

Keith R. Allen

Investing Foreigners in Eastern Germany

Studien zur Geschichte der Treuhandanstalt

Herausgegeben von Dierk Hoffmann,
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im Auftrag des Instituts für Zeitgeschichte München–Berlin

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M ü n c h e n - B e r l i n

Keith R. Allen

Investing Foreigners in Eastern Germany

Transferring State Assets to Private
Owners during the 1990s

Ch.Links VERLAG

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Editors' Foreword

Founded in the waning months of the GDR, the Treuhandanstalt developed to become the central government agency tasked with facilitating the economic transformation of East Germany. Its original mandate was to rapidly privatize East German state-owned enterprises (or *volkseigene Betriebe*, VEB). Very soon, however, politicians singled it out for a number of other tasks, saddling it with a succession of challenges: dealing with the debts of the former VEBs, cleaning up their ecological damages, playing a role in shaping labor market policy, and finally, at the most general level, implementing structural change. Judging the Treuhandanstalt's activities to be a bureaucratic failure would thus be ahistorical and one-sided, even though its track record appears to have been devastating. Indeed, after its work was finished, only one-third of the GDR's approximately four million industrial jobs remained. The public verdict has accordingly been overwhelmingly negative, with criticism setting in the moment the authority began privatizing the GDR's first VEBs. To this day, the Treuhandanstalt is associated with dashed hopes and exaggerated expectations, alongside self-delusions and myths. It has also served as a projection screen for political interests and conflicts, as the 2019 state election campaigns in eastern Germany made clear. This makes it all the more pressing to take a scholarly look at the activities of the agency, and, with it, the entire history of (East) German transformation in the early 1990s. This is the goal of the series *Studies on the History of the Treuhandanstalt* (*Studien zur Geschichte der Treuhandanstalt*), whose volumes comprise the first scholarship to draw from a broad

foundation of archival sources in illuminating and analyzing the upheavals of the 1990s.

For many people, the privatization of East German companies brought not only unemployment, but also the loss of an entire way of living and working that had been centered on these enterprises and had seemed utterly secure. And in this sense, specialist scholarship as well as more widely circulating sociopolitical arguments must continue to seriously consider, and integrate, the perspectives afforded by the experience of those affected. The structural change that accompanied this transformation had consequences for mentalities and political attitudes that persist into the present. At the same time, individual and communal experiences and memories have always been shaped and overwritten by debates about the transformation period that have unfolded in the media, and by various political narratives with their particular interpretations. Historical analysis must consider and analytically separate out these partially interwoven levels, just as an approach based solely in personal experiences cannot adequately explain the emergence and functioning of the Treuhandanstalt and the privatization of the East German economy. Rather, historians must compare these perspectives and analyze how they are related in order to obtain a differentiated and multilayered picture of the upheavals of the 1990s.

It is only recently that contemporary historians have been able to take up this task, as the thirty-year rule applying to the public release of archival files in Germany has expired, affording an entirely new basis for research. Public interest has been focused on the files of the Treuhandanstalt, which are publicly accessible in the German Federal Archives in Berlin (in the holdings designated as B 412). These documents have now been intensively mined by journalists and other public voices. Yet in this context, it must also be noted that files of a different provenance were generally available to the public much earlier, such as the written records of the East German state governments or East German trade unions, to name only a few actors. The files of the German federal government and West German state administrations have also been available for some time, and this list could be continued.

Nonetheless, despite all the euphoria that has arisen as the scope of these sources has increased in both quality and quantity (twelve kilometers of files in the Berlin German Federal Archives alone!), historians must not forget that these records are to be examined critically, and that such a critique is fundamentally part of the historian's task. Since the public holds such high expectations for the information that might be revealed by the Treuhand's files, in particular, this caveat needs to be explicitly noted here. Hence it is necessary to contextualize the specific decisions made about privatizations by the Treuhand management, and to compare the perspective afforded by these files with that gleaned from other sources. An example may serve to illustrate the problem: Treuhand files from what were called trustees (Vertrauensbevollmächtigte) and the Legal Department (Stabstelle Recht) contain allegations of "insider networks" from among the East German Communist Party and "corruption" that cannot be fully clarified even in retrospect. The assumption held by many in the public that the truth is now finally coming to light is therefore misleading and runs the risk of only producing further disappointment. There is in the end no one, definitive historical truth. Instead, it is necessary to analyze structural contexts and to adopt various perspectives, to name contradictions and resist the temptation to resolve them. Studies of contemporary history can make an important contribution here by employing solid, source-based analyses and innovative methods to determine what role the Treuhandanstalt played in the history of unified Germany, while questioning widely held views of this history and deconstructing historical legends.

In the spring of 2013, as part of a declared research focus on "Transformations in Recent Contemporary History" concerned specifically with the rapid processes of change and sociocultural ruptures that industrial societies have experienced since the 1970s, the Institute of Contemporary History Munich – Berlin (IfZ) began to lay the groundwork for a large-scale, multipart project on the history of the Treuhandanstalt. Anticipating the new sources that would be accessible and the resulting opportunity to analyze them systematically for the first time, the project team formulated the following key questions: What political goals were to be

achieved with the Treuhandanstalt? What plans were pursued in individual industries and regions, and what were the results? What were the social consequences? How should the Treuhandanstalt be viewed from an international perspective?

We owe special thanks to Richard Schröder and Karl-Heinz Paqué, who assisted in planning and realizing this project, which has also been guided by an international scientific advisory board. Funding for the project has come directly from the IfZ, with additional generous support from the German Federal Ministry of Finance from 2017 to 2021. For this, too, we are deeply grateful. The project has also been closely connected with two individual research projects by Andreas Malycha and Florian Peters, both funded by the German Research Foundation (DFG).

Dierk Hoffmann, Hermann Wentker, Andreas Wirsching

Translated by Michael Thomas Taylor

Foreign Engagements in Eastern Germany: An Introduction

The demolition of the Berlin Wall ushered in a decade of public divestment on a scale virtually unprecedented in modern history. Transferring ownership of state-run enterprises to for-profit companies wrought changes of epic proportions, upturning lives and livelihoods from Tallinn to Tirana, from Vladivostok to Berlin. No region in Europe appeared better positioned to manage this profound rupture with the socialist past than eastern Germany. There, custodians of a centrally planned economy beset with formidable structural difficulties were summoned to craft responses to altered market conditions emanating from within and beyond Germany's new borders. These reactions would lead these officials into an epoch-defining economic and political process memorably described by German economist Horst Siebert as "the Big Bang with the Big Brother."¹

To knit together eastern and western Germany's economies, the West German federal government in mid-1990 gave a corporation under public law an extraordinary mandate: to sell, liquidate, or restructure, in less than half a decade, 8,500 erstwhile state-owned enterprises employing more than four million individuals (nearly 50 percent of total employment in eastern Germany).² Known as the Treuhandanstalt (Treuhand),

1 Horst Siebert, *The Big Bang with the Big Brother: German Unification in Its Third Year* (Kiel: Institut für Weltwirtschaft, 1993).

