from 16.5.1961.

of German Industry, the Federal Association of German Banks, the German Chamber of Commerce and Industry and the Confederation of German Employers' Associations unsuccessfully addressed the problem in a final appeal to the *Bundestag* legal and economic committees. They argued that the danger that the voting restrictions could be circumvented by proxy voting was almost non-existent. In order to do so, a shareholder would have to mandate a large number of proxies. Therefore, they recommended to remove the restriction of proxy voting.⁴⁵³

The subscription period started in March 1961. The demand for shares was again so high that a full allocation of shares was not possible. However, due to the binding contract with Lower Saxony, a release of additional shares was not possible at that time. The revenues from the share issue were passed on to the new Volkswagenwerk Foundation.

⁴⁵³ DBA ZA40/38, Group of private economy associations (Federal Association of German Industry, Federal Association of German Banks, German Chamber of Commerce and Industry and Confederation of German Employers' Associations) to Members of the *Bundestag* Justice Committee, 25.2.1960.

Table 4.2: People's shares privatisation of Volkswagenwerk 1961

Equity increase	No, but adjustment of nominal capital from 300 to 600 million DM from company funds before the privatisation
Remaining federal share	20%
Nominal value of public offering	360 million DM
No. of shares sold to private investors	3,600,000
Issue price	350% (excluding discounts)
No. of applicants / purchasers	1,547,503
- of these: Volkswagenwerk employees	63,484
Purchase restricted to	Persons with domicile in Germany, minimum age 18 years
Max. eligible income of purchasers	Taxable income of 14,000 (singles) /28,000 (couples) DM
Subscription limit	5 shares per person
Maximal allocation	2 shares per person
Special conditions for employees	- Subscription limit of 10 shares - preferential allocation
Staggered allocation	Yes, according to the taxable income
Price discounts when:	
- income <6,000 /12,000 DM	20%
- income <8,000/16,000 DM	10%
- children >1	5%
Restriction of voting rights	1/10,000 of share capital; exception for the federal government and for Lower Saxony (limited to 10 years)
Restriction of proxy voting rights	1/50 of share capital for commercial representatives and: - Open representation with power of attorney and instructions - Disclosure of names of all represented shareholders
Delegation rights	2 seats in the supervisory board for the federal government and 2 seats for Lower Saxony per law and company statutes
Special provisions in Volkswagen law	- Veto minority reduced to 20% (company law: 25%) - Establishment and relocation of business premises requires approval of supervisory board with 2/3 majority
Bank consortium	87 banks
Lead management	Deutsche Bank
Co-leaders	Dresdner Bank, Commerzbank, Deutsche Girozentrale, Deutsche Genossenschaftskasse
Recipient of revenues	Stiftung Volkswagenwerk
Incentive to keep shares	Discount has to be paid back when holding period <2 years

Sources: Bundesministerium für wirtschaftlichen Besitz des Bundes (1960), p. 7; Bundesfinanzministerium (1961), pp. 5–7; Barch B102/49880, "Einzelfragen zur Teilprivatisierung der VEBA".

4.4 Hesitation and New Initiatives

After the partial privatisation of Volkswagenwerk, privatisation came to a halt for several years although several companies were being discussed. This might have had to do with the fact that after Herrman Lindrath's death in February 1960, two Ministers of the Treasury with very short terms of office followed. Hans Wilhelmi (CDU) succeeded Lindrath in May 1960. After the next federal elections, the FDP requested the ministry and Hans Lenz (FDP) held office from November 1961 until all FDP ministers resigned as a reaction to the 'Spiegel affair' in November 1962. During that time, Erhard's Ministry of Economics was stronger and blocked privatisation attempts. The next more influential Minister of the Treasury became Werner Dollinger (CSU).

4.4.1 Privatisation versus Consolidation

Up until the end of the 1950s, the government had not produced a comprehensive privatisation programme and not addressed general questions. In September 1959, Ludwig Kattenstroth (Ministry of Economics) criticised this situation in an internal note and pointed to the lack of a conceptual framework for privatisation and public enterprises in general. In the same note, Kattenstroth complained more generally about a high degree of tiredness among the advocates of a free market economy who had in previous years persistently been facing resistance from various sides. According to Kattenstroth, now, that the economic reconstruction period was over, the social market economy had to face its practical test. Yet, the first results were not satisfying. He found that the Anti-Trust Law which was finally adopted after long negotiations in 1957 was rather incomplete and that in the Ministry of Economics "resignation was prevailing".⁴⁵⁴

Given the lack of a general privatisation concept, there were no well defined criteria for the suitability of companies and the timing of privatisation. Hence, privatisation was implemented pragmatically and public en-

⁴⁵⁴ "nur Resignation festzustellen", BArch N1256/36, "Einige ungelöste grundsätzliche Fragen der bundesdeutschen Wirtschaftspolitik" (III 1) 1.9.1959.

terprises were examined on a case by case basis. A second attempt to sell Howaldtswerke failed because it was considered as too risky. After its establishment in 1957, the Federal Ministry of the Treasury continued the negotiations with a group of investors which the Ministry of Finance had started. Birnbaum organised a meeting with Howaldtswerke Hamburg and Dortmund-Hörde and hoped “that this matter will be accomplished before the *Bundestag* summer break”.⁴⁵⁵ A full sale of Howaldtswerke Hamburg to the consortium was reconsidered. The city of Hamburg was interested to acquire a participation of 25% of the shares⁴⁵⁶ and the sales negotiations led to a preliminary agreement of a purchase price of 34 million DM.⁴⁵⁷ MP Heinrich Gewandt (CDU) criticised that the sale would lead to a concentration of economic power and suggested that a part of the shares should be issued as people’s shares.⁴⁵⁸ Lindrath rejected this with the argument that the shares would not provide a secure investment opportunity for purchasers. The wharf industry was a high-risk industry and required participations of large and well-performing companies such as Dortmund-Hörde. Stock market declines would be able to “undermine the newly gained trust in shares among the population.”⁴⁵⁹ In May 1958, the SPD *Bundestag* group requested to stop the sales negotiations.⁴⁶⁰ The strategy of the Ministry of Finance was to delay further steps as much as possible and wait for a better opportunity. An expert report was ordered to clarify whether Howaldtswerke were suitable for a broad distribution of shares and the officials in charge hoped that this would buy some time.⁴⁶¹ However, the plan to sell Howaldtswerke Hamburg was apparently soon given up. Instead, the company

⁴⁵⁵ “dass diese Angelegenheit noch vor der parlamentarischen Sommerpause in diesem Jahre ihre Erledigung findet”, BArch B126/3214, Birnbaum to Elshoff (Dortmund-Hörde), 2.1.1958.

⁴⁵⁶ BArch B115/3214, Internal note, 27.3.1958.

⁴⁵⁷ BArch B126/3214, express letter from to BMWi and BMF, 25.4.1958; see also *ibid.*, report of the Treuarbeit, 23.4.1958.

⁴⁵⁸ BArch B115/3214, Gewandt to Lindrath, 14.5.1958.

⁴⁵⁹ “das kaum gewonnene Vertrauen breiter Kreise in die Aktien wieder zu erschüttern.”, BArch B115/3214, Lindrath to Gewandt, 21.5.1958.

⁴⁶⁰ *Bundestagsdrucksache* 03/367, 7.5.1958, for the discussion see *Bundestag* debate about the “Große Anfrage der SPD betr. Bundesunternehmen” *Bundestagsdrucksache* 03/335, in connection with “Antrag der Fraktion der SPD betr. Howaldtswerke Hamburg AG”, *Bundestagsdrucksache* 03/367, *Bundestag Plenarprotokoll* 03/ 30, 12.6.1958, pp. 1627–1674.

⁴⁶¹ DBA ZA15x/2052, Note about a meeting of Klasen (Deutsche Bank) with Birnbaum and Secretary of State Busch in the Ministry of Finance on 5 December 1958, 8.12.1958.

was merged with Howaldtswerke Kiel and the privately owned Deutsche Werft in 1967 as a response to the crisis in the shipbuilding sector. Together, they became the mixed ownership company Howaldtswerke Deutsche Werft AG.

That privatisation would continue was confirmed by all Ministers of the Treasury. Hans Lenz (FDP) considered partial privatisations as a way to finance equity increases. He estimated that during the previous ten years, investments of federal enterprises in a volume of half a billion DM had been financed by capital contributions of the federal government, of which Saarbergwerke alone had received 285 billion DM. Yet, net revenues from public enterprises had amounted to 475 billion DM and hence outbalanced investments. Lenz considered convertible bonds as an alternative to direct privatisation⁴⁶² and announced that privatisation would continue with fewer financial concessions than in the case of VW.⁴⁶³ He added that privatisation would be easier now that the Reich Property Act had been adopted. However, Lenz admitted that the timing was unfavourable in light of the disappointment of shareholders with the development of Preussag and VW shares.⁴⁶⁴ The Ministry of Economics responded with hesitation to privatisation initiatives of the Ministry of the Treasury. In December 1960, Erhard warned that in the current economic situation, privatisation should not be resumed until the effects of the Volkswagenwerk privatisation had been sufficiently studied. Also, the topic should not be debated publicly because that could lead to negative effects for the CDU election result in the next federal elections in 1961⁴⁶⁵ although the CDU/CSU working group “*Eigentum*” recommended that at least one next privatisation object should be announced before the elections.

In December 1962, Werner Dollinger (CSU) became Minister of the Treasury and remained in this position for four years. During this time, the Min-

⁴⁶² BArch B102/75797, *dpa* press announcement, 3.11.1962.

⁴⁶³ “Privatisierung geht weiter”, *Industriekurier*, 2.12.1961, copy in BArch B102/49880. See also “Weiter Verbreiterung der Vermögensbildung. Die Privatisierung des Bundesvermögens wird fortgesetzt” in *Bulletin der Bundesregierung* no. 29, 10.2.1962, S. 244, copy in BArch B102/49880; BArch B102/75797, *dpa* press announcement, 3.11.1962.

⁴⁶⁴ “Schatzministerium: Freie Bahn für weitere Privatisierungen.”, *vwd* press announcement, 13.7.1962, copies in BArch B102/75797, BArch B126/32513 and BArch B102/49880.

⁴⁶⁵ BArch B102/75797, Internal note about a meeting in the Ministry of the Treasury on 20 December 1960 with Erhard, Wilhelmi, Westrick, Busch, Kattenstroth and Wilhelmi, 28.2.1961, and Erhard to Wilhelmi, 25.3.1961.

istry of the Treasury gained significance and was able to stand up against the Ministry of Economics. This had to do with an important personnel decision: Dollinger won Kattenstroth, who had previously left the Ministry of Economics and had become head of the economics division in the Office of the Federal Chancellor, for the position as secretary of state. The choice for the “chief privatiser”, as the weekly newspaper *Der Spiegel* called Kattenstroth, led to expectations from media and public. However, later on, *Der Spiegel* noted that Kattenstroth had only been second choice for the position as secretary of state. Dollinger’s first choice Hans Birnbaum, another ‘privatiser’, was not available for the position as he had become financial director of the management board of Salzgitter AG in 1961 and did not want to leave his position.⁴⁶⁶ In a report to Adenauer in June 1963, Dollinger announced that his primary ambition was to create the necessary conditions for the transfer of federal enterprises into private ownership. In particular, Salzgitter AG and Saarbergwerke AG had to be consolidated. Also, he considered public enterprises in the energy market as necessary for an overdue market reorganisation (which he did not further define).⁴⁶⁷

Between 1959 and 1965, the Ministry of the Treasury considered partial privatisations of VIAG and Salzgitter several times although the Ministry of Economics was against a privatisation of VIAG due to expected difficulties with Bavaria due to the interwoven ownership situation of Bayernwerke.⁴⁶⁸ Lindrath’s successor Hans Wilhelmi (CDU) announced that he would examine whether VIAG could be privatised despite a share of 70% in the German aluminium market.⁴⁶⁹ About a year later, Hans Lenz (FDP) intended a partial privatisation of VIAG in order to raise funds of 100 million DM.⁴⁷⁰ He calculated that VIAG und Salzgitter together would need funds of 200 billion

⁴⁶⁶ “Dürfen Beamte im Aufsichtsrat ungehorsam sein?”, *Süddeutsche Zeitung*, 15.10.1965; Note on the death of Birnbaum, *Der Spiegel* 48/1980, 21.11.1980.

⁴⁶⁷ BArch B126/34720, “Bericht an den Herrn Bundeskanzler über die Entwicklung im wirtschaftlichen Zuständigkeitsbereich des Bundesschatzministers in den Jahren 1949–1962”, 24.6.1963.

⁴⁶⁸ For example BArch B102/76404, Internal Note, Ministry of Economics, III 3, 21.11.1960; BArch B102/75797, Henneberg to Westrick, 3.6.1959; Internal note, 14.10.1959.

⁴⁶⁹ BArch B102/75797, Div. III 3 (Kattenstroth) to Erhard/Westrick, 19.12.1960.

⁴⁷⁰ “Schatzministerium: Freie Bahn für weitere Privatisierungen”, *vwd* press announcement, 13.7.1962, copies in BArch B102/75797, BArch B126/32513 and BArch B102/49880.

DM within the next two years which could be financed through partial privatisations.⁴⁷¹ As the latest attempt, the FDP *Bundestag* group unsuccessfully proposed a privatisation of VIAG in 1965.⁴⁷²

A privatisation of VEBA or its subsidiary companies was being discussed since the sale of Preussag shares in 1959. The Ministry of the Treasury preferred Preussenelektra.⁴⁷³ The Ministry of Economics agreed that a next privatisation would have to be VEBA or one of its subsidiary companies. The question was just whether it should be VEBA as a whole or of one of the subsidiaries, such as in the case of Preussag. In October 1959, an internal note from the Ministry of Economics discussed Preussenelektra, Hugo Stinnes AG and VEBA as possible subjects of privatisation.⁴⁷⁴ Preussenelektra was generally considered to be suitable because it connected a low investment risk profile with high expected profits. But municipalities who held approximately 20% of the shares in the company might resist a privatisation because Preussenelektra would lose the wealth tax privilege of a public enterprise which served the public interest. The ministry therefore suggested to remove tax exemptions for public enterprises as a whole to the CDU committee for property formation.⁴⁷⁵ The next Minister of the Treasury Hans Wilhelmi (CDU) assumed that difficulties with the co-owning municipalities would be difficult to solve.⁴⁷⁶ In November 1960, Secretary of State Ludger Westrick (Ministry of Economics) brought attention to Hibernia, VEBA's third subsidiary company.⁴⁷⁷ However, Wilhelmi did not find that Hibernia was a suitable subject of privatisation at that time because of the ongoing coal market crisis.⁴⁷⁸

Another focus was on Hugo Stinnes AG. Hugo Stinnes AG was owned by a bank consortium which was managed by Deutsche Bank and where the federal government had an indirect participation through KfW. The consortium had purchased the company from the U.S. Office of Alien Property, Department of

⁴⁷¹ BArch B102/75797, *dpa* press announcement, 3.11.1962.

⁴⁷² *Bundestagsdrucksache* 04/3100, 19.2.1965; *Bundestag* debate in *Plenarprotokoll* 04/178, 7.4.1965, pp. 8980–8982.

⁴⁷³ BArch B102/75797, Henneberg to Westrick, 3.6.1959.

⁴⁷⁴ BArch B102/75797, Internal note, 14.10.1959.

⁴⁷⁵ BArch B102/75797, Internal note, 14.10.1959.

⁴⁷⁶ BArch B102/75797, Div. III 3 (Kattenstroth) to Erhard/Westrick, 19.12.1960.

⁴⁷⁷ BArch B102/76404, Internal Note, Ministry of Economics, III 3, 21.11.1960.

⁴⁷⁸ BArch B102/75797, Div. III 3 (Kattenstroth) to Erhard/Westrick, 19.12.1960.

Justice in 1957. The federal government had participated in the purchase because it was interested to bring the company back into German ownership. It had been intended from the start that the participation could at some later be sold to private investors.⁴⁷⁹ The consortia agreement from 24 June 1957 stated that Stinnes should be privatised at a convenient time. In May 1961, Wilhelmi suggested, against Erhard's request to not speak about privatisation until the federal elections, to sell either the remaining Preussag shares or the federal Stinnes shares.⁴⁸⁰ Henneberg in the Ministry of Economics found that in general, there were no objectives against the sale of the remaining 22% Preussag shares. However, instead of people's shares, which would not be worth the effort for such a small share volume, Henneberg returned to his earlier ideas from 1957 and proposed to sell the shares to investment companies. In the case of Stinnes, he regarded people's shares as unsuitable because Deutsche Bank had the leadership position in the consortium and chief executive director Abs was highly sceptical about the concept of people's share issues. Also, Henneberg found it not advisable to privatise a coal mining company while problems in the coal market persisted. He added for consideration that in the case of Preussag, the shutdown of mines had proven to be more difficult after the privatisation than before.⁴⁸¹ Erhard adopted this view.⁴⁸² Nevertheless, at a meeting of the CDU/CSU working group "*Eigentum*" in July 1961, Wilhelmi ignored Erhard and announced to sell the remaining Preussag shares through a public offering in combination with a capital increase of VEBA. This was sharply criticised in the Ministry of Economics.⁴⁸³ In 1962, the Ministry of Economics attempted an integration of Hugo Stinnes AG into VEBA, but Deutsche Bank refused and insisted on a privatisation. A sale of Stinnes shares required a decision by common content of the consortium. In October 1963, Deutsche Bank accepted an integration of Hugo Stinnes AG in VEBA on the condition that a corre-

⁴⁷⁹ "*Die Kabinettsprotokolle der Bundesregierung*" online, Federal Cabinet, minutes of the 185th meeting on 12 June 1957, agenda item 9: "Zwangverkauf von Anteilen der Hugo Stinnes Corporation, New York, durch das Office of Alien Property Department of Justice".

⁴⁸⁰ BArch B102/75797, Wilhelmi to Erhard, 31.5.1961.

⁴⁸¹ BArch B102/75797, Internal note (Henneberg), 6.6.1961.

⁴⁸² BArch B102/75797, Erhard to Wilhelmi, 12.6.1961.

⁴⁸³ BArch B102/75797, Internal note, III3 (Henneberg), 16.6.1961.

sponding share of VEBA itself would be privatised later.⁴⁸⁴ The integration took place in the context of the partial privatisation of VEBA in 1965.⁴⁸⁵

A question which came up in September 1963 was the usage of privatisation revenues. A division in the Ministry of the Treasury suggested to include the earmarking of privatisation revenues in the government programme.⁴⁸⁶ A second note from November 1964 discussed possibilities of an earmarking. The unknown author of the note suggested that revenues should be allocated to the ERP Special Fund with the obligation that the money has to be used for specified purposes. Thereby, he referred to a meeting of the CDU/CSU working group "*Eigentum*" which had agreed in November 1964 that privatisation revenues should be used for the sole purpose of capital formation of the lower and middle income households and had rejected the idea of using the revenues from the imminent VEBA privatisation for an equity increase of Salzgitter AG.⁴⁸⁷ These ideas were not followed up on, probably because earmarking of revenues raised legal issues.

4.4.2 People's Shares for the Private Sector?

Besides the privatisation of public enterprises, an extension of the concept of people's shares to the private sector was considered in the early 1960s. Adenauer's government statement from 1957 had already spoken of people's shares for the private sector. In 1965, Minister of the Treasury Dollinger adopted the idea and suggested subsidies for private investors who would purchase shares in privately owned joint stock companies. This led to an argument between Dollinger and Minister of Economics Kurt Schmücker (CDU), who was a representative of the CDU's Small-Business Association and later succeeded Dollinger as Minister of the Treasury in December 1966. The argument between Dollinger and Schmücker, or rather between their secretaries of state Kattenstroth and Wolfram Langer, evolved around the case of Hütten-

⁴⁸⁴ "*Die Kabinettsprotokolle der Bundesregierung*" online, Federal Cabinet, minutes of the 86th cabinet meeting on 31 July 1963, agenda item 4: "Eingliederung der Hugo Stinnes AG in den Bereich der bundeseigenen Vereinigte Elektrizitäts- und Bergwerks-AG (VEBA)".

⁴⁸⁵ See chapter 4.5.

⁴⁸⁶ BArch N1256/83, Division II (Süsskind) to Division I, 12.9.1963.

⁴⁸⁷ BArch N1256/83, Internal note, Subdivision II B, 12.11.1964.

und Bergwerke Rheinhausen AG which was part of the Krupp complex. The Mehlem Treaty from 1953 between Alfred Krupp von Bohlen und Halbach, owner of the Krupp corporation, and the French, US and British military governments provided that Hütten- und Bergwerke Rheinhausen AG had to be detached from the rest of the company and sold. However, a sale had not taken place yet in 1965 and the Ministry of the Treasury considered to subsidise a sale in form of a widespread share issue. On behalf of Schmücker, Secretary of State Langer (Ministry of Economics), criticised the market distortions which would be caused by subsidies for share purchases. First, only large companies would benefit because they were considered to be less risky. This would lead to a segregation of the stock market and a discrimination of non-subsidised shares. Second, by recommending the purchase of specific shares, which subsidies would effectively do, the federal government would take over a moral obligation and therefore would have to offer price supports in the case of a bad performances of the shares. Such a socialisation of losses would be followed by a socialisation of profits and could finally turn into a socialist economic order. However, if the government did not offer price supports in such cases, it would do more harm than good for the popularisation of shares and savings in general. Potential recipients of subsidies would prefer subsidised shares and “the assessment and selection of shares and therewith the takeover of risks which was an inherent part of holding stock would be omitted”.⁴⁸⁸ Finally, Langer criticised that subsidies for savings had already been costly enough in recent years. By 1964, subsidies had been granted for almost half of the total volume of private savings of 28 billion DM. Costs for these measures had amounted to 3,1 billion DM and would increase to 5,4 billion DM in 1965 which was the acceptable maximum. Last but not least, a specific promotion for shares would not be consistent with the necessary harmonisation of savings schemes and a neutral treatment of all forms of savings.⁴⁸⁹ A draft for a response letter, probably written by Kattenstroth, defended the idea and referred to the concentration of ownership in the private economy: in 1960, only

⁴⁸⁸ “Prüfung und Auswahl der Aktie und damit die Übernahme eigenen Risikos, die zum Wesen des Aktionärs gehört, würde entfallen”, BArch N1256/83 and BArch B126/51418, Langer to Dollinger, 3.9.1965.

⁴⁸⁹ *ibid.*

660 of 2,500 stock companies were publicly listed; of those, 520 had owners with a veto minority of 25% or more. This was interpreted as a proof for the fact that access to ownership rights in German companies through the stock market was limited. The author ascribed this to the fact that market forces were not strong enough to dissolve the concentration of ownership.⁴⁹⁰ He suggested to subsidise share purchases mainly for firms who would go public and not for equity increases of already listed firms. However, the measure could in certain cases also be used to dissolve large blocks of shares. Indeed, the responsibility of the state for the performance of the respective companies was a problematic issue. The subsidies would therefore have to be accompanied by a corresponding information policy. The author referred to the case of VEBA: the price drop of VEBA shares had to be seen as a valuable lesson for all shareholders in the sense that shares remained a risky asset despite all promotion. He assumed that share purchasers were realistic enough not to expect an eternal guarantee by the federal government. He also did not see a discrimination because the credit standing of companies was dependent on a number of influence factors.⁴⁹¹ An unsigned and undated comment in the Ministry of Economics, probably also by Kattenstroth, justified interventions in the form of setting incentives. The author argued that the privatisations of Volkswagenwerk and Preussag did not solely serve the purpose of a transfer to private hands but also social objectives – otherwise, the CDU/CSU's left wing would not have agreed to privatisations. Dissolving blocks of shares and incentivising private companies to aim at a broad ownership distribution was necessary to achieve these objectives. The author stressed that the goal was not to propagate certain shares, nevertheless, it was necessary that the government gave recommendations to people with little knowledge about shares.⁴⁹²

Dollinger abandoned the idea of promoting people's shares for the pri-

⁴⁹⁰ “die Kräfte des freien Marktes nicht ausgereicht haben, die Eigentumsstruktur bei den Unternehmen in der Bundesrepublik in wünschenswertem Umfang aufzulockern”, BArch N1256/83, Draft for a letter from Dollinger to Schmücker (probably written by Kattenstroth), October 1965.

⁴⁹¹ *ibid.*

⁴⁹² BArch N1256/83, Unknown author (probably Kattenstroth), attachment to an internal note from Süsskind, to Katzer, Burgbacher, Dufhues, Seeger, Russe, undated.

vate sector in December 1965.⁴⁹³ Around the same time, an argument about the imminent VEBA privatisation led to a rift between Dollinger and Kattenstroth.⁴⁹⁴ Yet, the idea of dissolving private blocks of shares by issuing people's shares nevertheless shows how deeply the concept of people's shares was rooted in socio-political ideas. A related concept were 'people's bonds', government bonds with small nominal values.⁴⁹⁵ In 1969, people's bonds were introduced in 1969 as *Bundesschatzbriefe*' and existed until 2013.

4.5 VEBA: The Problem Case

In 1964, the privatisation discussion focused increasingly on VEBA as a whole instead of its subsidiaries. In general, the conditions for a privatisation were beneficial. There was a broad agreement of the government parties in favour of privatisations. Katzer, chairman of the CDU/CSU workers association, stepped in for a privatisation of VEBA at the Christian-Social Workers Congress in January 1964.⁴⁹⁶ Despite the good starting conditions, the partial privatisation of VEBA in 1965 turned out problematic. The stock market downturn in 1965 led to a sharp fall of the popularity of people's shares. Additionally, arguments about personnel decisions led to a severe dispute between Minister of the Treasury Dollinger (CSU) and his Secretary of State Kattenstroth which gave the impression of a rather chaotic privatisation. In light of the above, the federal government did not continue privatisation policy after VEBA's partial privatisation.

The choice of VEBA can partially be explained by fiscal reasons. Despite the partial privatisation of Preussag, VEBA was largely underfinanced. Both Preussenelektra and Hibernia were in the middle of a restructuring process and needed equity increases. A second reason for the choice of VEBA was that the partial privatisation allowed the integration of Hugo Stinnes AG in

⁴⁹³ BArch N1256/99, "Vorläufig keine Privatisierungspläne – Dollinger gegen den Plan einer Energie-Verwaltungs AG", *VWD Montan* no. 291, 14.12.1965.

⁴⁹⁴ See refsec:veba.

⁴⁹⁵ DBA ZA15x/2052, Sekretariat an Vallenthin, Betr.: "Volksobligationen", 11.9.1967.

⁴⁹⁶ "Katzer macht es sich zu leicht. Veba-Privatisierung bringt Problem der Steuerprivilegien hoch", *Handelsblatt*, 23.1.1964, copy in BArch B102/49880.

VEBA according to the agreement with Deutsche Bank from 1963.⁴⁹⁷ From its establishment in 1923 until 1965, VEBA had been a pure financing holding company without control over and in the shadow of its three strong subsidiary companies. Its own budget was comparably small. In 1948, VEBA had only one employee: lawyer Lilliluisse Ristow, who managed the company together with trustee Hermann Schilling and was compensated later with a position in the management board of the company. In the early 1950s, Hibernia, Preussag and Preussenelektra benefited from state subsidies in form of tax reductions and special depreciations which allowed for a high degree of internal financing. Additionally, VEBA issued bonds in 1954 and passed the sum of 3,5 million DM on to its subsidiary companies. But VEBA's own income sources were scarce and entirely based on dividend payments of its shareholdings. In 1951/52, only Preussenelektra began paying dividends (6%), while Hibernia and Preussenelektra used all their profits for the purpose of internal financing. Hibernia resumed to pay dividends in 1954 (5%). In 1955, VEBA was able to start paying dividends itself, but it was undercapitalised. The book value of VEBA was 462 million DM, the book value of the shares owned by VEBA was 468 million DM. Of these, 300 million DM alone belonged to Hibernia, which reflects the low degree of capitalisation of Preussag and Preussenelektra. Due to losses during the war, the Preussag had to lower its book value from 250 to 50 million DM in 1948. Preussenelektra was also poorly capitalised with 111,6 million DM where VEBA held 83,2% of the shares. All three subsidiary companies had high financing needs due to their restructuring and reconstruction processes. Between 1948 and 1957, Preussenelektra invested 1,27 million DM, Hibernia 956 million DM and Preussag 564 million DM. At the end of the 1950s, it became evident that internal financing alone would not solve the companies financial problems. The partial privatisation of the Preussag was a first step. To solve VEBA's financial issues, the Ministry of the Treasury had in 1963 suggested to issue option bonds that could be transferred into Volkswagenwerk shares. A partial privatisation was not intended as VEBA did not seem ready for privatisation yet. Dollinger argued that a share issue privatisa-

⁴⁹⁷ See p. 174.

tion was not possible because the difficult situation in the coal market did not allow for a proper evaluation of Hibernia.⁴⁹⁸ Hibernia was more problematic than Preussenelektra, which is why there had been considerations to disintegrate Preussenelektra and privatise it. The coal mining company Hibernia had to shoulder a restructuring programme away from the coal business towards the chemical and processing industry. Also, the company had suffered massive losses during and after the war, particularly due to the destruction of the Hydrierwerke Scholven AG which was used for the purpose of coal liquefaction and nitrogen production in the Third Reich. Since it had become evident that due to technical developments, coal-to-liquid production would be much less efficient than petroleum in the future, Scholven had started to process petroleum in 1952. Between 1948 and 1965, Hibernia invested 2,43 million DM. Of these, 2 million DM had been financed by depreciations and only about a quarter had been invested in the coal sector. Rather, the high depreciation rates in the coal mining industry had allowed for investments in other sectors. The high degree of internal financing had been supported by a moderate dividend policy. By the mid-1960s, the chemical business had become the company's most important sector and generated about 40% of the turnover.⁴⁹⁹ The equity capital requirements of Preussenelektra and Hibernia put pressure on the company. Also, VEBA needed about 200 million DM to finance the takeover of Hugo Stinnes AG. Hence, an equity increase was inevitable. At first, the government attempted to solve the problem by increasing internal financing opportunities and deferring dividend payments. However, this was a costly option because of additional tax assessments. According to Radzio, privatisation was initiated when Secretary of State Karl-Maria Hettlage (Ministry of Finance) vetoed against a costly deferral of dividends. After that, Dollinger pursued the partial privatisation with determination. The timing seemed convenient: The Reich Property Act had been passed, the stock market trend was positive and Volkswagenwerk and Preussag share prices were developing well. VEBA's chief executive director Hartmann announced that a privatisation and the takeover of Stinnes AG were political questions and that he would support

⁴⁹⁸ *Bundestagsdrucksache* 04/1284, 30.5.1963.

⁴⁹⁹ Radzio (1979), pp. 179–210.

any decision. He added that the board preferred a people's share issue over an equity increase financed by the federal government because it would be the faster and easier solution.⁵⁰⁰ One drawback of the partial privatisation was that VEBA lost the tax privileges for public enterprises. Neither the exemption of public enterprises from wealth tax neither the exemption from turnover tax had been abolished yet.⁵⁰¹ On top of this, a disadvantage for Hibernia was that it lost its privilege to deliver coal to the German Federal Railway as an in-house business, circumventing the Ruhr coal sales quotas.⁵⁰²

Since no general concept for privatisation existed, the conditions of the share issue were discussed again. In July 1964, officials from several ministries met to discuss the privatisation and Breme (Ministry of the Treasury) presented the envisaged issue conditions.⁵⁰³ The details were decided in a small group consisting of Minister of the Treasury Dollinger, Secretary of State Kattenstroth, MP Burgbacher and MP Katzer as representatives of the CDU working group "*Eigentum*" in October 1964.⁵⁰⁴ This time, neither a social price at the lower bound of the valuation nor financial concessions for low income households were adopted. A social price like in the case of Preussag was first considered but later rejected because it would generate less funds for VEBA.⁵⁰⁵ This was not surprising because both Westrick and Erhard from the Ministry of Economics had sharply criticised the financial concessions in the case of Volkswagenwerk.⁵⁰⁶ Yet, the decision was a major disappointment for the CDU/CSU employees' wing, even more since the CDU working group "*Eigentum*" had stepped in for discounts for low income households.⁵⁰⁷

⁵⁰⁰ Radzio (1979), pp. 179–210.

⁵⁰¹ For a comment on this see "Katzer macht es sich zu leicht. Veba-Privatisierung bringt Problem der Steuerprivilegien hoch", *Handelsblatt*, 23.1.1964, copy in BArch B102/49880.

⁵⁰² *Bundestagsdrucksache* 04/3616, 19.6.1965.

⁵⁰³ BArch B102/49980, "Einzelfragen zur Teilprivatisierung der VEBA. Vergleichende Darstellung zu den bei der Preussag und VW-Privatisierung getroffenen Maßnahmen".

⁵⁰⁴ BArch B102/49881, Minutes of a meeting on 6 October 1964 about the "Teilprivatisierung der Vereinigten Elektrizitäts- und Bergwerks-AG (VEBA)", BMSchatz IVB4, 14.10.1964.

⁵⁰⁵ BArch B102/49880, Minutes about an inter-ministerial department meeting, BMSchatz, IIB4, 21.7.1964; BArch N1256/99, Internal note on a meeting of Hibernia and Stinnes works councils and Dollinger on 16.2.1965 (II B/4), 17.2.1965.

⁵⁰⁶ BArch B102/75797, Internal note about a meeting in the Ministry of the Treasury on 20.12.1960 with Erhard, Wilhelmi, Westrick, Busch, Kattenstroth and Wilhelmi, 28.2.1961.

⁵⁰⁷ BArch B102/49880, Internal Note "Teilprivatisierung der VEBA", BMSchatz, IVB4 (Bayer-Fehling), 17.9.1964.

Staggered subscription rights were this time be based on the taxable income instead of gross income to account for social circumstances.⁵⁰⁸ This was a concession to the employees' wing, the government administration had favoured on a maximum income of 24,000 DM but equal treatment of everyone below that income.⁵⁰⁹ The shares were first offered to VEBA employees, then to singles with an annual income up to 8,000 DM and married couples with an annual income up to 16,000 DM, and then accordingly for incomes up to 11,000 DM/22,000 DM and the maximum of 14,000 DM/28,000 DM. After the experiences with Preussag and Volkswagenwerk, the question of how to proceed in the case of an over- or undersubscription was discussed prior to the share issue. The plan was that in the case of an undersubscription, an institution such as the KfW would take over the remaining shares on behalf of the government and slowly sell them off at the stock exchange. In the case of an oversubscription, Dollinger intended to request the right to sell additional shares from the federal portfolio.⁵¹⁰

One challenge for the government was to make sure that it would not lose its voting majority, even in the case of additional share issues later on. It was overall consensus that for (undefined) energy political reasons, the federal state should keep the majority of votes.⁵¹¹ The idea of multiple voting shares for the government was first considered but rejected by the Ministry of Economics.⁵¹² Also, non-voting preference shares were discussed. The CDU working group "*Eigentum*" however insisted on ordinary shares with restricted voting rights.⁵¹³ Finally, bearer shares were issued but two classes of shares were created: federal shares in the value of 450 million DM were transformed into series A, and all other shares constituted series B. While no restrictions of voting rights applied

⁵⁰⁸ BArch B102/49880, Minutes about an inter-ministerial department meeting, BMSchatz, IIB4, 21.7.1964.

⁵⁰⁹ BArch B102/49880, Internal Note "Teilprivatisierung der VEBA", BMSchatz, IVB4 (Bayer-Fehling), 17.9.1964.

⁵¹⁰ BArch B102/49881, Minutes "Teilprivatisierung der Vereinigten Elektrizitäts- und Bergwerks-AG (VEBA)", BMSchatz, IVB4, 14.10.1964.

⁵¹¹ BArch B102/49880, Internal Note "Teilprivatisierung der VEBA", BMSchatz, IVB4 (Bayer-Fehling), 17.9.1964.

⁵¹² BArch B102/49880, Minutes about an inter-ministerial department meeting, BMSchatz, IIB4, 21.7.1964.

⁵¹³ BArch B102/49880, Internal Note "Teilprivatisierung der VEBA", BMSchatz, IVB4 (Bayer-Fehling), 17.9.1964.

to series A and therewith for the federal government, the articles of association were amended such that voting rights of series B shares were restricted to 1/10,000 of the equity capital. As a compensation, holders of series B shares received a preferential dividend of 1,5%. In the case of Preussag, a similar special role for the VEBA as majority shareholder had been considered but was finally not implemented.⁵¹⁴

Another discussed issue was the participation of private shareholders in the matters of the company. In August 1964, incidents at the general meeting of Volkswagenwerk led to concerns in the Ministry of Economics.⁵¹⁵ The tensions arose because smallholders felt not sufficiently informed about the company's dividend and reserve policy.⁵¹⁶ Subsequently, ministerial officials discussed consequences for the case of VEBA. Henneberg suggested to anchor regional shareholder meetings where federal government representatives should be present in the company statutes and to enable shareholders to vote there instead of having to attend the general meeting. Yet, the latter point was considered as illegal by other officials. It was further discussed how the smallholders right to information could be strengthened. Primarily, it was debated whether the statutes should be amended such that the general meeting would have to approve the annual accounts. However, this was rejected after Breme had argued that the unwanted side effect would be that the federal government as a main shareholder would then become responsible for such decisions, which should be avoided.⁵¹⁷

Initially, the federal government planned to finance VEBA's equity increase of 375 million DM, from 450 million DM to 825 million DM, by issuing people's shares and to keep a majority of shares. The respective *Bundestag* committee approved Dollinger's request to partially privatise VEBA in March 1965 but they declined to grant Dollinger the right to sell additional shares in the case of an oversubscription. In that case, a solution based on the actual subscription result should be negotiated. Additionally, the committee requested

⁵¹⁴ BArch B126/40303, Draft for a letter from BMBes to BMJ, 6.2.1959.

⁵¹⁵ BArch B102/49880, Langer to Kattenstroth, 14.8.1964.

⁵¹⁶ BArch B102/49880, Internal Note "Stellung der Hauptversammlung (HV) bei teilprivatisierten Bundesgesellschaften", BMWi, III3 (Holzer), 3.8.1964.

⁵¹⁷ BArch B102/49881, Minutes "Teilprivatisierung der VEBA", BMSchatz, IVB4, 3.11.1964.

that after the public offering, a new supervisory board with adequate representation of small investors should be elected and that the management board would be extended in order to strengthen VEBA's leading role in the company. The SPD committee members recognised the importance of an equity increase and abstained from voting.⁵¹⁸ The shares were issued by a consortium under the leadership of Dresdner Bank and co-leadership of Deutsche Bank, Commerzbank and Deutsche Girozentrale/Deutsche Kommunalbank at a price of 210% between 24 May and 21 June 1965. As in the case of Preussag and Volkswagenwerk, the 'big three' banks secured their proxy voting rights. The issue price was set at 210%. Estimations about a fair price had differed significantly beforehand.⁵¹⁹

As in the cases of Preussag and VW, demand for shares was very high. 2,971,378 individuals subscribed for shares of a total nominal value of 1,33 billion DM. Of these, 2.6 million individuals belonged to the lowest income group, 272,000 to the middle income group and 71,000 to the highest income group. In order to satisfy the demand, the federal government would need to release shares from its own portfolio. Diether Stolze, journalist (and later co-editor) of the weekly newspaper *Die Zeit* evaluated that "the citizens who have been encouraged to form property since many years have foiled the politicians. (...) Now, the CDU has to confess whether it regards privatisation just as a comfortable way to finance federal enterprises (...) or whether it is serious about the 'ownership for all' policy".⁵²⁰ Given the high demand, Dollinger was granted permission by the federal cabinet to transform series A shares into series B shares and increase the volume of the share issue by 150 million DM, so that the total nominal value of issued shares was 525 million DM.⁵²¹ The

⁵¹⁸ Report of the committee for federal property, *Bundestagsdrucksache* 04/3248, 24.3.1965; also: BArch B102/49881, Minutes of the 171. Meeting, 18.3.1965.

⁵¹⁹ BArch B102/49881, Internal Note "Teilprivatisierung der Veba", BMSchatz, VB3, March 1965; *ibid.*, Internal Note, BMSchatz, IVA4, 10.3.1965; *ibid.*, IVA4 to Head of Div. IV, 2.4.1965.

⁵²⁰ "die Bürger, seit Jahren zur Eigentumbildung angeregt, haben den Politikern einen Strich durch die Rechnung gemacht(...) Die CDU muß nun bekennen, ob sie in der Privatisierung nur einen bequemen Weg zur Finanzierung von Bundesunternehmen sieht (...), oder ob es ihr Ernst ist mit ihrer Parole vom 'Eigentum für alle' ", Diether Stolze: "Die ganze VEBA soll es sein!", *Die Zeit*, 4.6.1965.