2 With support from the German Federal Ministry of Finance, the Leibniz Institute for Contemporary History expanded an ongoing endeavor to investigate the Treuhand's roles in reshaping social and economic life in eastern Germany during the late 2010s. This book is part of this larger undertaking. For an introduction to the

this subministerial entity—an industrial holding placed under the formal supervision of the German Federal Ministry of Finance whose origins lay in East Germany’s last socialist-led government—drew heavily on outside experts.

Under its longest-serving president, Birgit Breuel, the Treuhand made remarkable efforts to engage foreigners. In order to obtain investment capital and management expertise, fend off charges of protectionism and disorganization, allay concerns about a resurgence of the nation that had unleashed the bloodiest war in world history, and finance the agency’s sprawling operations, the Treuhand enlisted outside experts in divestment. Financial firms and consultancies encouraged the Treuhand’s president and senior staff to set up offices in New York and Tokyo, appoint nine foreign representatives in western Europe, persuade venture capital funds to mount management buy-ins and buy-outs, and hire non-Germans to build up an Investor Services division of the Treuhand’s Berlin headquarters. While the dispersal of state-owned assets to private owners grabbed most of the headlines, both the Treuhand and the Finance Ministry (to which the Treuhand reported after unification on October 3, 1990) forged close working relations with transnational actors, especially financial consultants. The Treuhand was a major purchaser of hundreds of millions of deutschmarks’ worth of advice and hundreds of billions of deutschmarks’ worth of credit.

This book situates eastern German mass divestment in postwar Germany’s divided national history and the multinational interdependences of the post-Wall Federal Republic of Germany. The following chapters draw insights from the newly declassified archival materials of the Treuhand, the collections of the federal and state ministries that monitored, competed with, and replaced the beleaguered divestment agency, and especially documents that lay out the aims and objectives of investors and consulting experts from several other European countries.

project, see Dierk Hoffmann, “Im Laboratorium der Marktwirtschaft: Zur Geschichte der Treuhandanstalt 1989/90 bis 1994. Ein neues Forschungsprojekt des Instituts für Zeitgeschichte,” *Vierteljahrshefte für Zeitgeschichte* 66, no. 1 (2018): 167–185.

The Treuhand and the many financial intermediaries toiling on its behalf, as well as potential investors and lenders were active in many countries. Yet scholars and journalists have largely viewed state-market relations in postdivision Germany through the prism of the nation-state known before (and after) 1990 as the Federal Republic of Germany. This nationally focused perspective has made it difficult to answer a question that was hotly disputed in the wake of the Berlin Wall's destruction: given the strong export-oriented industrial base of the Federal Republic, how would West Germany subsume eastern Germany's ailing economy? To address this question, this book suggests that we must internationalize our interpretative framework. It argues that the process and outcomes of state divestment in eastern Germany were shaped by border-crossing economic transactions and, in particular, western European actors' involvement in executing eastern Germany's denationalization. I explore four main areas of foreign engagement. Outsiders were involved in the reordering of eastern Germany's economy as advisors, purchasers of individual Treuhand firms and properties, direct lenders to the Treuhand holding, and arbiters of financial deals sanctioned by the European Community/European Union. The book also considers how German public officials became more open to foreign capital via relationships and policies forged in Treuhand-led mass divestment and select restructuring initiatives formally headed by eastern German state governments.

This account showcases intersections of capital, finance, and politics before, during, and after the Treuhand. It disaggregates processes often subsumed under the mantle of neoliberalism, transformation, and transition. The following chapters seek to add nuance to historian Philipp Ther's concept of "cotransformation" by examining interactions among multiple countries engaged in designing futures for state enterprises in both postsocialist and capitalist markets increasingly shaped by transnational finance.³

3 With reference to labor market reforms via eastern to all of Germany, see Philipp Ther's argument in *Europe since 1989: A History*, trans. Charlotte Hughes-Kreutzmüller (Princeton, NJ: Princeton University Press, 2018), 259–287. Ther's account

Across German-speaking Europe and beyond, public authorities engaged in denationalizing enterprises extended mandates to cross-border financial mediators active in multiple countries. While we know that the movement of ideas about how to respond to the immense difficulties of postsocialist divestment was fundamentally cosmopolitan, historical scholarship on economic developments in Germany during the formative 1990s remains submerged in national contexts and thus neglectful of transnational networks.

This book evaluates co-constitutive elements of state divestment spanning a variety of industries, regions, and countries without short-changing the importance of federal and state-level actors. While the institutional anchor of the Treuhand will likely continue to figure prominently in public debates surrounding allegations of underperformance in eastern Germany's economy and the pain of adjustments embraced from 1990 onward, the federal government's actions—not merely those of the privatization receivership—warrant exposition in detail-rich transnational contexts. This post-GDR history of Germany's political economy during the last decade of the twentieth century demonstrates why multinational interactions should no longer be given short shrift in considerations of East Germany's dual immersion into the Federal Republic and the European Community.

Politicians, social scientists, and the public have for three decades vigorously debated the domestic consequences of the Treuhand's decisions. This account does not engage directly with competing claims about the alleged success or failure of German unification or the Treuhand's role in overcoming—or deepening—national division. Assessing whether the Treuhand was from some latter vantage point successful, or not, deflects attention from constitutive dimensions of market and institutional developments within Germany as it was reunifying. Rather than rehashing

embeds German developments in a broader story of reform across Europe. Bold in scope, it draws from printed source material in an impressive range of languages. See also Ther's collection of essays titled *Das andere Ende der Geschichte. Über die Grosse Transformation* (Berlin: Suhrkamp, 2019), esp. 73–96.

debates (often furiously) waged by German-speaking contemporaries, the following five chapters reveal and then analyze the influence of preunification contacts and international factors on the absorption of the German Democratic Republic's economy into West Germany's.

This book traces the arc of multinational developments involving the German privatization authority against the backdrop of political and economic changes within a specific region—eastern Germany—often singled out as inherently different from other parts of postsocialist east-central Europe.⁴ It seeks to address concerns raised in transnational studies without shortchanging the insights acquired through close study of federal and state politics, the specific dynamics of regional developments, and the particularities of individual industries set against the backdrop of interactions involving outsiders.

Markets and politics in postunification Germany emerged from shifting intersections of regional, national, and international actors and factors. Pronounced commitments to national unification on the part of the Treuhand's supporters and detractors should no longer obscure the fact that the turbulent refitting of enterprises once orchestrated by central planners recast relationships not only within nations—between businesses and governments, citizens and states, families and communities—but also among states. The personal losses and public deficits generated by the German federal government's policies, not merely those of the Treuhand, should not draw scholars back into the throes of the debates that most absorbed contemporaries—regardless of whether privatization

4 Recent social scientific coverage of the concept of foreign direct investment (FDI) serves to illustrate this point. See Hilary Appel and Mitchell A. Orenstein, *From Triumph to Crisis: Neoliberal Economic Reform in Postcommunist Countries* (New York: Cambridge University Press, 2018), esp. 116–141; Balázs Szent-Iványi, ed., *Foreign Direct Investment in Central and Eastern Europe: Post-crisis Perspectives* (New York: Springer, 2017); Paweł Capik, *Foreign Investment Promotion: Governance and Implementation in Central-Eastern European Regions* (New York: Palgrave MacMillan, 2019); Vera Šćepanović, “National Interests and Foreign Direct Investment in East-Central Europe after 1989,” in *Nationalism and the Economy: Explorations into a Neglected Relationship*, ed. Stefan Berger and Thomas Fetzer (Budapest: Central European University Press, 2019), 209–236.

in Germany is best regarded as belated success or unmitigated failure. What could, or should, have been done differently should not preoccupy those not directly engaged in or affected by the harsh economic realities of the postsocialist East. Instead, researchers must increasingly seek to demarcate shifting boundaries between states and markets in the years immediately following the collapse of state socialism across both eastern and western Europe. By closely examining trajectories of public divesture and state-sponsored private investment during and after the Treuhand era, within but also beyond the newly unified Federal Republic, this book seeks to contribute to a deeper understanding of how state-sponsored efforts to solicit foreign engagement bound together a wide range of historical actors and interests.

This book devotes close empirical attention to the interrelated phenomena of cross-border mediation and industrial restructuring involving multiple countries. It considers these two dimensions of inner-German economic developments after 1989 against the backdrop of western European integration and the relations both postwar German states enjoyed with Austria and Switzerland. Chapters 1 and 2 pair each topic, border-crossing interlocutors and reordering state-run industries, with the shifting aims of a specific investing nation. The first chapter considers the role of Switzerland-based investment intermediaries in Swiss engagements in the former East Germany. Chapter 2 explores the border-crossing politics of restructuring state-owned enterprises in Austria and East Germany, as well as Czechoslovakia, Hungary, and the Soviet Union. The interplay between the multinational institutions of the European Community (EC, after November 1993, the European Union) and eastern Germany's submersion into the Federal Republic becomes a central topic in the third chapter on Britain's Treuhand engagements. The third chapter contrasts British responses to profound changes in East Germany with France's. In France, several majority-owned state enterprises with close ties to politics liked what they saw and leapt to the front of the pack of foreign investors in Treuhand companies in 1990. In the United Kingdom, in contrast, state officials looked askance at the federal government's evolving plans for East Germany and the European Community. Yet a small

number of British investors, not to speak of a larger entourage of Anglo-American advisors and lenders, followed in the wake of UK financial institutions with recent privatization experience after relations between the German and UK governments improved during the early 1990s.

The international character of eastern German divestment takes center stage in Chapter 4. The member-state governments of the EU, alongside the European Commission, hashed out crucial decisions affecting industrial redevelopment in eastern Germany and many other regions of Europe in bodies known as the Industry and Foreign Affairs Councils.⁵ Western European governments needed to forge multinational compromises in order to allow public subsidies and government-backed loans to flow to shipbuilders on the Baltic Coast and East Germany's largest steelmaker on the German-Polish border. These compromises required western European governments—never merely western Germans or even the European Commission—to cobble together surprising amalgams of interests. Steel subsidies granted to the future owner of eastern Germany's largest steel plant, for instance, required the German federal government to unlock support for the then fledgling peace process in Northern Ireland, shelve an initiative to strengthen data protection within the European Union as a whole, and consider allowing a British investment bank to lead the privatization of Deutsche Telekom.

Chapter 5 shifts the focus from the international dimensions of the GDR's formal immersion into the European Community/European Union back to Germany. The chapter examines investment promotion and the embrace of risk (sometimes known as venture) capital. It focuses not on foreigners but rather on state and federal public officials from eastern and western Germany. The chapter traces their efforts to promote com-

5 A reliable guide to the limited (but slowly growing) influence of the Commission over various forms of support to shipbuilding during the 1980s is Laurent Warlouzet, "The Collapse of the French Shipyard of Dunkirk and EEC State-Aid Control (1977–1986)," *Business History* 62, no. 5 (2017), 859, 861–864, 866–868, 871–873. See also his excellent monograph based on extensive archival research in British, French, German, and EU sources, titled *Governing Europe in a Globalizing World: Neoliberalism and Its Alternatives following the 1973 Oil Crisis* (New York: Routledge, 2018).

petitiveness across the Federal Republic as a whole by attracting foreign direct investment (FDI).

Enhanced competition among western European governments to acquire FDI tipped the German domestic balance away from the strict protection of national interests and toward new initiatives to reactivate Treuhand-era contacts boasting North American financial credentials. Policy emulation in the form of a cross-party consensus to signal openness to foreign capital also owed its existence to a still older dimension of Germany's Cold War history. As Chapter 5 shows, post-Treuhand efforts to deflect foreign criticisms of German protectionism and garner the attention of international investors on behalf of the Federal Republic were built with funds seized from East Germany's political parties and so-called mass organizations. In this sense, post-Treuhand-era measures to divine and accommodate the preferences of non-German investors were made possible by the foreign trade activities of the German Democratic Republic (GDR).

Historicizing State Divestment: Postsocialism in One Country?

To understand the complex international history of divestment in eastern Germany, some basic information about its domestic aspects must be kept in mind. Eastern Germans attached themselves to a ready-made market economy, indeed one of the healthiest at that time, complete with world-class monetary institutions, well-tried policies, and an established legal framework. The wholesale transfer of institutions proved both advantageous and burdensome. An important precipitator of a severe economic crisis in eastern Germany was a hastily arranged monetary union. Coordinated in the months immediately after the fall of the Berlin Wall, the West German mark's introduction to the GDR on July 1, 1990—more than three months in advance of formal unity—had the effect of quadrupling most prices, including the cost of labor. The reason behind the accelerated introduction of the West German currency to the GDR was politi-

cal, not economic. The aim was to ensure that most East Germans stayed where they were rather than emigrating in large numbers to Germany's wealthier West.⁶ Economists have long stressed that wages in eastern Germany far exceeded what was justified in terms of productivity.⁷

Altering an economy geared to producing capital goods based on a much smaller manufacturing base and on greater integration in western European markets yielded severe declines in industrial production, the disappearance of labor-intensive manufacturing, and skyrocketing unemployment, a shocking development in a formerly socialist country. Privatization and restructuring of state-owned enterprises—over 90 percent of the GDR's economic activity flowed from publicly owned operations—provoked intense feelings of demoralization and alienation. Early retirement, job-creation measures, retraining schemes, and short-time work (*Kurzarbeit*) brought some measure of relief—at least as compared to postsocialist European neighbors. Massive state transfers and the buildup of highly modern infrastructure with funds approved by the

6 And yet, more than two million eastern Germans migrated to western Germany during the 1990s. Ther, *Das andere Ende der Geschichte*, 77–78, 82. On the resistance of East and West Germany's central bankers to the terms of the new currency union, see Gerlinde Sinn and Hans-Werner Sinn, *Kaltstart. Volkswirtschaftliche Aspekte der deutschen Vereinigung*, 3rd ed. (Munich: Beck, 1993), 54–64.