⁵²¹ For the cabinet meeting on 16 June 1965 see "*Die Kabinettsprotokolle der Bundesregierung*" *online*, Federal Cabinet, minutes of the 168th meeting on 16 June 1965, agenda item D: "Bereitstellung weiterer VEBA-Aktien für die Privatisierung", for the

additional transfer of shares required the approval of the federal cabinet and the *Bundestag* because the latter had decided in April 1965 that the federal share should not fall below 51% due to the necessity to maintain a public influence on the energy market.⁵²² Dollinger highlighted that it was essential to maintain a veto minority of 26% in VEBA because the federal government had to be able to stop unwanted developments of the share price, which was also in the interest of small investors.⁵²³

Including the additionally released shares, subscribers from the lowest income group received maximally two shares per person, income groups II and III were left empty-handed. The high demand turned the planned passive privatisation into an active transfer of shares to private investors. The remaining federal share was 36%, so that the voting majority was lost. Nevertheless, the CDU left wing, represented by Burgbacher, remained highly critical of privatisations of more than 50% of the share capital in general.⁵²⁴ The federal cabinet decided to spend the the additional revenues for asset-creating measures such as equity increases of other federal enterprises.⁵²⁵ VEBA received funds in the amount of 787.5 million DM⁵²⁶ which were spend for the equity increases of Hibernia (102 million DM), Preussag (87.4 million DM) and Preussenelektra (209.1 million DM) and for the purchase of Hugo Stinnes AG (191.1 million DM). The rest was used to cover the costs of the capital increase and to pay deferred dividends and interest payments. By increasing its participation in Preussag, VEBA regained the tax privilege that it had lost during the Preussag partial privatisation.⁵²⁷ Table 4.3 summarises the issue conditions and features of VEBA.

recommendation of the *Bundestag* committee for federal property on 1 July 1965 *Bundestagsdrucksache* 04/3707, and for the *Bundestag* decision on 2 July 1965 *Bundestag Plenarprotokoll* 04/196, 2.7.1965.

⁵²² *Bundestag Plenarprotokoll* 04/178, 7.4.1965, pp. 8965–8978.

⁵²³ *Bundestagsdrucksache* 04/3616, 19.6.1965.

⁵²⁴ See note about the communication between Burgbacher, Adenauer, Dollinger and Westrick in “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the 168th meeting on 16 June 1965, agenda item D: “Bereitstellung weiterer VEBA-Aktien für die Privatisierung”.

⁵²⁵ “*Die Kabinettsprotokolle der Bundesregierung*” online, Federal Cabinet, minutes of the 172. meeting on 14. July 1958, agenda item A: “Maßnahmen zur Vermeidung eines Haushaltsdefizits 1965 und einer Unterdeckung in 1966”; also BArch B102/229356, press announcement, 19.8.1965.

⁵²⁶ *Bundestagsdrucksache* 05/265, 3.2.1966.

⁵²⁷ Radzio (1979).

Table 4.3: People's shares privatisation of VEBA 1965

Equity increase	Yes, nominal capital increase of 375 million DM (from 450 to 825 million DM)
Remaining federal share in VEBA	36%
Government revenues from sale of shares in the nominal value of 153 million DM	312 million DM
Nominal value of public offering	528 million DM (375 million DM new shares plus 153 million DM old shares)
No. of shares sold to private investors	5,280,000
Issue price	210%
No. of purchasers	2,628,458
No. of applicants	2,945,520
Purchase restricted to	Persons with German citizenship or unrestricted tax liability in Germany, minimum age 18 years
Max. eligible income of purchasers	No
Subscription limit	5 shares per person
Max. allocation	2 shares per person
Special conditions for VEBA employees	Yes, preferential allocation
Staggered allocation	Yes, according to taxable income less allowances: 8,000 (singles)/16,000 (couples) DM; 11,000/22,000 DM; 14,000/28,000 DM
Restriction of voting rights	Yes, limited to 1/10,000 of share capital (series B); exception for the federal government (series A)
Restriction of proxy voting rights	No
Delegation rights	Yes, 4 seats in the supervisory board for the federal government
Lead management	Dresdner Bank
Co-leaders	Deutsche Bank, Commerzbank, Deutsche Girozentrale, Deutsche Genossenschaftskasse

Sources: Bundesschatzministerium (1966), pp. 7–9; Barch B102/49882, Minutes of the meeting of the parliamentary budget committee on 26 January 1966; Barch B102/49880, “Einzelfragen zur Teilprivatisierung der VEBA”.

While the share issue seemed a success story at first, disappointment set in soon afterwards. After the stock market flotation, a strong price decline was realised. This was not VEBA-specific but in line with the general stock market trend. The reasons were restrictive measures of the Bundesbank: On 12 August 1965, the discount rate was raised from 3.5 to 4% and the lending rate from 4.5 to 5%. This was taken as a signal for a restrictive credit policy by investors and led to significant price drops in the stock market. The price of VEBA shares fell by 10% within one day and continued to sink. In August 1965, VEBA bought shares in the nominal value of one million DM back but this did not help much. By 28 December 1965, the price had fallen to 189.5 point and was now 20.5 points below the issue price of 210. Experts expected that it

would continue to fall to 170 points. As per agreement, the bank consortium bought shares back to support the price.⁵²⁸ Of the revenues of 312 million DM from the sale of government VEBA shares, 70 million DM were spend for price support measures.⁵²⁹ That way, the federal share increased again to over 40%. Bennigsen-Foerder,⁵³⁰ chief representative of VEBA, criticised that the issue price had been too low.⁵³¹ Subsequently, the VEBA privatisation led to a decreasing public support for privatisation via people's shares and was the last one of its kind. The stock market effect which had led to the disappointment was short-lived however. An expert report from Bayerische Hypotheken und Wechselbank in 1971 found that people's shares and particularly VEBA shares were performing comparably well.⁵³²

A second reason for the negative public perception of the VEBA partial privatisation besides the price development were problems with the extension of the management board which the *Bundestag* committee of federal property had requested in order to strengthen the role of VEBA. Until the partial privatisation, VEBA had served as a pure financial holding, without interfering much in the subsidiary companies' business policies. Executive director Alfred Hartmann understood himself rather as an administrator than a manager. This independence of the subsidiary companies lead to the expression 'tribal princes' for the three chairmen of the executive boards Hans Werner von Dewall (Hibernia), Heinz Peter Kemper (Stinnes) and Hoffmann (Preussenelektra). The federal government had since 1960 attempted to clarify the relationship between the companies and strengthen the leadership of VEBA.⁵³³ In the run-up of the partial privatisation, Ludwig Kattenstroth (Ministry of the Treasury) brought

⁵²⁸ BArch B102/49882, Minutes of the 7th Meeting of the *Bundestag* budget committee on 26.1.1966, Agenda item 3: "VEBA-Privatisierung/Kurspflege".

⁵²⁹ *Bundestagsdrucksache* 05/265, 3.2.1966.

⁵³⁰ Rudolf von Bennigsen-Foerder had been working with Secretary of State Hartmann in the Ministry of Finance and transferred with him to VEBA in 1959. There, he became chief representative in 1965, member of the management board in 1969 and was chief executive director from 1971 until his death in 1989. During that time, Bennigsen-Foerder became an influential industrial manager. Amongst other things, he was a board member of the Confederation of German Employers' Associations BDA and of the Federation of German Industry BDI.

⁵³¹ BArch B102/49882, Internal Note "Höhe des Ausgabekurses der VEBA-Aktien", BM-Schatz, III, 18.3.1966.

⁵³² "Volksaktien – Der richtige Weg", in *Die Börse. Tendenzen, Berichte, Analysen* no. 7, 18.2.1971, copy in BArch B126/51418.

⁵³³ BArch B102/76404, Internal Note, BMWi, III 3, 21.11.1960.

the topic up again. He argued that a strong holding management was required for VEBA's necessary restructuring processes. For this purpose, Kattenstroth raised the question of entity agreements between VEBA and its subsidiary companies since VEBA had to be regarded as an entity.⁵³⁴ Such a measure would have had severe consequences because Hibernia, Preussenelektra and Hugo Stinnes AG were companies with co-determination based on the Act of Co-determination in the Iron and Steel Industries, but VEBA itself was not. This raised concerns among the employees that the status of co-determination would be lost. Dollinger criticised Kattenstroth's initiative and underlined that he did not intend to implement entity agreements.⁵³⁵ This argument was the beginning of a serious conflict between Dollinger and his Secretary of State Kattenstroth. Instead of establishing entity contracts, Dollinger intended to increase VEBA's control over its subsidiaries by strengthening the management forces. He had to come up with a solution because the *Bundestag* had requested a restructuring of the company's board as a precondition for privatisation with the argument that a coordination of the subsidiaries' investment policies was necessary.⁵³⁶

Until its partial privatisation, VEBA's management board consisted of only two members: Alfred Hartmann and Lilliluisse Ristow. In a presiding board meeting on 9 September 1965, it was decided that the board would be expanded by the three chairmen of the management boards of the subsidiary companies von Dewall, Kemper and Hoffmann, who had to give up their current positions for this. A fourth new member was meant to replace Hartmann as spokesperson.⁵³⁷ The choice of the spokesperson was the reason for the final rift between Kattenstroth and Dollinger. Dollinger's favourite candidate for the job was Hubertus Rolshoven, chief executive director of the management

⁵³⁴ BArch N1256/99, Kattenstroth to Dollinger, 30.12.1964.

⁵³⁵ BArch N1256/99, Internal note about a meeting with the Preussenelektra's workers' council on 3.12.1964 (II B/1), 4.12.1964; BArch N1256/99, Internal note about a meeting with the workers' councils of Hibernia and Stinnes on 16.12.1965 (II B/4), 17.2.1965.

⁵³⁶ Report of Burgbacher as head of the committee for federal property in *Bundestagsdrucksache* 04/3248, 24.3.1965, p. 3; report of Häussler about a meeting of the *Bundestag* committee for federal property on 30 June 1965, *Bundestagsdrucksache* 04/3707, pp. 1–2.

⁵³⁷ Report on the meeting on 9 September 1965 (Rannow), 10 September 1965.

board of Saarbergwerke AG.⁵³⁸ Rolshoven, an experienced mining councillor, had been director of the 'consolidation' coal mine in Gelsenkirchen, managing director of Steinkohlenbergbauverein in Essen and director of Hansa-Bergbau AG before transferring to Saarbergwerke in 1957. Nevertheless, Kattenstroth, who was chairman of the VEBA supervisory board did not believe that Rolshoven was powerful enough for the position as VEBA chief. Hence, Kattenstroth and the supervisory board members Fritz Neef (Ministry of Economics) and Walter Grund (Ministry of Finance) announced that they would not vote for Rolshoven at the decisive supervisory board meeting because they did not believe that he would be able to stand his grounds against von Dewall, Hoffmann and Kemper.⁵³⁹ Kattenstroth did not obey Dollinger's subsequent instruction to go on leave and remained in his positions until the personnel decision had been made.⁵⁴⁰ In the decisive supervisory board meeting on 12 October 1965, Rolshoven was not elected. He remained chief executive director of Saarbergwerke and became chairman of its supervisory board in 1969. Instead, von Dewall, Hoffmann and Kemper were appointed management board members and Kemper succeeded Hartmann as chief executive director.⁵⁴¹ Dollinger repeated his request that Kattenstroth should take leave of absence⁵⁴² and Kattenstroth refused again.⁵⁴³ Dollinger's last option to remove Kattenstroth from office was to assign him to non-active status – a measure which would have required a cabinet resolution. Instead, Kattenstroth transferred to the Ministry for Labour and Social Affairs as secretary of state after the federal elections in September 1965. Due to this transfer, he lost his influential position for federal enterprises and privatisation. Kattenstroth's successor as secretary of state became Rolf Thiessen. Just a year later, Thiessen was replaced by Wolfram Langer who had beforehand been secretary of state in the Ministry of Economics and later became managing director of the federal Depfa bank.

⁵³⁸ BArch N1256/99, Dollinger to Kattenstroth, 17.9.1965.

⁵³⁹ BArch N1256/99, Dollinger to Kattenstroth, 29.9.1965; and Internal note (Kattenstroth), 1.10.1965.

⁵⁴⁰ BArch N1256/99, Kattenstroth to Dollinger, 15.10.1965, and response Dollinger to Kattenstroth, 15.10.1965.

⁵⁴¹ BArch N1256/99, press announcement, undated.

⁵⁴² BArch N1256/99, Dollinger to Kattenstroth, 15.10.1965.

⁵⁴³ BArch N1256/99, Kattenstroth to Dollinger, 19.10.1965.

The argument between Kattenstroth and Dollinger led to a public debate about the question of whether ministerial representatives in supervisory bodies were bound by instruction of their Ministers – a question which had already been discussed earlier. In general, civil servants were bound to the instructions of their supervisors unless the assigned task was a violation against the law according to the Civil Service Code (§ 56 BBG). The stock company law provided that a member of the supervisory board violated the law if he or she acted against the detriment of the company (§ 295 AktG, § 81 GmbHG). Doubts about the legitimacy had to be addressed according to § 56 BBG.⁵⁴⁴ Hence, the question was whether the case where a civil servant acted against the law if he or she followed the instructions of a superior against his or her own conviction about what was beneficial for the company was a case of violation of law in the sense of § 56 BBG. This question was not legally but politically solved when Kattenstroth transferred to the Ministry for Labour and Social Affairs. The conflict between Dollinger and Kattenstroth added to the inglorious story of the VEBA partial privatisation. Press comments were correspondingly negative.⁵⁴⁵ The SPD found that the privatisation had turned out as a disaster and was not beneficial for the popularisation of share ownership.⁵⁴⁶ The election year 1965 was as much a key year as 1957 for the question of privatisation. The combination of the downturn in the stock market due to a contractionary monetary policy and the subsequent problematic VEBA privatisation, a slowdown of the post-war boom and the federal elections led to the dissolution of the political majority for privatisation.

4.6 Lufthansa Stock Market Launch

The Lufthansa stock market launch in 1966 serves as a counter example to people's shares. The federal government pragmatically decided that the company should go public to meet financial demands. In July 1965, the general

⁵⁴⁴ BArch N1256/99, "Weisungen an Aufsichtsratsmitglieder", Circular note of the Minister of Finance, 5.7.1963, Gazette of the Minister of Finance, p. 331.

⁵⁴⁵ For example "Am Beispiel der Veba: Glücklose Eigentumspolitik des Bundes", *Stuttgarter Zeitung*, 22.11.1965.

⁵⁴⁶ *Parlamentarisch-Politischer Pressedienst* no. 16, p. 120, 18.10.1965.

meeting decided an equity increase of 400,000 million DM in order to finance an investment programme of 200,000 million DM and to list the company at the stock exchange. The intention was that as much as possible should be financed by private investors. Subsequently, the company went public in April 1966. Although Lufthansa AG had never been paying dividends until then, private investors subscribed for shares in the nominal value of 461.1 million DM, including subscription rights. This was much more than in previous offerings and more than the government had expected. It is possible that part of this was a side effect of the popularisation of people's shares, although these addressed a different social and financial group of shareholders. The federal government decided to keep a qualified majority of 75% of the shares in order to maintain influence and to avoid that foreigners could purchase controlling blocks of shares. Aside from subscription rights for existing private investors, no private subscriber received more than two shares with a nominal value of 1,000 DM each.

The banking consortium of the Lufthansa stock market launch was composed of the big German banks: Deutsche Bank was consortium manager and placed 19% of the shares. Dresdner Bank also placed 19% of the shares, Commerzbank 12%, Bayerische Hypotheken-Wechsel-Bank 9% and a group 19 smaller banks 41%, with a share of under 5% each.⁵⁴⁷ In contrast to people's shares, the Lufthansa privatisation was not directed at small investors and not part of a programme to promote share ownership. Moreover, equity demands of the growing company were clearly paramount. In order to limit the influence of private shareholders, the federal government decided to switch from issuing voting shares to non-voting preferential shares in 1969.⁵⁴⁸

4.7 Epilogue & Evaluation

The federal elections in September 1965 confirmed the government coalition of CDU/CSU and FDP. The CDU/CSU had won votes and Erhard remained federal chancellor. *Der Spiegel* commented that "the Federal Republic has

⁵⁴⁷ See Bozdag-Yaksan (2008), pp. 121–129.

⁵⁴⁸ See p. 215.

elected the symbol of its wealth in a situation of total satisfaction.”⁵⁴⁹ But the coalition did not last long: Due to inter-governmental conflicts, the FDP ministers stepped back on 28 October 1966 and the government coalition was dissolved only about a year after the elections. It was succeeded by a grand coalition of CDU/CSU and SPD until the federal elections in 1969. Neither of the government coalitions pursued further privatisations.

Evidently, the CDU had become much more hesitant about privatisation after the problematic VEBA privatisation. The decline of the popularity of people's shares probably led to fears to lose voters. But also, the government was facing other economic problems in the mid-1960s which seemed more urgent: the post-war growth had declined and the federal budget became negative for the first time ever.

Werner Dollinger (CSU) remained Minister of the Treasury until the dissolution of the coalition and was succeeded by the previous Minister of Economics Kurt Schmücker (CDU). In December 1965, Dollinger announced that there were currently no further privatisation plans because the VEBA privatisation had not been ‘digested’ yet. However, Dollinger regarded a future privatisation of VIAG and other federally owned companies as inevitable because of their immense capital needs. Future privatisations would not implement social elements because these were not affordable. While no immediate privatisations were planned, Dollinger indirectly announced that the federal government would probably not participate in a capital increase of Volkswagenwerk and thereby reduce its share of 20% in the company.⁵⁵⁰

One of the last acts of the conservative-liberal government before its dissolution was the implementation of the long overdue joint stock law reform in 1965. The minimal nominal value of shares was lowered from 100 DM to 50 DM in an attempt to attract more low-income households. The once intended restriction of proxy voting rights was not part of the reform. The initial government draft had intended a minimal nominal value of 100 DM,

⁵⁴⁹ “Die Bundesrepublik im Zustand totaler Zufriedenheit hat sich für das Symbol ihres Wohlstandes entschieden.” in: “Einer allein”, *Der Spiegel* no. 39, 22.9.1965, p. 21–23.

⁵⁵⁰ BArch N1256/99, “Vorläufig keine Privatisierungspläne - Dollinger gegen den Plan einer Energie-Verwaltungs AG”, *VWD Montan* no. 291, 14.12.1965.

lowering it to 50 DM might have been a concession to the CDU left wing.⁵⁵¹

It has been argued that the privatisation attempts of the Adenauer government remained unsuccessful. If this is measured purely by the extent of a transfer of public enterprises to private ownership, it is indeed true that privatisation remained fairly limited. In total, shares of a nominal value of almost one billion DM had been distributed and had led to a transaction volume of over 2 billion DM. A full withdrawal from public ownership in the industrial sector had not been intended yet. Rather, after initial enthusiasm had diminished, the government started to feel a responsibility to protect small shareholders from unexpected losses, to exercise a monitoring role in partially privatised companies and to maintain an influence in the energy market which was no further defined.

The question remains whether the government was successful in promoting share-ownership. Previous research has negated this.⁵⁵² Only few data are available about the change of ownership structures caused by people's shares privatisations. According to information from the Ministry of the Treasury, the total number of German shareholders was 500,000 before the Preussag partial privatisation and over 2 million after the share issues of Preussag and VW. Preussag shares were purchased by more than 200,000 investors, VW shares by 1.5 million investors. After the stock market flotation on 9 August 1965, VEBA became the world's second largest public company⁵⁵³ with 2.6 million shareholders after AT&T Corporation (American Telephone & Telegraph Company) with 2.674 million shareholders, which means that approximately 3.5% of the population bought VEBA shares. In total, 9.6 million people's shares were sold to 4.3 million shareholders, so the total number of shareholders increased more than fivefold.⁵⁵⁴

Another question is who purchased the shares. Table 4.4 compares the structure of applicants for people's shares in the cases of Preussag, VW and VEBA.

⁵⁵¹ *Bundestagsdrucksache* 04/3269, p. 4.

⁵⁵² See for example Abelshauser (1983), p. 54.

⁵⁵³ As argued on p. 1, according to common notion, the term public company relates to companies listed at the stock exchange and should not be confused with public (state-owned) enterprises.

⁵⁵⁴ *Bundesschatzministerium* (1966), p. 9.

Table 4.4: People's share privatisations 1959–1965

	Preussag	VW	VEBA
Capital increase (million DM)	120	-	375
Nominal value of public offering (million DM)	81.5	360	525
No. of Shares	815,000	3,600,000	5,250,000
No. of Purchasers	216,119	1,547,000	2,628,458
Average portfolio	4	2	2
No. of Applicants	216,119 ^a	1,484,019 ^b	2,945,520 ^c
- Workforce	2,384	n.a.	n.a.
(- in%)	(1.10)	n.a.	n.a.
- Workers ^d	11,025	110,984	300,661
(- in%)	(5.10)	(7.50)	(10.20)
- Employees ^e	62,844	449,825	894,695
(- in%)	(29.08)	(30.30)	(30.40)
- Civil Servants	17,752	106,949	210,433
(- in%)	(8.21)	(7.20)	(7.10)
- Self-employed merchants and tradesmen ^f	16,397	82,368	124,520
(- in%)	(7.59)	(5.60)	(4.20)
- Self-employed farmers and foresters		16,356	26,039
(- in%)		(1.10)	(0.90)
- Freelancers	27,274	27,495	38,109
(- in%)	(12.62)	(1.80)	(1.30)
- Pensioners	22,139	211,947	389,836
(- in%)	(10.24)	(14.30)	(13.20)
- Students and Apprentices		127,156	192,286
(- in%)		(8.60)	(6.20)
- Housewives ^g	56,304	350,939	768,671
(- in%)	(26.05)	(23.50)	(26.50)

Source: For Volkswagenwerk and VEBA: Bundesschatzministerium (1966), p. 8; for Preussag: Bundesministerium für wirtschaftlichen Besitz des Bundes (1960), p. 3.

^a including Preussag workforce

^b excluding Volkswagenwerk workforce

^c excluding VEBA workforce

^d *Arbeiter*, comparable to blue-collar workers

^e *Angestellte*, comparable to white-collar workers

^f Preussag: Self-employed persons

^g Preussag: Women

While the Preussag share issue was comparably small, the Volkswagenwerk and VEBA share issue reached over 1.5 million shareholders. Main group of buyers were employees. These represent mainly medium income groups, with an average income above workers. Not all of the subscribers might have been allocated shares due to the income restriction, so the distribution of subscribers does not necessarily equal the distribution of purchasers. The share of self-employed persons and freelancers was relatively low in all cases. Surprisingly high is the number of subscribers from the groups pensioners and housewives. This might have had to do with the fact that individuals from these groups

potentially bought shares on behalf of others. The figures indicate that there was an increase of shareholdings in the lower income classes, but mainly among the higher income subgroups within the group of eligible incomes.

The third question is how the structure of shareholders changed over time and whether shares moved towards higher income groups. According to information from the Ministry of Economics, in May 1962, 77.4% of the initial buyers of Volkswagenwerk shares were still holding their shares.⁵⁵⁵ The Ministry of Finance estimated in October 1970 that roughly 38% of Preussag shares, 35% of VW shares and 42% of VEBA shares were still held by the initial buyers.⁵⁵⁶

Two Allensbach surveys from 1961 and 1962 comprise detailed information about general shareholder structures in 1953 and 1961 and the shareholder structure of VW in 1962. This allows us to compare the structure of VW shareholders to shareholders in general. Also, we can compare the structure of VW shareholders to the composition of subscribers for shares and identify possible shifts in the short timespan between the share issue and the survey. Table 4.5 summarises the results for general share-ownership in 1953 and 1961, Table 4.6 contains the results for VW in 1962.

⁵⁵⁵ BArch B102/49880, *TN/BMWi* no. 4191, 28.5.1962, p. 3.

⁵⁵⁶ BArch B126/51418, Internal Note, Ministry of Finance, VIII B1, 13.10.1970.

Table 4.5: Share ownership in West Germany 1953 and 1961

	<u>Proportion of</u>		<u>Composition of</u>		Proportion of group in population (in %) 1961
	<u>share owners (in %)</u>		<u>share owners (in %)</u>		
	1953	1961	1953	1961	
<i>Adult Population</i>					
all	2	7			
men	3	9	58	58	46
women	2	5	42	42	54
			<u>100</u>	<u>100</u>	<u>100</u>
<i>Age Group</i>					
18–29 Years	1	6	9	24	21
30–44 Years	2	8	24	30	29
45–59 Years	3	7	38	25	16
60 Years and older	4	7	29	21	34
			<u>100</u>	<u>100</u>	<u>100</u>
<i>Education Level</i>					
Volksschule	1	4	32	47	81
Mittlere Reife	5	17	38	36	14
Abitur	12	21	30	17	5
			<u>100</u>	<u>100</u>	<u>100</u>
<i>Profession</i>					
Workers	1	3	11	24	49
Landarbeiter	x	(2)	1	1	2
Farmers	3	4	13	5	9
Employees	3	11	28	33	20
Civil Servants	2	11	5	11	7
Freelancers			8	6	3
Self-employed (incl. Freelancers unless disclosed separately)	7	14	34	20	10
			<u>100</u>	<u>100</u>	<u>100</u>
<i>Net Income of Main Earner</i>					
below 250 DM	n.a.	3	n.a.	4	8
250–399 DM	n.a.	3	n.a.	6	17
400–499 DM	n.a.	4	n.a.	15	25
500–599 DM	n.a.	7	n.a.	21	22
600–799 DM	n.a.	10	n.a.	24	16
800 DM and more	n.a.	17	n.a.	30	12
				<u>100</u>	<u>100</u>

Source: "Wer besitzt Aktien?", Pressedienst Institut Allensbach, November 1961.
 Representative survey based on approximately 2,000 interviews. Values in brackets:
 under 100 interviewed persons. Printed with kind permission of the Institut für
 Demoskopie Allensbach, own translation.

In 1961, 7% of German population from the age of 18 years possessed shares, more than twice as much as in 1960. This is only slightly higher

than the 6% who owned shares in VW in 1962, which indicates that the VW share issue might have driven the increase in total share-ownership. Since 1953, the number of shareholders had more than tripled: In 1953, only 2% of the population were share-owners. Share-ownership increased particularly strong from one to 6% in the lower age class from 18 to 29 years. Whereas in 1953, only 10% of shareholders were under 30, it was about 25% in 1962. Workers participated only little in the increase in shareholders: 1% of all workers held shares in 1953 and 3% in 1961, compared to 11% of employees and civil servants. Every fourth shareholder was a worker, although workers accounted for about half of the population. One third of all shareholders were employees which makes this the largest shareholder group. Share ownership increased with the education level: Share ownership among the population who had completed primary school had increased from 1% in 1953 to 4% in 1961. In the group of those who had completed *Mittlere Reife* (secondary school), it had increased from 5 to 17%, and among those who had graduated from high school from 12 to 21%.

Table 4.6: Share ownership in VW 1962

	Proportion of VW share owners in %	Composition of share owners in %	Proportion of group in population in %
<i>Adult Population</i>			
all	6	100	100
men	6	49	46
women	5	51	54
		<u>100</u>	<u>100</u>
<i>Age Groups</i>			
16–29 Years	5	22	28
30–44 Years	7	31	24
45–59 Years	5	25	28
60 Years and older	7	22	20
		<u>100</u>	<u>100</u>
<i>Profession</i>			
Farmer	5	8	11
Landarbeiter	5	3	3
Workers	4	30	48
Employees	8	28	19
Civil Servants	8	9	6
Self-employed traders	9	15	11
Freelancers	19	7	2
		<u>100</u>	<u>100</u>
<i>Net Income of Main Earner</i>			
below 400 DM	4	16	24
400–500 DM	4	28	38
600–799 DM	6	22	23
800–999 DM	11	17	9
1000–1249 DM	(14)	10	4
1250 DM and more	(15)	7	2
		<u>100</u>	<u>100</u>
<i>Region</i>			
North (Schleswig-Holstein, Hamburg, Bremen, Lower Saxony)	5	20	20
North Rhine-Westphalia	8	38	28
Rhine-Main/South West (Hessen, Rhineland-Palatinate, Saarland, Baden-Württemberg)	5	24	31
Bavaria	5	15	17
West-Berlin	3	3	4
		<u>100</u>	<u>100</u>
<i>Place of Residence</i>			
Village (less than 2,000 inhabitants)	5	21	23
Small town (2,000–19,999 Inhabitants)	5	24	28
Large towns (20,000–100,000 inhabitants)	8	21	16
Cities (100,000 inhabitants and more)	6	34	33
		<u>100</u>	<u>100</u>

Source: "In welchen Händen befinden sich die VW Aktien?", Pressedienst Institut Allensbach, October 1962. Representative survey based on approximately 2,000 interviews. Values in brackets: under 100 interviewed persons. Printed with kind permission of the Institut für Demoskopie Allensbach, own translation.

The survey which was conducted two years after the VW partial privatisation reveals that 6% of the population from the age of 16 years possessed VW shares; 1% of these had bought the shares on behalf of another family member or person, potentially to circumvent the allocation restriction. 70% of the shareholders were workers, employees or civil servants, and 83% of shareholders had a monthly net income of 999 DM or less. Among those with a monthly income of 1000 DM or more, approximately 15% were holding VW shares. These findings indicate a migration of shares from low- and medium- to higher-income classes who were not eligible to purchase shares in the original share issue. The geographic distribution shows that the groups of the population living in rural areas, small towns, medium towns and large cities purchased shares approximately according to their share in the entire population, with a small tendency towards medium towns, where 8% of the population possessed shares, compared to 5 to 6% in all other groups. This finding might be driving the effect that the densely populated North Rhine-Westphalia had the highest share of shareholders with 8% of the population, compared to 3% in West Berlin and 5% elsewhere.

Table 4.7: Income distribution among shareholders 1961/1962

Net income/month (main earner of household) in DM	Proportion of income group among	
	all shareholders (1961) in %	VW shareholders (1962) in %
below 400	10	16
400–599	36	28
600–799	24	22
800 and more	30	34
all	100	100

Sources: Pressedienst Institut für Demoskopie Allensbach: "Wer besitzt Aktien?", November 1961, p. 5; "In welchen Händen befinden sich die VW Aktien?", October 1962.

Table 4.7 compares the structure of Volkswagenwerk shareholders to the general structure of shareholders. There is a higher representation of the lowest income group among the Volkswagenwerk shareholders, but also of the highest income group. Again, this is a clear indication that the Volkswagenwerk share issue initially reached new groups of share owners, but that shares were

sold towards upper income classes, which led to an upward shift of the initial distribution. However, the government had intended from the start to create shares which would be fully tradeable, instead of cementing an initial allocation by imposing strict regulations about the transferability of shares. That was the reason why the government had decided against registered shares or other restrictive share characteristics. In that sense, the result of the people's share issue can be regarded as successful: The government had created a new investment opportunity which was attractive enough to be traded. Also, the government had initially managed to achieve a dispersed ownership distribution. However, the portfolio sizes of lower income groups were comparably small, so that there was hardly a significant wealth effect of people's shares.

In 1960, prior to the the VW share issue, the Allensbach Institut conducted a large survey about share ownership and the German attitude towards money and savings. The results are presented in Table 4.8.

Table 4.8: Share of population with security papers 1960

	Proportion of adult population (in %) who possesses		
	shares/ investment certificates	obligations	neither nor
All households	3	2	96
<i>Profession</i>	1	1	98
Workers, employed craftsmen	(6)	(6)	90
Civil servants, executive staff	4	1	95
Self-employed persons, freelancers	4	5	93
Farmers, forest managers	x	x	100
<i>Net income of main earner</i>			
less than 300 DM	1	x	99
300–399 DM	1	1	98
400–499 DM	2	x	98
500–599 DM	2	1	98
600–799 DM	5	3	92
800–999 DM	(2)	(2)	(96)
1,000 DM and more	(17)	(11)	(81)

Source: "Umgang mit Geld. Ergebnisse einer Repräsentativ-Erhebung in den Privathaushalten der Bundesrepublik", 1960, Institut für Demoskopie Allensbach, pp. 63–70. Printed with kind permission of the Institut für Demoskopie Allensbach, own translation.

The popularity of saving through investment in securities was relatively low. Only 3% of all households possessed investment certificates and/or shares

(including Preussag shares), 2% of all households possessed bonds, 96% did not possess either or. 6% of the households indicated that they had at least once acquired or sold security papers in the past, and only 4% of the households currently held security papers. Security papers were more popular among higher income classes: While only 1% of workers and employed craftsmen held shares and/or certificates and the same percentage held bonds, 6% of senior executives and civil servants held shares and/or certificates and the same percentage held bonds. The likelihood to hold securities increased with the income: Of households where the main wage earner had a net income of up to 399 DM per month, only 1% held shares and/or certificates, between 400 and 1000 DM that figure increased to two to 5%, and for incomes of 1,000 DM or more it was 17%. Of the households which possessed shares and/or certificates, only 26% were workers and employed craftsmen (who accounted for 48% of the population) 30% were employees (who accounted for 16% of the population) and 11% were senior executives and civil servants (who accounted for 5% of the population). Of the share- and/or certificate-holders, one third had a monthly net income of 1,000 DM or more although this group accounted for only 5% of the total population. The second largest group, 22%, had an income between 600 DM and 699 DM (this group accounted for 10% of the population), and only 4% had a net income of under 300 DM (this group accounted for 18% of the population).

As one of the reasons for the low degree of share ownership, the study identified insecurity and a lack of knowledge about shares. Half of all heads of households agreed with the statement that shares were a good investment opportunity but required some knowledge in order to avoid risks. Only 13% agreed with the statement that shares were a good investment opportunity because they provided ownership titles in solid enterprises and were unlikely to lose value quickly. To the question of what they would do with a lottery win of 10,000 DM, only 4% of the heads of household and 2% of housewives responded that they would invest in people's shares, other shares, investment certificates or bonds. By far the most attractive option with approval rates of above one quarter was to deposit the money in a savings account. Also popular was the

purchase of property, house building and home loan and savings contracts. But the study also found an increasing interest in equity markets. The popularity of savings accounts was strongest in lower income households. More than a quarter of all heads of households and 10% of housewives indicated that they felt informed about stock price developments, but only few had recently spoken about people's shares.

Based on these results, the study found it not surprising that mainly those households were interested in purchasing people's shares which already were shareholders: Of all households, 4% declared that they want to purchase people's shares, 18% were interested and were either considering to buy people's shares or were not allowed to buy them because their income was too high. Approx. 50% did not want to purchase people's shares and 27% had never heard of people's shares. This looks slightly different for existing shareholders: One third of the households which possessed shares or certificates wanted to buy people's shares, one fifth maybe wanted to buy or were not allowed. 41% were not interested and only 7% had never heard about them. The study concludes that there were three strategies which would be able to raise an interest in people's shares: establishing smaller nominal values, minimising price risks by mixing security papers such as investment funds did, and better connecting shares with the idea of savings.⁵⁵⁷

By August 1964, ownership in security papers had increased to 10% of the population. Ownership in shares and investment certificates increased over-proportionally within the category of securities in the 1960s: In March 1967, 11% of all households possessed shares or investment certificates, while 6% possessed obligations. This is likely to be an effect of people's shares.⁵⁵⁸ Share ownership stagnated and even decreased slightly in the 1970s: Between 1975 and 1980, the percentage of households holding shares decreased from 8% to 7%, and the percentage of households owning investment certificates remained at 3%. In 1980, share ownership was still strongly dependent on the profession and hence the income and education level: While only 2% of unskilled workers

⁵⁵⁷ "Umgang mit Geld. Ergebnisse einer Repräsentativ-Erhebung in den Privathaushalten der Bundesrepublik", 1960, Institut für Demoskopie Allensbach, pp. 63–70. The study has been kindly provided to me by the Institut für Demoskopie Allensbach.

⁵⁵⁸ Noelle and Neumann (1967), p. 273.

held shares, approximately 15% of managerial employees, public servants and self-employed professionals were share owners.⁵⁵⁹

Besides ownership, another issue is the question of control over companies. The shareholders of a joint stock company express their interests at the general meeting and can in the German system be proxied by banks. Due to the exertion of proxy voting rights on behalf of their customers, banks tend to have a significant say in the general meetings. Since the government abstained from restricting proxy voting rights except for the case of VW, it can be assumed that banks potentially benefited from privatisation. In particular the big-three banks Deutsche Bank, Dredner Bank and Commerzbank secured large parts of the proxy voting rights by placing large share volumes as consortium leaders.

Proxy voting was sharply criticised by Franz Ove, deputy of the CDU youth organisation *Junge Union* in Hamburg. Deutsche Bank attested him “egotism, joy in clubby cultures and addiction to publicity”.⁵⁶⁰ Ove addressed the tendency of large banks to use proxy voting rights to bring their own representatives into the supervisory boards. He suggested that supervisory boards should be elected with proportional representation, or that minorities of at least 25% should be guaranteed a seat on the supervisory board. A government representative held against this that it has never been proven that banks use proxy voting rights to the detriment of the shareholders⁵⁶¹ Proxy voting was again discussed in a meeting of the *Bundestag* subcommittee for federal property in February 1966.⁵⁶²

However, control was not handed over to banks. To the contrary, in the cases of VW and VEBA, the federal government and Lower Saxony had been excluded from restrictions of voting rights in order to secure a public influence. Yet, in the case of VEBA, this was costly for the government as it renounced higher dividend payments. Yet, the public perception prevailed that federal and bank representatives often made common course. In 1968 for

⁵⁵⁹ Noelle-Neumann (1981), p. 338–339.

⁵⁶⁰ “Geltungsbedürfnis, Freude an der ‘Vereinsmeierei’ und Sucht nach Publicity”, DBA V01/00A17, Note “Tagung der Jungen Union am 3./4. September 1960 in Reinbek”

⁵⁶¹ *ibid.*

⁵⁶² BArch B126/51418, Dollinger to Chairman of the *Bundestag* committee for federal property, 6.4.1966.

example, Minister of the Treasury Kurt Schmücker received negative publicity when he achieved that his CDU colleague MP and former Federal Minister for Labour and Social Affairs Theodor Blank was sent as a delegate to the VEBA supervisory board as a fifth federal delegate besides the four official ones to replace the deceased former Secretary of State Alfred Hartmann. Private investors had strongly protested against this choice, but Blank was elected at the general meeting by Breme (Ministry of the Treasury) and bank delegates, who represented approximately 45% of all votes through proxy voting. The election was supported by chairman of the supervisory board Hans Birnbaum who had in the meantime transferred to the management board of Salzgitter AG.⁵⁶³

Nevertheless, the federal government was not satisfied with the federal representation in supervisory boards and resulting lack of influence. In March 1965, Federal Chancellor Ludwig Erhard (CDU) requested an examination of the position of representatives in the supervisory bodies of state shareholdings at a cabinet meeting and demanded that all delegates should make sure that the companies take federal interests into consideration.⁵⁶⁴ Minister of the Treasury Dollinger (CSU) highlighted the importance of a strict selection process for representatives and specific instructions.⁵⁶⁵ Partially, the perceived weak position of the federal state might have had to do with a lack of cooperation and coordination between the ministerial representatives in supervisory bodies which had earlier been addressed in the Ministry of Economics.⁵⁶⁶

A comprehensive reorganisation of public enterprises and participations had not taken place until 1966 but a number of ideas had been discussed. In the post-war years already, Brekenfeld, chief executive director of Preussag, had suggested to regroup public enterprises according to the sectors coal, steel and electricity, nitrogen, non-ferrous metals and oil, where Preussag should take over the latter three sectors.⁵⁶⁷ The Ministry of the Treasury discussed

⁵⁶³ See for example "Blank macht krank", *Der Spiegel* 19/1968, 6.5.1968; "Volksaktionäre mucken auf", *Die Zeit*, 19.4.1968.

⁵⁶⁴ 156. cabinet Meeting, 9.3.1965.

⁵⁶⁵ BArch B102/76404, Dollinger to Chief of the Office of the Federal Chancellor, 8.3.1966.

⁵⁶⁶ BArch B102/76404, BMWi, III3, Henneberg to Langer "Aufsichtsräte der bundeseigenen Gesellschaften", 9.12.1963.

⁵⁶⁷ Laufer and Stier (2005), pp. 417–418.

a possible reorganisation of enterprises in 1960 under Hans Lenz (FDP). Suggestions included a closer cooperation between Preussenelektra and Hibernia as well as between Saarbergwerke, Preussenelektra and Bayernwerke. Another idea was that Preussenelektra could take over Braunschweigische Kohlenbergwerke (short: BKB) and VIAG could transfer its BKB shares to Preussenelektra in exchange for a participation. Also, a merger of Hugo Stinnes AG with Hibernia or Saarbergwerke was considered.⁵⁶⁸ In 1964, Federal Chancellor Ludwig Erhard (CDU) suggested a merger of shareholdings in the energy sector to Dollinger,⁵⁶⁹ but Dollinger rejected this.⁵⁷⁰ Instead, he favoured an increased cooperation of shareholdings, organised by the federal government. This marked the beginning of a discussion about a cooperation between public enterprises which was preceding developments in the 1970s.⁵⁷¹

While the federal shares in Preussag, VW and VEBA were considerably reduced until 1966, neither a systematic privatisation strategy nor a systematic conception of public ownership had been developed by then. The partial privatisations had not resolved the general lack of direction. Three factors turned out to have an influence on privatisation choices: the expected development of shares after a privatisation, expected resistance from veto players such as the states, and financial needs of companies. An exception was Volkswagenwerk, where the initial primary concern was to solve the ownership conflict with Lower Saxony. The idea to popularise shares was based on one crucial element: people's shares had to be successful. Disappointment of purchasers could lead to a lack of public approval and hinder future privatisations. Hence, only profitable companies with small market risks were considered eligible for privatisation because only these would offer secure investment opportunities. It was considered irresponsible to transfer shares of companies in distress to small private investors. Exemplary for this position is a published interview with Dollinger, Federal Minister of the Treasury between 1962 and 1968.⁵⁷² A consolidation of public enterprises was thus considered a precondition for

⁵⁶⁸ BArch B102/76404, BMWi, Henneberg to Westrick, III3, 10.4.1962.