7 This productivity gap remains a prominent theme among economists. For a recent example, see Reint Gropp, ed., *Vereinigtes Land. Drei Jahrzehnte nach dem Mauerfall* (Halle [Saale]: Leibniz-Institut für Wirtschaftsförderung, 2019), esp. 7–11. For an introduction to the cost structures and markets of eastern German state-run companies, see André Steiner, *Von Plan zu Plan* (Munich: Dt. Verl. Anst., 2004); published in English as *The Plans That Failed: An Economic History of the GDR*, trans. Ewald Osers (New York: Berghahn, 2010). Important historical introductions include Gerhard A. Ritter, *Wir sind das Volk! Wir sind ein Volk! Geschichte der deutschen Einigung* (Munich: Beck, 2009) and Andreas Rödder, *Deutschland einig Vaterland. Die Geschichte der deutschen Wiedervereinigung* (Munich: Beck, 2009). Among economists, see Karl-Heinz Paqué, *Die Bilanz. Eine wirtschaftliche Analyse der Deutschen Einheit* (Munich: Carl Hanser, 2009), esp. 44–71, and the influential econometric analysis of the strife produced by the Treuhand-led transition by Gerlinde and Hans-Werner Sinn, *Kaltstart*. A detail-oriented guide to the relationship between eastern Germany's severe deindustrialization and welfare state reform is Gerhard Ritter's *Der Preis der deutschen Einheit. Die Wiedervereinigung und die Krise des Sozialstaats*, 2nd ed. (Munich: C.H. Beck, 2007), esp. 351–373.

European Commission, the European Parliament, and the eleven other EC member states via the European Council failed to compensate for the lost sense of belonging that many eastern Germans had attached to socialist enterprises. Unintentionally, swift public divestment subjected eastern Germans, especially those in middle age, to humiliation and precarity. In agriculture and manufacturing, many remaining laborers experienced devaluation; the social composition of the workplace disintegrated as the federal government pared back the GDR's commitments to welfare entitlements, especially for women. Unemployment and downward mobility imposed heavy burdens on family life: a precipitous drop in marriage and fertility rates was an especially glaring effect. Far-reaching personal, familial, and social transfigurations wrought by mass divestment, including long-lasting demographic changes, persist across much of eastern Germany thirty years later.⁸

Rather than exporting the then largely intact state-industrial model of the old Federal Republic—featuring robust, overlapping networks between German banks, industrial firms, and trade unions—privatizing reforms enacted in the East lent impetus to calls to alter labor-market, unemployment, and welfare policies across the unifying country, that is, in both western and eastern Germany.⁹ Historian Philipp Ther has memorably described this cumulative boomerang effect of public divestment across postsocialist eastern Europe, including the ex-GDR, as “cotransformation.”

Ther's conception of these broad and sweeping processes warrants closer attention. His thought-provoking account draws from many

8 For an introduction, see esp. Steffen Mau, *Lütten Klein. Leben in der ostdeutschen Transformationsgesellschaft* (Berlin: Suhrkamp, 2019), esp. 186–199, 150–155, 160–176. In English, see the essays in Martin Diewald et al., eds., *After the Fall of the Wall: Life Courses in the Transformation of East Germany* (Stanford, CA: Stanford University Press, 2006).

9 For an introduction to capital-labor relations within what is often described as the corporatist structures of *Modell Deutschland*, see esp. Ralf Ahrens et al., eds., *Die “Deutschland AG.” Historische Annäherung an den bundesdeutschen Kapitalismus* (Essen: Klartext, 2013). On the Hartz reforms, consult Edgar Wolfrum's *Rot-Grün an der Macht. Deutschland 1998–2005* (Munich: C.H. Beck, 2013), esp. 528–583.

sources and languages, inviting exactly the kind of comparisons this book sketches via archival collections from multiple countries. Yet in order to understand how the ideas and practices of international financiers gained footholds in eastern and western Germany, one must descend from the pan-European heights of Ther's compelling overview to evaluate closely the relations between German officials on the one hand and financial firms and their supporters active across western Europe on the other. Precisely how personal financial networks forged with Treuhand officials brought about changes in state-market relations across Germany, that is, not just in the country's East, remains essentially uncharted territory.

In assessing the complicated dynamics of state-market relations in Germany after 1989, one is well advised to focus on economic and financial interlinkages encompassing neighbors Austria and Switzerland and unifying Germany's most important western European competitors/partners in the then twelve-member European Community. As the following chapters make clear, cotransformation—policy ideas about how to alter societies and markets after the surprising collapse of state socialism across much of eastern Europe—often circulated in tight concentric circles that bound together neighbors and partners with historical roots and institutional interlinkages.

Cross-border ties forged with neighboring countries during Germany's Cold War division and intense exchanges with western European leaders about the future direction of policies and markets within the EC should not overshadow decisions undertaken by domestic actors. Decisions made by German public authorities, in the East and the West, naturally warrant close scrutiny. For this reason, in all of its arguments this book pays special attention to internal elements of mass privatization and selective restructuring alongside international influences.

With hindsight, researchers have become acutely aware that state divestment in Germany's East suffered especially from politically imposed time pressure. In a real sense, troubles began with money. The July 1990 currency union meant that, in addition to much higher wages and prices, eastern German companies faced intense competitive headwinds from

Europe's most successful manufacturing companies in the West German Federal Republic and the European Community.

Property transfers under the adverse macrofinancial circumstances imposed by West Germany's federal government—not the Treuhand—ran into myriad difficulties. Among the thorniest and most persistent of problems wrought by the currency union were dramatic shortfalls of capital. The reluctance of the country's major banks to mobilize on a scale the federal government deemed commensurate with the economic challenges in Germany's East only partially reflected the dire commercial prospects facing most Treuhand companies. A further complicating factor was that German financiers strongly favored western German companies. Time and again, western Germany's most important lending institutions demonstrated their allegiance to industrial firms in the country's western half, with which the major domestic banks enjoyed close relations.

Facing formidable market challenges in the East and equivocal domestic banking allies in the West, the federal government coaxed international financial firms to embed themselves in eastern German privatization. From there, financial consultants found ways to incorporate themselves into the Treuhand's evolving task load. One major additional responsibility saddled on the agency—calls to revamp socialist-era enterprises—stood in direct opposition to the Treuhand's overarching aim. From early 1991 onward, the Treuhand receivership shared responsibility for restructuring state-owned enterprises in an expanding range of industries with the five new state governments of eastern Germany and united Berlin. All the while, the Federal Ministry of Finance and the Office of the Federal Chancellor nonetheless insisted that the Treuhand remain committed to wrapping up its operations within a few short years, a goal the leaders of the Berlin-based receivership deemed achievable insofar as federal authorities received substantial cooperation from financial institutions in western Germany—and abroad.

Under these circumstances, selling, liquidating, and restructuring companies proved a highly contentious process. Within Germany, the precipitous decline in eastern German industrial production and employment prompted extraordinary charges of ineptitude and malfeasance.