⁵⁶⁹ BArch N1256/96, Erhard to Dollinger, 1964.

⁵⁷⁰ BArch N1256/99, "Vorläufig keine Privatisierungspläne – Dollinger gegen den Plan einer Energie-Verwaltungs AG", *VWD Montan* no. 291, 14.12.1965.

⁵⁷¹ Documentation in BArch B126/34721.

⁵⁷² Mahnke (1983).

privatisation. Financial needs accounted as a second argument for the choice of specific companies for privatisation. In the 1950s and 1960, most public enterprises were in a process of restructuring and reconstruction. Despite the high level of internal financing, necessary investments had in many cases been delayed. Often holding companies were not able to finance their subsidiaries' needs. In this situation, it seemed like an obvious solution to tap the capital markets and mobilise additional assets of ordinary people in the form of people's shares. This led to an ambivalent situation. The popularisation of shares required that public enterprises had to be consolidated prior to privatisation. However, consolidation cost money which the federal government was reluctant to spend. However, the financial argument turned out to be more relevant. The partial privatisations of Preussag and VEBA were primarily connected with the need for capital of the expanding, under-financed enterprises. At the same time, it can not be argued that the companies were mature enough for privatisation since both Preussag and Hibernia were in the middle of a diversification process away from their traditional focus on coal mining.⁵⁷³

A complementary policy of public ownership had never been introduced. Hence, the government's own role in partially privatised companies was not entirely clear. The balancing of power and interests between public and private shareholders had not systematically been thought through. The same was the case for the question of how the state should secure its impact in companies in private law form, particularly in partially privatised ones, and whether and how small investors should be protected and represented. The lack of a clear conception for public ownership left the door wide open for an increase of public entrepreneurship in the 1970s. During that decade, public enterprises were increasingly used for structural policy and extended due to diversification and acquisition strategies.

⁵⁷³ Laufer and Stier (2005), p. 450.

Chapter 5

Stagnation 1966–1982

Between the dissolution of the conservative-liberal government in 1966 and the next federal elections in 1969, a grand coalition of CDU, CSU and SPD formed the government. The CDU/CSU nominated Kurt Georg Kiesinger as Federal Chancellor candidate. In 1966, the SPD entered the federal government for the first time. After the federal elections in 1969, the grand coalition was replaced by a social-liberal government under Federal Chancellor Willy Brandt (SPD), although the CDU remained the strongest political party. The Ministry of the Treasury was abolished and its tasks were shifted back to the Federal Ministry of Finance. The period between 1966 and 1982 can be described as a period of stagnation and attempts to consolidate federal enterprises. In the mid-1960s, the economic post-war boom slowed down. Political and public support for privatisation decreased significantly, although privatisation was never officially abolished. Globalisation, market crisis and structural problems affected federal companies intensely in the 1970s. During those years, a focus was on the consolidation of unprofitable public enterprises, and their utilisation for structural, regional and sectoral stabilisation policy.

On the administrative side, a change of generation had started to take place during the 1960s. Ludger Westrick had transferred with Ludwig Erhard (CDU) to the Office of the Federal Chancellor as secretary of state in 1963, had become Federal Minister for Special Affairs – a position which had been created for him – in 1964 and retired in 1966. Birnbaum had transferred from

the Ministry of the Treasury to the federal Salzgitter AG in 1961, Ludwig Kattenstroth had transferred to the Ministry for Labour and Social Affairs in 1966 and retired in 1969, the lower ministerial officials Henneberg and Fenge did not play a role anymore and probably retired in the mid-1960s. Their successors in the administration for federal participations were Ulrich Engelmann, Ulf Lantzke, Werner Lamby, Ernst Pieper (SPD) and Fritz Knauss. In the Ministry of Economics, Ulrich Engelmann became head of subdivision IIIC (iron and steel, federal industrial property) in 1967. Engelmann had started as personnel advisor of Minister of Economics Schmücker (CDU) in 1963. Engelmann became head of division IV in 1973 and succeeded Lantzke as head of division III (energy) in 1974. The “energy pope” of the federal government, as the newspaper *Die Zeit* labelled him later, became lobbyist for RWE in 1991.⁵⁷⁴ Ulf Lantzke succeeded Woratz as head of division III (energy) and Engelmann’s superior in 1968. Before that, he was head of subdivision IIIA (mining). Lantzke later made an international career: In May 1974, he became advisor for energy policy for the general secretary of the OECD and first executive director of the newly established International Energy Agency of the OECD from 1975 to 1984.⁵⁷⁵ Werner Lamby had started his career as a civil servant in the Office of the Federal Chancellor in 1952. Between 1960 and 1966, he worked as a specialist for development in the Ministry of Economics and later in the Ministry of Economic Cooperation, from 1966 to 1967 he was president of the UN World Food Programme. In 1968, he transferred to the Ministry of the Treasury as head of division I (industrial property), in 1969 to the Ministry of Finance as head of division VIII (industrial property). In 1973, he became managing director of VIAG.⁵⁷⁶ Ernst Pieper (SPD), an economist, had been working for Klöckner-Werke before transferring to civil service. From 1964 to 1974 he worked in the Ministry of Economics under Engelmann and became a consultant for federal industrial property in 1968. In March 1974, he became head of division VIII (industrial property) in the Ministry of Finance as successor of Lamby, who had just become managing director of VIAG.

⁵⁷⁴ “Bonner Kulisse”, *Die Zeit*, 15.2.1991.

⁵⁷⁵ “Lantzke, Ulf” in Munzinger Online/Personen – Internationales Biographisches Archiv.

⁵⁷⁶ Biographical notes in “*Die Kabinettsprotokolle der Bundesregierung*” online.

Pieper returned back to the industry and succeeded Birnbaum as managing director of the federal Salzgitter AG in 1974, he remained in that position until 1994.⁵⁷⁷ Pieper and Lamby were supported by Fritz Knauss. Knauss had started his career in the Federal Office for Trade and Industry (*Bundesamt für gewerbliche Wirtschaft*) and the Ministry of Economics. In 1964, he became advisor for industrial participations in subdivision IB1 in the Ministry of the Treasury under Dollinger and transferred with Lamby to subdivision VIIIA2 in the Ministry of Finance in 1969. He is also author of a number of publications about the federal industrial enterprises. Lamby and Knauss became advocates of the federal holding idea around 1970.

5.1 Grand Coalition: From Privatisation to Consolidation

In the first grand coalition under Federal Chancellor Kurt Georg Kiesinger (CDU), Werner Dollinger (CSU) became Minister of Posts and Telecommunications, while Kurt Schmücker (CDU) succeeded him as Minister of the Treasury. Karl Schiller (SPD) became Minister of Economics, and Franz-Josef Strauß (CSU) Minister of Finance. Wolfram Langer transferred with Kurt Schmücker (CDU) from the Ministry of Economics to the Ministry of the Treasury as secretary of state. Privatisation as a political goal was not abolished during these years but it was subordinated to more important political matters. After the experiences with VEBA and in light of a slowdown of economic growth, the CDU/CSU was probably not interested in risking a similar scenario and went for a consensus-oriented low-risk economic policy without further privatisation attempts instead. This finding is consistent with the empirical observation that privatisation tends to be more likely when the overall economic situation is good. Practically, it would probably not have been possible to implement privatisation due to likely resistance from the SPD. Between 1966 and 1969, several attempts were made to reorganise the industrial shareholdings and to develop a more systematic privatisation approach. However,

⁵⁷⁷ Hlawatschek (2001).

most ideas remained far from being implemented. Some concepts were later taken over by the social-liberal coalition.

A few months after taking office, Schmücker published an article about the difficulties of privatisation in the current economic situation, and advocated a shift from privatisation to consolidation and reorganisation.⁵⁷⁸ The main issues in these years were a restructuring of the loss-making Salzgitter AG and Saarbergwerke and a consolidation of the Ruhr coal mines. Since none of the federal enterprises was considered to be ready for privatisation yet, the focus was on creating the necessary conditions.

Unlike the CDU Ministers of the Treasury Herrmann Lindrath, Hans Wilhelmi and Werner Dollinger, Schmücker had not been in the line of signatories of the first Volkswagenwerk bill and can be regarded as more open towards continuous state interventions based on Christian democratic ideals. At the CDU *Wirtschaftstag* (business forum) in 1965, the annual meeting of the Economic Board (*Wirtschaftsrat*) of the CDU, he rejected the frequently encountered opinion that economic policy was “a necessary but annoying evil”.⁵⁷⁹ A diffusion of ownership through people’s shares was possible “if all people are handling ownership in a responsible way”.⁵⁸⁰

Lamby (Ministry of the Treasury) took the idea of investment funds up again and suggested it to Schmücker and Langer. The basic idea was to transfer shares of federal enterprises which were ready to be partially privatised into an investment fund and to sell shares in this fund to private investors. The fund should use the revenues from selling shares to buy further shares of federal enterprises. Lamby suggested starting with VEBA and VIAG. Both companies needed capital increases within the following years. In light of the current federal budget situation, it was difficult for the federal government to finance these, so that alternative measures had to be found. Yet, Lamby admitted the persisting legal problem: the Investment Company Act provided that no investment fund was allowed to own a share volume in a company

⁵⁷⁸ Kurt Schmücker: “Die Grenzen der Privatisierung”, in: *Rheinischer Merkur*, 9.6.1967, copy in BArch B126/51418.

⁵⁷⁹ “ein zwar notwendiges aber dennoch ärgerliches Übel”.

⁵⁸⁰ “wenn alle (...) vernünftig mit dem Eigentum umgehen”. BArch N1256/83, Schmücker: “Die Wirtschafts- und Gesellschaftspolitik der CDU/CSU”, Speech at the CDU Business Forum, 8.7.1965.

which exceeded 5% of its own share value. This limit would be exceeded in the envisaged conception, either the law would have to be changed, or a special law for federal investment funds would have to be created.⁵⁸¹ Just half a year later, Lamby came to the conclusion that the establishment of an investment fund was not a feasible solution due to practical and legal difficulties.⁵⁸²

In Spring 1968, the Ministry of the Treasury officially announced a privatisation of VIAG in the *Bundestag* for the time when the company was consolidated and hence the necessary preconditions were achieved.⁵⁸³ In January 1969 however, Lamby proposed to not initiate a partial privatisation of VIAG in the current legislative period because there was not enough time left and the transaction might be mistakenly perceived as an election gift. Instead, he suggested announcing a binding date for a privatisation after the elections in autumn 1969 as part of the electoral campaign.⁵⁸⁴ In May 1969, Norbert Blüm (CDU), a representative of the CDU employees' faction, declared that the time of people's shares was over.⁵⁸⁵

Meanwhile, three other initiatives remained without success between 1968 and 1969. First, circles within the SPD apparently had started to work on a law to establish a federal holding company. A draft *Bundestag* proposal which can be found in documents of the Ministry of Finance is dated from June 1968.⁵⁸⁶ Second, a group of CDU politicians from Baden-Württemberg around Häussler promoted the idea of employee participation again in 1969. Their idea was to dampen claims for co-determination by extending co-ownership. The proposal included plans for a privatisation law. This was meant to secure enough supply of shares to satisfy the expected demand. However, ministerial officials found the idea not realisable. The main reason was that the federal enterprises which were regarded as feasible for such a privatisation because they would allow a sufficiently secure investment were regarded as too small

⁵⁸¹ BArch B126/51418, BMSchatz, Div. I (Lamby) to Schmücker and Langer, 28.5.1968.

⁵⁸² BArch B126/51418, BMSchatz, Head of Division I (Lamby) to Schmücker and Langer, 13.8.1968.

⁵⁸³ *Bundestagsdrucksache* 05/2805, 20.3.1968.

⁵⁸⁴ BArch B126/34805, BMSchatz, Lamby to Schmücker and Langer, 9.1.1969.

⁵⁸⁵ "Hat die Volksaktie noch eine Chance?", *Der Volkswirt* no. 18, 2.5.1969, copy in BArch B136/7391.

⁵⁸⁶ BArch B126/34805, "Entwurf, Antrag der Fraktion der SPD, Errichtung einer Bundesholding", 24.6.1968.

for this purpose.⁵⁸⁷ And third, Kurt Georg Kiesinger (CDU) and his Office of the Federal Chancellor supported a proposal of the *Stifterverband für die Deutsche Wissenschaft*, an industry initiative to support research and higher education, to use revenues from a partial privatisation of federal enterprises for special tasks. This could be a foundation for industrial or structural policy or, like the Volkswagenwerk Foundation, for educative purpose. The foundation would solve the problem that it was in principle not possible to earmark revenues from privatisation for special purpose, as soon as they had been accredited to the federal budget.⁵⁸⁸

While there was a standstill situation on the political level, the administration in charge worked towards mixed ownership solutions in order to keep a balance between political interests in public enterprises and their financing requirements. Officials in the Ministry of Economics started an internal examination about the federal holding idea in April 1968, possibly after having heard about the SPD proposal, and found it very problematic.⁵⁸⁹ Several officials in the Ministry of the Treasury were also rather sceptical about the holding idea. Knauss (Ministry of the Treasury) prepared an elaboration for a meeting of a committee of the CDU/CSU *Bundestag* faction. He warned that profit expectations should not be set too high, given the difficulties which the respective companies were facing. Also, he argued that it might become difficult to steer such a large holding company.⁵⁹⁰ It seems obvious that a federal holding solution would not eliminate the tension between profit-oriented interests of the companies and political public interests.

Despite his initially hesitant attitude, it was Knauss who became the supporting official for the holding idea for the following years – first in the Ministry of the Treasury, later in the Ministry of Finance. After the dissolution of the Ministry of the Treasury, the idea of a federal holding company was taken up in the Ministry of Finance and advocated by Möller (SPD).

⁵⁸⁷ BArch B126/51418, BMSchatz, Div. IA1 (Kunze) to Head of Div. I, 8.7.1969, p. 5.

⁵⁸⁸ BArch B126/76980, BMSchatz, IB2 (Keussen) to Head of Div., 24.4.1969.

⁵⁸⁹ BArch B126/34805, Engelmann (BMW) to Langer (BMSchatz), 29.4.1968, and attached note.

⁵⁹⁰ BArch B126/34805, BMSchatz, Div. I to Schmücker and Langer, 27.3.1968.

In April 1969, Knauss presented an elaboration on privatisation to Lamby in which he examined the two options of establishing an investment fund or a holding company as possible solutions for federal enterprises. He concluded that the investment fund was not realistic because the portfolio of suitable companies was too small in order to create an attractive low-risk investment fund; it would only be feasible if German or US obligations were integrated in the fund. Knauss considered only Volkswagenwerk, VEBA and VIAG as ready for privatisation; Saarbergwerke and Salzgitter AG were too risky, and all other enterprises were not feasible for privatisation due to their special circumstances. Thus, he concluded that a federal holding was the better alternative. The holding should take over listed companies first and include all other companies, if possible also enterprises owned by the states, later. In order to secure a public influence, Knauss suggested that the federal government should keep 51% of the shares while the rest could be privatised. That way, he suggested, property formation and industrial policy could be combined.⁵⁹¹

Breme (Ministry of the Treasury) was rather sceptical about creating a federal holding. He considered the plan unrealistic and named expected difficulties: the leadership problem would become even more difficult because the federal administration would not only have to deal with the individual company managers but also with an additional holding management. A holding-internal distribution of profits and losses would only partially be possible and required controlling agreements. This would require a compensation offer to current external shareholders of those companies which were not 100% federally owned. A partial retention of profits however would lead to supplementary taxes and therefore lower dividends.⁵⁹² Despite these objections, Lamby, head of division I, started to favour the holding model. While he still recommended a partial privatisation of VIAG to Minister of the Treasury Schmücker in March 1969,⁵⁹³ he proposed the holding model shortly afterwards and argued that compared to a direct privatisation of VIAG, which needed a capital increase until 1971, the holding model would allow for a larger privatisation volume by still keep-

⁵⁹¹ BArch B126/76980, BMSchatz, Subdiv. IB1 (Knauss) to Head of Div. I (Lamby), 14.4.1969.

⁵⁹² BArch B126/76980, BMSchatz, Breme to Knauss, 11.4.1969.

⁵⁹³ BArch B126/34805, BMSchatz, Internal Note, Div. I (Lamby) to Schmücker, 25.3.1969.

ing a federal voting majority.⁵⁹⁴ However, the Ministry of the Treasury was abolished after the federal elections in autumn 1969.

Two elaborations of Knauss from 1969 reflect the political change which had manifested since the mid-1960s. Knauss describes a trade-off between industrial, structural and regional policy on one side and property formation policy on the other side. Whereas until the mid-1960s priority had been given to property formation policy, industrial policy was becoming more and more important now and federal enterprises should be utilised for this purpose.⁵⁹⁵ While the three people's shares privatisations were very successful, Knauss underlines that privatisation could not continue in the same way due to changed circumstances. The remaining public enterprises were either too small or not profitable enough or too risky and hence not suitable as secure investments for the broad population. Economic developments in 1965 and 1966 had shown that competition would become stronger and more international in the future. Initial steps had been taken to adapt Saarbergwerke and Salzgitter AG to these circumstances, including changes in the corporate managements and their production programmes. While public enterprises had to be managed according to business principles they also had the obligation to fulfil tasks of regional and sectoral structural policy. These competing elements had to be brought into balance. In light of increasing challenges from international competition, the question of public versus private was not central anymore. Rather, national interests demanded that West Germany was equipped with large and strong enterprises independently of the ownership question. Good examples of this were HDW-Deutsche Werft AG and RAG, which had been established as a consolidation company for black coal mines in the Ruhr district in 1968.⁵⁹⁶

With the temporary abandonment of privatisation, financing capital increases became a major issue. The problem was that if the government wished to maintain its percentage share in a company it had to participate in all the capital increases. Rejecting capital increases of public enterprises on the other hand would impede the companies' growth and was hence not an option ei-

⁵⁹⁴ BArch B126/34805, BMSchatz, Internal Note, Subdiv. IB1, 29.4.1969; *ibid.*, BMSchatz, Div. I (Lamby) to Schmücker and Langer, 14.5.1969.

⁵⁹⁵ BArch B126/76980, BMSchatz, Breme to Knauss, 11.4.1969.

⁵⁹⁶ BArch B126/76980, "Dem Ziel der Privatisierung näher gerückt", BMSchatz, 8.9.1969.

ther. To solve this, Schmücker came up with a third party model where the federally-owned KfW bought and held the federal shares in trusteeship for the federal government. This uncoupled equity increases from the federal budget. The revenues from the sale of shares or subscription rights were accredited to the federal budget at the moment of the takeover by KfW and the KfW committed by contract to sell the shares only upon the government's request. This model was first used for a capital increase of VIAG in 1968:⁵⁹⁷ Based on a contract from July 1968, the KfW took over shares in the nominal value of 50 million DM at a price of 220%, i.e. 110 million DM.⁵⁹⁸ This arrangement where the KfW acted as a placeholder was used several times later on when control rights should not be transferred to private investors, for example in the case of VEBA in 1971 and also in the case of Deutsche Telekom AG.

Schmücker's primary political goal during his time as Minister for the Treasury was a consolidation of Salzgitter AG and Saarbergwerke. His project for Salzgitter AG was the "Nordstahl AG", an attempt to establish a large national steel corporation under the umbrella of Salzgitter AG. The idea was a merger of the steel businesses of Salzgitter AG, Ilseder Hütte and Klöckner-Werke AG. "Nordstahl AG" would have been Germany's second largest steel company after Thyssen. The KfW bank had supported the merger in an expert report because only together would the three steel producers have a production volume above four million tonnes raw steel which was considered to be the required minimum size for a modern steel company. According to an article in the weekly newspaper *Die Zeit*, Klöckner-Werke withdrew from the project because of Salzgitter AG's pile of debt.⁵⁹⁹ As a small solution, Ilseder Hütte and Salzgitter merged in 1970 and the steel businesses were brought into the new combined *Stahlwerke Peine-Salzgitter AG*. When Klöckner-Werke AG went bankrupt in 2001, about 30 years later, Salzgitter AG bought 78% of the shares and has since increased its participation to 100%. The consolidation plan for Saarbergwerke was to shift away from coal, widen the product range and set foot in the oil business. In 1965, Saarbergwerke acquired *Erdölwerke*

⁵⁹⁷ *Bundestagsdrucksache* 05/2805, 20.3.1968.

⁵⁹⁸ BArch B126/34805, BMF, Internal Note, Subdiv. VIII B1 (Quadt), 3.12.1969.

⁵⁹⁹ "Nicht geredet", *Die Zeit*, 11.4.1969.

Frisia AG, but the refinery was re-sold to the Gulf Oil Corporation only five years later. In 1967, the oil refinery *Saarland-Raffinerie* was established and put into operation. However, due to the strong price increases of crude oil in the early 1970s, the production of petrochemical products was given up in the 1970s. In addition to that, Saarbergwerke acquired a couple of participations in other sectors as part of a broad diversification strategy. As a third project during the time of the grand coalition, RAG was established as a consolidation company for black coal mines in the Ruhr district in 1968. The federal government played a managing role in this process. The measure was considered to be necessary because demand for coal was declining due to the availability of oil. The federal government was directly affected by this development through VEBA and its subsidiary companies Hibernia and Stinnes. VEBA contributed its shares in Hibernia and Stinnes and received a share of 30% in RAG in return. Hence, the federal government indirectly held a participation although RAG had not been set up as a public enterprise. In the following years, RAG achieved a share of 80% of the German black coal production. Following a diversification strategy, RAG also increased its market share in the German oil industry to 25% until the mid-1970s.⁶⁰⁰

In the election year 1969, it became obvious that Lufthansa AG would soon need another equity increase to finance its planned investment programme of 900 million DM until 1972. Since the federal government did not want to risk losing its qualified voting majority in future share issues and the federal share had already decreased to 75% during the stock market launch in 1966, the federal government decided to exchange voting for non-voting shares with preferential dividends. The *Bundestag* committee for federal property approved the request of Minister Strauß.⁶⁰¹ Existing private shareholders were offered the chance to exchange their shares for non-voting shares with payment of a retroactive dividend of 5% and holders of option bonds from 1967 were granted the right to decide whether they wanted to purchase voting or non-voting shares. Owners of shares with a nominal value of 47.1 million DM

⁶⁰⁰ For developments in the coal markets and the establishment of RAG see Abelshausen (1984).

⁶⁰¹ *Bundestagsdrucksachen* 05/4324, 9.6.1969, and 05/4403, 17.6.1969.

decided to take the offer and voting equity decreased from 400 million to 352.9 million DM. Private voting capital decreased to 6.6%. In 1969, Lufthansa paid a dividend for the first time ever – 5% for non-voting shares and 4% for voting shares. From 1969 until the 1980s, the voting majorities did not change significantly: in 1973, equity was increased to 600 million DM and in 1978 to 900 million DM. The federal government participated both times so that it kept a qualified voting majority and a capital majority of 74.31%.⁶⁰²

5.2 Social-Liberal Coalition: From Reorganisation to Structural Policy

After the federal elections in 1969, a social-liberal coalition of SPD and FDP under Willy Brandt (SPD) was formed. The Ministry of the Treasury was abolished in the aftermath of the elections and the Ministry of Finance under Alex Möller (SPD) regained the leading role for industrial shareholdings. Möller focused on a reorganisation of public enterprises in the form of a holding company but resigned in 1972 as a protest against the deficit-spending government policy. Schiller (SPD) remained Minister of Economics and became additionally Minister of Finance when Möller resigned. When Schiller himself resigned in 1972 as a protest against the monetary and fiscal policy of the government, he was succeeded by Helmut Schmidt (SPD) who remained Minister of Finance whereas Hans Friderichs (FDP) became Minister of Economics in 1972. The Ministry of Economics under Schiller and later under Friderichs took the leadership position for public enterprises and the focus shifted from reorganisation to structural policy.

The 1970s were marked by several market crisis, an expansion of public ownership and a shift to sectoral and regional structural policy. Privatisation faded into the background although it was at no point officially abolished. Beyond the external circumstances, the political constellation made it very unlikely that one of the coalitions partners could have made a successful move: the FDP would probably not have accepted a categorical no to privatisations,

⁶⁰² Bozdag-Yaksan (2008), pp. 129–130.

whereas the SPD was extremely hesitant towards it. As a consequence, the status quo of a mixed ownership economy was maintained and the federal government took on a more active role in the economy.

Now that the SPD was in the government, the party had to take a stand on the issue of public ownership for the first time. Since Deist's (SPD) idea of a national foundation, no conceptualisation had been presented. In the decisive *Bundestag* debates of the 1950s and 1960s, the SPD had defended shareholdings as an important policy instrument. Thereby, they had been ignoring the fact that control over shareholdings was limited and required mutual concessions between managements and the government. The discussions around Möller's holding idea showed that SPD politicians had competing opinions regarding the question of public ownership. The Office of the Federal Chancellor interpreted discussions of the SPD at their party convention in Saarbrücken in 1970 as a decision against privatisations.⁶⁰³

In the 1970s, privatisation temporarily lost its importance for the FDP. The party's focus shifted from economic liberalism to social liberalism. Whereas FDP parliamentarians had in the 1950s bombarded the government with questions and suggestions, even while the FDP was part of the government coalition itself, privatisation was hardly an issue anymore after the holding plan had been dropped. When Hans Friderichs (FDP) became the first liberal Minister of Economics, this did not mark a turn of economic policy away from interventionism. Friderichs later massively supported a concentration of ownership in the energy market and gave the first ministerial merger approval in the history of the Federal Republic for the merger of VEBA and Gelsenberg AG (GBAG). Knauss observed the attitude of the FDP towards state ownership and privatisation and found it highly pragmatic. He ascribed this to some extent to a closer and more successful cooperation between government and federal companies within the previous years and improved insights into the companies' specific business policies and problems.⁶⁰⁴

When the FDP entered the social-liberal coalition in 1969, a programmatic shift to the left was taking place in the party. The election programme

⁶⁰³ BArch B136/7391, BKAm, Div. IV (Ehrenberg) to Minister, 15.12.1970.

⁶⁰⁴ BArch B126/63961, BMF, Internal Note, Subdiv. VIIIA2 (Knauss), 24.8.1977.

from 1969 still promoted the privatisation of industrial shareholdings in a social form which allowed a participation of ordinary people in the growth of productive capital.⁶⁰⁵ The Freiburg Program demanded that public and private enterprises from a certain size onwards should enable co-ownership by employees.⁶⁰⁶ In an election brochure of the FDP *Bundestag* faction from 1972, the FDP held on to its idea of social privatisation to enable a broad distribution of ownership.⁶⁰⁷ The election programme from 1976 did not mention privatisation anymore. In July 1977, the party published two programmes: an economic programme “*Grundzüge liberaler Wirtschaftspolitik*”, which had been prepared by a commission under Minister of Economics Friderichs, and a programme “*Aktuelle Perspektiven des Sozialen Liberalismus*”. In these programmes, it was stated that a strict and clear division of tasks between public and private actors was necessary, but that it was impossible to specify which tasks had to be fulfilled by the state on a general basis. Instead, this had to be examined on a case by case basis which implies that a privatisation discussion could only take place on such an undogmatic basis.

Given the historical connection between the SPD and the unions, there were concerns that SPD representatives and employees’ representatives on supervisory boards would collaborate and block company decisions. Shares in companies with a majority of government and employees representatives were therefore called “red shares” (“*rote Aktien*”) among experts, according to an article in *Die Zeit* in 1971. The background was that the current left-dominated supervisory board of Volkswagenwerk had recently appointed an SPD member to the management.⁶⁰⁸ However, this does not seem to have become problematic. Also, the Ministry of Economics was in the hands of FDP politicians in the 1970s.

⁶⁰⁵ FDP, *Nürnberger Programm*, 25.6.1969.

⁶⁰⁶ FDP, *Freiburger Thesen*, 27.10.1971.

⁶⁰⁷ According to BArch B126/63961, “Stichworte zur Wirtschafts-, Finanz- und Agrarpolitik. Eine Bilanz 1969–1972”, BMF, Internal Note, Division VIIIA2 (Knauss), 24.8.1977.

⁶⁰⁸ “Die VEBA-Aktie wird nicht ‘rot’”, *Die Zeit* no. 32, 6.8.1971, p. 24.

5.2.1 Capital Requirements and the Federal Holding

Idea

When the Ministry of the Treasury was dissolved in October 1969, the lead management for public enterprises was transferred back to division VIIIB1 in the Ministry of Finance under Alex Möller (SPD). Also, the officials Lamby and Knauss transferred to that division. At that time, two ideas were competing within the ministerial administration: the idea to keep separate companies but to increase cooperation between them and the idea to bundle all shareholdings in one large federal holding company. Lamby, head of division VIIIB1, presented a draft for a federal holding to Möller in November 1969. The draft, which had probably been prepared by Knauss, noted that the current conglomeration of public enterprises was not systematically but historically determined. The political goal of creating ownership had once led to the privatisation of the most profitable shareholdings. A continuation of this policy would imply that the federal government would be left only with the least profitable enterprises. This would make a general conception for public enterprises more difficult and would not harmonise with the recent shift from an ownership-creating policy to regional and structural policies. The note highlighted that public enterprises would benefit from a streamlining of the federal administration: a better knowledge of the companies' situation, a higher personnel continuity of federal representatives and less administrative distance could improve the communication between the government and its companies. A handwritten note from Möller shows his openness towards the idea: he thanked for the excellent draft and mentioned that he approved of the holding idea. Therefore, he wished to receive a more detailed memorandum as soon as possible.⁶⁰⁹

Practical preparatory work on the federal holding progressed quickly in winter 1969/1970 and discussed legal and other aspects of the holding model.⁶¹⁰

⁶⁰⁹ BArch B126/34805, BMF, Lamby to Minister and Secretary of State, 18.11.1969.

⁶¹⁰ Documentation in BArch B126/34805: "Rechtsfragen betreffend Bundesholding", 4.12.1969; Internal Note on internal task distribution (Knauss), 12.12.1969; "Grundsätzliche Anmerkungen zur Aufstellung einer Gründungsbilanz", Subdiv. VIIIB2 (Keussen), 6.1.1970; Internal Note, Subdiv. VIIIB2 (Keussen), 3.2.1970; "Alternativrechnung zur Holdingvorlage vom 12.2.1970", Div. VIII (Lamby), Note about the alternative to use VEBA as a holding company, 27.5.1970; Div. VIII (Lamby), Note about antitrust and

In February 1970, Knauss presented a comprehensive exposé for the establishment of a federal holding which included a discussion of a partial privatisation of the holding. He suggested that the government should transfer 49% of the shares into private ownership and keep the majority of 51%. This would allow a nominal privatisation volume of 735 to 848 million DM and, with an issue price of 200%, lead to revenues of 1.47 to 1.696 billion DM. This was above 1.1 billion DM which Knauss considered to be the minimal volume for a privatisation aiming at a wide distribution of shares, based on previous experiences.⁶¹¹ As an alternative, Knauss presented a model where VIAG would serve as a holding for all other federal shareholdings and where 33.3% of VIAG would be sold to private investors. This model would imply privatisation revenues of up to 1.043 billion DM.⁶¹² The threshold for a successful partial privatisation of a potential holding company was set at a dividend of 10% or higher, in order to guarantee profitable private investments.⁶¹³

The plan to establish a holding company became public in April 1970.⁶¹⁴ The ministerial administration assumed that this was due to an indiscretion.⁶¹⁵ In April 1970, about the same time, the CDU/CSU *Bundestag* faction added additional pressure on the federal cabinet by unsuccessfully proposing a partial privatisation of 40% of VIAG.⁶¹⁶ Obviously, this initiative had rather symbolic

legal aspects, 1.6.1970.

⁶¹¹ BArch B126/34805, “Vorschlag einer Neuorganisation des industriellen Bundesvermögens”, Subdiv. VIIIB1 (Knauss), 12.2.1970, p. 23–24.

⁶¹² BArch B126/34805, BMF, Internal Note, Div. III, 6.5.1970. After two valuation reports of the federally-owned Treuarbeit and the privately-owned Karoli had criticised the assumptions about costs and future returns of investments which had been used in the calculations as too optimistic (BArch B136/7392, Internal Note, BMF, Subdiv. VIIIB1 (Winkeler), 11.8.1970, pp. 6–8.), the ministry corrected its calculations and chose a more prudent approach.

⁶¹³ BArch B136/7392, Internal note about a departmental meeting on 28 July 1970, BMF, Subdiv. VIIIB1 (Winkeler), 31.8.1970.

⁶¹⁴ See for example “In Möllers Ministerium erarbeitet”, and “Junghans: Erst nach vier bis fünf reif zur Teilprivatisierung”, *Braunschweigische Zeitung*, 16.4.1970; “Ein Abgeordneter liegt quer. Widerstand gegen die Zusammenfassung der Bundesunternehmen”, *Die Zeit*, 24.4.1970; “Die VIAG benötigt neues Eigenkapital” and “Bundes-Mischmasch”, *Süddeutsche Zeitung*, 12.5.1970, copies in BArch B126/34805.

⁶¹⁵ BArch B136/7391, BKAm III3 (Geberth) to Minister, 14.4.1970. It is not entirely clear who Geberth is addressing here, but very likely it is Minister of Economics Schiller. From 1968 to 1970, Rolf Geberth was head of subdivision III/3 (*BMWi; Deutsche Bundesbank; Kabinettsausschuss für Wirtschaft*) in the Office of the Federal Chancellor and as such in charge of affairs in the area of responsibility of the Ministry of Economics. In 1971, Geberth transferred to the Ministry of Economics himself. Information from personnel files in “*Die Kabinettsprotokolle der Bundesregierung*” online.

⁶¹⁶ *Bundestagsdrucksache* 06/652, 21.4.1970.

character: CDU and CSU were not in power and it can be questioned whether they would have initiated a privatisation if they had been part of the government coalition. Yet, it is possible that the CDU/CSU hoped for some votes from the FDP who would never have rejected such a proposal a couple of years before.

Other ministries were involved in the holding plan at a late stage. A first cross departmental meeting about the plan in May 1970 revealed scepticism in both the Ministry of Economics and in the Ministry of the Interior.⁶¹⁷ The Minister for Labour and Social Affairs Walter Ahrendt (SPD) worried that the holding structure might undermine co-determination of workers for Salzgitter AG and Saarbergwerke AG. Both companies were parity-co-determined in the scope of the Act on Co-Determination in the Coal, Iron and Steel Industry from 1951, whereas the holding would only be co-determined in the scope of the general Act on Co-Determination from 1952.⁶¹⁸

The Ministry of Economics had several objections against the holding plan.⁶¹⁹ The ministry's antitrust division criticised the resulting concentration of economic power in federal hands. The Ministry of Finance argued that such a concentration of ownership already existed and that it would not make a difference whether the shareholdings were combined in a holding or not.⁶²⁰ Knauss in the Ministry of Finance argued that the holding would only be on the last rank of the ten German companies with the highest turnovers: due to the earlier partial privatisation of VEBA, the holding would only have a 40% participation in VEBA which would be below the control threshold so that VEBA's turnover would not count for the holding calculation. Additionally, the participation in Volkswagenwerk was only held in trusteeship for the Volkswagenwerk Foundation by the federal government so that that participation would not count as federal property anyway. All other public enterprises had a total turnover of 5.7 billion DM in 1969. This would put the

⁶¹⁷ BArch B126/34805, BMF, Minutes of the meeting, VIII (Lamby), 29.5.1970.

⁶¹⁸ BArch B136/7392, Minister of Labour and Social Affairs Ahrendt to Federal Chancellor Brandt, 17.9.1970.

⁶¹⁹ BArch B136/7392, BMWi, IIC2 (Pieper), "Stichworte für die Hausbesprechung am 5.6.1970".

⁶²⁰ BArch B126/34805, BMF, Internal Note, VIIIIB1, 8.6.1970; and BArch B136/7392, BMWi, IB5 (Kartte), 4.6.1970.

fictive holding on rank ten, far behind Volkswagenwerk on the first rank with a turnover of 13.9 billion DM and behind VEBA on rank eight with a turnover of 6.0 billion DM. Other companies which were larger than the fictive holding were Siemens, Thyssen, Daimler-Benz, BASF, Farbwerke Hoechst, Bayer, and AEG-Telefunken.⁶²¹ As a second problem, the Ministry of Economics warned that an integration of VEBA in a large holding company could be perceived as if the government wanted to increase its influence on the company again after the voting majority had been lost during the partial privatisation.⁶²² And third, the ministry was worried that unprofitable companies would drag profitable companies down and that the holding would not be suitable to be partially privatised in the near future as a consequence.

The Ministry of Economics' energy division III therefore proposed establishing two holdings instead of one: Holding I should incorporate the healthy, profitable shareholdings which were ready to be privatised, including VEBA, VIAG; holding II should take over Deutsche Industrieanlagen Gesellschaft (DIAG), the deficient Saarbergwerke and Salzgitter AG, and the remaining share in Volkswagenwerk in order to stabilise revenues. Holding I could immediately be partially privatised in order to please the FDP, whereas holding II should be kept in federal ownership in order to satisfy the SPD's wish for a structural policy instrument. The division argued that two smaller holdings would be less market-dominant.⁶²³ The advantage which the Ministry of Economics saw in a holding was that the administration of enterprises would be taken out of reach of the Ministry of Finance.⁶²⁴ The subsequent agreement was that the Ministry of Finance should additionally examine the alternative to establishing two holding companies.⁶²⁵

Resistance against the holding idea also came from the political parties.

⁶²¹ BArch B136/7392, BMF, Internal Note, VIIIB1 (Knauss), 13.7.1970. The figures used in this calculation were backed up by two surveys of the state-owned Treuarbeit and the privately owned accountancy firm Karoli. BArch B136/7392, "Zusammenstellung der Untersuchungsergebnisse der Gutachter zum Modell 'Bundesholding' und Stellungnahme zu den Gutachteräußerungen".

⁶²² BArch B136/7392, Internal Note, BMF, VIIIB1 (Winkeler), 11.8.1970, p. 4.

⁶²³ BArch B136/7392, BMWi, III3 (Koch) to Head of division III, 4.6.1970, and *ibid.*, Internal Note, BMF, VIIIB1 (Winkeler), 11.8.1970, p. 5.

⁶²⁴ BArch B136/7392, Internal note about a departmental meeting on 28 July 1970, BMF, Subdiv. VIIIB1 (Winkeler), 31.8.1970.

⁶²⁵ BArch B136/7392, Internal Note, BMF, VIIIB1 (Winkeler), 11.8.1970.

It became obvious early on that Möller's suggestion did not have the full approval of the SPD *Bundestag* faction. After the holding plans had become public, Junghans (SPD) indicated a general approval to a holding arrangement based on VIAG but rejected all privatisation attempts, at least for the time being. According to him, he himself had suggested the holding idea a few years ago.⁶²⁶ The parliamentarians were hardly involved in the ongoing discussions which took place on the ministerial level. A meeting of FDP, SPD and representatives of the Ministry of Finance in May 1970 revealed fundamental differences between the parties. The Ministry of Finance officials pointed to the indispensable necessity of capital injections for federal enterprises until 1972. Therefore, they intended to establish the holding and to finance a subsequent equity increase by issuing shares in such a volume that in the end up to one third of the holding would be privately owned. This would be sufficient to finance equity requirements in the amount of 700 million DM and would maintain a strong role for the state. It was further planned that the Minister of Economics himself should become chairman of the supervisory board. Junghans (SPD) rejected an immediate partial privatisation and demanded that a sale of maximal 49% of the holding should become part of a broader property formation programme in three to five years time. Yet, an immediate privatisation was a precondition for the approval of the FDP to the holding.⁶²⁷ In a press announcement, Mischnick, chairman of the FDP *Bundestag* faction, named a privatisation of 40 to 50% of the planned federal holding the minimum condition for the approval of his party.⁶²⁸

After no agreement had been reached on the administrative level, the Secretaries of State in the Ministry of Economics Philip Rosenthal (SPD) and Detlev Rohwedder (since 1971 SPD) called on Minister Schiller to take care of the matter personally. The main concern was the integration of the struggling Salzgitter AG in the holding, an idea which Rosenthal and Rohwedder strongly rejected. Also, they criticised the whole project and warned about

⁶²⁶ BArch B126/34805, "Betr.: Bundesholding", *Informationen der Sozialdemokratischen Fraktion im Deutschen Bundestag*, 14.4.1970.

⁶²⁷ BArch B126/34805, BMF, VIII B1 (Knauss), 21.5.1970.