Opposition and protest parties, from the Social Democratic Party of Germany (Sozialdemokratische Partei Deutschlands, SPD) and the Party of Democratic Socialism (Partei des Demokratischen Sozialismus, PDS) to the far-right Alternative for Germany (Alternative für Deutschland, AfD), have in recent years sought to channel anger toward the state divestment agency into parliamentary inquiries.¹⁰ Public frustrations at the time focused initially not on the federal government led by Helmut Kohl—re-elected in December 1990 as chancellor with nearly two-thirds of the seats in the Bundestag allotted to his faction in parliament, the Christian Democratic Union (Christlich Demokratische Union) of Germany, its Bavarian sister party the Christian Social Union (Christlich-Soziale Union), and their coalition partner the Free Democratic Party (Freie Demokratische Partei)—but rather on the state divestiture formally abolished at the end of 1994.¹¹

While critics have noted that the East German government initially intended the Treuhand to steward, not sell, what many regarded as “people’s property,” those sympathetic to the tasks faced by the Treuhand emphasize that its staff crafted job and investment guarantees, employment schemes, and unemployment benefits. (Mass unemployment most adversely affected women, who also lost company childcare facilities.) Treuhand officials felt overwhelmed by the collapse of domestic demand

10 The memory of mass unemployment during the 1990s played a role in fueling the rise of the AfD in eastern Germany during the late 2010s. Consult Philip Manow, *Die politische Ökonomie des Populismus*, 3rd ed. (Berlin: Suhrkamp, 2019), 90–99. See also Martin Diewald, Heike Solga, and Anne Goedicke, “Old Assets, New Liabilities? How Did Individual Characteristics Contribute to Labor Market Success or Failure after 1989?” in Diewald et al., *After the Fall of the Wall*, 65–88.

11 Here exculpatory metaphors abound: the Treuhand has often been described as a lightning rod or scapegoat for wider problems of reordering markets and social life in postsocialist Germany. Among the most compelling of these narratives is Wolfgang Seibel’s *Verwaltete Illusionen. Die Privatisierung der DDR-Wirtschaft durch die Treuhandanstalt und ihre Nachfolger 1990–2000* (Frankfurt am Main: Campus Verlag, 2005). From a journalistic perspective (with a cursory overview of high-level Treuhand archival documents, such as the minutes of board meetings), see Norbert F. Pötzl, *Der Treuhand-Komplex. Legenden, Fakten, Emotionen* (Hamburg: Kursbuch Verlag, 2019).

for the products of East German firms, soaring real wages, and deep recessions in the erstwhile Communist societies of east-central Europe and the former Soviet Union, East Germany's most important trading partners. Significant technical errors exacerbated the Treuhand's difficulties, such as heavy "debts" imposed on the companies to be privatized, which had in socialist times been shunted onto the balance sheets of enterprises to conceal the financial weaknesses of the East German state.¹² Further challenges associated with the denationalization of loss-making state enterprises included aging capital stock, arrearage, staggering environmental burdens, and complicated restitution claims from individuals whose property the Nazi or Communist regimes had seized. Here, too, the divestment authority was called upon to assume old debts and ecological burdens as well as losses incurred after 1990.

The Berlin Treuhand authority frequently disposed of firms by combining various forms of assistance—money—and tax breaks to induce private ownership. This fact also helps to explain why charges of ineptitude and malfeasance followed in the wake of the Treuhand's rapid-fire sale of East German industry. For three decades, hard-hitting accounts have leveled charges of gross mismanagement at the privatization receivership. Popular titles, such as *The German Gold Rush*, *The Treuhand: How One Agency Destroyed an Entire Country*, and historian Ilko-Sascha Kowalczyk's *The Takeover* illustrate how the privatization agency's performance remains cast as one of exceptional failure.¹³ Immense disappointment over

12 For a concise recent introduction, see esp. Ralf Ahrens and André Steiner, "Wirtschaftskrisen, Strukturwandel und internationale Verflechtung," in *Geteilte Geschichte. Ost- und Westdeutschland 1970–2000*, ed. Frank Bösch (Göttingen: Vandenhoeck & Ruprecht, 2015), esp. 110–114.

13 Ilko-Sascha Kowalczyk, *Die Übernahme. Wie Ostdeutschland Teil der Bundesrepublik wurde* (Munich: C.H. Beck, 2019). Other, less thoughtful references include Dirk Laabs, *Der deutsche Goldrausch. Die wahre Geschichte der Treuhand*, 5th ed. (Munich: Pantheon, 2012); Klaus Behling, *Die Treuhand. Wie eine Behörde ein ganzes Land abschaffte* (Berlin: edition berolina, 2016); Klaus Huhn, *Raubzug Ost. Wie die Treuhand die DDR plünderte* (Berlin: Ed. Ost, 2010); Otto Köhler, *Die grosse Enteignung. Wie die Treuhand eine Volkswirtschaft liquidierte* (Berlin: Das neue Berlin, 2011). Recently, cultural sociologist Yana Milev has described economic events in the GDR as "the first experimental field of an economic war." See her *Das Treu-*

the transfer of companies presumed to belong to all East Germans fanned social conflict. Spectacular cases of corruption, fraud, and workers' protests compete for attention with vigorous defenses of the necessity of measures embraced in the face of the unprecedented financial headwinds and the no-longer-hidden legacies of centralized economic planning.

Studies have highlighted the dizzying challenges faced by the Treuhand's beleaguered managers on the one hand and the burdens imposed by its full-throated embrace of privatization on the other.¹⁴ But in their desire either to delegate responsibility for the economic and social impact of privatizing hundreds of companies per month or to elucidate the exceptional burdens posed by establishing a "social market economy," participant-observers of economic reform in eastern Germany have neglected to explore in significant detail precisely who crafted investment strategies in the Treuhand headquarters and district branch offices spread across the new, eastern federal states. These contrasting perspectives have tended to obscure ways in which the profound alteration of the German Democratic Republic's economy resembled the redesign of several other east-central European economies, notably Hungary's, despite the fact that

handtrauma. Die Spätfolgen der Übernahme (Berlin: Das Neue Berlin, 2020), 117. Such accounts prompted a recent study commissioned by the Federal Ministry of Economics and Energy. It focuses on the public memory of the Treuhand labors and draws on eyewitness interviews. Constantin Goschler and Marcus Böick, *Studie zur Wahrnehmung und Bewertung der Arbeit der Treuhandanstalt* (Bochum: Ruhr Universität Bochum, 2017), https://www.bmwi.de/Redaktion/DE/Publikationen/Studien/wahrnehmung-bewertung-der-arbeit-der-treuhandanstalt-lang.pdf?__blob=publicationFile&v=22. Böick has also published a second, much longer account based on his extensive review of interview transcripts: *Die Treuhand. Idee – Praxis – Erfahrung 1990–1994* (Göttingen: Wallstein, 2018). For an historical overview of social-scientific interest in eastern Germany, see esp. Raj Kollmorgen, "Zwischen 'nachholender Modernisierung' und 'doppeltem Umbruch.' Ostdeutschland und deutsche Einheit im Diskurs der Sozialwissenschaften," in *Diskurse der deutschen Einheit: Kritik und Alternativen*, ed. Raj Kollmorgen et al. (Wiesbaden: VS Verlag, 2011), 27–65.