⁶²⁸ BArch B126/34805, "Keine faulen Kompromisse bei VIAG Privatisierung", *fdk - freie demokratische korrespondenz* (FDP press service) 161/70, 11.5.1970.

expected resistance from VEBA and also from VIAG: the VIAG management might not like the idea that its own profitability was to be used to cross-finance weaker companies. Rosenthal and Rohwedder suggested that for the time being only the profitable companies VEBA, VIAG, IVG, Prakla-Seismos GmbH and maybe Deutsche Schachtbau- und Tiefbohrergesellschaft mbH should be integrated. They also stressed that Salzgitter AG chief Birnbaum was against an integration of his company into the holding.⁶²⁹ Schiller and Möller finally agreed that only VIAG, VEBA, IVG and Prakla should be brought into a holding. What should happen to Salzgitter AG was left open: Möller suggested that the company should be held in trusteeship by VIAG, Schiller rejected this idea. Drafting a final agreement was left to the ministerial officials Lamby (Ministry of Finance) and Lantzke (Ministry of Economics).⁶³⁰

As Rohwedder and Rosenthal had predicted, resistance from the companies grew. At first, internal notes from the Ministry of Finance seemed rather optimistic: According to them, the VIAG management board did not reject the idea, but stressed that in a new holding company the rules of stock company law would still have to apply. They also suggested adding rules about the composition of the supervisory board in the company statutes to ensure a role for the representation and knowledge of the private economy. It was agreed that establishing the holding would be the first step, privatisation the second step, and the timing of an eventual partial privatisation should depend on the overall economic situation. If the established holding needed a capital injection before the timing for issuing shares was beneficial, the KfW should take over shares, such as in the cases of VEBA and VIAG.⁶³¹ The Ministry of Finance also noted that the management boards of the other concerned enterprises generally agreed to the holding plan. Only Prakla-Seismos was worried about its independence in a federal group, and VEBA preferred to serve as holding company itself.⁶³² And IVG was worried about its special status for the Ministry of Defence.⁶³³

⁶²⁹ BArch B136/7392, BMWi, Rohwedder and Rosenthal to Schiller, 25.9.1970.

⁶³⁰ BArch B136/7392, BMWi, Rohwedder to Reischl, 16.10.1970.

⁶³¹ BArch B126/34805, BMF, Internal Note, VIIIB1 (Knauss), 20.5.1970.

⁶³² BArch B126/34805, BMF, Div. VIII (Lamby) to Secretary of State, 8.6.1970; also *ibid.*, BMF, Div. VIIIB1, Minutes about a meeting with IVG.

⁶³³ BArch B136/7391, IVG to Office of the Federal Chancellor, 14.12.1970.

Opposition from the companies became stronger over the months and the Ministry of Finance started to perceive this as a threat to their plans. Knauss urged Salzgitter AG's management board member Bigge to approve the company's integration in the holding. According to an anonymous note from the Office of the Federal Chancellor, he warned that if the management board was not able to secure a dividend of at least 5% in the foreseeable future, the board should decrease its own royalties from nine to four monthly salaries (Knauss denied this when confronted by Lamby). According to internal information, another ministerial official threatened Bigge on behalf of Knauss that if Salzgitter was not integrated into the holding, it would not receive the capital injection of 300 million DM because in that case a consolidation was not necessary anymore. According to the same source, the Prakla management was warned that the company might be sold to a private investor if it would not agree to the holding.⁶³⁴ VEBA rejected the holding idea strongly. Not only did the management board object to the proposition, the supervisory board also rejected it at a crucial meeting in November because the employees representatives voted against the holding.⁶³⁵ VEBA would account for two thirds of the consolidated value of the holding, so its integration was crucial.

Meanwhile, the CDU/CSU had increased the political pressure on the government by bringing in another *Bundestag* proposal to partially privatise VIAG and VEBA and combine all other participations in a financial holding.⁶³⁶ This put the government into a difficult situation: A government agreement about the holding would not be reached until the CDU/CSU draft law would be read in *Bundestag*. Hence, no counterproposal could be presented, which would make the government look bad.⁶³⁷ Therefore, the coalition partners decided to forward the proposal directly to the *Bundestag* committees without

⁶³⁴ BArch B136/7392, Anonymous, "Streng Vertraulich", 24.11.1970.

⁶³⁵ BArch B136/7392, BKamt III3 (Geberth) to Minister, 24.11.1970.

⁶³⁶ "Entwurf eines Gesetzes über die Überführung von Anteilsrechten der Bundesrepublik Deutschland an der VIAG und der VEBA AG in die Hand von breiten Bevölkerungsschichten und über die Errichtung einer Aktiengesellschaft für Bundesbeteiligungen (Gesetz zur weiteren sozialen Privatisierung von Bundesunternehmen im Rahmen der Vermögensbildung)", *Bundestagsdrucksache* 04/1434, 16.11.1970.

⁶³⁷ BArch B136/7392, Rohwedder to Schiller, 23.11.1970, and attachment "Offene Fragen zur Realisierung des Holding-Konzepts für VIAG, VEBA, IVG und PRAKLA".

reading it in plenary first to avoid public attention.⁶³⁸ The *Bundestag* economics committee decided to postpone the debate until further information had been provided. This never happened, so no recommendation was sent to plenary and the proposal got lost in the legislative process. That way, the government had successfully avoided a public discussion about privatisation. The FDP had proven its commitment to the social-liberal coalition although rejecting the CDU/CSU draft was clearly against the party's economic convictions.

Möller now came up with a modified solution: the participation in VEBA should not be brought into VIAG but should be held in trusteeship by it.⁶³⁹ This was the basis for a cabinet proposal from December 1970. It suggested a smaller holding solution: VIAG should remain entirely federally owned and IVG and Prakla should be brought into VIAG. This would result in a financial holding with a turnover of 1.7 billion DM. VIAG should also hold the federal shares in VEBA and in Volkswagenwerk in trust. The federal government should not participate in the planned equity increase of VEBA in 1971. This would reduce the federal share from 40% to 34% and the voting majority would be lost. Whether the government would participate in later equity increases was left open, but the share should not sink below 26% in the future. The revenues from the sale of VEBA subscription rights in the amount of 150 million DM should be used to finance an equity increase of VIAG in 1974. Saarbergwerke, Salzgitter AG and DIAG should remain direct shareholdings until they would be consolidated.⁶⁴⁰ Möller's plan was supported by the Ministry of Economics, according to a conversation between Schiller and Möller, although the Ministry of Economics criticised that the Ministry of Finance had added a clause to the originally agreed solution to ensure that the federal share would not sink under 26% in the future.

While the Ministries of Economics and Finance had come to a jointly supported solution, now the Minister of the Interior Genscher (FDP) expressed reservations because the originally intended VIAG privatisation had been re-

⁶³⁸ BArch B136/7391, Div. VI (Ehrenberg) to Minister, 8.12.1970.

⁶³⁹ BArch B136/7392, Koch to Head of Div. IV, 1.12.1970.

⁶⁴⁰ BArch B136/7391, Minister of Finance (Möller) to BKamt, 4.12.1970.

moved.⁶⁴¹ Genscher's objection was, according to a note from the Ministry of Economics, the reason why Schiller's and Möller's compromise was not accepted by the federal cabinet.⁶⁴² The Office of the Federal Chancellor confirmed that the planned discussion at the cabinet Meeting on 10 December 1970 about Möller's cabinet proposal from 7 December had been cancelled on Genscher's request. Neither the SPD nor the FDP faction had been informed about the proposal up to this point, but Mertes and Junghans had signalled approval from their factions if the suggestion would explicitly say that it was just a "first step".⁶⁴³

After Genscher's veto, Chancellor Willy Brandt (SPD) interfered. Up to this point, the Office of the Federal Chancellor had observed the negotiations in the Ministry of Finance without interfering.⁶⁴⁴ Now, Brandt requested that the cabinet should form a working group "*Bundesholding*", chaired by Parliamentary Secretary of State Gerhard Reischl (SPD, Ministry of Finance). Other members were Minister of the Interior Genscher, Parliamentary Secretary of State Philip Rosenthal (SPD, Ministry of Economics), Secretary of State Rohwedder (SPD, Ministry of Economics), Herbert Ehrenberg (Ministry of Economics), Secretary of State Ernst Wolf Mommsen (SPD, Defence Ministry), and the MPs Hans-Jürgen Junghans (SPD), Gerhard Kienbaum (FDP), Helmut Lenders (SPD) and Werner Mertes (FDP).⁶⁴⁵ Additionally, a committee consisting of the three ministers, the chief of staff of the Office of the Federal Chancellor and the MPs Junghans and Kienbaum was put in charge of personnel decisions in federally-owned companies and the KfW by Chancellor Brandt.⁶⁴⁶

The progress of the working group was slow. At the first meeting it was agreed that the share in VEBA should be further reduced to 26%.⁶⁴⁷ VIAG should fully remain in federal ownership whereas its subsidiary compa-

⁶⁴¹ BArch B136/7392, Div. III (Lantzke) to Minister, 8.12.1970.

⁶⁴² BArch B126/59381, Ministry of Economics, Div. III (Lantzke) to Minister and Secretaries of State, 1.3.1971, p. 4.

⁶⁴³ BArch B136/7391 and BArch B136/7392, Div. IV (Ehrenberg) to Minister, 15.12.1970.

⁶⁴⁴ BArch B136/7391, BKAm III3 (Geberth) to Minister, 14.4., 14.9., 19.10. and 24.11.1970; Internal Note Div. III5 (Donezik), 24.4.1970.

⁶⁴⁵ BArch B126/59381, Report, BMF to BKamt, 24.2.1971, pp. 1–2.

⁶⁴⁶ BArch B136/7392, Brandt to Schiller, 18.12.1970.

⁶⁴⁷ BArch B136/7392, BMF, Div. VIIIB1 (Knauss), 18.1.1971.

nies should be opened up to private capital.⁶⁴⁸ However, Rosenthal doubted that this would be practically possible. In most subsidiary companies, VIAG had a share of 50% or less. If VIAG renounced its subscription rights in the case of equity increases, it would lose its impact almost entirely and it would risk co-owners becoming too big. Rosenthal complained that such impractical solutions were a consequence of limited knowledge of leading ministerial officials and that for future meetings, lower ranked officials with a better knowledge of the cases should join.⁶⁴⁹ After two meetings, the working group recommended to commission an independent report from a committee which should consist of selected personalities.⁶⁵⁰ Möller however found it little helpful to commission another report because the decision of what do to with federal enterprises was first and foremost a political decision and could not be solved by reports.⁶⁵¹ However, the Office of the Federal Chancellor insisted on commissioned report.⁶⁵² But Möller and Schiller were not even able to agree on a formulation for the instruction of the expert report. The Ministry of Finance officials intended an expert report only based on their own ideas and wanted to include a premise that the government should keep majority participations above 50%, that a solution should not require federal resources and that all three suggested holding models should be assessed. In contrast, the Ministry of Economics opposed any restrictions about the size of shareholdings and use of federal budget resources in the instructions. The Ministry of Finance suspected an attempt of the Ministry of Economics to make VEBA the centre of federal activities in the energy market at the expenses of the importance of VIAG. As a counterproposal, it suggested that VIAG and RWE should collaborate. The Ministry of Finance was even more careful because it recognised that a plan which would just affect one company could have a prejudicial effect and work against the big holding solution.⁶⁵³ Again, Schiller and Möller

⁶⁴⁸ BArch B136/7392, Jochimsen to Head of Div. IV, 8.1.1971.

⁶⁴⁹ BArch B136/7392, Rosenthal to Reischl, 20.1.1971.

⁶⁵⁰ BArch B136/7392, BMF, Minutes about the Meeting on 4 June, 5.6.1971.

⁶⁵¹ BArch B126/59381, Möller to BKamt, "Kabinettsache", 24.2.1971, pp. 1–2.

⁶⁵² BArch B136/7391, "Vermerk für die Kabinettsitzung am 4. März 1970", VI3 (Weiss), 2.3.1971.

⁶⁵³ BArch B136/7392, BMF, "Ausarbeitung aus dem BMF" (handwritten comment), Notes about a meeting with representatives of the BMWi on 22 March 1971.

came to an agreement and the restrictions outlined in the final instructions for a commissioned expert report were a compromise: in the case of companies with majority shareholdings, the federal impact on the respective companies should essentially be maintained; a reorganisation should not require federal resources and the collaboration between federal and private companies should be examined.⁶⁵⁴ At a coalition meeting in April 1971 it was finally decided to commission an independent expert report by Professor Potthoff.⁶⁵⁵

Just a few weeks later, Alex Möller quit on 12 May 1971. The official reason was dissatisfaction with the government's deficit spending policy. His frustration about the failing holding plan might have added to his decision. The Ministry of Finance was subsequently merged with the Ministry of Economics and Schiller became the minister of the combined super-ministry. The holding plan was immediately given up.⁶⁵⁶ The commissioned report from Potthoff was received in December 1971 but the Office of the Federal Chancellor did not find it helpful as a guideline for future political decisions.⁶⁵⁷

Der Spiegel suspected that the entire holding plan was driven mainly by the ministerial officials Lamby and Knauss in an attempt to create an opportunity for themselves to take on management jobs in the newly created federal corporation. According to the article, Lamby had in 1970 already applied to succeed the soon retiring VEBA chief executive director Kemper⁶⁵⁸, and Knauss had made an effort to get a management position at Salzgitter or Diag. Secretary of State Reischl and SPD politician Junghans also were said to have such ambitions.⁶⁵⁹ If the article was right, Lamby was successful. Only three years later, he transferred from the Ministry of Finance to the VIAG management board.

During the holding discussions, VEBA requested a capital increase in

⁶⁵⁴ BArch B136/7392, Minutes of the meeting of the working group “*Bundesholding*” on 22 March, 23.3.1971.

⁶⁵⁵ BArch B126/59381, Div. III (Lantzke) to Secretaries of State Rosenthal and Rohwedder, 20.4.1971.

⁶⁵⁶ See *Bundestag* inquiry of CDU and CSU in *Bundestagsdrucksache* 06/2382, 28.6.1971, and Schiller's response in *Bundestagsdrucksache* 06/2452, 14.7.1971.

⁶⁵⁷ BArch B136/7391, BKamt, VI2 (Weiss) to Head of Div. VI, 7.2.1972.

⁶⁵⁸ After his retirement in 1971, Kemper was chairman of the VEBA supervisory board from 1971 to 1976. Also, he was chairman of the supervisory board of RAG from 1969 to 1976.

⁶⁵⁹ “Mit sanftem Druck”, *Der Spiegel* no. 6, 1971, p. 43.

January 1971. The VEBA management board informed the Ministry of Finance that it intended to suggest an increase of authorised equity of nominal 412.5 million DM at the next general meeting. The capital increase should take place in two tranches of 206.25 million DM each in 1971 and 1973. This would lead to a capital inflow of 825 million DM which would partially finance planned investments of VEBA and its subsidiary companies in the amount of 5.4 billion DM. VEBA needed a response from the Ministry of Finance as soon as possible because the supervisory board had to decide on the agenda for the next general meeting in March. There at the latest, the government representatives would have to take a stand. The Ministry criticised that VEBA had doubled its request for equity capital since July 1970 but generally approved an increase.⁶⁶⁰

While there was unanimity about the urgency of an equity increase of VEBA in the federal cabinet, a pragmatic solution had to be found in light of the ongoing holding discussions. The solution should not be prejudicial for future politics.⁶⁶¹ In order to participate in the capital increase, the federal government would have to spend 165 million DM in addition to the already decided federal budget. The funds had been declared for the budget plan 1973 initially, but were deleted again based on the notion that a federal holding company would be established soon and would be partially privatised until 1972. Möller did not want to spend this money and therefore proposed using the third party model which had been used in the case of VIAG in 1968 and approving the capital increase of nominal 206.25 million DM for 1971. The KfW or a bank consortium should exercise the subscription rights on behalf of the federal government and keep the shares until a precedent-setting decision had been reached.⁶⁶² The working group “*Bundesholding*” agreed, with the additional request of the FDP members that not only the state-owned KfW but also a private bank consortium should be asked to submit an offer.⁶⁶³ The

⁶⁶⁰ BArch B136/7392, BMF, VIIIB1, 26.1.1971.

⁶⁶¹ BArch B136/7392, Minutes of the meeting of the working group “*Bundesholding*” on 4 February, 5.2.1971.

⁶⁶² BArch B126/59381 and BArch B136/7392, Möller to BKamt, “Kabinettsache”, 24.2.1971, pp. 6–9.

⁶⁶³ BArch B136/7392. BMF, VIIIB1, Minutes of the meeting of the working group “*Bundesholding*” on February 11, 1.3.1971.

federal cabinet subsequently decided to get offers from KfW and from a private bank consortium.⁶⁶⁴ In the end, KfW and a bank consortium each took over 50% of the shares on behalf of the government, with the contractual promise to sell them back to the government at any time.⁶⁶⁵

The banks' participation in trust was planned as an interim solution but would become a long-term solution. While the finance divisions of the combined Ministry of Economics and Finance intended giving the shares which had been placed with the banks up entirely in light of the tight federal budget situation later on, the economics divisions, supported by the Office of the Federal Chancellor, preferred the current solution and did not want to give up the indirect participation.⁶⁶⁶ The discussion about the necessary federal impact on VEBA as an important energy company was an ongoing topic throughout the entire holding discussion, although the federal interest was never specified. But it is likely that what was meant was the Ministry of Economics' next project which was being prepared at the time with the intention to create concentration in the energy market: the merger of VEBA and GBAG.⁶⁶⁷

Möller's holding idea was the last attempt of a systematic reorganisation of shareholdings. All the issues which should play an important role in the mid and late 1970s were already anticipated or discussed throughout the holding discussion: the importance of a sufficient federal impact in mixed-ownership enterprises, the role of the state in the energy market, the consolidation of unprofitable state-owned enterprises as a prerequisite for privatisation and the role of DIAG in West Berlin as an example of regional policy.

5.2.2 The Public Role in VEBA and Volkswagenwerk

In the course of the VEBA equity increase, the federal government also approved VEBA's request to equalise the two types of shares which were a result of the partial privatisation in 1965. This meant that the federal government would lose its exemption from voting rights restrictions: in the cases of Volk-

⁶⁶⁴ BArch B126/59381, BMWi, Div. III (Lantzke) to Rohwedder, 18.5.1971.

⁶⁶⁵ BArch B136/7392, Schiller to the President of the *Bundestag*, 24.8.1971.

⁶⁶⁶ BArch B136/7391, BKamt, Div. IV2 (Dehmel) to Head of Div. IV, 4.7.1972.

⁶⁶⁷ See chapter 5.2.3.1.

swagenwerk and VEBA, measures to prevent a concentration of power aside from the government had been implemented in the course of the people's shares privatisations. This entailed an exemption for the federal government from voting right restrictions.⁶⁶⁸ Now, in combination with the equity increase, VEBA's management board demanded the right to exclude existing shareholders from subscription rights which would imply the possibility of a second large investor besides the government. Ministerial official Pieper (Ministry of Economics) perceived VEBA's suggestion as an attempt to gain more independence from the government. He stressed that the idea of using authorised capital was generally beneficial but that the government should insist that the issue conditions had to be approved by the federal government, not only by the supervisory board, for both tranches. The management board also suggested removing the differentiation between the two types of shares which had been created for the partial privatisation in 1964. This implied either a removal of the restriction of voting rights for the shares which had been privatised (series B) or a removal of the dividend disadvantage for the government shares (series A). The latter solution was estimated to increase dividend payments to the government by 4.5 million DM per year – and corresponding costs for VEBA. The Ministry of Finance approved of this. The Ministry of Economics warned that a full removal of voting rights restrictions bore the danger of a concentration of ownership and power besides the government. It would also be a step away from the original political goal to create a wide distribution of ownership. Hence, the ministry suggested to change the voting rights restriction from 1/10,000 to 25% of share capital so that no investor would be able to exceed more power than the federal government.⁶⁶⁹ The Ministry of Finance also found a veto minority of 25.1% for the federal government sufficient⁶⁷⁰ and the compromise was accepted by the government coalition.⁶⁷¹

The exemption in the case of Volkswagenwerk had even been given up before: The voting right privilege for the federal government and Lower Saxony according to the Volkswagen law had been limited to ten years and was due to

⁶⁶⁸ See p. 165 for Volkswagenwerk and p. 182 for VEBA.

⁶⁶⁹ BArch B126/59381, BMWi, Pieper to Lantzke and Engelmann, IIIC3, 3.2.1971.

⁶⁷⁰ BArch B136/7392, BMF, VIIIB1, 26.1.1971.

⁶⁷¹ BArch B126/59381, BMF to BKamt, 24.2.1971.

expire in 1970. The government probably found that it was not appropriate and possibly also legally difficult to renew the special role for Lower Saxony and the federal government. As an alternative, the restriction of voting rights was lowered from 1/10,000 to 20% of share capital. This secured a veto minority for the federal government and Lower Saxony who each held 20% of the shares but did not imply a special role for the state which might have been perceived critically. In any case, the solution would prevent an investor from being able to exercise more power than the federal government and Lower Saxony unless they reduced their stakes.

The voting right restriction to 20% of share capital, which is still valid today, has repeatedly been criticised in the past, in particular by major shareholder Porsche. Since a reform of the stock company law in 1998, voting right restrictions are in general forbidden, based on the principal of equal treatment. Since 2004, the Volkswagen law has been subject to a legal dispute between Germany and the European Commission. Besides these voting right changes, an amending act from 1970 (*Zweites Gesetz zur Änderung des Gesetzes zur Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung*) has removed the restriction for proxy voting. This strengthened the role of banks. The rule of a disclosure of names of represented shareholders however remained valid. Also, the special provisions that a qualified majority in the general meeting requires 80% of votes and that the relocation of business premises requires a two-thirds majority of the votes in the supervisory board are still valid until today.

5.2.3 Structural Policy

The failure of the holding plan had made it obvious that SPD and FDP would not be able to agree on a form of privatisation in the foreseeable future. Yet, privatisation was not important enough for the FDP to risk the coalition. The portfolio of federal shareholdings increased during the 1970s although there was no attempt to increase the portfolio strategically. Rather, the development was a side effect of structural policy and diversification strategies of federal enterprises. Some ministerial officials did not abandon the idea of partial

privatisations but they adapted to the political circumstances. Also, in light of the difficult economic situation and market crisis in several sectors, a co-existence of public and private ownership was widely accepted.

Based on the Federal Budget Act, federal enterprises needed the approval of the Minister of Finance to acquire and sell participations. This allowed for a sectoral and regional structural policy which focused on three major goals: defending national interests in the oil sector, supporting struggling federal enterprises by allowing them to diversify, and improving the situation of economically weak regions by keeping federal enterprises in such locations. In particular, supporting the highly unprofitable DIAG in West Berlin remained a political imperative until the German reunification in 1989.

During the negotiations on the holding idea, Schiller and his Ministry of Finance had another plan in mind: they attempted to bundle and reorganise shareholdings in the energy sector in order to foster concentration in the oil market and strengthen national forces in light of the increasing international competition. Yet, the project did not turn out to be particularly successful.

5.2.3.1 Creating Concentration in the Oil Market

The oil industry became increasingly important in the 1970s as a result of the rising global significance of oil and the internationalisation of the oil market. West Germany had already missed its chance to set foot in the international crude oil business early enough in order to play a role in the global market. An attempt to bundle forces in the oil exploration sector led to the foundation of the Deutsche Mineralöl-Explorationsgesellschaft mbH (Deminex) in 1969. The company was the state-led attempt to set up a German oil company of international significance. Deminex was founded as a joint venture of eight German oil companies. Another German oil exploration company, Deutsche Erdöl AG (DEA), had been taken over by the U.S. oil company Texaco in the late 1960s.⁶⁷² The foundation of Deminex was organised and subsidised by the federal government. The main argument was to secure access to crude oil and protect the German oil processing industry. VEBA held a 63% share

⁶⁷² In 1988, DEA was purchased by RWE and became RWE-DEA AG. Stokes (2003), p. 379.

in Deminex through its subsidiary company VEBA Oel, RWE and Wintershall each held 18.5%. Deminex received 2.2 million DM federal subsidies as start-up capital which only had to be repaid in the case of sufficient profits. However, Deminex never became a profitable company. In 1998, the company was dissolved and its property and shareholdings distributed to the remaining three shareholders.⁶⁷³ Also, the Ministry of Economics intended to foster concentration in the German oil refinery market. That market was shared among a small group of companies around 1970: GBAG, Union Rheinische Braunkohlen Kraftstoff AG (UK Wesseling) and Wintershall. BGAB with a market share of 25.5% was to 43% owned by RWE, and UK Wesseling with a market share of 17.4% was owned by Rheinbraun, a subsidiary company of RWE. Wintershall with a market share of 18.3% was a subsidiary company of BASF. Saarland-Raffinerie, owned by Saarbergwerke, had a minor market share of 3.4%. Wintershall, VEBA and GBAG were additionally joint owners of the petrol service station operator ARAL.

Throughout the holding discussions, the Ministry of Economics favoured a solution which would focus on VEBA instead of VIAG. While the Ministry of Finance was rather interested in the administrative and financial dimension, the Ministry of Economics intended to use public enterprises politically. Its suggestion to regroup shareholdings was based on the intention to create an instrument for structural policy in the energy market, more precisely in the oil market. This became obvious in an internal paper about the energy-political dimensions of a potential holding company. The paper recommended a merger of VEBA and VIAG to combine their joint interests in the energy market and strengthen their market positions. This would require a strong impact of the federal government on both companies. However, it was stressed that there was no intention to create a 100% state-owned national energy giant such as ENI in Italy. To the contrary, a merger would be in the interests of the private investors and smallholders. This notice was a reaction to a number of negative press comments about an internal ministerial memorandum on energy politics. Besides the energy market, no further concentration was desired in

⁶⁷³ For the attempt to establish a national oil company and the general developments in the oil market see Stokes (2003), pp. 359–378.

markets with federal enterprises: a concentration in the coal sector would neither make sense from a political nor from a business point of view. In the steel sector, market interventions were considered to be politically too risky because a future cooperation of Salzgitter AG with private steel companies was regarded as crucial and previous attempts to establish a “Nordstahl” group in 1969 had already failed due to resistance from the private sector.⁶⁷⁴

Throughout the discussion about the holding idea, the Ministry of Economics repeatedly brought attention to VEBA. Rohwedder (SPD) found the participation in VEBA too small in order to generate the necessary state impact on the crude oil market. Kienbaum (FDP) held against this that the government should not even have an impact from a political point of view.⁶⁷⁵ The ministerial officials stressed that if VIAG was brought into VEBA, the federal share in VEBA would increase to more than 50% of the equity capital so that the federal government could regain the voting majority which had been lost due to the people’s shares privatisation.⁶⁷⁶ On 7 July 1972, Schiller (SPD) resigned and Helmut Schmidt (SPD) took the combined Ministry of Finance and Economics over for the remaining time until the federal elections on 19 November 1972. After the elections, Schmidt remained Minister of Finance and Hans Friderichs (FDP) became Minister of Economics. For the first time, the Ministry of Economics was in the hands of the FDP. But different to what could have been expected a decade ago when the FDP was the driving force behind privatisation, no attempts in that direction were made now. Instead, Friderichs followed up on Schiller’s plans to foster concentration in the oil market. Once Friderichs had taken office, Engelmann⁶⁷⁷ presented him with the existing plans. In a note to Minister Friderichs and Secretary of State

⁶⁷⁴ BArch B136/7392, BMWi, “Wirtschaftspolitische Gesichtspunkte zum Gutachten über das industrielle Bundesvermögen”, 20.4.1971.

⁶⁷⁵ BArch B136/7392, BMF, VIIIB1, Minutes of the meeting of the working group “*Bundesholding*” on February 11, 1.3.1971.

⁶⁷⁶ BArch B126/59381, BMWi, Div. III (Lantzke) to Minister and Secretaries of State, 1.3.1971, p. 4.

⁶⁷⁷ Engelmann was at that time head of division IV (commercial economy and business development Berlin) for only one year, before transferring back as head of division III (energy). The responsibility for federal property remained subordinated to Engelmann and Pieper became head of subdivision IVB (capital goods, chemistry and shareholdings). When Pieper transferred to the Ministry of Finance, the subdivision for industrial property remained in division III under Engelmann.

Rohwedder, Engelmann pointed to the usefulness of public enterprises for energy policy and sectoral structural policy. He suggested to continue efforts to bundle forces in the oil market for three reasons: gaining a stronger position as buyer in the international oil market, becoming a stronger partner for oil producing companies and countries, and making it easier to enforce policy measures.

Engelmann suggested three models. Model A was that VEBA should take over Wintershall from BASF in exchange for VEBA's shareholdings in the chemical sector. This would give VEBA a market share of 12.1% in oil processing and a refinery capacity of 19.7 million tonnes, compared to 9.5% and 14.8 million tonnes of its rival RWE. According to model B, VEBA should take over a 48% share in GBAG and 100% share in UK Wesseling from RWE and exchange some of its non-oil shareholdings against Saarland-Raffinerie and Deutsche Schachtbau- and Tiefbaugesellschaft mbH (Schachtbau) with Salzgitter AG. This would lead to a market share of 18% and a capacity of 28.2 million tonnes. In return, RWE could be given an inter-company participation in VEBA so that the federal share would decrease. Engelmann suggested that the federal share could nevertheless be maintained by bringing VIAG into VEBA but mentioned that this might be problematic due to expected resistance from Bavaria because of the jointly owned Bayernwerke. Also, this model would lead to a strong concentration and would be difficult from a market competition point of view. This was even more significant at that moment because the federal government attempted to implement a stricter merger control in the antitrust law. A third option, model C, intended that all German oil shareholdings, private and state-owned, would be decoupled from their parent companies and brought into a new company which would have to be founded for that purpose. It would be problematic that RWE would then have the main share in this company with a share of 42.9%, compared to 35.4% owned by VEBA. This would put RWE in a dominant position in the German oil market, after already being in the leadership position in the electricity market, which was considered unacceptable for VEBA.⁶⁷⁸ Model A,

⁶⁷⁸ BArch B102/254379, "Wirtschaftspolitische Möglichkeiten des industriellen Bundesvermögens", BMWi, Div. IV (Engelmann) to Rohwedder and Friderichs, 23.2.1973.

the takeover of Wintershall, was soon given up, presumably because the result would have been an increased concentration of 60 to 70% in the energy market and the involved parties were concerned about a too strong federal involvement in that case. Model B seemed easier to implement. VEBA could in that case make an offer to external GBAG shareholders to purchase additional shares. The costs of approximately 300 million DM would be financed by the federal government so that its share would increase and it could regain the voting majority which it had lost during the partial privatisation.⁶⁷⁹ This would put VEBA into the leadership position in the German oil market. Unlike his earlier suggestion, Engelmann recommended abstaining from a merger of VIAG and VEBA because the concentration effect would become too strong. Also, by taking over VIAG's chemical business, VEBA would start to operate in an additional market segment and might become too difficult to steer as a company.⁶⁸⁰ Hence, model B was suggested to Chancellor Brandt.⁶⁸¹

Bundling shareholdings and creating a strong mineral oil group was consensus in the government.⁶⁸² In September 1973, just before the 1973 oil crisis, the federal government presented its energy programme. The programme intended a regrouping of shareholdings in line with national interests in the oil market, the so-called project "*Kern VEBA*", in order to secure the long-term supply. VEBA immediately agreed to take on a leadership role in this deal. RWE refused to sell its share in UK Wesseling but offered GBAG and UK Wesseling's share in Deminex instead. VEBA would then hold 81.5% of Deminex.⁶⁸³ After Brandt's approval, Friderichs finalised the deal with Salzgitter AG: VEBA would take over Gelsenberg, who had a share in Ruhrgas AG. Salzgitter AG would then transfer its shares in Schachtbau to VEBA and receive Ruhrgas shares in return. The advantage for Salzgitter AG was that the

⁶⁷⁹ BArch B102/254379, Rohwedder to Friderichs, 2.5.1973, Engelmann to Rohwedder and Friderichs, 7.5.1973, Note, Div. IV (Engelmann) 6.6.1973, and Div. III/IV to Friderichs, 29.6.1973.

⁶⁸⁰ BArch B102/254379, BMWi, Div IV (Engelmann) to Friderichs, 20.6.1973.

⁶⁸¹ BArch B136/7392, Head of Div. IV (BMWi) to Head of BKamt and Brandt, 15.6.1973.

⁶⁸² BArch B102/254379, Minutes of a meeting of Minister of Economics Friderichs and Minister of Finance Schmidt about the energy political programme on 5 July 1973, Div. III (BMWi) and Div. I/VIII (BMF), 5.7.1973.

⁶⁸³ BArch B102/254379, Benningson-Foerder (VEBA) to Friderichs, 4.7.1973, and Barth (BMWi, VIB8) to Pieper, 16.7.1973.

combination of Salzgitter Ferngas and Ruhrgas would strengthen its role in the gas sector.⁶⁸⁴ The *Bundestag* budget committee approved the purchase of the RWE share in GBAG of 48.3% at a price of 641 million DM by the federal government on 28 November 1973. The purchase contract between the federal government and RWE was signed on 5 December 1973. The package secured the voting majority for VEBA in GBAG. Nevertheless, to be on the safe side, the government bought additional shares from external shareholders and raised its share to 51.3% in order to also have the capital majority.⁶⁸⁵ The Federal Cartel Office rejected the purchase contract with RWE because of a resulting market-dominating position of the federal government.⁶⁸⁶ As a shareholder, the federal government, represented by the Minister of Finance, counted as one person before the Antitrust Law.⁶⁸⁷ The rejection had not been expected.⁶⁸⁸ The takeover of Gelsenberg and merger with VEBA subsequently became the first case of a ministerial approval. This option had been integrated in the antitrust law only in 1973. On 1 February 1974, Minister of Economics Friderichs approved the takeover because of the implied macroeconomic benefits. Before the approval, it had been decided that Minister Friderichs would not take on the position as chairman of the VEBA/Gelsenberg supervisory board, as had originally been intended, since this might be misinterpreted and might also entail conflicts of interests between economic policy and business decisions.⁶⁸⁹

In the case of the merger of GBAG and VEBA, the federal government was in a dilemma: On the one side it intended to secure national interests. At the same time it defended its interests as a shareholder. This limited options because the government had to weigh these two interests against each other. Therefore, it was not willing to allow a dominant position of RWE instead of VEBA, although this would have secured national interests as well. This tension was accepted and is reflected in a memorandum from 1975 which prepared a meeting of Secretary of State Rohwedder (Ministry of Economics) and the monopoly commission. The memo highlighted the fact that the ministry

⁶⁸⁴ BArch B102/254379, Internal Note, 23.8.1973.

⁶⁸⁵ BArch B102/254379, Internal Note, BMWi, IVB8, Barth, 20.3.1974.

⁶⁸⁶ BArch B102/254379, BMWi, Kartte IB5 to Friderichs, 17.1.1974.

⁶⁸⁷ BArch B102/254382, Internal Note, BMWi, Div. IB5 (Stahl), 14.11.1973.

⁶⁸⁸ BArch B102/254383, Reinhardt to Engelmann, 11.1.1974.

⁶⁸⁹ BArch B102/254383, Speaking Note by IVB8, 11.1.1974.

did not aim for an energy-political dirigisme and did not want to disadvantage anyone. Instead, the only way to use shareholdings for policy goals was to create a cohesion between the interests of the federal government and the respective companies and investors. If necessary, this had to be done with financial incentives. The exchange of GBAG shares into VEBA shares for external shareholders for example had been made attractive by a government subsidy of 145 million DM.⁶⁹⁰ Similarly, Rohwedder mentioned at the supervisory board meeting of GBAG in November 1974 that companies who cooperated with the government benefited financially from this, and VEBA chief executive director Bennigsen-Foerder mentioned at the VEBA general meeting in December 1974 that there was full agreement between the company and the federal government that VEBA's business decisions had to be strictly return-oriented.⁶⁹¹ The perceived need to secure national interests with the help of public enterprises was a response to an increasingly international market, in combination with the recognition that other countries also defended their national interests. It entailed a balancing of national interests on the one side and the importance of maintaining competition and private ownership on the other side. However, a complete nationalisation of the oil or energy industry was never intended.

5.2.3.2 Expansion and Diversification

In the 1970s, public enterprises were affected by several market crises. As a response, the Ministry of Finance started to monitor companies more closely. VIAG suffered from the crisis in the aluminium industry. In 1960, its subsidiary company VAW had a share of 70% in the total German aluminium production. Due to the crisis in the 1970s and early 1980s, VIAG focused increasingly on the energy sector. The aluminium crisis was partially home-made: In 1968, the federal government had implemented tax increases for aluminium exports and tax reductions on imports. The crisis of the energy intensive aluminium industry was intensified by the oil crisis in the 1970s. Salzgitter AG was severely affected by the international crisis in the shipbuilding industry through

⁶⁹⁰ BArch B102/254388, Internal Note (BMW), Reinhardt, IIB6, 22.1.1975.

⁶⁹¹ BArch B102/254388, "Äußerungen zum Verhältnis Energiepolitik/Unternehmenspolitik VEBA", BMW, IIB6, 22.1.1975.

its subsidiary company Howaldtswerke-Deutsche Werft. The number of orders had decreased significantly since the 1970s. The wharf crisis reached its peak at the end of the 1980s and continued until the beginning of 1990s. The privately-owned shipyard Finkenwerder in Hamburg was the first company which had to shut down in 1973. In 1985, Salzgitter AG sold its shares in HDW⁶⁹² to the privately owned shipyard Blohm+Voss.

Given the perceived necessity of using public enterprises as instruments of structural policy in the current situation, there was a broad acceptance to keep mixed ownership structures with a dominant role of the federal state. That privatisation was not feasible at the moment was regularly confirmed in the Ministry of Finance in the mid 1970s. Yet, this was not regarded as a change of paradigm. Rather, company-specific reasons were given. IVG for example fulfilled important tasks on behalf of the federal state such as property management and defence tasks and therefore not eligible for privatisation. In the case of VIAG, the difficult economic circumstances in the aluminium market and increasing international competition would not allow for a privatisation because it would be irresponsible to transfer these problems onto private investors. VIAG held a major share in Germany's only internationally important aluminium company VAW. Also, VIAG's shares in the energy sector were important in order to provide energy for the electrochemical business branch of the company.⁶⁹³ Salzgitter AG was too important to be privatised due to its importance in the structurally weak region of south-east Lower Saxony, and Saarbergwerke were not only of regional importance but also Germany's second largest coal producer and should therefore remain state-owned. Volkswagenwerk was at that time going through a process of restructuring which prevented a privatisation.⁶⁹⁴

Yet, the ministry stressed that public enterprises were no burden for the federal budget. Between 1949 and 1975, 2.74 billion DM profits had been distributed whereas the federal government had invested additional equity cap-

⁶⁹² The second shareholder was the privately owned Gutehoffnungshütte, mother company of the Deutsche Werft until the merger of Deutsche Werft and Howaldtswerke.

⁶⁹³ BArch B126/76980, BMF, VIIIA6 (Kellner) to VIIIA2, 17.5.1976.

⁶⁹⁴ BArch B126/76980, BMF, VIIIA6, "Keine Privatisierungspläne für Industrieunternehmen".

ital of about 2.2 billion DM.⁶⁹⁵ An article of the Ministry of Economics for the German-British economic committee confirmed that experiences with state ownership were rather positive in West Germany. The author referred to the good integration of privately and state-owned companies in the framework of a mixed economy where state enterprises are managed according to business principles. He stressed that private entrepreneurship was always prioritised and that state-owned companies did not restrict private entrepreneurship.⁶⁹⁶ Symptomatically, in 1977, the committee for economic and social change, an external committee which had been commissioned by the government to produce a report on how to deal with the changing circumstances, recommended mixed ownership and joint ventures as an instrument to promote and support modernisation.⁶⁹⁷ Only a minority of the committee members criticised this view as too interventionist.⁶⁹⁸

The focus of property formation policy had since the mid-1960s turned away from people's shares and property formation on a supra-company level and had shifted to other forms of property formation on the company level. Because of concerns that there would not be enough supply to meet the demand for co-ownership, tax benefits for employee share issues were suggested.⁶⁹⁹ Knauss described the change of property formation politics in an internal note in 1976. According to him, property formation remained an important political goal. However, it had to be reduced to what was politically achievable at a given time. In recent years, the focus had shifted from state-driven and -financed methods to internal company schemes, such as employee shares. However, this posed a problem for state-owned companies, because the issue of employee shares implied a partial privatisation and such a "creeping privatisation" was not politically desirable at that time.⁷⁰⁰ One official in the Ministry

⁶⁹⁵ *ibid.*

⁶⁹⁶ BArch B126/63962, "Erfahrungen mit Staatsunternehmen und Privatisierung in der Bundesrepublik Deutschland".

⁶⁹⁷ BArch B126/63956, "Gutachten der Kommission für wirtschaftlichen und sozialen Wandel", pp. 563–584.

⁶⁹⁸ *ibid.*, p. 562.

⁶⁹⁹ BArch B126/76980, federal press article "Vermögensbildung stärker gefördert", April 1970.

⁷⁰⁰ BArch B126/76979, BMF, VIIIA2 (Knauss) to Pieper, 16.11.1976; VIIIA2 (Knauss) to Head of Div. VIII, 16.10.1979.

of Finance therefore suggested issuing registered profit participation bonds as a suitable alternative.⁷⁰¹ Nevertheless, the Ministry of Finance agreed to continue to focus on co-ownership through employee shares whenever possible.⁷⁰² This was relevant for example in the case of Lufthansa in 1979.⁷⁰³

Besides energy policy, regional policy was a second main concern in the second half of the 1970s. In particular, improving the economic situation in West Berlin played an important role. Symptomatically, the subdivision in charge in the Ministry of Economics was a combined division for shareholdings and West Berlin's economic development. Support for this policy came from all political sides. A small interpellation of the CDU/CSU *Bundestag* faction requested information about what federal enterprises could do to support the West Berlin economy. Public enterprises were asked to award contracts to enterprises which were based in Berlin whenever possible. The idea that public enterprises should be relocated to Berlin or that they should preferentially invest and generate jobs in Berlin was however declined with references to the current financially tight situation of most enterprises.⁷⁰⁴ The federal government itself had only one major shareholding in West Berlin, the armament company DIAG. DIAG did however not belong directly to the government but to the ERP special fund.⁷⁰⁵ DIAG became highly unprofitable in the 1970s and needed regular capital injections. Yet, a sale or liquidation and possible withdrawal of the company from West Berlin was considered politically not acceptable.⁷⁰⁶

In January 1973, the newspaper *FAZ* published a company ranking which led to some surprise and concerns in the Ministry of Finance. It contained data on the profits of 771 German industrial companies for the year 1971. Profits were calculated as geometric mean of net profits before taxes divided by annual turnover and divided by balance sheet total. Companies were ranked

⁷⁰¹ BArch B126/76979, BMF, VIIIA2 (Breitenstein) to Head of division VIII, 13.11.1978.

⁷⁰² BArch B126/76979, BMF, Internal Note, IA1, 8.10.1979.

⁷⁰³ Documentation about Lufthansa 1979 in BArch B126/76979.

⁷⁰⁴ BArch B126/63962, BMF, VIIIA2 to Matthöfer, 15.3.1978.

⁷⁰⁵ DIAG was in 1990 sold to Ferrostaal GmbH. It diverted from the armament industry and focused more on civil plant engineering. In 2002, Ferrostaal brought its three shareholdings DIAG, Fritz Werner Industrie-Ausrüstungen GmbH and MAN Ferrostaal Oil & Gas GmbH into the new MAN Ferrostaal Industrieanlagen GmbH.

⁷⁰⁶ "Elend Schwer", *Der Spiegel*, 1979.

according to their calculated profitability. Of the companies with significant federal participation, Preussenelektra was the most profitable one on rank 212 with a profitability factor of 8.3 and the only state-owned company in the first third of the list. VEBA followed on rank 369 with a profitability factor of 5.4 and VIAG on rank 411 with 4.7 in the second third, and VW, Stinnes, VAW, Audi, Salzgitter, HDW, and Saarbergwerke on rank 783 with -0.8 in the last third.⁷⁰⁷

In the Ministry of Finance, the bad result was not interpreted as a problem which was specifically related to public ownership. It was rather regarded as a problem of large companies in general which did on the whole not do well in the statistics. Of the 100 largest companies, the best one landed on rank 107. This result was explained by the fact that large companies had greater difficulties to adapt to changing market conditions and were facing disproportionately higher costs in difficult market situations. As a result, the ministry felt confirmed that before considering further privatisations, the emphasis had to be on the consolidation of public enterprises. Salzgitter AG, Howaldtswerke and Saarbergwerke were among the weakest companies in the list. This was perceived as a confirmation for the earlier choice to exclude these companies from peoples shares because the companies were not ready yet to be privatised.⁷⁰⁸ Therefore, the Ministry intended to monitor the companies more closely and requested regular planning reports from the respective managements.⁷⁰⁹

A survey of the Ministry of Finance among public enterprises from January 1974 found that the situation for most companies had not yet improved. To the contrary, they were facing decreasing sales figures in most markets.⁷¹⁰ In 1979, the economic situation started to improve. In the eyes of the Ministry of Finance, VEBA had been successfully reorganised through diversification and concentration in the electro-chemical sector and oil sector. VIAG, Volkswagenwerk and Salzgitter AG benefited from improvements in the energy, aluminium, steel and automobile markets. Also, the diversification strategy

⁷⁰⁷ "Zahlen zur Ertragslage von Aktiengesellschaften 1971", *FAZ*, 22.1.1973, copy in BArch B126/51435.

⁷⁰⁸ BArch B126/51435, Internal Note, BMF, VIII B1, 13.3.1973.

⁷⁰⁹ BArch B126/51435, Internal notes, BMF, VIII B1 (Knauss/Winkeler), 27.12.1973 and 21.12.1973.

⁷¹⁰ BArch B126/51435, BMWi, VIII A2 (Knauss) to Schmidt, 24.1.1974.

of Salzgitter AG towards processing industries was considered to be successful and Saarbergwerke had imposed an investment strategy in order to increase productivity. Only the shipbuilding industry remained difficult. It was stressed that public enterprises fulfilled their labour market responsibilities despite the difficult market situations and had not laid off too many workers.⁷¹¹

After the CDU/CSU proposals for a privatisation of VEBA and VIAG in 1970 and 1971, there had been only little political pressure towards more privatisation from the political opposition and from external interest groups. Only the German Taxpayers' Association had made an attempt in June 1972 and had come up with a plan which provided that federal, state and municipal shareholdings should be privatised within the next 20 years. Excluded from the plan were local public services, Deutsche Bahn and Deutsche Post. However, the idea had been considered as unrealistic and was immediately rejected by the Ministry of Finance.⁷¹²

While the number of direct federal shareholdings stayed more or less constant, the number of indirect shareholdings increased significantly during the 1970s. The Ministry of Finance administration did not see the growing number of indirect participations as a problem specifically related to public enterprises but more as a general problem. Hence, the problem should be addressed with a proposed revision of the antitrust law and stronger merger control.⁷¹³

The active investment and diversification strategies of federal enterprises in the 1970s as a crisis response led to increased costs for the federal government. The financial burden due to public enterprises was mentioned in two reports of the scientific advisory bodies of the Ministry of Economics and the Ministry of Finance.⁷¹⁴ The Ministry of Finance stressed that there was no increased flow of subsidies to federal enterprises. Yet, the federal government could not evade its responsibility as shareholder and had to participate in eq-

⁷¹¹ BArch B126/63960, BMF, Breitenstein to Haehser, 9.4.1979.

⁷¹² BArch B126/76980, BMF, VIII to Emde, 13.6.1972.

⁷¹³ BArch B126/63960, BMF, VIIIA3 to VIIIA2, 13.12.1979, and VIIIA1/VIIIA2 (Bubinger, Pfafferoth) to Secretaries of State Haehser and Lahnstein, 14.12.1979, *ibid.*

⁷¹⁴ Gutachten des Wissenschaftlichen Beirats beim BMF (1975) "Zur Lage und Entwicklung der Staatsfinanzen in der Bundesrepublik Deutschland"; Gutachten des Wissenschaftlichen Beirats beim BMW (1976) "Kosten und Preise öffentlicher Unternehmen".

uity increases. According to the ministry, the federal government expected a reasonable return in the form of dividend payments in the future. However, the ministry admitted that dividend payments of state-owned companies were significantly lower than in privately owned companies. In 1977, the average dividend payment of public enterprises relative to nominal share capital was 2.45%, compared to an average dividend of 13.87% of privately owned companies.⁷¹⁵

The government response to a *Bundestag* inquiry from a group of CDU, CSU and FDP parliamentarians from 1984, after the FDP had left the government coalition, brought some numbers to light: the number of indirect federal participations had increased from 697 to 858 between 1970 and 1982. The total share in nominal capital of all participations, including the special assets German Federal Railway and German Federal Post Office, had increased from 3.7 billion to almost 7 billion DM – an increase of approximately 90%. The federal income from all participations was 2.36 billion DM, including the dividend from Volkswagenwerk of about 231 million DM, which had to be passed on to the Volkswagenwerk Foundation. The federal expenses for equity increases had amounted to 6.588 billion DM, so the net result was a loss of approximately 4.2 billion DM. In the same time, 125 federal civil servants had transferred to the management of federal enterprises, about half of them to the German Federal Railway and its undertakings. Among these were the former heads of division Werner Lamby and Ernst Pieper from the Ministry of Finance who had transferred to VIAG and Salzgitter AG.⁷¹⁶ In light of this development, voices which criticised the expansion of state ownership became louder and press articles about public enterprises became increasingly negative at the end of the 1970s.⁷¹⁷

Hans Matthöfer (SPD), Minister of Finance from 1978 to 1982, chose to respond actively to criticism. In July 1979, he defended the public enterprise policy in an interview with the weekly business news magazine *Wirtschaftswoche*

⁷¹⁵ BArch B126/63960, BMF, VIIIA1 and VIIIA2 (Bubinger, Pfafferoth) to Secretaries of State Haehser and Lahnstein, 14.12.1979.

⁷¹⁶ *Bundestagsdrucksache* 10/1887, 21.8.1984.

⁷¹⁷ For example “Subventionen zur Systemüberwindung. Steuergelder für unrentable Staatsbetriebe”, *Bayern-Kurier*, 8.12.1979, copy in BArch B126/63960.

and emphasised that the focus of federal enterprises was not on dividends alone.⁷¹⁸ In the same issue, the newspaper published an extensive article on that topic and accused the federal government of taking on tasks which were not inherently public.⁷¹⁹ In October, Matthöfer published an article himself where he defended public enterprises as an instrument to modernise the economy.⁷²⁰

A *Bundestag* inquiry of the CDU/CSU faction from 1980 started with the question of whether the federal government was aware of the fact that not only the UK was selling public enterprises, but also that France had started to reduce its participations in public enterprises to 50% or 75% by issuing shares. The inquiry moved on to the question of whether the government was willing to consider such a policy.⁷²¹ The expansion of the public sector as a response to stagflation was also seen more and more critically by FDP members. In 1982, the FDP left the government coalition.

Knauss later summarised the period after the holding idea had failed: “In the 1970s, the federal property existed without a clear direction.(...) The ministerial administration learned in the 1970s already what private enterprises had to learn in the 1980s: one should not diversify too fast and too much but rather proceed step by step.”⁷²²

⁷¹⁸ “‘Die Rendite ist sekundär...’ Interview mit Bundesfinanzminister Hans Matthöfer”, *Wirtschaftswoche*, 23.7.1979, p. 39, copy in BArch B126/63957.

⁷¹⁹ “Wenn der Staat Geschäfte macht”, *Wirtschaftswoche*, 23.7.1979, pp. 36–47, copy in BArch B126/63957.

⁷²⁰ “Aufgaben der Bundesunternehmen bei der Modernisierung der Wirtschaft”, *ZögU* vol. 2(4), 17.10.1979, pp. 433–442, copy in BArch B126/63958. The article was based on a talk of Matthöfer at an internal event of the SPD-associated Friedrich Ebert Foundation in September 1979: BArch B126/63958, “Bundesfinanzminister Hans Matthöfer vor dem Arbeitskreis ‘Wirtschaft und Politik’ der Friedrich-Ebert-Stiftung am 20. September 1979, Unkorrigiertes Manuskript”, for the discussion which followed the talk see BArch B126/63958, Internal note, VIIIA2 (Knauss), 24.9.1979.

⁷²¹ *Bundestagsdrucksache* 08/3895, 9.4.1980.

⁷²² “Ohne ein klares Konzept dümpelte danach das industrielle Bundesvermögen vor sich hin. (...) Bereits in den 70er Jahren wurde den Mitarbeitern der Beteiligungsverwaltung an diesen Beispielen deutlich, was einige deutsche Privatkonzerne in den 80er Jahren an Erfahrung nachholen durften: man soll nicht zu schnell und zu viel diversifizieren, sondern Schritt für Schritt vorangehen.”Knauss (1993), p. 9.

Chapter 6

Retreat of the State:

De-Investments 1982–1989

In 1982, the social-liberal coalition ended when the FDP left the government coalition to protest against the government's economic policy. This event became known as *Bonner Wende*. Subsequently, CDU, CSU and FDP formed a new government coalition and Helmut Kohl (CDU) was elected Federal Chancellor. The change of government was the beginning of a revival of privatisation. By 1989, most participations in the industrial sector had been sold to private investors. An exception was the struggling Saarbergwerke AG. Yet, that the federal government would withdraw from state ownership in industries almost entirely until 1989 was far from being obvious until the mid-1980s. Privatisation remained laborious and required negotiations due to strong forces of resistance within the government coalition and in the German states.

The main goal of the new government was to cut public expenditures and to reduce bureaucracy. The leading idea was a lean state. Privatisation did not play an important role in the beginning. After the government coalition had been renewed after the federal elections in 1983, Minister of Finance Gerhard Stoltenberg (CDU) and his Secretary of State Hans Tietmeyer took on the task to develop a privatisation programme. As a start, an equity increase of VEBA was financed by issuing shares in 1984. Other companies followed: VEBA was fully sold between 1984 and 1987, VIAG and VW (the company had been

renamed in 1985) between 1986 and 1988, IVG partially in 1986 and Salzgitter AG completely in 1989. In the case of Lufthansa, the government reduced its share passively to just above the voting majority.

6.1 “Bonner Wende” 1982

Otto Graff Lambsdorff (FDP), Minister of Economics in the social-liberal coalition between 1977 and 1982, was one of the main proponents of the termination of the social-liberal coalition. He was a representative of the FDP’s economic liberalism wing which had regained power in the late 1970s. In 1982, Lambsdorff’s Ministry of Economics published a programmatic paper “Konzept für eine Politik zur Überwindung der Wachstumsschwäche und zur Bekämpfung der Arbeitslosigkeit” (Concept for a policy to improve economic growth and fight unemployment) which later became known as “Lambsdorff Paper” or “Divorce Paper”. The newspaper *Die Zeit* called it a “Manifest of Secession” and remarked that it was rather an attempt of the FDP to distance itself from the SPD than an economic programme.⁷²³ The paper had been prepared by Lambsdorff, his Secretary of State Otto Schlecht and Hans Tietmeyer, head of the economic policy division. Otto Schlecht was a long-standing independent official of the Ministry of Economics and an advocate of ordoliberalism. After studying economics, he had started his career in public administration in 1953 as a civil servant under Ludwig Erhard. In 1973, he had become secretary of state under Minister of Economics Friderichs (FDP) and remained in this position until 1991. Tietmeyer, an economist who had written his diploma thesis in 1957 about the element of economic order in the catholic social doctrine,⁷²⁴ had started working for the Ministry of Economics under Ludwig Erhard (CDU) in 1962, and had been head of division since 1973.

The Lambsdorff paper addressed the phenomenon of stagflation and highlighted that the economic conditions in the year 1982 were deteriorating: domestic and foreign demand had plummeted, the Ifo Index indicated a decline

⁷²³ “Ein Manifest der Sezession. Graf Lambsdorffs Papier für den Kanzler- Grundstimmung: Dieses Unternehmen muß beendet werden”, *Die Zeit*, 10.9.1982, p. 2.

⁷²⁴ “Der ORDO-Begriff in der katholischen Soziallehre”

of business activity and the number of insolvencies and unemployment had increased. The investment ratio had decreased from an average of 24.1 in the 1960s to 20.08 in the second half of the 1970s due to sinking returns on equity. At the same time, the public spending ratio had increased from 39 to 49.5 in the first half of the 1970s, while public investments had declined. The tax and contribution ratio had gone up from 36 to 41%, social expenditures had risen significantly and public net borrowing had increased by approximately 6% since the late 1960s. These problems had reinforced the low degree of adaptability of the economy, uncertainty and unwillingness to invest. All these problems were regarded as being of a structural nature. The paper highlighted that in order to improve the situation, it was necessary to fight pessimism and resignation among the population, to awaken corporate initiative and to foster the willingness to invest and promote economic growth. The most urgent problem which had to be tackled was the high unemployment rate; all other problems would have to be subordinated. No special interest groups should be favoured and a commitment to a supply-side oriented policy and a step away from Keynesian demand-side policy was required. To cure these problems, the paper demanded a new economic concept which should focus on a market-oriented policy, decrease bureaucracy, consolidate the public budget, shift public expenditures from consumption to investments and adapt social systems to the changed economic circumstances.⁷²⁵ The paper was highly contentious in the FDP. Mischnick (FDP) and Genscher (FDP) – who had arranged the social-liberal coalition in 1969 – had attempted to keep Lambsdorff from presenting the document to Chancellor Helmut Schmidt (SPD). However, the economic-liberal circles of the FDP had become too strong and the FDP ended the government coalition, formed a new coalition with the CDU/CSU and elected Helmut Kohl (CDU) as Chancellor.⁷²⁶

Otto Graf Lambsdorff (FDP) remained Minister of Economics in the new conservative-liberal government. Gerhard Stoltenberg (CDU) became Minister of Finance and was as such in charge of federal enterprises. Prior to that, he

⁷²⁵ “Konzept für eine Politik zur Überwindung der Wachstumsschwäche und Bekämpfung der Arbeitslosigkeit”, Dr. Otto Graff Lambsdorff, Bundesminister für Wirtschaft, 9.9.1982, in: *FDP Dokumentation* 9/82, pp. 3–11.

⁷²⁶ For the role of the FDP in the “Bonner Wende” see Scholtyseck (2013).

had been Federal Minister of Education and Research between 1965 and 1969 under Ludwig Erhard (CDU) and Kurt Georg Kiesinger (CDU). Tietmeyer, the former head of the economic policy division in the Ministry of Economics under Lambsdorff (FDP), now became secretary of state in the Ministry of Finance.⁷²⁷ With these personnel decisions, key positions had been filled with representatives of a more market-based economic approach. The focus on a market-oriented economic policy was also reflected by a division of tasks between the party-wings of CDU/CSU: while the Ministry of Economics and the Ministry of Finance were both in the hands of liberal and business-oriented circles, Norbert Blüm as representative of the CDU left wing became Minister for Labour and Social Affairs.

The coalition agreement from 1982 included the intention to reduce public expenditure by approximately 5.5 billion DM per year. 500 million DM would be saved by reducing direct subsidies.⁷²⁸ The first cabinet Kohl served from 4 October 1982 until 29 March 1983. The government coalition was renewed after the federal elections on 6 March 1983, where the FDP experienced a significant loss of votes. The coalition agreement from March 1983 provided a federal budget consolidation for the next legislation period in which expenses would be cut by at least 6.5 billion DM per year for the years 1984 to 1986. That way, net borrowing would be reduced to below 40 billion DM in 1984. Like in the coalition agreement of 1983, privatisation was not directly mentioned.

In his government declaration of 1983, Kohl announced that the economic policy of the coming years would be guided by a “retreat of the state to the core of its tasks”.⁷²⁹ This programmatic reorganisation has been interpreted as a shift towards neoliberal ideas. Historians are still discussing to what extent this was really the beginning of profound policy changes.⁷³⁰ Yet, the federal

⁷²⁷ As secretary of state in the Ministry of Finance from 1982 to 1989, Tietmeyer served Chancellor Helmut Kohl (CDU) as an advisor for the German reunification. In 1990, he became a board member of the Deutsche Bundesbank and its president in 1993. He remained in this position until 1999.

⁷²⁸ “Ergebnisse der Koalitionsgespräche”, in Archiv des Liberalismus, *Neue Bonner Depesche* no. 10/1982, pdf document IN5-304, p. 3.

⁷²⁹ “Wir führen den Staat auf den Kern seiner Aufgaben zurück, damit er sie wirklich zuverlässig erfüllen kann.”, *Bundestag Plenarprotokoll* 10/4, 4.5.1983, pp. 56–747.

⁷³⁰ See for example Schulz (2010).

government struggled to define the core tasks of the state in public enterprises.

6.2 Preparatory Works

Privatisation became one of the main economic policies in the 1980s. Sources suggest that the privatisation of industrial shareholdings between 1984 and 1989 had not been prepared before the new government took office. State enterprises and privatisation neither appeared in the Lambsdorff paper nor in the coalition agreements. Apparently, public enterprises were not seen as one of the most urgent problems. This suggests that privatisation in the 1980s was not primarily a reaction to pressures from highly inefficient, unprofitable enterprises and an excessive burden for the federal budget. Indeed, there was a self-perception that since there were no nationalisations after the Second World, there was less to privatise than in other countries. This becomes evident in a report of Deutsche Bank from 1987 which says that a multitude of medium-sized enterprises had been the backbone of the West German economic system ever since. The state only owned a few industrial participations for political reasons.⁷³¹

After taking office, Stoltenberg and Tietmeyer started with an inventory and a review of whether there were sufficient reasons for state ownership in every single case. They were supported by ministerial official Knauss who had already been part of the administration in charge of shareholdings in the 1970s. Two factors accelerated privatisation efforts at the start of the term of office of the new government: a highly critical report of the Federal Court of Audit from 1983 and a planned equity increase of VEBA. Since each larger privatisation required the approval of the *Bundestag* and *Bundesrat*, a broad political consensus among the coalition parties was required.

⁷³¹ DBA ZA43/x8091, “Volksaktien in der UdSSR – Deutsche Erfahrungen als Anstoß für erste Überlegungen in Richtung auf eine Beteiligung der sowjetischen Arbeitnehmer am Produktivvermögen der Wirtschaft” (Expert report for Ambassador Kwizinski), p. 4, 19.11.1987.

6.2.1 The First Case: VEBA

The case of VEBA served as a precedent case for the de-investment from public enterprises in the 1980s. Why Stoltenberg wanted to go ahead with VEBA can only be assumed. It seems likely that in a situation where the government focused on reducing public debt, a participation in the equity increase without partial privatisation would have been difficult to explain. Also, Stoltenberg might have found the opportunity to set a favourable precedent. Just a few days after the federal election in March 1983, an internal discussion paper from division VIII in the Ministry of Economics discussed the possibilities of a further privatisation of VEBA and questions whether the original energy-political reasons to keep a participation were still relevant. According to the paper, the fact that the state was a major shareholder has had both negative and positive effects on VEBA's development in the past. After all, VEBA was still West Germany's largest energy company with significant shareholdings in the coal, electricity and oil sectors. The VEBA-Gelsenberg merger would not have happened without federal intervention, but the idea of a national oil company had not proven to be successful in the end. The oil supply contracts with Saudi Arabia as well as the participation of the Venezuelan PdVSA in the newly founded refinery Ruhröl GmbH in the Ruhr District from 1982/1983 would not have been possible without the quasi-public status. At the same time, a participation of the Iranian oil company NIOC in VEBA Oel was not realised due to concerns of the federal government. The author points out, however, that the described impact was not embedded in formal rights but rather a consequence of the informal position of the government as a main shareholder. The note concludes that a public interest could be justified to secure electricity supply since VEBA was West Germany's second largest electricity producer due to its subsidiary Preussenelektra. An interest could also potentially be justified for the oil business (VEBA Oel had experienced an operational loss of more than 1.5 billion DM in the previous seven years), although it was not of international importance, and for the coal sector since VEBA was the largest shareholder of RAG with a share of 27%. A public interest was negated for VEBA's subsidiaries in the chemical and trade sector

(Chemische Werke Hüls and Stinnes).

The discussion paper suggested an active partial privatisation as a consequence of the declined federal interest in VEBA. The current value of the federal participation in VEBA was estimated to be 2 billion DM. This was considered as too much for a full privatisation because smallholders had to be protected from price decreases in the case of a possible oversupply of shares in line with the *“Schutzpatrontheorie”* (‘patron saint theory’). An equity increase was currently not intended for the near future and would also be too small for a real privatisation effect so that a passive privatisation was not considered to be an option. As an alternative to or in addition to a regular share issue, the paper suggested adopting the *“Mercedes-Model”*. The Mercedes model described the ownership construction in the case of Daimler-Benz: the Mercedes-Automobil-Holding AG held 25.23% in Daimler-Benz. Of the Mercedes-Automobil-Holding AG shares, 50% were in free float and the other 50% were owned by two holding companies which were each owned by four corporations, including holding companies. Shares in the holding companies belonged mainly to banks and insurance companies, among these German state banks. In the case of VEBA this would mean that a block of shares would be sold to a holding which would consist of ten investors, each with 10%. This idea was brought up again several times over the next few years. The perceived advantage was that there would be a certain degree of a dispersion of ownership but a better control compared to the case of free float. In any case, the paper recommended to keep a federal share in order to protect small investors from price declines.⁷³² The developments of partially privatised companies up until then looked promising: an evaluation of people’s shares conducted by Deutsche Bank later in 1983 found that since their partial privatisations, the three companies had actuarial returns of 12.42% (Preussag), 9.24% (VW) and 8.75% (VEBA).⁷³³

A comment on an earlier version of the discussion paper confirms that a public interest in most subsidies of VEBA could not be justified. The govern-

⁷³² BArch B126, Memorandum, Head of Div. VIII (Wagner), 16.3.1983.

⁷³³ Summary of dividend payments in DBA ZA43 x8089–x8091, “Preussag, VEBA und VW, Anlegerrenditen seit der jew. Privatisierung”, 22.12.1983.

ment and also VEBA itself had by now distanced themselves from the idea of bundling the German interests in the oil industry in VEBA which had justified the federal participation in the 1970s. An exception was the participation in RAG which could be disintegrated in the case of a privatisation of VEBA. A handwritten comment however doubted that this would be feasible because Minister of Economics Martin Bangemann (FDP) would not agree to this. The paper further states that all companies except for VEBA and VIAG had to be ruled out from privatisation at the moment due to unfavourable circumstances: In the case of VW, profits and hence dividends were risky at the moment, plus the main share of the revenues from a sale would have to be passed on to the Volkswagenwerk Foundation. Salzgitter, Saarberg and VIAG should not be considered for economic and regional-political reasons. In the case of Prakla and Treuarbeit, strong federal interests stood in the way of a privatisation, and the companies were also too small for dispersed ownership. In terms of the privatisation model, the discussion paper found that investment companies were the better option because they would harmonise better with the idea of ‘ownership for everyone’. A handwritten comment however preferred the holding model because it allowed for a better protection of smallholders.⁷³⁴

In November 1983, Secretary of State Tietmeyer informed the members of the *Bundestag* economics committee about the government’s intention to reduce its share in VEBA by 13.75% from 43.75% to 30% from January 1984 onwards. The background for this was a planned equity increase which had been decided at the general meeting in 1983 unlike the discussion paper from March 1983 had expected. The government intended to participate in the equity increase of nominal 250 million DM because it wanted to secure a veto minority of at least 25%. To reduce its share to the desired volume, the intention was to sell shares on the stock market after participating in the equity increase. Tietmeyer explained further that the choice of VEBA had to do with the fact that the federal share was already below a 50% majority. Because of that, the federal government could only exercise a limited influence on the company. This led to ongoing tensions between the Federal Court of Audit,

⁷³⁴ BArch B126/ 93026, Internal note about an earlier version of the paper from 14 March 1983, VIIIA (Kropff), 15.3.1983.

the Federal Budget Act and the stock company law. Yet, this explanation lacked sense because the federal government still owned the voting majority in the general meeting – this had been kept on purpose in the 1970s because it was declared to be sufficient by the social-liberal government. The reduction of the federal VEBA share was not yet a preliminary decision for a full privatisation of shareholdings in the industrial sector. Tietmeyer stressed that the government considered a veto minority in VEBA as important in order to be able to block a possible impact of foreign investors. After all, VEBA was still West Germany's largest oil company and second largest electricity producer. Therefore, the government intended to keep a share of 30% in VEBA – this would be sufficiently above the threshold of 25%. According to Tietmeyer, a second reason for keeping a veto minority was that the government assumed that it would be easier to find trade partners in the international oil market if the company remained partially publicly owned. A state share would be seen as a guarantee and would increase the trust of partner countries and companies. The veto minority was therefore seen as a long-term solution and not as a temporary necessity. Special share features were not considered to be necessary and also no social concessions and purchase restrictions should apply. Only a special allocation to VEBA employees was intended.⁷³⁵

The ministerial administration was aware of the fact that the political goal of a distribution of shares through people's shares had only been partially realised. Approximately three quarters of the initial 2.6 million VEBA shareholders had sold their shares by now. Information about how the shareholder composition had changed since the partial privatisation in 1965 was derived from information about shareholder presence at the recent general meeting: Shareholders representing 78.49% of the nominal share capital were present. This included the federal government (representing 43.75% of the nominal share capital), smallholders through proxy voting of banks (28.70%), investment funds (5.50%), shareholder associations (0.18%) and smallholders (0.11%). The number of portfolios had decreased steadily from initially

⁷³⁵ PA, Minutes of the 8th meeting of the *Bundestag* economics committee (9th committee) on 9 November 1983, pp. 22–27.

2,600,000 in 1965 to 700,000 in 1981.⁷³⁶ This was a clear downward trend. The initial dispersion of shares had not been maintained. The fact that smallholders represented only 0.11% of the nominal share capital was far removed from a shareholder culture. Instead, proxy voting was prevalent.

Although these trends did not look promising, Stoltenberg decided to combine the sale of VEBA shares with property formation policy. The timing of the VEBA privatisation was chosen such that the subscription period started just when the new Property Formation Act (also: 936-DM-Law) became effective on 1 January 1984. This act increased the savings for which subsidies could be granted from 624 DM to 936 DM. Employee shares and shares subscribed in the framework of the Property Formation Act were allocated preferentially. The sharply criticised disadvantage was that subsidised shares had to be held for a minimum of six years according to the law, otherwise subsidies would have to be returned. Nevertheless, the deputy of the working group on economic questions of the CDU/CSU *Bundestag* faction Matthias Wissmann declared that the government had the full support of the faction for the planned VEBA privatisation.⁷³⁷

In October 1983, right before a meeting of the federal cabinet, Stoltenberg presented his plans at a press conference. He announced that the reduction of the participation in VEBA would just be a first step and that shareholdings should be reduced in all cases where this was possible without impairing public interests. Privatisation should aim at a broad distribution of ownership of the means of production. Federal enterprises which were currently generating losses should first be reorganised and consolidated.⁷³⁸ The federal cabinet approved Stoltenberg's request to reduce the federal share in VEBA in October 1983 and highlighted the context of the Property Formation Act.⁷³⁹ The

⁷³⁶ BArch B126/ 93026, Attachment 2 of Memorandum, Head of Div. VIII (Wagner), 16.3.1983.

⁷³⁷ BArch B126/93027, press announcement of the CDU/CSU *Bundestag* faction, 26.10.1983.

⁷³⁸ BArch B126/136047, "Erklärung des Bundesministers der Finanzen zur Reduzierung des Bundesanteils an der VEBA AG vor der Bundes-Pressekonferenz am 26. Oktober 1983 in Bonn", BMF press announcement 94/83, 26.10.1983.

⁷³⁹ "Die Kabinettsprotokolle der Bundesregierung" online, Federal Cabinet, minutes of the 17th meeting on 26 October 1983, agenda item 8.b: "Reduzierung des Bundesanteils an der VEBA AG".

expected revenues of 760 to 770 million DM were intended to be used to reduce net borrowing. It was expected that the resulting interest savings, offset against lost dividend payments, would lead to an annual relief of the federal budget of about 32 million DM.⁷⁴⁰

The VEBA subscription result was that 4,393,648 shares were sold by the bank consortium. Of these, 46,352 shares were sold in the framework of the Property Formation Act and approximately 200,000 shares as employee shares. This led to total revenues of 769,6193,491.69 million DM.⁷⁴¹ Stoltenberg declared the placement as successful. Shares to a nominal value of 232 million had been placed only two days after the subscription period had started. Yet, the subscription result of employee shares was not perceived as satisfying. Of the 73,297 eligible persons (only domestic VEBA employees), 21,072 (28.7%) had subscribed for 121,665 shares. Those who had subscribed for shares purchased on average 5.8 of the maximum 6 shares, this entailed costs of 6 million DM for VEBA. Only one quarter of these shares were purchased with the financial support of the Property Formation Act. Approximately two thirds of the employee purchasers were first purchasers and opened new securities accounts. For comparison, employee shares were signed by 3% of eligible Daimler-Benz employees, 24% of Siemens employees and 45% of Mannesmann employees in the latest share issues of these companies. It was assumed that the minimum holding period of six years probably had a negative effect on the subscription result. Also, it was noted that there was a clear increase of the number of subscriptions with income.⁷⁴² Hence, financial resources or prior knowledge about shares might have played a role.

6.2.2 Defining the Public Interest

The annual *Bundestag* budget debates became focal points for privatisation debates in the 1980s. One reason for the intense discussions in the *Bundestag* budget committee were the latest remarks of the Federal Court of Audit. The

⁷⁴⁰ BArch B126/93027, BMF press announcement 7/84, 29.1.1984

⁷⁴¹ BArch B126/93027, VIIIA3 (Blättner) to Stoltenberg, 24.5.1984

⁷⁴² BArch B126/143220, “Belegschaftsakten”, VIII A2,3 (Knauss, Blättner) to Tietmeyer, 4.6.1984.

court had in the past repeatedly complained that the government did not make proper use of its rights as a shareholder. The remarks of the Federal Court of Audit referred to all federal shareholdings without exceptions. Possibly, after the change of government, critics of state ownership within the court sensed an opportunity for change.

In May 1983, the Court of Audit sent a draft proposition for a *Bundestag* motion to the audit subcommittee of the *Bundestag* budget committee. It contained suggestions to improve the federal activities in corporations, amongst others: “The public tasks which can justify an important interest in a federal enterprise have to be determined and specified in such a way that they can serve as objectives for the execution of public tasks by public enterprises.”⁷⁴³ The *Bundestag* committee decided to use this as a basis for a discussion of the tasks which the federal state had to fulfil in public enterprises. A general debate was postponed to after the summer break. By then, the committee expected to have received an answer from the federal government.⁷⁴⁴ The catalogue on which the committee and the court agreed comprised the questions as to how the public interest was defined and how it was certified that there was no other equally good or better way to reach the same political goal.⁷⁴⁵

Stoltenberg took the question catalogue very seriously, asking all other state departments for feedback and organising a government meeting.⁷⁴⁶ At first, officials in the Ministry of Finance reacted defensively. Knauss, who had been in charge of federal enterprises since the 1970s, noted that every political goal of the government could constitute a public interest and would hence be eligible in the framework of the budget law. Moreover, public interests could change over time. The convention so far had been that the public interest had to be exist mainly in cases where direct participations were acquired. The

⁷⁴³ “Die öffentlichen Aufgaben, die ein wichtiges Interesse an einem Bundesunternehmen begründen, sollten durch politische Entscheidung bestimmt und so eindeutig festgelegt werden, dass sie als Zielvorgabe für die Wahrnehmung öffentlicher Aufgaben mit Hilfe von privatrechtlichen Unternehmen dienen können.”, BArch B126/136047, Bundesrechnungshof, “Anlage zum Fragenkatalog”, 31.5.1983, pp. 7–11.

⁷⁴⁴ BArch B126/136047, Minutes of the 4th meeting of the auditing subcommittee of the *Bundestag* budget committee on 9 June 1983; see also *Bundestagsdrucksache* 10/393, 16.9.1983, p. 15.

⁷⁴⁵ BArch B126/136047, “Fragenkatalog”.

⁷⁴⁶ BArch B126/136047, Express letter, BMF to all other State Departments, 10.6.1983

only shareholding which had actually ever been directly acquired was GBAG. In that case, the public interest was of energy-political nature.⁷⁴⁷ Knauss' colleague Koch added that the federal interest had to be tested regularly and that it was a long and politically difficult road give up participations. He added that often, a sale was not achievable or companies had to remain in public ownership in order to prevent them from being liquidated, or a liquidation would be too costly.⁷⁴⁸

Additionally, the Ministry of Transportation defended 'its' companies. It argued that most participations and enterprises in the transport sector were profitable, with some exceptions. In 1981, the transport sector had generated net revenues of 82.6 million DM for the federal budget (excluding the loss-making German Federal Railway). Lufthansa and Gesellschaft für Nebenbetriebe der Bundesautobahnen mbH regularly paid dividends or distributed profits. The only Berliner Flughafengesellschaft and Osthannoversche Eisenbahnen AG would regularly need subsidies, all other enterprises would break even. Also, the ministry argued that under the current legal conditions, almost all participations in the transport sector could be kept since a public interest was given in most cases. Only exceptions were the three waterway construction financing companies Elbe-Mittelland Kanal GmbH, Rheinisch-Westfälische Kanal GmbH and Nordwestkanal GmbH.⁷⁴⁹ Upon Stoltenberg's request, the Ministry of Posts and Telecommunications went through the participations of the German Federal Post Office and finally presented its results to the Ministry of Finance in March 1984. According to this, a public interest could not be stated in five cases: DLH, Depfa, the rather small and hardly profitable Wohnungsbaugesellschaft and Deutsche Fernkabel-Gesellschaft mbH.⁷⁵⁰

In September 1983, a debate about the report for the budget year 1981 took place but a response from the Ministry of Finance was still pending. Chairman of the audit committee Bernhard Friedmann (CDU/CSU) argued that the state should not keep and finance the problematic enterprises because

⁷⁴⁷ BArch B126/136047, VIIIA1, 9.6.1983, Knauss to Parliamentary Secretary of State Voss.

⁷⁴⁸ BArch B126/136047, Internal note, IIA3 (Koch), 9.6.1983.

⁷⁴⁹ BArch B126/136047, Central Division Z22, May 1983, "Beteiligungsverwaltung des BMV".

⁷⁵⁰ BArch B126/143220, Secretary of State Winfried Florian (BMPost) to Tietmeyer, 3.2.1984.

this would mean that “medium-sized enterprises would have to finance their state-owned competitors through taxes”.⁷⁵¹ This became a recurring argument in the privatisation discussion and differed clearly from the earlier argument that only well-performing companies should be privatised.

The Ministry of Finance sent a response to the *Bundestag* budget committee in November 1983. It referred to an economic report of the government from 1983 and confirmed the general political goal of reducing the public sector. However, the definition of the public interest which justified public ownership would have to be the result of a political opinion-forming and decision-making process which had only just started. To name such eligible interests was therefore not possible yet. Potentially important interests could include security of supply, foreign and domestic policy, environmental, infrastructure and development policy. If a federal interest was confirmed, it could be imposed in different ways on public enterprises, for example through the company objectives.⁷⁵²

The next impetus for the discussion of public ownership was provided by the annual report of the Federal Court of Audit for the year 1981.⁷⁵³ The report accused the Minister of Finance of failing to implement a sufficient level of control, influence and access to information in the case of VEBA. Referring to the budget law, the court demanded from the Minister of Finance that he fulfil his obligations and exert the government’s rights as a shareholder. More specifically, the Federal Court of Audit was critical of the fact that VEBA had been able to refuse demands of the ministry for more federal representation on the supervisory boards of the subsidiary companies. Second, VEBA had not submitted audit reports which was an infringement against §171 AktG. And third, there existed no rules of order for the VEBA management board which would regulate which business decisions needed an approval of the supervisory board. In addition to the lack of supervision, the report advocated that the share in VEBA should either be upgraded to a majority of votes (in the refer-

⁷⁵¹ “daß der Mittelständler über seine Steuern via Staat seine staatliche Konkurrenz finanziert”. BArch B126/136047, *Bundestag Plenarprotokoll* 10/26, 30.9.1983, p. 1764.

⁷⁵² BArch B126/136047, Parliamentary Secretary of State Voss to Chairman of the *Bundestag* auditing committee Friedmann, 2.11.1983.

⁷⁵³ Report of the Federal Court of Audit for the Budget Year 1981, *Bundestagsdrucksache* 10/574, 8.11.1983.

ence year 1981 the federal share was 43.75%) which would improve the federal rights, or reduced to a participation of just above 25% which would secure the tax privilege and a veto right.

One might wonder whether the Federal Court of Audit followed a political agenda or whether it simply ensured that the government followed the legal rules and regulations. What is interesting to note is that in the report for the year 1981, the court demanded that the participation in VEBA should either be reduced to 25% or increased to 50%. However, after the partial privatisation of VEBA in 1984, the court argued that a 25% share was not enough in order to secure a sufficient influence. Therefore, there was no reason to keep the participation and it should be sold entirely as soon as the market situation would allow for this.⁷⁵⁴

The reactions in the Ministry of Finance were two-sided: on the one hand, with the privatisation agenda being prepared, Stoltenberg and his officials did not seem keen to address the specific points which were mentioned in the report. Also, the report obviously referred to the year 1981 and therewith to the previous Minister of Finance Matthöfer and his ministerial administration. Part of the accusations had become insubstantial because in the meantime, the share had been reduced to 30% due to the equity increase and it was already planned to reduce it further to 26% at a later point in time. Hence, Stoltenberg simply declared that the problems addressed in the audit report were not his to solve but fell under the responsibility of each individual government official who served on a supervisory board.⁷⁵⁵ On the other hand, due to concerns about the *Bundestag* reaction it seemed advisable to address the criticism in some way. The critical point was the refusal of VEBA to submit audit reports since this was a clear violation of law, while all other addressed points could be justified. Internally, it was acknowledged that holding back audit reports was a widely customary practice to avoid business secrets falling into the wrong hands. In the case of public enterprises, this risk was considered to be even larger because there was a danger that information could be passed on through the *Bundestag* and administrative bodies. VEBA reacted by commissioning a legal opinion

⁷⁵⁴ BArch B126/93019, Federal Court of Audit to BMF, 11.7.1985.

⁷⁵⁵ BArch B126/93019, VIII A 3 (Blättner) to Head of Div. VIII, 24.10.1984.

which confirmed this point of view.⁷⁵⁶ However, it was obvious that neither the Federal Court of Audit nor the *Bundestag* would let the ministry get away with this.

The auditor's report was discussed in the *Bundestag* audit subcommittee in January 1984. Besides the points mentioned by the auditors, the committee criticised the obvious lack of documentation of informal arrangements between VEBA (and other companies) and the Minister of Finance. The subcommittee decided to officially demand that the Stoltenberg should consider all legal possibilities to coerce VEBA to submit their reports and approvingly took cognizance of the auditor's report.⁷⁵⁷ This incident showed that a fresh wind was blowing through the *Bundestag* rows and that parliamentarians of the coalition parties would continue to question the role of the state in public enterprises.