14 The dramatic social disruptions effected by Treuhand privatizations have been effectively documented by Gerhard A. Ritter in *Der Preis der deutschen Einheit*. Struggles with planned economic models were a topic of intense discussion during the GDR era as well. See esp. Steiner, *Von Plan zu Plan*, 101–110, 152–159, 167–184.

eastern Germany benefitted from advantages in institutional transfer, including a famously hard currency in the West German deutschmark, the availability of existing laws and institutions that could be adopted wholesale, and prodigious financial transfers for pensions, welfare, and infrastructure.

Notwithstanding these important distinctions, a common denominator in post-Communist restructuring was the enlistment of both foreign-inspired advisors and investors who were intent on swift privatization. In processes subsumed under such buzzwords as “structural adjustment,” “transformation,” and “transition,” these actors sought to accelerate the rapid disposition of what had recently been—and somewhat paradoxically were again, albeit for only a few years—state-supported assets. Those formally responsible for defining the terms of state divestment in eastern Germany were elected officials, federal and state civil servants, business owners, and trade unionists. Their actions, of course, demand close investigation.¹⁵ At the same time, decisionmaking options regarding denationalizations were influenced by non-Germans who have attracted far less attention than German political actors.¹⁶

15 Of these three actor categories, we currently know the least about labor representatives. A series of ongoing projects (2021–2024) funded by the Hans Böckler Foundation under the title “Wendezeiten” is poised to address this lacuna. See https://www.boeckler.de/pdf/fof_projektreader_wendezeiten.pdf (last accessed on August 17, 2022).

16 Marcus Böick, “Berater in ‘blühenden Landschaften.’ Wirtschaftsprüfer und Unternehmensberater bei der Treuhandanstalt,” in *Transformation einer Volkswirtschaft. Neue Forschungen zur Geschichte der Treuhandanstalt*, ed. Dierk Hoffmann (Berlin: Metropol, 2020), 41–55. For an introduction to work undertaken for the Treuhand based on documentation produced by KPMG, consult also Marcus Böick, “Die Entdeckung der DDR im Frühjahr 1990. ‘Wer zu spät kommt, den bestraft das Leben,’” in *Vetruen als Auftrag. Von der Deutsch-Amerikanischen Treuhand-Gesellschaft zur KPMG AG*, ed. Dieter Ziegler et al. (Munich: Piper, 2015), 217–233.

A Cursory Overview of Foreign Engagements in Eastern Germany

The Treuhand's commitment to quickly reducing the federal government's holdings of East German commercial and industrial assets was embedded in a hastily arranged political union of two dramatically unequal partners involving domestic as well as foreign actors and concerns. While top managers secured favorable terms for German borrowing operations (more than three-quarters of the Treuhand's budget came from loans obtained in international financial markets),¹⁷ representatives of consulting firms staffed privatization task forces spread out across fifteen districts of the formerly Communist nation. In the Treuhand's Berlin headquarters, a powerful independent management committee (Leitungsausschuss) comprising some one hundred financial experts from such elite management consulting companies as McKinsey, KPMG, Boston Consulting Group, Arthur D. Little, and Roland Berger, charged initially with creating balance sheets and subsequently with weighing up potential investors in the most difficult public divestment cases, submitted credit assessments for newly commercialized enterprises from Zinnowitz on the Baltic to Zittau on the Czech-German-Polish border.¹⁸

17 To finance operations in 1990 and 1991, the Treuhand was forced to obtain more than DM 25 billion without formal approval of Germany's federal parliament. A dramatic uptick of Treuhand borrowing took place in June 1991 with the expansion of its commercial paper program from DM 2 billion to DM 5 billion; this endeavor constituted the largest deutschmark commercial paper program in the history of the Federal Republic. The Treuhand Credit Act of July 1992 solidified what was called the Treuhand's "special-asset status." See Otto Depenheuer and Karl-Heinz Paqué, eds., *Einheit – Eigentum – Effizienz. Bilanz der Treuhandanstalt* (Berlin: Springer Verlag, 2012), 141–143.

18 A member of this Leitungsausschuss charged with examining hundreds of "business plans" (*Unternehmenskonzepte*) submitted by potential purchasers noted that these documents were expected to conform to the pattern of a "Harvard business case." Uwe Siegmund, *Privatisierungspolitik in Ostdeutschland. Eine politökonomische Analyse der Treuhandanstalt* (Wiesbaden: Deutscher Universitäts-Verlag, 2001), 143. A cogent archival account of the origins of the Harvard business case is presented in Peter Galison, *Image and Logic: A Material Culture of Microphysics* (Chicago: University of Chicago Press, 1997), 55–63. Accountable to and separately

Management consultancies, investment banks, and attorneys charged with mergers and acquisitions shaped divestment in further ways. They drafted the Treuhand's bid solicitations, provided advice concerning Treuhand firms slated for restructuring, served as temporary employees within the federal holding company's management, and advised companies evaluating the purchase of Treuhand enterprises. Obtaining companies during the Treuhand era consisted of soliciting and assessing bids from potential investors. Alongside the sales price, offers defined investment and employment guarantees, details on management restructuring, and specific plans to continue business activities. Auctions in Germany were rare; vouchers, such as those employed in neighboring Czechoslovakia (after January 1993, the Czech Republic and Slovakia), were initially discussed but left untried. The recommendations of consultancies and financial analysts informed the structure of the privatization agency itself and administrative reorganizations undertaken during its nearly five-year existence.¹⁹ External consultancies were enlisted to staff local privatization offices and shed light on corruption, such as that unveiled in the publicized case of highly irregular sales at the Treuhand's branch office in Halle;

funded (from mid-August 1990 onward) by the German Ministry of Finance, the Leitungsausschuss fell under the purview of Breuel deputy Hero Brahms. For an introduction, see Roland Czada, "Die Treuhand im Umfeld von Politik und Verbänden," in *Treuhandanstalt. Das Unmögliche Wagen*, ed. Wolfram Fischer et al. (Berlin: Akademie Verlag, 1993), 157. Leitungsausschuss decisions to place firms in one of six categories (1–4 sale or restructuring, 5–6 liquidation) were purportedly reached unanimously. Axel Granzow, "Der Leitungsausschuss vergibt Noten von Eins bis Sechs für die Treuhand-Betriebe," *Handelsblatt* 156, August 15, 1991. Efforts by state governments to secure insights into precisely how such decisions were reached were rebuffed. Landesarchiv Berlin. 6. Sitzung des Treuhand-Wirtschaftskabinetts Berlin, February 12, 1992, B Rep. 002, Nr. 25207.