After some negotiations and legal arguments in which VEBA chief Bennigsen-Foerder tried all manner of tricks,⁷⁵⁸ a deal with VEBA was achieved between Tietmeyer and Bennigsen-Foerder: the requested VEBA report would be given to Tietmeyer for a limited time and the reports of the subsidiary companies would be handed out to the ministerial officials in charge of inspection in the VEBA offices.⁷⁵⁹ Internal notes from the Ministry of Finance confirm that there was indeed a lack of both the political will and the government's ability to increase its impact as a shareholder. Rules of order had in the past not been considered as necessary and appropriate because the daily business operations of public enterprises were so manifold that it was not possible to create a list of business activities which would require approval from the supervisory boards.⁷⁶⁰ Internally, it was agreed that impact and information rights of the federal government should remain limited: The government should not impose its will onto the enterprises as a minority shareholder and become

⁷⁵⁶ BArch B126/93019, Internal note VIIIA3 (Blättner) to VIIIA1, 17.1.1984.

⁷⁵⁷ *Bundestagsdrucksache* 10/1500, 24.5.1984; see also two internal notes about the meeting of the *Bundestag* audit committee on 26 January 1984: BArch B126/93019, VIIIB6 (Klepp), 30.1.1984, and VIII A3, 1.2.1984.

⁷⁵⁸ In a letter to Tietmeyer, Bennigsen-Foerder declared that everything was just a misunderstanding and due to an office failure, BArch B126/93019, Note Reuber for Head of Div. VIII, 7.9.1984.

⁷⁵⁹ BArch B126/93019, VIII A 3 (Blättner) to Tietmeyer, 23.1.1985 and 30.1.1985.

⁷⁶⁰ BArch B126/93019, VIII A 1, Bubinger to Tietmeyer/Stoltenberg, 28.8.1984.

some sort of quasi-management. Responsibility should be entirely with the managements. This was even more important because adverse effects of business decisions which were imposed by the federal government would oblige the government to shoulder compensation payments. Also, it was considered to be natural that the management restricted the information which was passed on to supervisory boards and the federal government in order to avoid critical business information becoming public. The ministry confirmed that there were unofficial contacts between the government and management boards, but these would have to remain secret in order to not jeopardise the information sources.⁷⁶¹

Despite the upcoming sale of VEBA shares, the *Bundestag* budget committee found that things were moving too slowly and demanded a timely presentation of a privatisation conception from the government in January 1984.⁷⁶² According to their budget report for the year 1984, the committee had not received the report yet. In their budget report for the year 1985, there was no word about it anymore. Possibly, the parliamentarians had decided to not complicate things further since Stoltenberg's privatisation plans turned out to be subject of controversies in the government coalition.

From autumn 1983, Stoltenberg and his administration were working on a larger scale privatisation programme. Secretary of State Tietmeyer presented the main features of the new policy at a joint event of the CDU-associated Konrad Adenauer- Foundation and the Society for Public Economy in autumn 1983. He pointed out that the public interest was foremost a political question, not a legal one. However, the burden of proof was with those who wanted to maintain public ownership, not with those who wanted to privatise. In that sense, the intention to privatise had nothing to do with ideological biases, it was an obligation based on the budget law. Experiences had shown that an adaptation of enterprises to changing market conditions was best achieved through private competition. Despite that, in the case of VEBA, a public energy-political interest justified a federal participation of 25%. But in gen-

⁷⁶¹ *ibid.*

⁷⁶² BArch B126/93027, Minutes of the 25. meeting of the *Bundestag* budget committee on 14.3.1984, committee document no. 405.

eral, international developments did not encourage public ownership, although the West German public enterprises were doing rather well compared to public enterprises in other countries.⁷⁶³ A few days later, Tietmeyer presented this approach at a meeting of the *Bundestag* economics committee and added that a public interest which would justify public ownership could be of energy-, transportation-, regional-, or research-political nature. Tietmeyer asked the committee members to abstain from addressing the topic of privatisation publicly while consultations were ongoing.⁷⁶⁴ Tietmeyer's argumentation indicated a certain degree of 'juridification' of the privatisation debate: the political debate was led as if it was primarily of legal nature. This way, Stoltenberg was later able to approach criticism with the argument that the Federal Budget Act would force him to consider all enterprises for privatisation. Whether this was his intention to some extent is not clear.

An unfinished and undated memorandum of Stoltenberg on motives, motivations and limitations of privatisation provides an insight into his view on public enterprises. He found that transferring municipal tasks from in-house provision onto legally independent enterprises was a positive example for privatisation since enterprises were more adaptable to change. On the federal level, the discretionary powers of the budget law had been defined rather widely in the past. Now, it was about time to rethink this in a more critical way. Recent international developments posed challenges beyond mere structural change. Large companies and in particular public enterprise bureaucracies were not adaptable enough to respond well to these changes, even more so since they would assume that losses would be financed by the federal government. Therefore, privatisation should be implemented moderately and in communication with all the parties involved. However, privatisation volume and revenues should not be overestimated.⁷⁶⁵ Unfortunately, this version of the

⁷⁶³ Printed version of his speech in BArch B126/136047, Tietmeyer: "Neukonzeption der Beteiligungspolitik des Bundes", *Bulletin der Bundesregierung* no. 118, 4.11.1983, pp. 1079–1084.

⁷⁶⁴ PA, Minutes of the 8th meeting of the *Bundestag* economics committee (9th committee) on 9 November 1983, pp. 25–26.

⁷⁶⁵ Gerhard Stoltenberg: "Motive, Möglichkeiten und Grenzen der Privatisierung von Bundesvermögen – Banken im Bundesbesitz ausgenommen?" Undated, probably from late 1983/early 1984.

paper does not deal with the question of banks as the title suggests. Possibly, a later version of the memorandum exists which reveals more about Stoltenberg's attitude to privatising banks. Yet, it is notable that he addressed this topic this early. Later, Stoltenberg repeated that the same privatisation guidelines should be applied for industrial and banking participations.⁷⁶⁶ Similarly, at a congress of the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP), Secretary of State Voss (Ministry of Finance) said that Europe had to liberate itself from its industrial inflexibility. Public enterprises should be allowed access to new equity in private markets and the risk appetite of entrepreneurs and enterprises had to be strengthened in order to solve the European economic crisis.⁷⁶⁷ Hence, the German move to privatisation was seen as part of larger European developments.

Stoltenberg presented his privatisation plans to the *Bundestag* budget committee in January 1984. According to his speaking notes for this meeting, he did not yet commit to a privatisation programme beyond the upcoming sale of VEBA shares. He further asked the *Bundestag* subcommittee members for their understanding, arguing that the new government had just been elected about half a year ago and that preparatory works had not been completed yet. But in general, the two problem cases, Salzgitter AG and Saarbergwerke, were proving that diversification strategies had so far not improved the situation of public enterprises but had rather led to additional problems. Therefore, indirect participations had to be the first targets of a future privatisation policy. Stoltenberg reported that he had already rejected a few requests of federal enterprises to acquire participations and that he had announced that such requests would be examined very critically in the future. Also, he had asked other ministries to do the same within their areas of responsibility. A more detailed privatisation concept would follow later that year.⁷⁶⁸

⁷⁶⁶ BArch B126/ 143219, VIIIA2 (Knauss) to Tietmeyer, 27.9.1984.

⁷⁶⁷ BArch B126/143220, "Rede des Parlamentarischen Staatssekretärs beim Bundesminister der Finanzen, Dr. Friedrich Voss, vor dem X. Kongreß des Europäischen Zentralverbandes der öffentlichen Wirtschaft am 27. Juni 1984 in Lissabon".

⁷⁶⁸ "Blick über die Grenzen ermutigt nicht, den staatlichen Unternehmenssektor auszudehnen", BArch B126/136047, VIII A2 und A1, Speaking note for the meeting of the *Bundestag* audit committee on 26 January 1984, 23.1.1984.

A *Bundestag* debate on the topic of privatisation took place in a government question time (*Aktuelle Stunde*) on 27 March 1985 upon request of the FDP. Only one day earlier, the government coalition had approved Stoltenberg's privatisation concept – probably because Stoltenberg had convinced his colleagues in the federal cabinet that he needed to be able to deliver something the next day. In the *Bundestag* debate, fundamental differences in the argumentations of the political left and right emerged. The SPD, and to some extent also the Green Party which had been elected into *Bundestag* for the first time in 1983, accused the government of selling the 'family silver' for short-term fiscal reasons and thereby to constraining the future federal budget. They argued that well performing public enterprises should be kept to outbalance the losses from the companies with bad performances. The conservative-liberal government argued against this that privatisation had a positive long-term effect on the federal budget because it would reduce public debt.⁷⁶⁹ This fiscal argument became indeed the most fundamental difference between the CDU/CSU and the SPD until the 1990s. At least for parts of the CDU/CSU, profits generated by public enterprises did not constitute a public interest. However, a few months earlier, a representative of the Ministry of Economics had still declared that it was the ministry's opinion that federal enterprises should not be separated into a profitable group which would be privatised and a non-profitable group which would be kept in public ownership.⁷⁷⁰ Like the SPD, the Federation of German Trade Unions was against privatisations. It demanded to maintain federal ownership in order to use public enterprises as policy instruments. Subsidies should be transformed into participations, and public enterprises in the natural resources and energy sectors should be used for the purpose of market regulation.⁷⁷¹

The first target of Stoltenberg's privatisation programme were indirectly held participations, including participations of the special assets German Federal Railway and German Federal Post Office. The first goal was to streamline

⁷⁶⁹ *Bundestag Plenarprotokoll* 10/128, pp. 9423–9455. See also BArch B126/93027, "Betr: VEBA", undated, probably from autumn 1983.

⁷⁷⁰ PA, 10. legislation period, *Bundestag* economics committee, minutes of the 3. meeting, 16.6.1983, Speech of Ministerialdirigent Molitur, pp. 37–39.

⁷⁷¹ *DGB Informationsdienst*, 4.12.1984.

cross-participations in the public sector. In the case of Depfa for example, several public authorities and entities held participations: the federal government owned 67.88% of the shares and the German Federal Post Office 8.2%. Other shareholders included the *Sondervermögen Ausgleichfonds* (special assets compensation fund), Deutsche Bahn, the Federal Labour Office, the German Civil Service Insurance Fund and some of the German states. Similarly, public shareholders of Lufthansa included the federal government with 74.31% of the nominal share capital (and 84.77% of voting capital), Deutsche Post, Deutsche Bahn, KfW and North Rhine-Westphalia. Stoltenberg's idea was that all indirect participations of other federal entities, including the shares in VIAG which KfW had taken over on behalf of the government once, should be transferred to the federal government. He declared that of the portfolio of indirect participations, 24 were in the process of being sold and four were being reduced. Six participations were being liquidated and four requests for an acquisition of participations had been rejected recently.⁷⁷² Division VIIIA1 in the Ministry of Finance calculated that between 1970 and 1982, 130 approvals to acquisitions had been given, that is 11.8 approvals per year on average. In 1973 and 1974 alone, 76 to 80 approvals had been given, most of them by the Minister of Finance. In contrast to that, in 1983 only two acquisitions had been approved, and three in 1984.⁷⁷³

The Ministry of Economics demanded a clear separation between privatisation and participation policy. Like Stoltenberg, the ministry considered the portfolio of indirectly held participations to be the main problem. In order to streamline the portfolio, a clear conceptualisation of a federal participation strategy was needed. The Ministry demanded answers to the following questions as to whether loss-making participations should be balanced through the acquisition of lucrative participations and as to how conflicts of interests between different political targets should be solved.⁷⁷⁴

⁷⁷² BArch B102/143218, "Privatisierung, Aufzeichnung Abstimmung mit anderen Ministerien, Aufzeichnung Kabinetttvorlage", pp. 13–14.

⁷⁷³ BArch B102/143218, Internal note "Beteiligungserwerbe von Bundesbeteiligungen", VIIIA2 (Knauss), 12.9.1984.

⁷⁷⁴ BArch B102/143218, Internal note about a meeting of the Ministries of Finance and Economics about the privatisation and participation politics on 19 September 1984, VIIIA2 (Hartmann), 25.9.1984.

Federally-owned banks deserve some special attention. The federal government did not have a house bank like the German states. On the state level, German state banks were involved in building the state's portfolios of participations. This active role of the state banks has been associated with the term "state capitalism".⁷⁷⁵ The federal portfolio comprised KfW, Deutsche Pfandbriefanstalt (Depfa), Deutsche Siedlungs- und Landesrentenbank (DSL Bank) and DVKB. Closest to the idea of a house bank was the KfW which had in the past acquired participations in VIAG and VEBA on behalf of the federal government. The other federally-owned banks all fulfilled special tasks: the main purpose of the DVKB bank was to serve as a house bank for the German Federal Railway. Depfa was a major issuer of municipal loans, and DSL Bank had been established with the task of supporting the integration of German refugees from the East and, related to this, financing agriculture in structurally weak regions.

6.2.3 The Privatisation List

Although Stoltenberg tried to minimise public attention, rumours about an imminent privatisation were circulating in autumn 1983. Subsequently, Stoltenberg invited the management boards of federal enterprises and attempted to appease them. He assured them that there would be no sudden action and expressed his gratitude that the number of requests from federal corporations to acquire participations had decreased significantly recently. He further stated that the portfolio of indirect shareholdings required a constant examination in order to identify the participations that were not urgently necessary for the core business anymore. However, the German portfolio of state-owned enterprises was much smaller than for example in the UK and the main reason for the sale of participations was to equalise market competition. Fiscal effects would be small and just a side effect. He promised that nothing would be decided without consulting all affected parties first.⁷⁷⁶

⁷⁷⁵ See Trampusch, Linden, and Schwan (2014) for state banks in North-Rhine Westphalia and Bavaria.

⁷⁷⁶ BArch B126/136047, „Ausführungen von Minister Stoltenberg zur Beteiligungspolitik anlässlich des Vorstandstreffens der Bundesbeteiligungen am 29. August 1983 in Berlin“, VIIIA2 (Knauss) to Divisions VII and I, 1.9.1983.

By August 1984, a first privatisation list had been compiled. According to that list, eight enterprises should be privatised: Lufthansa, Volkswagenwerk, VIAG, IVG, Prakla-Seismos and DIAG, and the banks Depfa and DSL Bank. Since this list was relatively short compared to the initial intentions, Stoltenberg emphasised that the government could be accused of being too hesitant, therefore, no small transaction such as Depfa should be left out.⁷⁷⁷ The Federal Ministry of Finance was from the start aware of possible difficulties with Bavaria in the case of VIAG. VIAG and Bavaria were connected through joint participations in VAW, Bayernwerk, Innwerk, SKW Trostberg. As part of an active state interventionist policy, Bavaria had made extensive use of public enterprises. However, it was expected that a VIAG privatisation would not have an impact on the Bavarian energy policy which relied mainly on Bayernwerk.⁷⁷⁸ Not on the list was Salzgitter AG because it would not provide a secure investment opportunity. Also, its location close to the inner German border in South East Lower Saxony made the company a special case. However, in light of the company's low profitability, Salzgitter AG at the same time served as an example for some parliamentarians that public ownership in general was not beneficial for business development.⁷⁷⁹

The privatisation list was discussed in an unofficial cabinet meeting in September 1984. Least controversial were the cases of VIAG, VEBA and Volkswagenwerk. For none of these companies was a reason to maintain public ownership stated. In the case of Volkswagenwerk, only the timing was considered to be unfavourable due to the low stock price so that a sale would have to wait until the price had recovered. Lower Saxony agreed on the condition that the joint public share should stay above 25% of the nominal share capital. Both the VIAG management and supervisory board considered their company ready to be privatised. Since the company was not known well in public, it was agreed that the privatisation would be implemented step by step.

More controversial were the cases of DSL Bank, Prakla-Seismos, IVG,

⁷⁷⁷ BArch B126/143219, VIIIA2 (Knauss) to Tietmeyer, 15.8.1984.

⁷⁷⁸ BArch B126/143220, "Bundesbeteiligungen in Bayern", VIIIA2 (Knauss) to Tietmeyer/Stoltenberg, November 1984.

⁷⁷⁹ PA, Minutes of the 7th meeting of the *Bundestag* economics committee (9th committee) on 26 October 1983, pp. 40–44.

DIAG, Depfa and Lufthansa. Lufthansa AG was an intensely and long debated case and will be discussed in more detail in the next chapter.⁷⁸⁰ The machine manufacturer DIAG was located in West Berlin and the government's interest in the company's future was high for political reasons. The Ministry of Economics intended a privatisation and potential buyers had already been found: a consortium of Gildemeister, MBB and Imhoff was interested. However, it was expected that the transaction would be difficult since the federal government requested a guarantee that the location in Berlin would be maintained for political reasons. In the case of Prakla-Seismos, the company management were concerned about a change of ownership. Due to the sensitive nature of the company's business – energy resource development and engineering – the management regarded it as important to maintain the independence and neutrality of the company. Hence, the head of subdivision VIII A, who served as a chairman for the company's supervisory board, suggested decreasing the federal share to 51% and awaiting the customers' reactions. Possibly, a full privatisation could be considered in the long-run. Stoltenberg found it sufficient to keep just a 26% government share.⁷⁸¹ A privatisation of IVG was further consulted with the Ministry of Defence and the Ministry of Economics. First it was considered that IVG be sold to Preussag.⁷⁸² Preussag was interested primarily because IVG would complement its shareholding in VTG. Since at that time the North Rhine-Westphalian state bank West LB held a considerable share in Preussag, there were some concerns that the transaction would not count as a privatisation, but Stoltenberg emphasised that it was more important to come to an agreement with the other ministries. A public interest was stated for IVG excluding the wagon and repair business, so that this part could be sold separately to Preussag.⁷⁸³ This was approved by Minister of Defence Wörner (CDU), but Minister of Economics Bangemann (FDP) preferred a partial privatisation of the entire IVG.⁷⁸⁴

⁷⁸⁰ See chapter 6.2.4.

⁷⁸¹ BArch B126/143219, VIII A2, Internal note about a cabinet meeting on 13 September 1984, 17.9.1984.

⁷⁸² BArch B126/143219, VIIIA2 (Knauss) to Tietmeyer, 15.8.1984

⁷⁸³ BArch B126/143219, VIIIA2, Internal note about a cabinet meeting on 13 September 1984, 17.9.1984.

⁷⁸⁴ BArch B126/143220, Preparatory note for the coalition talks from VIIIA2 for Tiet-

As for the banking sector, Stoltenberg affirmed a federal interest in the DLS Bank.⁷⁸⁵ the bank was set up as a public institute and was by law assigned with the public task of financing public and private investments in rural areas and conducting commissioned transactions for the federal government. One main purpose of the bank after 1945 was the integration of German exiles and refugees from the East. According to Stoltenberg, the public tasks did not require full ownership, a capital and voting majority of just over 50% would be sufficient. The legal form should be kept, but the company should be opened up for private participation. This would require an amendment of the DSL Act.⁷⁸⁶ The originally intended addendum that the partial sale of DSL Bank should take place until 1987 was removed due to concerns from the Ministry of Finance's finance and credit division.⁷⁸⁷ Unlike DSL, Stoltenberg negated an important federal interest in Depfa and its subsidiary Deutsche Bau- und Bodenbank.⁷⁸⁸ Other ministers disagreed. The Minister of Posts and Telecommunications Christian Schwarz-Schilling (CDU) had raised concerns about a Depfa privatisation early on since Depfa was the largest financial institute for real estate credit.⁷⁸⁹ Minister for Construction Oscar Schneider (CSU) was worried about Depfa's role as lender of local authority loans. If the bank would be transformed into private law form, the volume of credit would have to be reduced by 25% on the basis of the current equity base. Hence, like in the case of DSL, Stoltenberg agreed to a participation of 51%. In the long-run, a further reduction could be considered if the other ministers could be convinced.⁷⁹⁰

The privatisation list which the Minister of Finance intended to officially present to the federal cabinet in November 1984 was a modified version of the original list. Despite controversies with Bavaria, the privatisation of Lufthansa had highest priority. Upon the request of the FDP, the list of further partic-

meyer/Stoltenberg, 7.1.1985.

⁷⁸⁵ BArch B126/143219, VIIIA2 (Knauss) to Tietmeyer, 27.9.1984.

⁷⁸⁶ BArch B126/143219, Draft: "Vorlage für die Sitzung des Bundeskabinetts", added loose leaf: "DLS-Beiblatt", VIII A2, 28.12.1984.

⁷⁸⁷ BArch B126/143220, Preparatory note for the coalition talks from VIIIA2 for Tietmeyer/Stoltenberg, 7.1.1985.

⁷⁸⁸ BArch B126/ 143219, VIIIA2 (Knauss) to Tietmeyer, 27.9.1984.

⁷⁸⁹ BArch B126/143220, Florian to Tietmeyer, 3.2.1984

⁷⁹⁰ BArch B126/143219, Internal note, VIIIA2, 17.9.1984.

ipations which should be reviewed was extended by the two travel agencies Deutsches Reisebüro (DR) and Amtliches bayerisches Reisebüro (abr) which belonged to the German Federal Railway. Also, Deutsche Verkehrs-Kredit-Bank AG and Schenker & Co. GmbH, both also owned by the German Federal Railway, and the direct federal participation in Gesellschaft für Nebenbetriebe der Bundesautobahnen mbH were on the list. For all potential privatisation transactions, a wide dispersion of shares should be envisaged. Most importantly for Stoltenberg, however, was that he would be given the mandate by the federal cabinet to investigate the federal interest of the entire portfolio of shareholdings without exemptions.⁷⁹¹

6.2.4 The Special Case: Lufthansa

Lufthansa was a difficult privatisation case due to resistance from Bavaria and the CSU. In August 1983, Werner Dollinger (CSU), at the time Federal Minister of Transportation, had declared that there were no plans to reduce the federal share in Lufthansa. Airline traffic was considered a public task as part of “*Daseinsvorsorge*” and hence a participation of at least 75% was necessary.⁷⁹² Yet, the airline was later considered to be the most important candidate for privatisation by Stoltenberg. He expected that the privatisation list would be harshly criticised by the public if Lufthansa was missing, which would damage the government’s reputation and cast doubt on how serious the privatisation intentions actually were.⁷⁹³

The Bavarian government under Franz Josef Strauß (CSU) mobilised political forces against a privatisation. After Klaus Reichelt, head of Lufthansa’s employee organisation, had turned to the Bavarian minister-president for support against a privatisation after rumours about a planned Lufthansa privatisation had become public, Strauß called on Chancellor Kohl. Kohl, according

⁷⁹¹ BArch B126/143220, VIIIA2, Cabinet paper (4th version), 16.10.1984; and notes about coalition talks about privatisation on 23 January 1985. See also Tofaute (1994), p. 57–61.

⁷⁹² BArch B126/136047, Bayer (Secretary of State in the Ministry of Transportation) to MP Klaus Daubertshauser 16.8.1983. See also *Bundestagsdrucksache* 05/1911, 21.6.1967, “Poolabkommen, KfW-Lösung”, and *Bundestagsdrucksache* 05/323, 16.2.1966, “Teilprivatisierung – nicht abgesprochen”.

⁷⁹³ BArch B126/ 143219, VIIIA2 (Knauss) to Tietmeyer, 15.8.1984

to Strauß, declared that he was against a sale of Lufthansa shares.⁷⁹⁴ The concerns of the Lufthansa workforce had two dimensions: in general, they were concerned about the image of Lufthansa as a *national carrier* which might get lost in case of a privatisation. And second, they were worried about what would happen to their membership in the *Versorgungsanstalt des Bundes und der Länder (VBL)*, a retirement fund which provided a supplementary pension plan for employees and workers in the public sector.⁷⁹⁵

Stoltenberg argued that he was legally obliged to review the public interest for all federal shareholdings. The membership in the public retirement fund was not threatened as long as a majority of shares remained publicly-owned, which was the long-term intention due to Lufthansa's importance as a 'national carrier': "The importance of Deutsche Lufthansa AG as a national carrier is fully recognised by all involved state departments; therefore, keeping a federal majority of shares long-term is consensually regarded as necessary."⁷⁹⁶ Based on experiences abroad, he assumed that the reputation of Lufthansa would not be damaged due to a partial privatisation. This was proven by the cases of British Airways and Japan Airlines. The Lufthansa shares in free float represented the most traded shares at that time, hence, there should be no concerns about whether a wide dispersion of shares could be reached as a result of a public offering.⁷⁹⁷

The Lufthansa executive board prudently decided to abstain from giving an official statement.⁷⁹⁸ The managing director of Lufthansa was the SPD member and former secretary of state in the Ministry of Transportation Heinz Ruhnau. His appointment to the Lufthansa management board in 1982 was one of the last personnel decisions of the social-liberal government. It is unlikely that Ruhnau supported privatisation, but he knew well that he had to abide to the political circumstances. Deutsche Bank chief Abs, chairman of

⁷⁹⁴ BArch B126/143239, Strauß to Reichelt, undated.

⁷⁹⁵ BArch B126/143239, Reichelt to Stoltenberg, 13.8.1984.

⁷⁹⁶ "Die Bedeutung der Deutschen Lufthansa AG als der nationalen Luftverkehrsgesellschaft wird von den beteiligten Bundesressorts voll anerkannt; daher wird auch eine dauerhafte Mehrheitsbeteiligung des Bundes einvernehmlich für erforderlich gehalten.", BArch B126/143239, Stoltenberg to Reichelt, 15.11.1984.

⁷⁹⁷ BArch B126/143239, Internal note, VIIIA2 (Knauss), 30.1.1985.

⁷⁹⁸ BArch B126/143239, "Notiz zu DLH" for Tietmeyer, 23.10.1984.

Lufthansa's supervisory board since many years, also explicitly abstained from commenting on the federal privatisation plan. He only recommended issuing non-voting shares in order to secure the impact of the federal government. Later, he changed his mind and demanded that there should only be a passive privatisation in the course of the next equity increase.⁷⁹⁹

Bavaria's interest in a public share in Lufthansa was a consequence of its involvement in the industrial complex MBB – Lufthansa – Airbus. MBB, privately owned but central to the Bavarian economy, received many orders from Lufthansa. Also, MBB and Lufthansa worked closely together on the Airbus development. For these reasons, Strauß was a member of the supervisory board of Lufthansa. In an interview with an airline magazine, Strauß argued that he was not against privatisations in general. Yet, Lufthansa was a special case, not only due to its standing as a national carrier and the pension concerns of the workforce: Lufthansa should remain state-owned to make sure that the company's procurement policy favoured Airbus over Boeing – since the two products were of the same quality, the national product should be favoured. Second, Strauß argued that state-ownership was favourable in negotiations with GDR about landing opportunities. Third, it was important to maintain still unprofitable but politically important flight routes, especially to African destinations. And finally, it would not be possible to secure a broad dispersion of shares in case of a share issue so unwanted concentrations of ownership would be possible.⁸⁰⁰ The argument of the procurement policy was apparently taken up by Edmund Stoiber (CSU), at that time state minister in Bavaria. According to Secretary of State Otto Schlecht (Ministry of Economics), Stoiber had argued that it was pointless for the government to spend several billion DM on Airbus development and remove its own possibility of having an impact on the procurement policy of Lufthansa due to a few hundred million DM at the same time. Schlecht rejected this argumentation. Good sales figures of Airbus were of course desirable. But under all circumstances

⁷⁹⁹ BArch B126/143239, Hermann J. Abs to Stoltenberg, 17.10.1984, and "Memorandum zu einer weiteren Teilprivatisierung des Aktienkapitals der Deutsche Lufthansa AG, Köln", Hermann J. Abs, 1.3.1985

⁸⁰⁰ BArch B126/143239, "Privatisierung? Interview mit dem Bayerischen Ministerpräsidenten und Mitglied des Aufsichtsrates der Lufthansa Franz Josef Strauß", in *Flugbegleiter* no. 12/84.

the impression should be avoided that investment decisions of Lufthansa were made under political pressure and not purely on the basis of business considerations.⁸⁰¹ The Ministry of Finance expressed serious concerns about such interventionist ideas. An active industrial policy did not conform with the general goal of a retreat of the state.⁸⁰² With respect to Strauß' interview, the Ministry of Finance noted that it was indeed in the interest of Lufthansa itself, state-owned or not, to maintain flight routes of future importance. Also, the size of the federal participation had no impact on negotiations with the GDR about transportation rights.⁸⁰³

Evidently, federal and Bavarian ideas of economic policy differed significantly. Whereas the Bavarians relied on a more active approach of industrial policy which utilised public enterprises, the federal government distanced itself from such a policy. The interventionist view however was not shared by the entire CSU. Michael Glos (CSU), speaker for federal participations of the *Bundestag* budget committee, approved the idea of a privatisation of Lufthansa.⁸⁰⁴ Other parliamentarians supported a reduction of the federal share to 52% or even 26%: what was possible in the Netherlands with KLM, it was argued, should also be possible in Germany.⁸⁰⁵

The Ministry of Finance tried to come up with a solution which Bavaria would approve. An internal note from October 1984 came to the result that the only possible solution which would prevent block-building leading to unwanted majorities was to establish an intermediate holding company. This was similar to the Mercedes model which had been suggested for the VEBA privatisation about a year before. The note found that all other solutions to restrict voting rights had their flaws: maximum voting rights were not feasible because this would also have to apply to the federal government. An exemption would violate the principle of equal treatment and could therefore be appealed by other shareholders. Also, creating two classes of shares and imposing voting right restrictions only for one type of shares as had been done in the case

⁸⁰¹ BArch B126/143239, Schlecht to State Minister Stoiber, 18.12.1984.

⁸⁰² BArch B126/143239, VIIIA (Kropff), 31.1.1985.

⁸⁰³ BArch B126/143239, Internal note, VIIIA2 (Knauss), 30.1.1985.

⁸⁰⁴ "Renommee einer Flugesellschaft unabhängig von Staatsbeteiligungen", *Handelsblatt*, 11.5.1984.

⁸⁰⁵ For example BArch B126/136047, Schröder to Stoltenberg, 1.8.1983

of VEBA in 1965 was legally controversial and politically hardly enforceable at the moment. And last, non-voting preferential shares, which had been used at several times in the past, would be legally problematic due to already existing preferential shares: the creation of a new class of shares would require a special resolution with approval of all existing shareholders, voting and with non-voting shareholders, if the preferential dividend had priority over or was equal to existing preferential dividends, but non-voting shareholders would not want to share their preferential dividend. If the preferential dividend was subordinate to already existing preferential dividends, only the approval of shareholders with voting shares was required. But then, the resulting stock price for those shares would remain under the price for normal shares, so there was a double disadvantage for shareholders. Also, a low issue price was not politically desirable since it would lead to a lower capital inflow for Lufthansa. Plus, having three classes of shares might lead to complications for future stock transactions and equity increases.⁸⁰⁶ A holding solution would avoid ‘annoying’ blocking minorities. 10% should be placed with a consortium of private insurance companies. It was assumed that the public would understand such a deal in the politically delicate case of a national carrier. The holding arrangement would enable a reduction of the federal share to 54% so that 21.5% of the voting shares would be in free float, representing 24.52% of the voting rights.⁸⁰⁷ Later, updated numbers intended a federal share of 55%, a 10%-share for the intermediate holding, and 20.5% of the shares with voting rights of 23.5% would remain in free float. Up to ten companies could participate in the holding, primarily insurances and banks should be asked.⁸⁰⁸ The Ministry of Finance turned to Deutsche Bank for further advice. The goal was to find a way to reduce the federal share to 55% without risking substantially reducing federal control over Lufthansa. Wilhelm Christians (Deutsche Bank) found the same fundamental problems associated with non-voting preferential shares as the ministry. The better solution would be to issue voting shares and try

⁸⁰⁶ BArch B126/143239, “Notwendigkeit und Möglichkeit einer Stimmrechtsbegrenzung”, VI-IIA (Kropff), Confidential, 8.10.1984.

⁸⁰⁷ BArch B126/143239, VIIIA2 (Knauss) to Tietmeyer, 15.10.1984

⁸⁰⁸ BArch B126/143220, “Bundesbeteiligungen in Bayern”, VIIIA2 (Knauss) to Tietmeyer/Stoltenberg, November 1984.

to ensure a wide dispersion of shares.⁸⁰⁹

Stoltenberg presented the intermediate holding conception to Strauß in May 1985 and announced that he was not willing to give up yet.⁸¹⁰ Strauß was not content however: a holding which would hold 10% of the Lufthansa shares would already mean a decreased influence for the federal government. The only measure to which he would approve was Abs' (Deutsche Bank) recent suggestion of a passive privatisation. In order to bundle political interests on the federal side, he suggested appointing a state official who should just be in charge of Lufthansa and Airbus.⁸¹¹ Despite Strauß' rejection, works on the holding plans in the Ministry of Finance continued. The Abs-model was regarded as infeasible because the federal share would not decrease sufficiently.⁸¹² Instead, a first list of possible partners for a holding was compiled. It comprised six banks, one insurance company and four industrial enterprises: Deutsche Bank, Dresdner Bank, Bayerische Vereinsbank, Bayerische Hypotheken- und Landesbank, Bayerische Landesbank, Norddeutsche Landesbank/Schleswig-Holsteinische Landesbank, MBB, Siemens, Daimler-Benz, Bosch and Allianz.⁸¹³ Dresdner Bank was interested in taking over the lead management, but the Ministry of Finance considered Deutsche Bank to be more neutral since Dresdner Bank was too closely connected to the aerospace industry. For a second round of eligible companies for the holding, Bank für Gemeinwirtschaft, Westdeutsche Landesbank, DG-Bank, Thyssen, Mannesmann and Krupp corporation were suggested.⁸¹⁴ Bavarian banks and industries were strongly represented on the two lists, very likely in order to please the Bavarian government. Also, the list comprised companies which were highly interwoven themselves: MBB was connected to Deutsche Bank, Dresdner Bank, Bayerische Vereinsbank, Siemens, Bosch and Allianz through ownership structures. But despite all efforts, Strauß was not willing to give in. The minister-president of Schleswig-Holstein Uwe Barschel

⁸⁰⁹ BArch B126/143239, Dr. F. Wilhelm Christians (Deutsche Bank) to Tietmeyer, confidential, 23.10.1984

⁸¹⁰ BArch B126/143239, Stoltenberg to Strauß, 9.5.1985

⁸¹¹ BArch B126/143239, Strauß to Stoltenberg, 22.5.1985.

⁸¹² BArch B126/143239, "Stellungnahme zum Memorandum Abs", VIIIA to Tietmeyer, 4.6.1985.

⁸¹³ BArch B126/143239, "Zwischenholding Deutsche Lufthansa AG".

⁸¹⁴ BArch B126/143239, Internal note about the Lufthansa, VIIIA2 (Knauss) , 14.6.1985.

supported his North German colleague Stoltenberg and demanded a decision: either at least 49% of the Lufthansa shares should be privatised or nothing, but a solution somewhere in the middle, such as Abs had suggested, was not acceptable. A partial privatisation was the right thing from a regulatory point of view, in case foreign infiltration could be excluded. At the same time, the market competition side should not be forgotten. A state monopoly like Lufthansa's current position in inner German air transport was not acceptable. Hence, either a proper partial privatisation would have to take place or a second flight licence for an existing or a newly formed German airline should be granted in order to create competition in the inner German market.⁸¹⁵ In March 1985, the federal cabinet decided to reduce the federal share to 51% by releasing 28% of the nominal capital into free float. However, due to resistance within the government, this decision was later taken back. Instead, the federal government reduced its stake passively in 1987.

6.3 Step-by-Step De-Investment

The final list of companies which were fully or partially privatised between 1984 and 1989 included VEBA, VW, VIAG, IVG, DSL Bank, DVKB, Treuarbeit and Salzgitter AG. Except for DIAG, IVG, Prakla-Seismos and Saarbergwerke, the sale of public enterprises in the industrial and energy sector was almost completed by the end of 1989. In the case of IVG, it was decided to not divest the transport business, instead the government reduced its share in the company to 55% in 1986. Salzgitter AG was sold to Preussag in 1989 because it was still not considered to be ready for dispersed ownership. Lufthansa was not among the actively privatised companies. Instead, the government did not participate in the equity increase in 1987 when the equity capital was raised by 300 million DM to 1.2 billion DM against resistance from Bavaria. The federal share decreased to 69.58% and shares in free float increased to 23.1% of the share capital. But Bavaria managed to secure its stake through the Bavarian state-owned banks Bayerische Landesbank Girozentrale and Bay-

⁸¹⁵ BArch B126/143239, Uwe Barschel, position paper.

erische Landesbank für Aufbaufinanzierung which each purchased a 5% share in Lufthansa. In 1988, equity capital was increased substantially from 1.206 billion to 1.52 billion DM and the federal government again decided to not participate, hence its share decreased to 51.42% – the same percentage which Stoltenberg had intended initially. The volume of shares in free float increased to above the 25% veto minority threshold in 1989 for the first time. In the banking sector, privatisation remained slow: only the federal share in DLS Bank was reduced to 51.05% in 1989. Possibly, this delay had to do with legal complications. Compared to the initial plans of Stoltenberg, privatisation remained rather slow. The political debates in the mid-1980s had revealed that there was no broad consensus for privatisation yet.

Privatisation revenues did not play a key role in the debates and negotiations. Rather, it was stated that the federal government did not need the revenues from a fiscal point of view. Stoltenberg warned several times that revenues should not be overestimated. Minister of the Interior Zimmermann (CSU) argued in January 1985 that there was no need for privatisation from a budget perspective, in light of expected Bundesbank profits in double-digit billions. He demanded that for that reason, the government should wait with privatisations so that it would not be left with the weak enterprises.⁸¹⁶ Similarly, Strauß argued that from a fiscal point of view, a privatisation was not necessary because the general budget consolidation made good progress, a tax reform was in sight and net borrowing in 1983 had been reduced to 25 billion and was hence only half as high as the social-liberal coalition had intended. Also, privatisation revenues would be ‘peanuts’ compared to the Bundesbank profits.⁸¹⁷

According to Stoltenberg, there was a flow of capital of 4.6 billion DM to federal enterprises between 1969 and 1979, while only 1.6 billion DM flowed back into the federal budget, leading to a net effect of minus 3 billion DM.⁸¹⁸

⁸¹⁶ BArch B126/143239, Zimmermann to Stoltenberg, 21.1.1985.

⁸¹⁷ “Privatisierung? Interview mit dem Bayerischen Ministerpräsidenten und Mitglied des Aufsichtsrates der Lufthans Franz Josef Strauß” in *Flugbegleiter* no. 12/84, copy in BArch B126/143239.

⁸¹⁸ BArch B126/136047, “Ausführungen von Minister Stoltenberg zur Beteiligungspolitik anlässlich des Vorstandstreffens der Bundesbeteiligungen am 29. August 1983 in Berlin”, VIIIA2 (Knauss) to Divisions VII and I, 1.9.1983.

Ernst Pieper (SPD), an official in the Ministry of Finance who in 1979 became chief of Salzgitter AG, calculated a positive net result of plus 0.545 billion DM for the entire period from 1949 until 1975.⁸¹⁹ The loss of Salzgitter AG of 630 million DM in the year 1983 was highlighted as a bad example of public entrepreneurship in *Bundestag* debates.⁸²⁰ However, the real problem case of the 1980s was the German Federal Railway. While the German Federal Post Office made profits, the Federal Railway accumulated losses which were disclosed in the annual reports of the Federal Court of Audit. Between 1979 and 1981, the annual deficit increased from 3.576 billion DM to 4.044 billion DM – many times over the losses of Salzgitter AG – and remained high in the following years.⁸²¹

As shown in Table 1.1, privatisation revenues which were generated between 1984 and 1989 were indeed rather small in relation to the total federal budget. Hence, it can be concluded that the fiscal effect was not very large and certainly did not motivate privatisation in the first place. The revenues from the sale of the remaining federal VEBA shares in 1987 were the largest transaction, accounting for 0.4% of the federal budget. Second largest was Salzgitter AG, followed by VIAG and VW. The revenues from the Salzgitter AG and VW transactions however were not credited to the federal budget: according to the Volkswagen law, either the main share of the revenues from the sale of VW shares had to be passed on to the Volkswagenwerk Foundation, or the Volkswagenwerk Foundation had to be compensated by an annual dividend payment from the federal government. (The government chose the the second option.) The net revenues from selling Salzgitter AG to Preussag were used to set up the DBU Foundation (Deutsche Bundesstiftung Umwelt), a foundation which supports environmental projects and is nowadays one of the largest foundations in Europe.

⁸¹⁹ Pieper (1975).

⁸²⁰ Bundestag *Plenarprotokoll* 10/128, 27.3.1985, p. 9446.

⁸²¹ *Bundestagsdrucksache* 10/574, 8.11.1983, “Bemerkungen des Bundesrechnungshofes zur Haushalts- und Wirtschaftsführung”.

6.3.1 The Ownership Side

Privatisation was to some extent counteracted by the fact that the German states used the opportunity to increase their own participations in companies with regional importance. The federal administration was aware of the fact that privatisation on the federal and state level were two separate things. An undated list of questions and suggested answers about the VEBA privatisation, probably prepared by lower officials for an interview or press conference of the secretary of state or minister, contains some information about how this was viewed. On the question of whether it was expected that the states and municipalities would follow the example of the federal government and withdraw from public ownership, the suggested answer was that the political reasons for denationalisations did not only exist on the federal level but were of a general nature. However, the federal government wanted to abstain from giving unasked advice to the other political levels. Interests which could justify public ownership were different on all levels; regional arguments for example had more weight on the level of the states.⁸²²

The states had in the past widened their portfolios with the consent of the federal government and taken over federal shares. In 1969 for example, the newly established North Rhine-Westphalian state bank West LB began to build up its industrial portfolio by buying a 22.39% block of Preussag shares from VEBA, increased its share later and kept it until 2004. But when the SPD government of North Rhine-Westphalia expressed an interest to buy further RAG shares in 1983, the federal government refused. The official reason given was that a clear distinction between the owner of a company and the provider of subsidies should be kept. According to official Braubach from the Ministry of Economics, this had also been the reason for why the North Rhine-Westphalian government had not been involved as a partial owner of RAG in the first place.⁸²³ However, it can be assumed that the federal government was not particularly keen to let an SPD-led government as co-owner into RAG.

According to a calculation of the Bundesbank in 1988, the value of par-

⁸²² BArch B126/93027, Internal note on VEBA, undated, probably from autumn 1983.

⁸²³ PA, Minutes of the 7th meeting of the *Bundestag* economics committee (9th committee) on 26 October 1983, pp. 40–44.

ticipations of the German states in enterprises was 12.3 billion DM, compared to 6.5 billion DM of the federal level. A major part of this were the four largest state banks, Westdeutsche, Bayerische, Norddeutsche and Hessische Landesbank who also held participations on behalf of the state governments.⁸²⁴ When VIAG was gradually privatised in the 1980s, Bayernwerke bought a 25% share in the company on the stock market. This created a cross-ownership situation as VIAG held 38.8% of Bayernwerke. The largest share in Bayernwerke was held by Bavaria which attempted to secure its energy political interests with the deal.⁸²⁵

Dispersed ownership increased considerably due to privatisation. Table 6.1 sorts the fifteen German public companies⁸²⁶ with more than 100,000 shareholders according to their number of shareholders in 1989. VW, VEBA and VIAG are among those companies. The fact that VW and VEBA are at the top of the list can be ascribed to the combination of the widespread share issues in 1961 and 1965, their full privatisation at the stock market in the 1980s and their company size.

⁸²⁴ Cited after Esser (1994), p. 107.

⁸²⁵ In 1994, Bavaria sold its share in Bayernwerke to VIAG and received a 25.1% share in VIAG in return. Bavaria sold its share in E.ON gradually between 2001 and 2010.

⁸²⁶ As described on p. 192, the term public company relates to companies which are listed at the stock exchange according to common notion here.

Table 6.1: Largest public companies 1989

Rank 1989	Company	No. of Shareholders	
		1988	1989
1	VW	400,000	728,000
2	VEBA	600,000	600,000
3	Siemens	538,000	538,000
4	Bayer	375,000	320,000
5	BASF	374,000	400,000
6	Hoechst	330,000	325,000
7	Deutsche Bank	310,000	245,000
8	Daimler-Benz	300,000	260,000
9	Mannesmann	250,000	180,000
10	RWE	200,000	200,000
11	Thyssen	200,000	160,000
12	Dresdner Bank	160,000	160,000
13	Commerzbank	160,000	160,000
14	VIAG	100,000	200,000
15	AEG	100,000	15,000

Source: Arbeitskreis Aktie e.V. 1988, 1989, cited after Knauss (1993), p. 162.

Table 6.2 shows the participation of private investors in selected share issues and the average initial portfolio sizes of private investors. Private investors participated considerably in share issues. Also, the average number of purchased shares of private investors was significantly larger in the 1980s than in the people's shares privatisation, when the purchase was limited to five shares or less.

Table 6.2: Participation of private investors in selected privatisations

Year	Company	Number of privatised shares (million)	Shares bought by private investors (in % of shares)	Number of private investors (no.)	Shares/ Portfolio (no.)
1986	VIAG	4.64	85.1	396,424	10
	IVG	0.99	75.1	74,875	10
1987	VEBA	10.10	46.2	93,975	50
1988	VW	4.80	54.1	148,344	17
	VIAG	6.69	15.8	28,929	38
1989	DSL Bank	2.10	64.6	76,896	18

Source: Knauss (1993), p. 161.

The relative share of private investors in IPOs was high: their relative participation in the IPOs of VIAG, IVG and DSL Bank was considerably higher than in the public offerings of VEBA and VW. This is most notable in the case of VIAG where private investors subscribed for 85% of the shares. That the IPO of VIAG attracted a very large number of new shareholders could have been a result of the fact that the company was well-known and that this was just the beginning of the privatisation wave where private investors were keen to make use of new investment opportunities. In contrast to this, in the second round of the VIAG privatisation, the participation of private investors was much lower and the number of shares per portfolio much larger. The VEBA share issue in 1987 was the largest one and the participation of private investors below 50%. This could be because many people already held shares due to the earlier share issues and did not participate for diversification reasons. But also, the number of shares per portfolio increased significantly in the cases of step by step privatisations, as the examples of VIAG and VEBA show: in the case of VEBA, private investors held on average 50 shares after the full privatisation in 1987. After the first round of the VIAG privatisation, the average portfolio size was ten shares, after the second round in 1988 this had increased to 38 shares.

Like during the people's shares privatisations, the big-three banks Deutsche

Bank, Dresdner Bank and Commerzbank secured large shares of proxy voting rights by participating in the issuing consortia and placing a large volume of the shares. This means that monitoring of the respective companies was to some extent transferred from the federal government onto the banks.

Chapter 7

Epilogue & Conclusion

This thesis set out to explore the causes and driving forces of privatisations on the federal level in West Germany between 1949 and 1989. The discussion of state ownership in the economy started around 1953, stimulated by private industry associations and liberal politicians. As has been shown, there was no initial blueprint, no privatisation programme which was implemented in a strategic fashion. On the contrary, the federal government conducted an *ad hoc* privatisation policy based on the respective circumstances.

In the first part of this conclusion, I will review some of the factors which have been presented as possible factors explaining privatisation in the introduction of this thesis and factors which have been proven to play a role in the case of Germany throughout the thesis. After that, it will be explored how the privatised companies developed from the 1990s onwards and how privatisation in Germany continued. This includes the sale of people's property in East Germany after the German reunification as well as privatisation in infrastructure sectors. In the last section, the case of German privatisation will be discussed in a wider context.

7.1 Driving Forces of Privatisation

Re-examined

The first two factors which will be reviewed in this chapter are fiscal arguments and the crisis response hypothesis. Both are factors which have been identified as being strongly correlated with privatisation volume and timing by comparative studies, and as this thesis has shown, both have also played a role in the case of German privatisation. The role of liberal ideas and paradigms is a third factor which will be analysed. This includes ordoliberalism, the specific form of German liberalism, as well as the neo-liberal paradigm which won influence around 1980. The fourth factor under consideration is the German property formation policy in the 1950s and 1960s which has been associated with privatisation.

7.1.1 Fiscal Arguments

Quantitative research has shown that public debt is strongly correlated with privatisation. Fiscal elements can initiate privatisation for two reasons: first, because the state wants to generate funds and hence aims at generating privatisation revenues; and second, because public enterprises have often required large amounts of funds from the government. These factors can aggravate when public enterprises are not profitable. In the case of Germany, the result from the above analysis is puzzling: fiscal reasons appear to be less important in the 1980s than in the 1950s and 1960s although the federal debt was significantly higher in the 1980s. This suggests that the mechanism by which fiscal factors affect economic policy might be more complex. I argue that three factors account for this puzzling finding: First, not the actual level of public debt was decisive but its perception. Second, the portfolio of German federal enterprises was and was perceived to be relatively small compared to the portfolios of other Western European countries, hence, expected revenues were relatively small. Third, German public enterprises were performing comparatively well, excluding the German Federal Railway and Post Office.

Fiscal factors were particularly important for the people's shares privatisations. It was not the government's primary objective to generate revenues. Rather, privatisation served as a tool to generate funds for the enterprises and to enable them to restructure and expand. This explains why the partial privatisations of Preussag and VEBA were both connected with equity increases; both companies were chosen for privatisation for their large equity needs in light of necessary restructuring processes. At first glance, this finding seems surprising, because government funds were abundant during the economic boom, but it can be explained by a strong political preference for austerity. At that time, the government was used to high growth rates and small public debt and Minister of Finance Fritz Schäffer (CSU) generated a federal budget surplus. Crucial was the specific political setting with the combination of federalism and a high degree of heterogeneity within the government parties CDU and CSU. The provision of federal funds to finance equity increases of public enterprises required the approval of both political chambers, *Bundestag* and *Bundesrat*. Hence, the number of veto players which could block such an approval was high and in each case, a broad political consensus was needed. Effectively, each equity increase was a political act and an affirmation of the status quo of public ownership. As a short-term solution, the government accepted low dividends in order to allow a larger degree of internal financing. While this has not been officially stated, the sources viewed for this thesis do not indicate attempts to force public enterprises to increase dividend payments. In addition to this, some public enterprises benefited from the Investment Aid Act from 1952 which re-channelled funds to primary industries. However, these financing solutions remained limited and did not work in the case of the newly established Lufthansa which required several equity increases in the years after its foundation. Pragmatically, the government decided to allow private minority participations early on. Due to a number of equity increases in which the federal government did not participate, the federal share decreased to just above 50% by the end of the 1980s. In the case of Preussag, Volkswagenwerk and VEBA, equity increases and privatisation was connected with social elements. However, the market-oriented wing of the CDU/CSU ensured that

financial concessions for small shareholders did not significantly disadvantage the companies by reducing the amount of generated funds. In the 1980s, fiscal factors played a smaller or at least less obvious role. Yet, the early privatisations in the 1980s were also connected with equity increases and in the first case, VEBA in 1984, the equity increase was effectively used as an argument for privatisation. However, fiscal concerns were not the primary reason for privatisations although the government aimed at cutting public spending. More important was a re-evaluation of state-ownership after the experiences in the 1970s. Stoltenberg and other government officials repeatedly pointed out that fiscal arguments were not the main motivation.

Generating privatisation revenues was neither important in the 1950s and 1960s nor later. The partial privatisations of VEBA and Preussag in the 1950s and 1960s were originally intended to be primarily passive privatisations which would have implied only small federal revenues from the sale of subscription rights. The revenues from the sales of VW and Salzgitter AG shares were not even accredited to the federal budget but to the respective foundations. In the case of VW, this was due to the contractual agreement with Lower Saxony. In the case of Salzgitter AG in 1989, using the revenues to set up the Salzgitter Foundation was an entirely voluntary decision. Nevertheless, the SPD pointed to the presumed fiscal reasons and warned against a ‘sale of the family silver’ to generate short-term profits.

One reason why generating revenues was of minor importance in the 1980s was that the federal portfolio was comparably small. In the debates about Lufthansa, several politicians pointed to the fact that privatisation revenues would be ‘peanuts’ compared to the large expected Bundesbank revenues. As has been shown in the introduction to this thesis, the entire German portfolio of state-owned enterprises had about the same relative size as the portfolios of other West European countries. However, this included the significant participations of municipalities and the German states. The federal share in the portfolio was rather small. This fact also explains the relatively low total privatisation revenues in West Germany.

One fiscal argument for privatisation is that states intend to unburden

themselves from loss-making state industries. However, the sources which have been reviewed for this thesis do not hint to that direction. On the contrary, the federal strategy was to sell the profitable companies first and to keep the unprofitable ones in order to consolidate them prior to privatisation. Unfortunately, no reliable data about the net effect of federal enterprises on the federal budget for the years 1949 to 1983 exist. These figures cannot be extracted directly from the annual federal budget because the budget does not disclose all payments to and from public enterprises and participations separately. Yet, contemporary calculations show that the fiscal burden from federal enterprises was not high enough to play a significant role. (This was different in the case of the German Federal Railway, however, this chapter of privatisation only started in the 1990s.)

One possible explanation for the fact that federal enterprises were performing comparably well is that the federally-owned companies in the industrial sector were organised as private law companies and competed with private companies. The subsequent separation of management and ownership in federal enterprises allowed for a managerial independence which has been viewed critically at times, as the price debates in the 1950s reveal. The sources which have been reviewed for this thesis do not suggest that there were strong informal influence structures between the federal government and enterprises prior to privatisation. This is particularly true for the 1950s and 1960s, when managers such as Nordhoff identified strongly with their companies and distanced themselves from the federal government, and might have changed slightly in the late 1960s and 1970s when a number of federal officials transferred to the management boards of federal enterprises. One might think that the fact that companies had a high degree of managerial independence could have stimulated privatisation because the federal government had only limited control over companies. However, this was not the case. Rather, the companies' independence increased the legitimacy of public enterprises in the market setting since the perception prevailed that there was no fundamental difference between public and private companies in a market setting.

7.1.2 Crisis Response

Rodrik (1996) describes the idea that economic crisis can stimulate major economic policy changes. At first glance, it seems as if the crisis hypothesis does not match the case of West Germany: during the first two people's shares privatisations, the general economic situation was very good. The growth had slowed down by the time of the partial privatisation of VEBA, and West Germany experienced its first post-war recession. After a period of severe market crisis in the 1970s where the phenomenon of stagflation (simultaneous occurrence of high inflation and high unemployment) was observed for the first time, the economic situation improved significantly in the early 1980s. That was around the time when Helmut Kohl (CDU) was elected federal chancellor in 1983. Thus, it is unlikely that the economic conditions stimulated a drastic policy change in the 1980s. However, I argue that the crisis hypothesis matters indeed, because privatisation policy in the 1980s can be perceived as a lagged crisis response, or as a response to the initial crisis response of the social-liberal government. During the difficult 1970s, even the market-liberal FDP agreed to an expansion of the public sector as an immediate response to market crisis and oil price shocks. Also, initially there was hardly any opposition from the CDU/CSU; the party had even initiated the consolidation-oriented policy itself when it was part of the grand coalition with the SPD from 1966 to 1969. However, by the end of the 1970s, the political trust in Keynesian policies and the expansion of the public sector diminished since it did not lead to the intended results. Instead, the CDU/CSU and the FDP turned back to 1950s ideas of austerity and a limited role of the state in the economy. Cutting public expenditures became the central objective of the new government coalition.

Two further details deserve attention. First, it is remarkable that, based on the sources which are available to this date, the FDP hardly advocated privatisations during the 1980s and that Minister of Economics Otto Graf Lambsdorff (FDP) did not get involved more. Second, it has been shown that politicians perceived their realisation that an expansion of public ownership was counterproductive as part of a wider European phenomenon. However, there is no empirical evidence that concrete transmission mechanisms played

a decisive role. The British case did not serve as an example for re-shaping the economy which means that privatisation cannot be ascribed to a spill-over effect.

From the perspective of the crisis view, the internationalisation of markets since the mid-20th century and the subsequent increase of competition have fostered privatisation indirectly. In the 1970s, economic integration and the global oil price shocks enhanced the perceived need for an active role of the state which should create large national enterprises that would be able to survive in light of international competition and turbulences.

7.1.3 Liberal Ideas & Paradigms

The sources reviewed for this thesis do not support the hypothesis that privatisation policy was primarily driven by ideological reasons during either of the privatisation periods although underlying paradigms matter in some way of course. In the 1950s, liberal politicians around Minister of Economics Ludwig Erhard (CDU) and his government official Alfred Müller-Armack focused on other ordoliberal core projects, such as the adoption of the Antitrust Act in 1957 and the independence of the Bundesbank. Yet, when it came to setting up new industries, Erhard was more careful, as the example of the armament industry in the 1950s shows which was intentionally left to the private industry. Ordoliberal theory actually offered no direct guidance for the question of public and private since it focused on market forms.

Neo-liberalism in Germany was basically a rediscovery of ordoliberal ideas from the 1950s.⁸²⁷ Administrative officials who shaped economic policy in the 1980s such as Hans Tietmeyer (Ministry of Finance) had been influenced by ordoliberal thinking during their early government careers. Yet, sources reviewed for this thesis show that liberal paradigms co-developed with privatisation policy rather than causing it. As argued before, the main objective of the new conservative-liberal government was cutting public debt and reducing the public sector, yet, privatisation was not part of the early programme. Although Kohl announced a retreat of the state in his government speech from

⁸²⁷ Ritschl (2016).

1982, the implementation of corresponding policies remained a long and difficult process. Liberal ideas were far of being fully accepted by all members of the conservative-liberal government and even Minister of Finance Gerhard Stoltenberg (CDU), the driving force behind privatisation, intended to keep government shares in strategically important enterprises. Also, regional and sector specific interests such as in the cases of Lufthansa and DIAG remained strong. Hence, it was far from being obvious that the review of public enterprises which Stoltenberg (CDU) conducted in 1984 would result in a full privatisation of industrial participations (aside from Saarbergwerke). How this happened cannot be further explored because the government sources for the late 1980s are not yet accessible. Possibly, like in the cases of people's share issues, a high demand for shares stimulated an extension of privatisation. While liberal ideas did not primarily drive privatisations, they influenced some politicians strongly. One of them was Birgit Breuel (CDU) who later took on a leading role for the privatisations in East Germany after reunification.⁸²⁸

7.1.4 Property Formation Policy

Property formation of the low- and middle-income classes was a core concern of the conservative employees' association. However, although property formation was a decisive factor in shaping privatisation, it did not cause it. Rather, the specific people's share design that was a consequence of property formation made privatisation acceptable even for those conservative circles which preferred a stronger role of the state. Core idea was a dispersed distribution of ownership, generated through share issues with purchase restrictions.

Some political circles within the CDU/CSU shared a strong dislike of a concentration of economic power in private hands. To some extent, concentration was accepted as a necessary condition for the German reconstruction which is why measures such as the Investment Aid Act from 1952 benefited existing shareholders. But the resulting property inequality was at the same time viewed critically. In the case of public enterprises, an additional factor came into play: one major motivation was to prevent foreign shareholders from

⁸²⁸ See p. 313.

taking over veto minorities or controlling shares in privatised enterprises. All the existing public enterprises were regarded as enterprises with national importance due to their dominating positions in markets and their key role in the economy. While for some circles in the CDU/CSU it was most important to prevent a concentration of (foreign) economic power, others found it more important that dispersed ownership was created – the other side of the coin. An additional element was that the CDU/CSU liberal party wing regarded people's shares as an acceptable offer to the employees' wing to prevent investment wages.

Paternalistic ideas also mattered for privatisation in the 1950s and 1960s. The view that the federal government had to protect smallholders from unexpected price drops was predominant. This, combined with the overall accepted argument that a foreign concentration of power should be prevented, led to the agreement that the government should keep voting majorities in partially privatised companies. Hence, in the case of the people's shares privatisations, special measures were included to ensure that the private influence would not become too strong. In the case of VEBA, these restrictions were removed in the 1970s. In the case of VW, one of these special conditions has survived until today, namely the provision of a veto minority requiring only 20% of the votes, in contrast to the 25%-threshold provided by the stock market law. Further, the government thought about specific measures in order to maintain the initially created ownership structure. The only measure which was implemented eventually was that according to the Property Formation Act and according to the Volkswagenwerk Privatisation Act, subsidies had to be paid back if the shares were sold within a specific period of time between three and six years.

Property formation policy remained half-hearted as the government did not foster a shareholder culture in addition to the new ownership structures. As the Allensbach surveys brought to light around 1960, knowledge about stock markets was rather limited in the population, in particular among people in the lower income spectrum. Nevertheless, the privatisation design in the 1980s was still based on the idea of a broad distribution of ownership: companies were sold step-by-step in form of share issues, the paternalistic idea that the

state should protect smallholders from stock market losses as a ‘patron saint’ was still predominant. In contrast to the 1950s and 1960s, no purchase restrictions applied. But property formation policy, the core idea of the CDU/CSU left wing in the 1950s and early 1960s, still mattered in the early 1980s – which is why the sale of VEBA shares was conducted after the new Property Formation Act had become effective. However, since fewer shares than expected were bought in the context of the law, property formation policy mattered much less for later privatisations. Also, in light of the experiences with stagflation in the 1970s, the focus of social policy had shifted to fighting unemployment as the main reason for poverty. However, employee shares remained part of the political programme. A major change was that the government did not implement purchase restrictions in the 1980s since it perceived foreign ownership as less threatening. This might have had to do with the fact that by then, foreign governments had also started to sell their enterprises so that the risk of an industry being dominated by a foreign government was reduced. Considerations to cement the initial ownership structure by implementing strict restrictions for reselling shares were less important in the 1980s. Yet, shares which were purchased with subsidies provided on the basis of the Property Formation Act remained subject to a minimum holding period of six years, otherwise subsidies had to be paid back. Yet, whereas such a policy had been consensus earlier, politicians criticised it in the 1980s and made it responsible for the fact that subscriptions for subsidised shares remained low. The idea to create a shareholder culture did not play a role anymore in the 1980s.

7.2 Epilogue

7.2.1 Post-privatisation Developments

Privatised companies were involved in a number of acquisitions and mergers after they had become privately owned. VEBA and VIAG merged in 2000 and became E.ON. As part of this, Preussenelektra merged with Bayernwerke, which VIAG had fully taken over from Bavaria in exchange for VIAG shares in 1994, and became E.ON Energie. E.ON has since then been the largest elec-

tricity provider in Germany. Despite sharp protests of competitors, E.ON took over Ruhrgas (which had been divested when VEBA took over GBAB back in 1974) in 2002 after a ministerial approval by Minister of Economics Werner Müller (who had been chief representative of VEBA in the 1980s) and against the ruling of the German Cartel Office. It has subsequently also become Germany's largest gas provider. It appears that the privatisations allowed for the restructuring and reorganisation in the German energy market which had been considered by politics and the ministerial administration for decades. However, this has led to considerable market power of the previously federal enterprises VEBA and VIAG. Preussag has undergone a deep restructuring process since its full privatisation. In 2002, it was renamed TUI AG after it had transformed from a mining and steel company into a travel and tourism company. As part of this process, it sold Salzgitter AG in 1997. Salzgitter AG subsequently went public in 1998 and has since then become one of the largest steel producers in Europe. VW is still one of the largest car producers worldwide. Lower Saxony has kept a 20% share in the company to this day which constitutes a veto minority due to the special provisions of the Volkswagen Privatisation Act. Overall, the companies which had been privatised by the end of the 1980s are doing comparably well from a broader perspective, have kept dominant positions in specific market segments and have continued to shape the German corporate landscape. Chari (2015), who studies winners and losers of privatised companies, names VW, E.ON and Lufthansa as examples for companies which have become highly successful global players since their privatisations.

Privatised companies have been subject to normal stock market processes. Dispersed ownership has persisted to some degree. In some cases, free float is comparably high until today. For example, 80% of the shares of E.ON are currently held in free float. In the case of Volkswagenwerk, the once feared foreign infiltration and block-building of shares has actually taken place: Porsche has become the largest shareholder in autumn 2005 and has since then strengthened its position, partially through a joint holding with Qatar and Lower Saxony. At the end of 2013, only 12.27% of VW shares were in free float. Given that it was the declared goal of the government even in

the 1950s and 1960s to create fully tradeable shares and promote secondary markets, ownership concentration effects were reluctantly accepted from the start and it would be misleading to judge early privatisation politics based on concentration effects. To the contrary, it can be argued that the shares held in private ownership have proven to be attractive. Part of these normal stock market processes was that, as the data presented in this thesis show, the share of low income households in the cases of Preussag and Volkswagenwerk dropped significantly within the first years after the people's share issues.⁸²⁹

The overall evaluation of privatisation in terms of creating share-ownership is ambivalent. On the one hand, people's shares undoubtedly reached many people who had not owned shares before due to the large volume of sold shares and the restriction of purchase rights. Also, the share issue privatisations in the 1980s reached a large number of people, so that VW and VEBA were the companies with the highest number of shareholders in 1989. This result reflects the evidence of larger-scale research on financial market development through privatisation. An OECD study from 2003 finds that privatised companies typically account for a high share of market capitalisation. In total, privatised companies accounted for approximately 80% of market capitalisation in OECD countries during the 1990s.⁸³⁰ Yet, this result is not surprising given the large privatisation volume. On the other hand, there were no spill-over effects and a shareholder culture did hardly develop in Germany. Share-ownership in Germany is still comparably low. In 2015, nine million people, 14% of the population, owned shares; half of the investors owned stocks. Share ownership peaked in 2001 with almost 13 million shareholders.⁸³¹ Hence, it can be concluded that subsidies are not necessarily sufficient in order to stimulate private savings in form of stock beyond the privatised companies. Developing a new shareholder culture and initiating a shift in people's saving behaviour requires a different concept.

⁸²⁹ See chapter 4.7.

⁸³⁰ OECD (2003), p. 37.

⁸³¹ Deutsches Aktieninstitut (2016), p. 3.

7.2.2 Privatisation in the 1990s: Network Industries & German Reunification

The privatisation of industrial shareholdings and banks continued in the 1990s. In 1994, the federal government reduced its share in Lufthansa to 36% and thus lost its voting majority.⁸³² DIAG was sold after the German reunification, when the company's location in Berlin had become less important. Privatisation in the 1990s also had two new dimensions: the German reunification and the subsequent sale of East German plants by the *Treuhandanstalt*, and the privatisations of the German Federal Post Office and Railway. The liberalisation in the European telecommunications market first led to the formal privatisation of the German Federal Post Office, later the company was divided into the two private law companies Deutsche Post AG and Deutsche Telekom AG. Both companies went public in the 1990s. The German Federal Railway was also formally privatised and transferred into the private law company Deutsche Bahn AG. However, the company has not been listed at the stock exchange until today although several attempts have been made in the last decades. The earlier privatisation policy between 1949 and 1989 has largely shaped the privatisations of Deutsche Telekom and the Deutsche Post. Both sales adopted the pattern of a gradual issue of shares and the mobilisation of employees and the middle class as share owners. In the case of Telekom, shares were marketed as *T-Aktien* (T-shares), a term which reminded of people's shares.

For the sale of East German plants and companies after the German reunification, a completely new strategy was adopted. Here, privatisation transactions were not decided directly by the federal government but were outsourced to the government agency *Treuhandanstalt* which was subordinated to the Federal Ministry of Finance and supported by business consultancies. Sales transactions and liquidations did not require the approval of *Bundestag* and *Bundesrat* so that the privatisation process was much less politically de-

⁸³² The pension scheme indeed became a costly and complicated problem in this process: the membership of Lufthansa in the VBL was terminated on December 1994. The VBL pension scheme was transferred into an internal Lufthansa pension scheme with equal benefits, which existed until the different internal pension schemes were integrated into one system on 1 January 2002.

bated and controlled. The *Treuhandanstalt* conducted privatisations speedily and the main share of East German enterprises were sold or liquidated within only four years. Most enterprises were sold to West German investors while there was only little interest to let the East German population participate in the former people's property, as had been attempted in post-war Germany with people's shares. This strategy has been sharply criticised by Hans-Werner Sinn, director of the Ifo Institute for Economic Research. Why privatisation in East Germany was so fundamentally different from West German privatisation remains to be examined. Until today, the strategies of the Ministry of Finance and the *Treuhandanstalt* have not thoroughly been studied because access to historical documents has not been granted yet. It is possible that the experiences of the slow and difficult privatisation processes in West Germany against forces of resistance until 1989 had led to the conclusion that the West German model was inapplicable in the case of East Germany where the number of privatisation transactions was much larger.

Public participations in enterprises are still a common policy instrument in Germany, in particular in the transportation sector. According to the latest participation report of the federal government, the largest number of participations are in the area of responsibility of the Ministry of Transportation. A well-known example has recently become Flughafen Berlin Brandenburg GmbH, builder-owner and future operator of the new Airport Berlin Brandenburg (FBB), where severe management mistakes have occurred. Berlin and Brandenburg each hold 37% of the company and the federal government has a participation of 26%.

7.3 The Rise and Fall of Public Enterprises in (West) Germany

Privatisation in West Germany looks like a typical case of privatisation in the Western World: companies were gradually privatised through stock market share issues, which was also intended to foster capital markets as a whole. Fiscal reasons were the primary motivation for privatisation in the 1950s and

1960s, whereas the later privatisations in the 1980s can be explained as a lagged response to the market crisis in the 1970s. Compared to other Western European countries, privatisation started two decades earlier, but the volume of privatisation has remained fairly modest.⁸³³ Unique and worth pointing out is that all German federal enterprises and participations that were sold until the end of the 1980s had been in private law form prior to privatisation, were operating in competitive markets governed by antitrust law with a few exceptions, and did not constitute state monopolies. Hence, privatisation in Germany until 1989 did not imply fundamental changes for the society and the economy. The impact of the transfer of ownership on management practices and market competition was comparably small. (The transformative effect of privatisation was larger in later cases such as the German Federal Post Office and the German Federal Railway, which implied adopting profit-oriented management practices and which were succeeded by market liberalisations.) This setting of federal companies prior to privatisation distinguished West Germany from countries where state monopolies in public industries were predominant. With this observation in mind, the West German case will in the following be connected to the history of the rise and fall of state-owned enterprises in the Western World.

The majority of studies on privatisation presented in the introduction of this thesis focus on the transfer of ownership since the late 1970s and offer a continuum of motivations and reasons, but neglect the historical circumstances and objectives of the establishment of state-owned enterprises. Complementary to this, historical research has identified longer-term developments and has described the rise and fall of state-owned enterprises in the Western World in the 19th and 20th centuries.⁸³⁴ However, country-specific narratives have often remained unconnected and have failed to address general explanations. Among economic historians, Millward's work on establishing a universal narrative for the development of state-owned enterprises stands out. Therefore, his analysis serves as a background to embed the case of German privatisations in a larger framework. Millward focuses on the government objectives

⁸³³ For an overview of privatisation strategies in the OECD see OECD (2003).

⁸³⁴ See for example a collection of country studies in Toninelli (2000).

that have once led to the set-up of state enterprises. He explains the rise of state-owned enterprises in the Western World until the 1930s as primarily being driven by strategic concerns of defence and political and social unification, while ideological factors only played a minor role. Strategic concerns arose predominantly from the geo-political situations and resource endowments of nations. According to Millward, until the early 20th century defence considerations are the reason for the different degree of state interventions and public enterprises between the UK and the US on the one hand and continental Europe on the other hand: In continental Europe, nation states were directly surrounded by neighbouring countries, a situation which demanded a stronger role for the state in industries which were of specific significance for defence. According to Millward, natural monopoly considerations have only played a marginal role compared to geo-political concerns and have been largely overstated in previous research, particularly in the areas of telecommunications and transportation. The second main factor, the objective of political and social unification, was driven by the desire of governments to bundle political interests on the national level and strengthen the role of the central state. Such considerations were of particular importance in countries with a federal political structure such as the US and Germany.⁸³⁵

At the end of the Second World War Germany's portfolio comprised, like those of Italy and Spain, more participations in manufacturing than in most other countries.⁸³⁶ According to Millward, two factors have predominantly shaped the rise of state-owned enterprises in Germany: the federal political structure and the autarky and war interests in the early 20th century. Municipalities had a strong standing in the political system of the German Empire and Weimar Republic and were providing the main share of local public services. This changed temporarily in the Third Reich when the government centralised the economy, but the Allied military governments and the German constitution restored the federal structure and the strong role of municipalities after 1945. According to the municipal codes of the German states, municipalities remained in charge of public services such as water and energy supply. Of

⁸³⁵ Millward (2011), p. 375.

⁸³⁶ Millward (2011), p. 382.

the typical network industries, the central state had taken over only railways and postal services and communications – strategic key sectors for defence. The energy market was organised with local monopolies for suppliers of gas and electricity and a small number of energy producers who owned the supra-regional networks since the 19th century. This structure was confirmed by the energy law from 1935 which remained, with small changes, valid until the adoption of a new energy law in 1998. The holding companies VEBA and VIAG were the result of military interests and substitution policies in the First World War and Weimar Republic; they bundled Reich and Prussian shareholdings in energy and manufacturing. Both companies were characterised by vertically integrated concern structures: VIAG combined electricity production with participations in the Bavarian energy intense aluminium industry, VEBA combined coal mining with electricity production and distribution. In the Third Reich, military interests were pursued more aggressively in the economy; Volkswagenwerk and Reichswerke were established as part of the war industry. In all cases, the question of private and public ownership was not predominant. Rather, the government became active in those cases where private entrepreneurs were reluctant to set up the politically desired industrial undertakings. In particular, Germany's participations and public enterprises in the manufacturing sector were established in order to fill gaps for products that were politically desired but which the private economy was not able to produce (fast enough).⁸³⁷

In the 1940s, the German development starts to deviate more clearly from the trend of the classic examples of early privatisers Britain and France trend: Foreman-Peck and Millward (1994) and Millward (2011) argue that in the interwar period, other factors besides strategic concerns and the social and political unification became important in many Western countries. As a consequence of changing socio-political circumstances, nation states became increasingly concerned with living standards and the question of economic growth. This is why Millward's profound analysis of the period from the 19th century until the end of the 1930s closes with the words that later developments

⁸³⁷ Millward (2013), p. 240.

were “another story”.⁸³⁸ In Britain, a collapse of exports and a low productivity in infrastructures in the interwar period had undermined the credibility of capitalism based on private ownership. As a result, half of the capital formation in the British economy was financed by the state in the 1950s.⁸³⁹ British nationalisations from the 1940s onwards served as instruments to reorganise and improve economic structures.⁸⁴⁰ In the 1960s and 1970s, the French and British governments bailed out private companies which as a consequence became state-owned.⁸⁴¹

While the Great Depression certainly left its marks in Germany, the response was different. The solution was seen in less rather than in more state and based on this notion, Freiburg economists developed the ordoliberal theory in the aftermath of the economic crisis. In terms of state-owned enterprises, the West German government did not nationalise entire industries after the Second World War. The question of a nationalisation of industries has not been directly addressed in this thesis, mainly because the reviewed sources do not indicate that the question was particularly important. The coal sector, a German key industry since industrialisation, is the case in which West Germany was probably closest to nationalisations. The CDU in the British occupation zone and the CDU party faction in the North Rhine Westphalian state parliament demanded a socialisation of the coal industry in their early party programme from February 1947, the *Ahlener Programm*. The SPD-led North Rhine-Westphalian and Hesse state governments unsuccessfully attempted to bring coal mines under state control. However, there were strong political concerns about nationalisations of industries both within West Germany and the US military government and there was no word of a socialisation of coal anymore in the CDU party programme from 1949, the *Düsseldorfer Leitsätze*. In hindsight, nationalisations have been described as politically not achievable. As shown in the introduction of this thesis, several authors have ascribed the fact that the question of nationalisations remained of a minor political rele-

⁸³⁸ Millward (2013), p. 245.

⁸³⁹ Millward (1999), pp. 59–60.

⁸⁴⁰ Foreman-Peck and Millward (1994), pp. 274–299. For an overview of British nationalisations between 1920 and 1950 see Millward and Singleton (1995).

⁸⁴¹ Millward (2011), p. 385.

vance to resistance particularly from the US military government but also to the weak role of the SPD in post-war Germany.⁸⁴² Millward (2011) argues that the state was “suspect” and monitored by the US.⁸⁴³ However, as this thesis has shown, dominant private investors were also suspect. Hence, one might conclude that there was a German preference for a mixed system of private and public ownership where both sides controlled and balanced each other. This argument is in line with Prowe (1992) who describes the deep mistrust of the Germans after the Second World War towards all kinds of economic power.

Beyond these historical and political explanations as to why there were no nationalisations in West Germany, the federal government never considered a nationalisation of industries and found it at no point economically necessary or preferable according to the sources viewed for this thesis. Looking at specific markets and the pattern of German public enterprises at the end of the Second World War indicates reasons. In the German aviation industry for example, Lufthansa which was established as a mixed ownership enterprise with a voting majority of the federal government in the early 1950s had a *de facto* domestic monopoly. Since no private competitor existed, no further nationalisation could have occurred. (Private aviation companies had been taken over by the Reich and merged to the original Luft Hansa AG in the 1920s and 1930s.)

In the coal sector, where sufficient supply was a problem in the first post-war years, the government did not consider the question of private and public to be the main issue. The federal market share in domestic black coal production was about one quarter during the 1950s, primarily due to mining activities of Preussag and Hibernia. Yet, not the private ownership of coal mines but the under-capitalisation of basic industries as a whole was perceived as a bottleneck. Hence, the government re-channelled funds from other industries into basic industries in the framework of the Investment Aid Act. As this thesis has shown, the problem of under-capitalisation was not necessarily smaller for state-owned enterprises. On the contrary, Preussag and later VEBA were partially privatised exactly for the reason that the federal government did not want to provide the required equity capital. Hence, a nationalisation of indus-

⁸⁴² See p. 39.

⁸⁴³ Millward (2011), p. 388.

tries was at no point perceived to be the right instrument to solve eventual problems of the mining industry. Furthermore, when the coal industry struggled in the mid 1950s, Erhard and his Ministry of Economics argued that not the organisation of the coal industry was causing a problem but that a transformation of the industry was unavoidable due to the increasing availability of oil; the solution was seen in more competition and adaptation.⁸⁴⁴ After the European Coal and Steel Community had released coal prices in 1956, competition between coal and oil increased and the Ruhr coal companies finally merged and formed the consolidation company RAG in 1968.⁸⁴⁵ While subsidies were granted for the entire sector, nationalisations or a specific protection for public enterprises were not considered. The case of RAG indicates that instead of formal nationalisations, mergers and acquisitions were the government's primary tool to achieve a desired market structure – which supports the view that the federal government perceived itself as a normal shareholder. Another example of such a policy was the takeover of GBAG as a result of the concentration efforts in the oil sector in the 1970s.⁸⁴⁶

A factor that might have played a role in the government's decision not to nationalise other industries was the structure of the German industry with large corporations in heavy industries such as iron and steel. This was a result of the relatively late industrialisation in Germany; in the cases of the early industrialisers Britain and France, smaller firms were prevalent.⁸⁴⁷ One could argue that the private enterprises which had emerged during German industrialisation, such as August-Thyssen-Hütte AG (Thyssen) and Vereinigte Stahlwerke AG, were economically and politically so strong that the federal government had no reason to consider nationalisation and that the companies would have resisted any nationalisation attempts.

The energy sector poses a particularly interesting case. Based on the energy law from 1935, local supply was organised decentralised with local monopolies which were later exempted from the antitrust law from 1957. The majority of local suppliers were small to medium municipal in-house under-

⁸⁴⁴ See p. 115.

⁸⁴⁵ See p. 215

⁸⁴⁶ See chapter 5.2.3.1.

⁸⁴⁷ Millward (2013), p. 88.

takings. Von Künsberg (2012) describes that municipalities fought strongly to keep their competencies during the five decades of debates which finally led to the adoption of a new energy law in 1998. Above the local level, three companies dominated the electricity market: VEBA with Preussenelektra, VIAG with Bayernwerke and RWE which was majority-owned by municipalities since 1920 (today, municipalities still own 25% of the shares). Oligopolistic structures also prevailed in the gas sector, where RWE was competing with the privately owned Ruhrgas and Thyssengas. (Ruhrgas had been founded as a joint venture of coal mines in the Ruhr district in 1926 and was taken over by E.ON in 2003; Thyssengas was initially privately owned until VIAG took over 50% of the shares in 1984, since 1997, Thyssengas was gradually taken over by RWE.) Hence, RWE was VEBA's and VIAG's main competitor in electricity production and supply. Yet, RWE was majority-owned by municipalities. While the federal government made sure that RWE did not become too dominant in the 1970s, it would not have had the political power to threaten RWE's existence. To summarise, looking at specific markets reveals that neither the potential scope nor the political desire for nationalisations were sufficiently large in post-war Germany. Firstly, the share of public enterprises was already quite substantial by the end of the Third Reich, including both network sectors and manufacturing, and an extension of public enterprises was not considered to be a solution for economic problems. Secondly, the strong role of local authorities in the supply of public services left no scope for the national level taking over the electricity and gas sector.

While Millward has focused on explaining the rise of state-owned enterprises, the link between privatisation, the fall of state-owned enterprises, and his main hypothesis remains less clear. He suggests that three factors contributed to government's decisions to privatise: improving market structures and fostering economic growth – the same reasons which according to him had led to nationalisations from the 1940s onwards –, fiscal arguments and the transformation of strategic defence considerations after the end of the Second World War.⁸⁴⁸ An OECD analysis from 2003 finds that fiscal objectives

⁸⁴⁸ Millward (2011), p. 375.

and attracting investment are among the main drivers for privatisation and also considers the introduction of competition and improving efficiency and performance of state-owned enterprises as government objectives of privatisation.⁸⁴⁹ Millward however argues that public enterprises in infrastructures were not performing worse than their private counterparts.⁸⁵⁰ This ambivalence highlights that in order to explain privatisation, an evaluation of government objectives at the time of privatisation is required since political and public perceptions have possibly shifted after privatisation had started. Hence, driving forces in hindsight might differ from original government objectives.

Government sources indicate that fiscal reasons, access to capital and the 1970s economic crisis were the predominant motives for privatisations in West Germany while performance has not been a main concern and the development of capital markets and share ownership remained a side story. Yet, the identified factors may reflect deeper underlying beliefs: providing capital to state-owned enterprises does not depend on the government's ability to provide funds but on whether it believes that it is right to provide funds. A recent publication examines the transformation of the view of the state on the example of public finance since the global challenge of the oil crisis 1973 in several countries. The editors point out that the concept of a "guarantor state", which had characterised the post-war era of economic growth in the Western World, was lost as a response. While they do not present a universal explanation of shifts in the perception of the state and its role in the economy, they suggest that downward spirals and contagion effects might have led to new evaluations of fiscal policies⁸⁵¹ – which would strengthen the hypothesis that privatisations in Europe were rather a response to economic challenges and need to be historically and not universally explained.