19 The Treuhand employed highly paid temporary laborers more extensively than any other German federal agency at that time. In its own estimation, Treuhand management stated in 1994 that, absent the extensive involvement of consultants, the agency itself would have been unable to carry out its duties. A brief introduction to the engagement of contractors is Bundesarchiv, Vorgehensweise zur Beschleunigung der Privatisierung in den Niederlassungen der Treuhandanstalt. Zwischenbericht, November 22, 1990, B 412/22523. See also *Treuhandanstalt. Bericht des 2. Untersuchungsausschusses des 12. Deutschen Bundestages*, Drucksache 12/8404 (Bonner Universitäts-Druckerei, 1994), 449.

parliamentary deputies blocked the Treuhand's plans to entrust federal monitoring of 180,000 contracts involving former companies and real estate deals to consulting firms.²⁰ The Treuhand felt confident enough of its relations with Goldman Sachs, then as now the most exclusive investment bank in the world, to allow one of its managing directors to explain to readers of the agency's monthly newsletter how Goldman's executives were both seeking clients for East Germany's massive chemical industry and massaging relationships with the economics minister of Saxony-Anhalt, the eastern German state with the largest number of Treuhand foreign investments as measured by size of the engagements.²¹ Although consulting firms and investment banks receive fleeting acknowledgment by name in studies of the Treuhand era, we know little about how their actions influenced state- and federal-level investment policies in the decade following Germany's surprise unification in 1990.²²

20 Seibel, *Verwaltete Illusionen*, esp. 317–364.

21 "Weltweite Suche nach Chemie-Investoren," interview with Dr. Paul Achleitner, Investment Bank Goldman Sachs, London, *Treuhand Informationen* 11 (February 1992): 4. Another article published in the same issue of the newsletter described the engagement of investment bankers in the "Grosschemie" sector as "spectacularly successful." See "Kreative Privatisierung bleibt auch 1992 die beste Form der Sanierung," *Treuhand Informationen* 11 (February 1992): 13.

22 The Treuhand's embrace of financial firms acting on international stages was not entirely without precedent in (West) Germany's federal government during the 1980s; nor, for that matter, was the borrowing of American management concepts, as Susanne Hilger has made clear in *"Amerikanisierung" deutscher Unternehmen. Wettbewerbsstrategien und Unternehmenspolitik bei Henkel, Siemens und Daimler-Benz* (Stuttgart: Franz Steiner Verlag, 2004). Helmut Kohl, the country's chancellor at the time of reunification, eyed warily the deregulatory zeal of Margaret Thatcher's Britain and the stock market ardor of Ronald Reagan's America. See Patrick Horst, *Haushaltspolitik und Regierungspraxis in den USA und der Bundesrepublik Deutschland. Ein Vergleich der haushaltspolitischen Entscheidungsprozesse beider Bundesrepubliken zu Zeiten der konservativen Regierungen Reagan/Bush und Kohl* (Frankfurt am Main: Lang, 1995), and Arne Heise, *Grenzen der Deregulierung. Institutioneller und struktureller Wandel in Grossbritannien und Deutschland* (Berlin: Ed. Sigma, 1999). See also Andreas Wirsching, *Abscheid vom Provisorium* (Munich: Dt. Verl.-Anstalt, 2006), 223–288. Until 1990, German industrial concerns were markedly reluctant to engage consultants. The rise in status of big-name consultancies, coupled with the commitment of outside advisors with Ivy League pedigrees to work regimes featuring uncommonly long hours on-site, nonetheless made

The sobering political and economic realities faced by eastern Germans after November 1989 were never merely regional or national in character. Examining commercial risks and opportunities in eastern Germany intensified contacts not only between eastern and western Germans, but also with foreigners. This book explores how multinational ties informed efforts to forge a national economy in what was in effect a new political entity, the post-Wall Federal Republic of Germany, the largest and economically most powerful member of the European Community. Repurposing large public enterprises for capitalist markets through heavily subsidized sales to potential investors via transnational mediators prompted cross-border activity. For this reason, this book primarily traces how foreigners understood eastern German state divestment. In the next four chapters, the intersecting concerns of investor nations, as well as third countries and supranational bodies such as the European Free Trade Association and the European Community/European Union, figure prominently alongside inner-German developments. A fifth chapter lays out how the decision to enlist foreigners within the Treuhand partially reshaped state-market relations across all of Germany. To this end, it focuses mainly on the years immediately after the divestiture's formal dissolution.

Eastern Germany's economic downward spiral and the Treuhand's ballooning deficits occurred at a time when external asset managers were assuming more prominent roles in an increasingly transnational banking system.²³ A paradigm commonly referred to as "shareholder value" dic-

it possible for contractors to insert themselves into the operations of select German clients during the early 1990s. See Blagoy Blagoev, "Arbeitszeitregime im Lock-in? Eine pfadtheoretische Untersuchung der Persistenz überlange Arbeitszeit in einem Beratungsunternehmen" (PhD diss., Freie Universität Berlin, 2015), esp. 137–152, 160–169. http://www.diss.fu-berlin.de/diss/receive/FUDISS_thesis_101817.

23 They typically structured their approaches around high-leverage, quick returns on investment (amplified by minimizing expenditures in favor of debt), increased competitive pressures in most industries, and a greater reliance on temporary employees, notably highly paid young male contract workers with Ivy League undergraduate degrees. Numerous critical accounts of the turn to finance in order to address economic and social difficulties facing policymakers have been published in recent

tated that rather than “retain and reinvest” in existing productive assets and employees, firms must “downsize and distribute” in the interests of those possessing a financial stake in the enterprise.²⁴ In a growing number of countries, banking consequently became oriented toward the requirements of stock exchanges, and specifically of those markets facilitating mergers and acquisitions, as well as of investment trusts often located in New York and London. Siebert’s “Big Bang” entailed more than the collapse of Soviet domination over East Europe. It extended to the social and economic impact of laws passed by Margaret Thatcher’s government during the 1980s to empower her nation’s financial sector to denationalize key industries.

An impressive variety of scholars have drawn attention to an accelerating shift from industry to finance in many industrialized countries since the 1970s—a profound alteration of relations between states and markets that scholars have increasingly termed financialization.²⁵ As a concept,

years. For the 1970s, see esp. Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011); on the well-being of Britons following that country’s mass transfers of ownership during the 1980s, see Massimo Florio, *The Great Divestiture: Evaluating the Welfare Impact of the British Privatizations, 1979–1997* (Cambridge, MA: MIT Press, 2004). For a fieldwork study, from an actor’s perspective, of investment bankers committed to the promotion of shareholders’ values during the 1990s, see Karen Ho, *Liquidated: An Ethnography of Wall Street* (Durham, NC: Duke University Press, 2009).

24 A cogent introduction to the shareholder value paradigm is Ismail Erturk, “Shareholder Primacy and Corporate Financialization,” in *The Routledge International Handbook of Financialization*, ed. Philip Mader et al. (New York: Routledge, 2020), 43–55.