One central question arising from Millward's analysis is whether the dissolution of the reasons that had once led to the rise of state-owned enterprises provides an explanation for the fall of state-owned enterprises. Of the reasons which had initially led to the establishment of public enterprises, war and im-

⁸⁴⁹ OECD (2003), pp. 20–23.

⁸⁵⁰ Millward (2011), pp. 390–392.

⁸⁵¹ Buggeln, Daunton, and Nützenadel (1965), pp. 30–31.

port substitution interests had dissolved with the end of the Second World War, but national interests continued to matter indirectly. On the one hand, Erhard's political decision that the reconstruction of the armament industry in the 1950s should remain in private hands was a crucial turning point and was made very clear in the Ministry of Economics.⁸⁵² The fact that Reichswerke respectively Salzgitter AG, the successor of one of the most important armament corporation in the Third Reich, remained federally owned cannot be ascribed to defence interests. First of all, the company was struggling for decades and its market share was too small in order to be of significant importance – the federal share in the steel industry was just about 5% in 1958. Later, the company's location close to the inner German border and the perceived risky nature of its business served as reasons not to privatise it earlier than 1989. IVG's main task was the provision of real estate for military purpose, hence, it does not classify as armament industry.

Yet, national interests mattered indirectly for privatisation. As has been shown in this thesis, one of the main obstacles to privatisation was the concern that foreigners, in particular foreign governments, could dominate companies that were considered to be of national importance, such as in the shipbuilding, aviation and energy industries. Although these national interests were never specified, fears of a foreign infiltration of companies were the reason why, in the first partial privatisations, measures to prevent veto minorities of private investors were implemented. While national interests were still stated for some companies in the early 1980s, they evidently dissolved over time. The government considered a voting majority for the federal government as sufficient but necessary in the early 1980s in order to satisfy national interests, but that requirement was given up later on. While the argument that defence interests changed over time does not appear explicitly in the reviewed sources, it can be assumed that it mattered indirectly: the establishment of the North Atlantic Treaty Organization (NATO), the European integration and the establishment of the World Trade Organisation (WTO) as well as technical and technological changes have certainly altered defence strategies. In addition to this, the fact

⁸⁵² See p. 94.

that other national governments privatised state-owned enterprises mattered because that way, it became less likely that foreign governments could come into control of German enterprises.

As has been described above, public and private enterprises were competing in the same markets after the Second World War, primarily in manufacturing and energy. This was exacerbated by the fact that due to the federal setting, different political levels had shares in companies that were sometimes competing with each other, such as the federal state and municipalities in the case of RWE and VEBA. Hence, privatisation until 1989 did not serve to create competitive markets. Yet, while public enterprises were generally embedded in a competitive setting, some of them had strong market positions. As can be seen in Table 2.1, in 1958, the federal share in the aluminium industry was particularly high with 70% due to VIAG, followed by the car industry with 40% due to Volkswagenwerk and coal with 24% due to Hibernia and Preussag. The fact that public enterprises were competing in a market setting could have had an impact on privatisation in two different directions. On the one hand, it could have made privatisation more likely: first, because private companies might have argued strongly for a privatisation of their competitors if they felt disadvantaged and discriminated against by the government; second, because federal enterprises needed access to funds in order to be able to compete with private enterprises and this might have led to further fiscal pressures on the government budget. On the other hand, competition could have made privatisation less likely, because functioning markets existed and privatisation was not needed to create markets, and because federal enterprises were already run with business objectives and did not need managerial improvements.

The findings from this thesis suggest a mixed result regarding the role of competition. On the one hand, government sources do not indicate persistent interventions for privatisation from the private industry. While industrial associations campaigned openly against state-owned enterprises in the 1950s, the associations became quieter in the 1960s and evidently accepted the status quo of state-owned enterprises. Why that was the case deserves more thorough research since it is puzzling that competitors of public enterprises have

not fought stronger for a privatisation of their competitors.

As in the case of nationalisations, probably the best approach to solve this puzzle is to look at specific markets. Key question is whether competitors perceived public enterprises as a threat and actually felt disadvantaged. In cases where subsidies were sector-specific and not ownership-related, such as the wharf and the coal industry, it is possible that the ownership question was not seen as a decisive difference. In the energy market, it is possible that RWE as a partially municipally-owned company received a different form of public support. The case where it remains most surprising that competitors did not intervene for a privatisation is Volkswagenwerk – and this question remains valid until today, with Lower Saxony still owning 20% of the company. While competitors did not have a strong impact on the timing and scope of privatisation, the financial argument that companies needed access to funds in order to be able to survive competition and that this speeded up privatisation is more convincing based on the findings from this thesis. On the other hand, the view that privatisation was not necessary or at least not urgent because public enterprises were embedded in a market setting and managed in a profit-oriented way was also predominant in Germany. Hence, the pressure to privatise was reduced, as the argument prevailed that there was no fundamental difference between public and private enterprises. Which of the effects was stronger and whether the market setting accelerated or slowed down privatisation remains a question of counterfactuals. Yet, public enterprises in manufacturing which were subject to competition were privatised before state monopolies and the sale was significantly easier to implement since no markets had to be created beforehand.

Although German federal enterprises were performing comparably well, the German case suggests that state ownership can hinder large-scale transformations of companies. Although several federal government coalitions had considered a reorganisation of public enterprises, they had failed to implement their ideas and went for smaller solutions instead. Fundamental transformations of business fields such as in the case of Preussag and the long-intended merger of VEBA and VIAG were conducted after privatisation. This indi-

cates that some business decisions became possible as soon as they were not political decisions anymore. (Whether the merger of VEBA and VIAG and the ministerial approval were right from a regulatory angle shall be left aside here.) Yet, one should be careful to jump to the conclusion that state ownership leads to worse company management since this also remains a question of counterfactuals. Nevertheless, the observation leads to the question as to whether managers of state-owned enterprises had the capacities and abilities to suggest and implement extensive transformations. This observation is in line with Carlin, Fries, Schaffer, and Seabright (2001) and Bayliss (2005) who find that deep restructuring of companies is more likely after privatisation.

The findings from this thesis complement Millward's work on the rise of state-owned enterprises and suggest some scope for future research. First, we need a better knowledge about the relationship between public enterprises, competitors and the government in cases where public enterprises operate in competitive markets. In the case of Germany, a large number of company histories exist, but much less historical research on specific markets such as the automobile industry, steel and shipbuilding has been conducted. This makes comparisons between public and private enterprises quite difficult. Subsidies and non-financial support for private and public enterprises in the federal setting are important elements which need to be explored.

While research has focused on network industries in recent decades, less work has been done on state enterprises in manufacturing. Hence, future comparative research could look at public entrepreneurship and privatisation in manufacturing. Like Germany, Italy and Spain had large holding companies with participations in energy and manufacturing. However, in contrast to Germany, these holding companies expanded strongly in the 1950s and 1960s. In Italy for example, holding companies were established as a consequence of financial and entrepreneurial difficulties in the private sector in the 1930s.⁸⁵³ More general, privatisation patterns could potentially even be connected with patterns of industrialisation since there seem to be parallel developments in Italy and Germany and in Britain and France.

⁸⁵³ Millward (2011), pp. 377–387.

Consistent with the OECD report from 2003, this thesis finds that privatisation made it easier for federal enterprises to generate equity capital through access to stock markets. This suggests that the rise and fall of public enterprises is closely connected with the development of financial markets: In times of limited availability of private capital, banks and the government can take on the role to provide funds and release companies when private capital is available and government funds scarce. Such a pattern could be observed during the latest financial crisis, which highlights the ongoing importance to think about how state owned enterprises can (temporarily) be run in an efficient way and about the question as to which industrial structures are worth protecting through state takeovers.

Yet, not only government resources but also government's willingness and ability in the political framework to provide funds can be decisive, which in turn is related to the perception of the role of the state. This highlights a fundamental problem of the existing literature on privatisation that focuses on observable outcomes. In order to establish a narrative of privatisation similar to Millward's hypothesis of the rise of state-owned enterprises, more in depth analysis of specific countries and qualitative research on government perceptions and objectives is required. As part of this, the hypothesis of a shift of defence interests and how this changed and shaped political objectives needs some further research.

Furthermore, this thesis suggests that the causal role which ideologies played in the process of Western privatisations should not be overstated and that ideas and policies rather co-developed as responses to economic challenges. Ideological factors were more decisive when privatisation policies were implemented based on external pressures and forces of resistance were smaller.

An example for this is the sale of East German enterprises from 1990 to 1994. Birgit Breuel (CDU), who became the second president of the privatisation agency *Treuhandanstalt* after Karsten Detlev Rohwedder (SPD), the first president, had been killed by the Red Army Faction (RAF) in April 1991, was an advocate of strict liberal politics and strongly believed in market forces –

which gave her the reputation of a German Margaret Thatcher.⁸⁵⁴ Yet, it is remarkable that even Breuel did not manage to sell Lower Saxony's share in Volkswagenwerk when she was State Minister of Economics and Transportation from 1979 to 1986 and State Minister of Finance from 1986 to 1990 in Lower Saxony. This indicated that ideological convictions were of less importance for West German privatisations than for East German privatisations (and that national interests were over time partially replaced by interests of the German states which used participations as tools for regional policy). Hence, the case of East Germany has become what the privatisations in West Germany were not: a policy experiment.

⁸⁵⁴ See Breuel's publications since the 1970s, for example Breuel (1976).

Archival Sources

A. Unpublished Collections

Deutsche Bank Archiv (DBA):

V01/2143
V01/00A17
AV13
ZA15x/2052
ZA40 37
ZA40 38
ZA43/x8091

Bundesarchiv (BArch):

B102 German Federal Ministry of Economics
B115 German Federal Ministry of the Treasury
B126 German Federal Ministry of Finance
B136 Office of the Federal Chancellor
N1256 Literary Estate of Ludwig Kattenstroth

Parlamentsarchiv des Deutschen Bundestages (PA):

Minutes of *Bundestag* Committees and Subcommittees

B. Online Collections

Minutes of the German Federal Cabinet ("*Die Kabinettsprotokolle der Bundesregierung*" *online*), edited and published by the Bundesarchiv, <http://www.bundesarchiv.de/cocoon/barch/00/k/index.html#Start> (last access: March 2016):

Minutes of the Federal Cabinet (1949–1967)
Minutes of the Economic Committee of the Federal Cabinet (1950–1961)

Bundestag Documentation, <http://pdok.bundestag.de/> (last access: March 2016):

Bundestagsdrucksachen (Bundestag printed documents)
Plenarprotokolle (Bundestag plenary protocols)

Bibliography

- ABELSHAUSER, W. (1975): *Wirtschaft in Westdeutschland 1945–1948. Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone*, Schriftenreihe der Vierteljahrshefte für Zeitgeschichte (30), Stuttgart.
- (1983): *Wirtschaftsgeschichte der Bundesrepublik Deutschland (1945–1980)*, Frankfurt am Main.
- (1984): *Der Ruhrkohlenbergbau seit 1945: Wiederaufbau, Krise, Anpassung*, Munich.
- ADAMS, S., AND B. MENGISTU (2008): “Privatization, governance and economic development in developing countries,” *Journal of Developing Societies*, 24(4), 415–438.
- ALESINA, A., AND A. DRAZEN (1989): “Why are stabilizations delayed?,” *National Bureau of Economic Research*, NBER Working Paper 3053.
- AMBROSIUS, G. (1995): “Kommunalwirtschaft im Spannungsfeld von Autonomisierung/Privatisierung und Bindung/Regulierung (vom Ende des 19. Jahrhunderts bis zu den 1930er Jahren),” in *Kommunalisierung im Spannungsfeld von Regulierung und Deregulierung im 19. und 20. Jahrhundert*, ed. by J. Wysocki, Schriften des Vereins für Socialpolitik (240), pp. 49–90.
- (2008): “Regulierung öffentlicher Dienstleistungen in historischer Perspektive,” *Zeitschrift für öffentliche und gemeinwirtschaftliche Unternehmen: ZögU/Journal for Public and Nonprofit Services*, pp. 345–360.
- BÄHR, J. (2006): *Die Dresdner Bank in der Wirtschaft des Dritten Reichs*, Die Dresdner Bank im Dritten Reich (1), München.
- BÄHR, J., AND R. BANKEN (eds.) (2006): *Wirtschaftssteuerung durch Recht im Nationalsozialismus. Studien zur Entwicklung des Wirtschaftsrechts im Interventionsstaat des “Dritten Reichs”*, Das Europa der Diktatur (9), Frankfurt am Main.
- BANERJEE, S. G., AND M. C. MUNGER (2004): “Move to markets? An empirical analysis of privatization in developing countries,” *Journal of International Development*, 16(2), 213–240.
- BAYLISS, K. (2005): “Post-conflict privatisation: a review of developments in Serbia and Bosnia Herzegovina,” *Overseas Development Institute London, Economic and Statistics Analysis Unit*, ESAU Working Paper 12.
- BEL, G. (2010): “Against the mainstream: Nazi privatization in 1930s Germany,” *The Economic History Review*, 63(1), 34–55.
- (2011a): “The first privatisation policy in Latin America: selling state-owned enterprises in 1948–1950 Puerto Rico,” *Revista de Historia Económica/Journal of Iberian and Latin American Economic History (Second Series)*, 29(02), 157–182.
- (2011b): “The first privatisation: selling SOEs and privatising public monopolies in Fascist Italy (1922–1925),” *Cambridge Journal of Economics*, 35(5), 937–956.

- BELKE, A., F. BAUMGÄRTNER, F. SCHNEIDER, AND R. SETZER (2007): "The different extent of privatization proceeds in OECD countries: a preliminary explanation using a public-choice approach," *FinanzArchiv/Public Finance Analysis*, pp. 211–243.
- BELLOC, F., A. NICITA, AND S. M. SEPE (2014): "Disentangling liberalization and privatization policies: is there a political trade-off?," *Journal of Comparative Economics*, 42(4), 1033–1051.
- BERGHAHN, V. (1986): *The americanisation of West German industry 1945-1973*, Leamington Spa.
- BIGLAISER, G., AND D. S. BROWN (2003): "The determinants of privatization in Latin America," *Political Research Quarterly*, 56(1), 77–89.
- BIRNBAUM, H. (1980): *Stahljahre. Unternehmer in unruhiger Zeit*, Düsseldorf.
- BLEIDICK, D. (1999): *Die Hibernia-Affäre. Der Streit um den preußischen Staatsbergbau im Ruhrgebiet zu Beginn des 20. Jahrhunderts*, Bochum.
- BLUMENBERG-LAMPE, C. (1973): *Das wirtschaftspolitische Programm der Freiburger Kreise. Entwurf einer freiheitlich-sozialen Nachkriegswirtschaft. Nationalökonomien gegen den Nationalsozialismus*, Berlin.
- BORTOLOTTI, B. (2004): "Privatization in Europe: a brief historical sketch," *The PB Newsletter*, 1, 9–12.
- BORTOLOTTI, B., F. DE JONG, G. NICODANO, AND I. SCHINDELE (2007): "Privatization and stock market liquidity," *Journal of Banking & Finance*, 31(2), 297–316.
- BORTOLOTTI, B., M. FANTINI, AND D. SINISCALCO (2003): "Privatisation around the world: evidence from panel data," *Journal of Public Economics*, 88(1), 305–332.
- BORTOLOTTI, B., AND V. MILELLA (2006): "Privatization in Western Europe: Stylized facts, outcomes, and open issues," *FEEM Working Paper*.
- BORTOLOTTI, B., AND P. PINOTTI (2008): "Delayed privatization," *Public Choice*, 136(3-4), 331–351.
- BÖS, D. (1993): "Privatization in Europe: a comparison of approaches," *Oxford Review of Economic Policy*, 9(1), 95–111.
- BOUBAKRI, N., AND O. HAMZA (2007): "The dynamics of privatization, the legal environment and stock market development," *International Review of Financial Analysis*, 16(4), 304–331.
- BOZDAG-YAKSAN, S. (2008): "Vom Staatsunternehmen zum Global Player. Die Unternehmensentwicklung der Deutschen Lufthansa AG," Ph.D. thesis, Cologne University.
- BREIDBACH, H.-J. (1960): *Die öffentlichen Unternehmen in der Konjunktur*, Vortragsreihe des Deutschen Industrieinstituts (15).
- BREUEL, B. (1976): *Es gibt kein Butterbrot umsonst. Gedanken zur Krise, den Problemen und Chancen unserer Wirtschaft*. Düsseldorf.

- BUGGELN, M., M. DAUNTON, AND A. NÜTZENADEL (eds.) (1965): *The political economy of public finance. Taxation, state spending and debt since the 1970s*, Cambridge.
- BUKOW, W. (1965): "Public Undertakings in the Federal Republic of Germany," *Annals of Public and Cooperative Economics*, 36(1), 7–13.
- BUND DER STEUERZAHLER (1954): *Der Bund als Konzernunternehmer*.
- (1955): *Der Bund als Konzernunternehmer*, 2nd edition.
- BUNDESCHATZMINISTERIUM (1961): *Das industrielle Bundesvermögen im Jahre 1960/1961. Bericht über die Entwicklung des vom Bundesschatzministerium verwalteten industriellen Bundesvermögens in der Zeit vom 1. April 1960 bis 31. März 1961*.
- (1962): *Das industrielle Bundesvermögen im Jahre 1961/1962. Bericht über die Entwicklung des vom Bundesschatzministerium verwalteten industriellen Bundesvermögens in der Zeit vom 1. April 1961 bis 31. März 1962*.
- BUNDESMINISTERIUM FÜR FINANZEN (1954): *Bundeshaushaltsplan für das Rechnungsjahr 1954*.
- (1955): *Bundeshaushaltsplan für das Rechnungsjahr 1954*.
- (1959): *Allgemeine Vorbemerkungen zum Bundeshaushaltsplan für das Rechnungsjahr 1959*.
- (1960): *Allgemeine Vorbemerkungen zum Bundeshaushaltsplan für das Rechnungsjahr 1960*.
- (1984): *Beteiligungsbericht des Bundes 1984*.
- BUNDESMINISTERIUM FÜR WIRTSCHAFTLICHEN BESITZ DES BUNDES (1958): *Der Bund als Unternehmer. Bericht über die Entwicklung des vom Bundesministerium für wirtschaftlichen Besitz des Bundes verwalteten industriellen Bundesvermögens in der Zeit vom 1. April 1957 bis 31. März 1958*.
- (1960): *Der Bund als Unternehmer. Bericht über die Entwicklung des vom Bundesministerium für wirtschaftlichen Besitz des Bundes verwalteten industriellen Bundesvermögens in der Zeit vom 1. April 1959 bis 31. März 1960*.
- BUNDESSCHATZMINISTERIUM (1966): *Das industrielle Bundesvermögen im Jahre 1964/1965. Bericht über die Entwicklung des vom Bundesschatzministerium verwalteten industriellen Bundesvermögens in der Zeit vom 1. April 1964 bis 31. März 1965*.
- BURK, K. (1988): *The First Privatization: the Politicians, the City and the Denationalisation of Steel*, London.
- CARLIN, W., S. FRIES, M. E. SCHAFFER, AND P. SEABRIGHT (2001): "Competition and enterprise performance in transition economies: evidence from a cross-country survey," *William Davidson Institute Working Paper*.
- CEEP (1984): *Public enterprise in the EEC*.

- CESIFO (2010): "DICE Report 3/2010," <https://www.cesifo-group.de/de/ifoHome/publications/docbase/details.html?docId=14566937>.
- CHARI, R. (2015): *Life after privatization*, Oxford.
- CLARKE, T., AND C. PITELIS (1993): *The political economy of privatization*, London.
- CLIFTON, J., F. COMIN, AND D. D. FUENTES (2003): *Privatisation in the European Union: public enterprises and integration*, Dordrecht.
- (2006): "Privatizing public enterprises in the European Union 1960–2002: ideological, pragmatic, inevitable?," *Journal of European Public Policy*, 13(5), 736–756.
- CORRALES, J. (1998): "Coalitions and corporate choices in Argentina, 1976–1994: the recent private sector support of privatization," *Studies in Comparative International Development*, 32(4), 24–51.
- CORTI, G. (1976): "Perspectives on public corporations and public enterprises in five nations," *Annals of Public and Cooperative Economics*, 47(1), 47–86.
- DEUTSCHES AKTIENINSTITUT (2016): *Aktionärszahlen des deutschen Aktieninstituts 2015*. www.dai.de/files/dai_usercontent/dokumente/studien/2016-02-09%20DAI%20Aktionaerszahlen%202015%20Web.pdf.
- DIETRICH, Y. (1996): *Eigentum für jeden. Die vermögenspolitischen Initiativen der CDU und die Gesetzgebung 1950–1961*, Forschungen und Quellen zur Zeitgeschichte (29), Düsseldorf.
- DINC, I. S., AND N. GUPTA (2011): "The decision to privatize: finance and politics," *The Journal of Finance*, 66(1), 241–269.
- DININIO, P. (1999): *The political economy of East German privatization*. Westport.
- EDELMANN, H. (1999): "Privatisierung als Sozialpolitik. "Volksaktie" und Volkswagenwerk," *Jahrbuch für Wirtschaftsgeschichte / Economic History Yearbook*, 40(1), 55–72.
- (2003): *Heinz Nordhoff und Volkswagen. Ein deutscher Unternehmer im amerikanischen Jahrhundert*, Göttingen.
- EDWARDS, J., AND M. NIBLER (2000): "Corporate governance in Germany: the role of banks and ownership concentration," *Economic Policy*, 15(31), 237–267.
- EICHENGREEN, B., AND A. RITSCHL (2009): "Understanding West German economic growth in the 1950s," *Cliometrica*, 3(3), 191–219.
- ERDMEIER, P. (2000): "Die Privatisierung von Unternehmensbeteiligungen des Landes Berlin seit der Wiedervereinigung," Ph.D. thesis, Freie Universität Berlin.
- ESSER, J. (1988): "Symbolic privatisation: the politics of privatisation in West Germany," *West European Politics*, 11(4), 61–73.
- (1994): "Germany: Symbolic Privatizations in a Social Market Economy," in *Privatization in Western Europe. Pressures, Problems and Paradoxes*, ed. by V. Wright, pp. 105–121.

- ETCHEMENDY, S. (2011): *Models of economic Liberalization: Business, Workers, and Compensation in Latin America, Spain, and Portugal*, Cambridge.
- EUCKEN, W. (1939): *Grundlagen der Nationalökonomie*, Jena.
- FASBENDER, K. (2004): "Selected principles, elements and experiences of privatisation in Germany," *HWWA-Report*.
- FEIGENBAUM, H., J. R. HENIG, AND C. HAMNETT (1998): *Shrinking the state: The political underpinnings of privatization*, Cambridge.
- FEIGENBAUM, H. B., AND J. R. HENIG (1994): "The political underpinnings of privatization: A typology," *World Politics*, 46(02), 185–208.
- FINK, S. (2011): "A contagious concept: Explaining the spread of privatization in the telecommunications sector," *Governance*, 24(1), 111–139.
- FOHLIN, C. (2005): "The history of corporate ownership and control in Germany," in *A history of corporate governance around the world: Family business groups to professional managers*, ed. by R. K. Morck, University of Chicago Press, pp. 223–282.
- FOREMAN-PECK, J., AND R. MILLWARD (1994): *Public and private ownership of British industry, 1820–1990*, Oxford.
- GIMBEL, J. (1968): *The American occupation of Germany: politics and the military, 1945–1949*, Stanford.
- GOLDSCHMIDT, N. (ed.) (2005): *Wirtschaft, Politik und Freiheit. Freiburger Wirtschaftswissenschaftler und der Widerstand*, Untersuchungen zur Ordnungstheorie und Ordnungspolitik (48), Tübingen.
- GONSER, S. (2014): *Der Kapitalismus entdeckt das Volk: wie die deutschen Großbanken in den 1950er und 1960er Jahren zu ihrer privaten Kundschaft kamen*, vol. 108 of *München*.
- GOUD JR, R. B., ET AL. (2002): "Ownership and firm performance: evidence from 25 countries Central and Eastern Europe and the former Soviet Union," *EconWPA*.
- GOULD, J. A. (2011): *The politics of privatization. Wealth and power in postcommunist Europe*, Boulder.
- GRUNENBERG, N. (2006): *Die Wundertäter. Netzwerke der deutschen Wirtschaft 1942-1966*, Munich.
- GUPTA, N., J. C. HAM, AND J. SVEJNAR (2001): "Priorities and sequencing in privatization: theory and evidence from the Czech Republic," *William Davidson Institute Working Paper Series*.
- HAWKINS, R. A. (1991): "Privatization in Western Germany, 1957 to 1990," *National Westminster Quarterly Bank Review*, (November), 14–22.
- HENISZ, W. J., B. A. ZELNER, AND M. F. GUILLÉN (2005): "The worldwide diffusion of market-oriented infrastructure reform, 1977–1999," *American Sociological Review*, 70(6), 871–897.

- HESSE, J.-O. (2010): *Wirtschaft als Wissenschaft. Die Volkswirtschaftslehre in der frühen Bundesrepublik*, Frankfurt am Main.
- HINTZE, P. (1995): *Die CDU-Parteiprogramme: Eine Dokumentation der Ziele und Aufgaben*, Bonn.
- HLAWATSCHKE, E. (2001): "Ernst Pieper," *Neue Deutsche Biographie (NDB)* 20, pp. 426–427.
- HOOKE, J. C. V. (2002): "From socialization to co-determination: the US, Britain, Germany, and public ownership in the Ruhr, 1945-1951," *The Historical Journal*, 45(1), 153–178.
- HOPMANN, B. (1996): *Von der Montan zur Industrieverwaltungsgesellschaft (IVG) 1916–1951*, Stuttgart.
- JERONIMO, V., J. A. PAGÁN, AND G. SOYDEMIR (2000): "Privatization and European economic and monetary union," *Eastern Economic Journal*, 26(3), 321–333.
- JONES, S. L., W. L. MEGGINSON, R. C. NASH, AND J. M. NETTER (1999): "Share issue privatizations as financial means to political and economic ends," *Journal of Financial Economics*, 53(2), 217–253.
- JORDANA, J., D. LEVI-FAUR, AND X. F. I MARÍN (2011): "The global diffusion of regulatory agencies: channels of transfer and stages of diffusion," *Comparative Political Studies*, 44(10), 1343–1369.
- KEYSER, W., AND R. WINDLE (1978): *Public enterprise in the EEC*, Alphen aan den Rijn.
- KIRCHENAMT DER EVANGELISCHEN KIRCHE IN DEUTSCHLAND (1991): *Die Denkschriften der evangelischen Kirche in Deutschland: Soziale Ordnung, Wirtschaft, Staat*, 2 (1), 3rd edition.
- KNAUSS, F. (1978): *Die Beteiligungen des Bundes. Über die Beteiligungen der Bundesrepublik Deutschland und ihrer Sondervermögen*, Cologne.
- (1986): "Unternehmen in der Industrie," in *Die Unternehmen der öffentlichen Wirtschaft in der Bundesrepublik Deutschland. Ein Handbuch*, ed. by Brede, and von Lösch, Baden-Baden, pp. 213–230.
- (1988): *Privatisierungspolitik in der Bundesrepublik Deutschland*, Beiträge zur Wirtschafts- und Sozialpolitik No. 160, Institut der deutschen Wirtschaft, Cologne.
- (1990): *Privatisierung in der Bundesrepublik Deutschland 1983–1990. Bilanz und Perspektiven*, Beiträge zur Wirtschafts- und Sozialpolitik No. 160, Institut der deutschen Wirtschaft, Cologne.
- (1993): *Privatisierungs- und Beteiligungspolitik in der Bundesrepublik Deutschland*. Baden-Baden.
- LAUFER, J., AND B. STIER (2005): *Von der Preussag zur TUI. Wege und Wandlungen eines Unternehmens 1923-2003*, Essen.

- LEVI-FAUR, D. (2005): "The global diffusion of regulatory capitalism," *The Annals of the American Academy of Political and Social Science*, 598(1), 12–32.
- LIBBE, J., S. HANKE, AND M. VERBÜCHELN (2011): "Rekommunalisierung - Eine Bestandsaufnahme," *Difu-Paper, Berlin*.
- LÖFFLER, B. (2002): *Soziale Marktwirtschaft und administrative Praxis. Das Bundeswirtschaftsministerium unter Ludwig Erhard*, Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte, Beiheft 162, Stuttgart.
- MAHNKE, H. J. (1983): *Gefragt: Werner Dollinger*, Bornheim.
- MAYER, F. (2006): "Vom Niedergang des unternehmerisch tätigen Staates. Privatisierungspolitik in Großbritannien, Frankreich, Italien und Deutschland im Vergleich," Ph.D. thesis, Wiesbaden.
- MEGGINSON, W. L. (2005): *The financial economics of privatization*, Oxford.
- MEGGINSON, W. L., R. C. NASH, J. M. NETTER, AND A. B. POULSEN (2004): "The choice of private versus public capital markets: Evidence from privatizations," *The Journal of Finance*, 59(6), 2835–2870.
- MEGGINSON, W. L., AND J. M. NETTER (2001): "From state to market: A survey of empirical studies on privatization," *Journal of economic literature*, pp. 321–389.
- MESEGUER, C. (2004): "What role for learning? The diffusion of privatisation in OECD and Latin American countries," *Journal of Public Policy*, 24(03), 299–325.
- (2009): *Learning, policy making, and market reforms*, Cambridge.
- MILLWARD, R. (1999): "Industrial performance, the infrastructure and government policy," in *The British industrial decline*, ed. by J.-P. Dormois, and M. Dintenfass, pp. 47–64.
- (2011): "Public enterprise in the modern western world: an historical analysis," .
- (2013): *The state and business in the major powers. An economic history 1815-1939*, Milton Park.
- MILLWARD, R., AND J. SINGLETON (1995): *The political economy of nationalisation in Britain 1920-1950*, Cambridge.
- MILOSCH, M. (2006): *Modernizing Bavaria. The Politics of Franz Josef Strauss and the CSU 1949-1969*, New York.
- MOMMSEN, H., AND M. GRIEGER (1996): *Das Volkswagenwerk und seine Arbeiter im Dritten Reich 1933-1948*, Düsseldorf.
- MÜLLER, E. (1988): *Widerstand und Wirtschaftsordnung. Die wirtschaftspolitischen Konzepte der Widerstandsbewegung gegen das NS-Regime und ihr Einfluss auf die Soziale Marktwirtschaft*, Frankfurt am Main.
- MURACH-BRAND, L. (2004): *Antitrust auf deutsch. Der Einfluss der amerikanischen Alliierten auf das Gesetz gegen Wettbewerbsbeschränkungen (GWB) nach 1945*, Tübingen.

- NICOLAYSEN, R. (2002): *Der lange Weg zur VolkswagenStiftung. Eine Gründungsgeschichte im Spannungsfeld von Politik, Wirtschaft und Wissenschaft*, Göttingen.
- NOELLE, E., AND E. P. NEUMANN (eds.) (1967): *Jahrbuch der Öffentlichen Meinung 1965–1967*, Institut für Demoskopie Allensbach.
- NOELLE-NEUMANN, E. (ed.) (1981): *The Germans. Public Opinion Polls, 1967–1980*, Institut für Demoskopie Allensbach.
- NÜTZENADEL, A. (2005): *Stunde der Ökonomen. Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949–1974*, Kritische Studien zur Geschichtswissenschaft 166, Göttingen.
- OBINGER, H., C. SCHMITT, AND R. ZOHLNHÖFER (2013): “Partisan politics and privatization in OECD countries,” *Comparative Political Studies*, pp. 1–30.
- OECD (2000): “Recent privatisation Trends,” *Financial Market Trends*, (76 /June), 43–64.
- (2002): “Recent privatisation trends in OECD countries,” *Financial Market Trends*, (82/June), 43–58.
- (2003): “Privatising state-owned enterprises. An overview of policies and practices in OECD countries,” *OECD publications*.
- OEFTERING, H. M. (1953): “The participation of the German federal state in economic enterprise,” *Annals of Public and Cooperative Economics*, 24(3), 271–288.
- OLSON, M. (1982): *The rise and decline of nations. Economic growth, stagflation and social rigidities*, New Haven.
- OPPER, S. (2004): “The political economy of privatization: Empirical evidence from transition economies,” *Kyklos*, 57(4), 559–586.
- ORTLIEB, H.-D., AND G. RITTIG (eds.) (1972): *Gemeinwirtschaft im Wandel der Gesellschaft. Festschrift für Hans Ritschl*, Berlin.
- PAQUÉ, K.-H. (1996): “Why the 1950s and not the 1920s? Olsonian and non-olsonian interpretations of two decades of German economic history,” in *Economic Growth in Europe since 1945*, ed. by N. Crafts, and G. Toniolo, Cambridge, pp. 95–106.
- PIEPER, E. (1975): “Keine Last für den Steuerzahler,” *Öffentliche Wirtschaft und Gemeinwirtschaft*, 4, 134.
- POHL, M. (1998): *VIAG Aktiengesellschaft 1923–1998. Vom Staatsunternehmen zum internationalen Konzern*, Munich.
- PROWE, D. (1992): “Socialism as crisis response: socialization and the escape from poverty and power in post-World War II Germany,” *German Studies Review*, 15(1), 65–85.
- PTAK, R. (2004): *Vom Ordoliberalismus zur Sozialen Marktwirtschaft. Stationen des Neoliberalismus in Deutschland*, Opladen.
- RADZIO, H. (1979): *Unternehmen Energie. Aus der Geschichte der VEBA*, Düsseldorf.

- RITSCHL, A. (2004): "Der lange Schatten Hjalmar Schachts: Zu den langfristigen Wirkungen des Dritten Reichs auf die Wirtschaftsordnung Westdeutschlands seit dem Kriege," *Vierteljahrsschrift zur Sozial- und Wirtschaftsgeschichte*, 6, 409–493.
- (2005): "Der späte Fluch des Dritten Reichs: Pfadabhängigkeiten in der Entstehung der bundesdeutschen Wirtschaftsordnung," *Perspektiven der Wirtschaftspolitik*, 6(2), 151–170.
- (2016): "Soziale Marktwirtschaft in der Praxis," in *Das Bundeswirtschaftsministerium in der Ära der Sozialen Marktwirtschaft*, pp. 265–389.
- RITSCHL, H. (1931): *Gemeinwirtschaft und kapitalistische Marktwirtschaft. Zur Erkenntnis der dualistischen Wirtschaftsordnung*, Tübingen.
- ROBERTS, B. M., AND M. A. SAEED (2012): "Privatizations around the world: economic or political determinants?," *Economics & Politics*, 24(1), 47–71.
- RODRIK, D. (1996): "Understanding economic policy reform," *Journal of Economic Literature*, 34(1), 9–41.
- RUDZIO, W. (1978): "Die ausgebliebene Sozialisierung an Rhein und Ruhr: Zur Sozialisierungspolitik von Labour-Regierung und SPD 1945–1948," *Archiv für Sozialgeschichte*, 18, 1–39.
- SAEED, M. A. (2012): "The dynamics of privatization, private sector size and variations in the size of the public sector: panel data evidence from around the world," Ph.D. thesis, University of Leicester.
- SCHAMIS, H. (2002): *Re-forming the state. The politics of privatization in Latin America and Europe*, Michigan.
- SCHMITT, C. (2011): "What drives the diffusion of privatization policy? Evidence from the telecommunications sector," *Journal of Public Policy*, 31(01), 95–117.
- (2014): "The diffusion of privatization in Europe: political affinity or economic competition?," *Public Administration*, 92(3), 615–635.
- SCHNEIDER, F. (2003): "Privatisation in OECD countries: theoretical reasons and results obtained," *Working Paper*.
- SCHNEIDER, V., AND F. M. HÄGE (2008): "Europeanization and the Retreat of the State," *Journal of European Public Policy*, 15(1), 1–19.
- SCHOLTYSECK, J. (2013): "Die FDP in der Wende," *Historisch-Politische Mitteilungen*, 19(1), 197–220.
- SCHULZ, V. G. (2010): "Die Entwicklung der Sozialen Marktwirtschaft und der Regierungswechsel 1982. Eine Zäsur in der Wirtschaftspolitik?," in *Die Ära Kohl im Gespräch: Eine Zwischenbilanz*, ed. by G. Buchstab, H.-O. Kleinmann, and H. J. Küsters, Cologne, pp. 3–14.
- SHLEIFER, A., AND R. W. VISHNY (1994): "Politicians and firms," *The Quarterly Journal of Economics*, pp. 995–1025.
- SHORT, R. P. (1984): "The role of public enterprises: An international statistical comparison," *Public enterprise in mixed economies: Some macroeconomic aspects*, pp. 118–122.

- SPOLAORE, E. (2004): "Adjustments in different government systems," *Economics & Politics*, 16(2), 117–146.
- STEININGER, R. (1988): "Reform und Realität: Vom Scheitern britischer Sozialisierungspolitik an Rhein und Ruhr," *Geschichte im Westen*, 3, 35–45.
- STEVENS, B. (1992): "Prospects for privatisation in OECD countries," *National Westminster Bank Quarterly Review*, pp. 2–22.
- STIEFEL, D. (2011): *Verstaatlichung und Privatisierung in Österreich: Illusion und Wirklichkeit*, Wien.
- STOKES, R. G. (2003): *Faktor Öl: die Mineralölwirtschaft in Deutschland 1859–1974*, Part 2: 1945–1974, edited by Karlsch, R. and Stokes, R. G. München.
- THIEMEYER, T. (1970): *Gemeinwirtschaft als Ordnungsprinzip: Grundlegung einer Theorie gemeinnütziger Unternehmen*, West Berlin.
- TOFAUTE, H. (1994): *Der große Ausverkauf. Die Privatisierung von Bundesunternehmen durch die Regierung Kohl*, Cologne.
- TOLLIDAY, S. (1995): "Enterprise and state in the West German Wirtschaftswunder: Volkswagen and the automobile industry, 1939–1962," *Business History Review*, 69(3), 273–350.
- TOMMASI, M., AND A. VELASCO (1996): "Where are we in the political economy of reform?," *The Journal of Policy Reform*, 1(2), 187–238.
- TONINELLI, P. A. (ed.) (2000): *The rise and fall of state-owned enterprise in the Western world*, Cambridge.
- TRAMPUSCH, C., B. LINDEN, AND M. SCHWAN (2014): "Staatskapitalismus in NRW und Bayern: Der Aufstieg und Fall von WestLB und BayernLB," *Zeitschrift für Vergleichende Politikwissenschaft*, 8(2), 129–154.
- TSEBELIS, G. (2002): *Veto players: how political institutions work*, Princeton.
- VICKERS, J., AND V. WRIGHT (1989): *The politics of privatization in Western Europe*, London.
- VON KÜNSBERG, A. (2012): *Vom "Heiligen Geist der Elektrizitätswirtschaft": der Kampf um die Regulierung der Stromwirtschaft in der Bundesrepublik Deutschland (1950–1980)*, Berlin.
- WELLENSTEIN, A. (1992): *Privatisierungspolitik in der Bundesrepublik Deutschland*, Frankfurt.
- WENGENROTH, U. (2000): "The rise and fall of state-owned enterprise in Germany," in *The rise and fall of state-owned enterprise in the Western World*, ed. by P. A. Toninelli, Cambridge, pp. 103–127.
- WINKLER, H.-J. (1965): *Preussen als Unternehmer 1923–1932. Staatliche Erwerb- sunternehmen im Spannungsfeld der Politik am Beispiel der Preussag, Hibernia und Veba*, Veröffentlichungen der Historischen Kommission zu Berlin beim Friedrich-Meinicke-Institut der Freien Universität Berlin (17), Berlin.

- WINTER, G. (1974): "Sozialisierung in Hessen 1946–1955," *Kritische Justiz*, pp. 157–175.
- WORLD BANK (1995): *Bureaucrats in business: The economics and politics of government ownership*, A World Bank Policy Research Report, Oxford.
- WRIGHT, V. (1994): *The politics of privatization in Western Europe*, London.
- YARROW, G. (1999): "A theory of privatization, or why bureaucrats are still in business," *World Development*, 27(1), 157–168.
- YARROW, G., M. KING, J. MAIRESSE, AND J. MELITZ (1986): "Privatization in theory and practice," *Economic Policy*, 1(2), 324–377.
- YOTOPOULOS, P. A. (1989): "The (rip) tide of privatization: lessons from Chile," *World development*, 17(5), 683–702.
- YOUNG, B. (2014): "German Ordoliberalism as Agenda Setter for the Euro Crisis: Myth Trumps Reality," *Journal of Contemporary European Studies*, 22(3).
- ZOHLNHÖFER, R. (2003): "Partisan politics, party competition and veto players: German economic policy in the Kohl era," *Journal of Public Policy*, 23(02), 123–156.
- ZOHLNHÖFER, R., AND H. OBINGER (2006): "Selling off the " family silver": the politics of privatization," *World Political Science*, 2(1).
- ZOHLNHÖFER, R., H. OBINGER, AND F. WOLF (2008): "Partisan politics, globalization, and the determinants of privatization proceeds in advanced democracies (1990–2000)," *Governance*, 21(1), 95–121.
- ZOLLEIS, U. (2008): *Die CDU. Das politische Leitbild im Wandel der Zeit*, Wiesbaden.