25 The number of journal articles published annually on financialization-as-concept more than quadrupled during the 2010s; more than a dozen books were published on the concept in 2019. Economists and geographers appeared to lead the disciplinary pack in 2020; anthropology, sociology, and political science were not far behind. While the financial collapse of the late 2000s greatly accelerated interest in finance capitalism, scholars of advanced capital economies generally point to the emerge of exceptional growth in the memorably abbreviated FIRE sector (finance, insurance, and real estate) since the 1970s. Still others, following in the footsteps of Marxist sociologist Giovanni Arrighi, regard financialization as a recurrent development of modern capitalism. See his *The Long Twentieth Century: Money, Power, and Origins of Our Times* (New York: Verso, 1994). Drawing inspiration from Austrian economist Karl Polanyi, others define financialization as a process whereby rentiers crowd out

financialization is essentially understood to mean the empowerment of banking at the expense of industry and the public sector during the last third of the twentieth century. But this is too amorphous: what's needed is an actor-based, multinational investigation of finance's reach into specific market sectors based on archival sources. My exploration of the transnational mediators and multinational politics behind Treuhand-led efforts to sell and salvage industrial companies seeks to add depth to how scholars from multiple disciplines frame the concept of financialization.²⁶

Applying this term to Germany's economy after 1989 raises the question of how measures to enlist foreign financial experts in eastern German state divestment molded the postunification Federal Republic, a political entity which has often defined by commitments to social partnerships and collective bargaining and which was regarded at the time as inhospitable to policies considered reverential to markets.²⁷ Rather than providing a

more productive segments of capital. For a concise introduction to this active and diverse multidisciplinary field, see German sociologist Christoph Deutschmann's essay titled "Entrepreneurship, Finance, and Social Stratification: The Socio-economic Background of Financialization," in *The Routledge International Handbook of Financialization*, ed. Philip Mader et al. (New York: Routledge, 2020), 31–42.

26 Sociologist Greta Krippner offered a slightly more elaborated definition of financialization as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production" (*Capitalizing on Crisis*, 4, 27–28, 174). While acknowledging antecedents, including Austrian Social Democratic theorist Rudolf Hilferding, Krippner finds the 1970s-era rise of financialization in the United States is directly linked to the country's state-led deindustrialization. Yet another influential definition, inspired by French economist Thomas Piketty, regards financialization as a manifestation of capitalism's transformation toward rent extractions.

27 The term often attributed to West Germany's economy by English-speaking social scientists, especially economists, is "neocorporatist"; the comparison, often explicit, is to the embrace by anglophone economies of neoliberalism beginning in the 1970s that blurred distinctions between financial and industrial capital. Thoughtful considerations of the economic development of the Federal Republic beyond this paradigm include Tim Schanetzky, "Aporien der Verwissenschaftlichung: Sachverständigenrat und wirtschaftlicher Strukturwandel in der Bundesrepublik 1974–1988," *Archiv für Sozialgeschichte* 50 (2010): 153–167. On how such concepts as "ordo-liberalism" and the "social market economy" were bent to accommodate models of deregulation, see Norbert Frei and Dietmar Süß, eds., *Privatisierung. Idee und Praxis seit den 1970er Jahren* (Göttingen: Wallstein, 2012), esp. 11–31.

straightforward yes/no response to this complex question, the following chapters exemplify how the disorderly shift from a largely centralized planned economy to one much more attuned to price signals emanating from a wider range of highly industrialized (and increasingly financialized) countries reflected interplays of domestic and foreign concerns. In other words, this book encourages us to frame the tumultuous events after 1989 in eastern Germany as multinational history without overstating the reach of transnational finance.

In Germany, the weight of eyewitness perspectives has strengthened the inclination to adopt domestic vantage points when evaluating the dramatic events that followed the opening of the German-German border after November 1989. Although researchers have in recent years begun to take leave of inquiries guided by questions of success or failure, rather than contingency and agency, scholars of eastern Germany's economic inclusion into the West German Federal Republic generally remain wedded to German-German approaches. For instance, in his nearly eight-hundred-page study of the federal subagency charged with privatization of East Germany's economy, Marcus Böick condenses his overview of the Treuhand's international outreach into a nineteen-page subsection titled "Yuppies, Foreigners, and Women."²⁸

Transnational dimensions of eastern Germany's immersion into capitalist markets—and not merely the highly visible structures of the West German Federal Republic—deserve more regardful treatment. For too long, they have been granted short shrift. In studies penned by the many critics and fewer defenders of Germany's privatization agency, proposed or realized sales to a French oil concern, a British airline, and an Italian steel company make cameo appearances alongside prestige-heavy financial consultants—but then yield center stage to domestic actors whenever conclusions are drawn about the redistributive effects of privatization. This significantly understates the importance of foreign actors. Especially striking is the degree of financial consultancies' involvement: the

28 Böick, *Die Treuhand*, 694–712.

Treuhand routinely spent more money on contractors than on its own employees.²⁹ According to Germany's supreme audit institution, the Bundesrechnungshof, the Treuhand devoted DM 460 million to consultants and DM 360 million to its own staff in 1992, with the lion's share of consultancy fees going to investment bankers.

Divestment Diplomacy

In their multisided efforts to attract investment, expertise, and loans from abroad, Breuel, members of her managerial board, and senior Treuhand staff interacted not only with representatives of international banks and consultancies but also with heads of state and foreign dignitaries. In September and October 1991 alone, the Treuhand invited ambassadors of all European Community states to Hamburg, official delegates from all the former Soviet-led Council for Mutual Economic Assistance states to Berlin, and a dozen emissaries, mostly ambassadors, from the Organization for Economic Co-operation and Development countries to Cecilienhof Palace in Potsdam.³⁰ Eric Martin, the Swiss embassy official charged with

29 Deutscher Bundestag, ed., *Treuhandanstalt, Bericht des 2. Untersuchungsausschusses des 12. Deutschen Bundestages* (Bonn: Bonner Universitäts-Buchdruckerei, 1994), 447–449. The Federal Ministry of Finance denied this (highly politicized) parliamentary inquiry a full accounting of the fees charged by external contractors; attempts by this federal agency, along with several others, to shape public memory of Treuhand-led privatization warrant detailed investigation.

30 Talking points supplied by Vehse, from Breuel's meeting at Cecilienhof, where the 1945 Potsdam Conference had been held, note that Breuel aimed to inform these countries' representatives of her agency's plans to soon open an office in New York and a base in Tokyo, to be accompanied by events in Japan, as well as Austria, Singapore, South Korea, Turkey, and Switzerland. The head of the Treuhand "base" in Tokyo was Dietrich Freiherr von Stackelberg. In October 1991, Breuel opened his office within the German Chamber of Industry and Commerce in Tokyo with a week-long journey to Japan; in November 1991, Breuel undertook a weeklong trip to the United States. Bundesarchiv, Memorandum from Vehse to Breuel, Abendessen der Präsidentin und des Vorstandes der Treuhandanstalt mit den OECD-Botschaftern am 23. September 1991 im "Cecilienhof" in Potsdam, B 412/3754.

economic affairs, took notes on a brief question-and-answer session at the Cecilienhof meeting. His report conveys foreigners' concerns about the Treuhand's even-handedness on the one hand and captures the Treuhand's defensive responses to such doubts on the other.³¹ Complaints from the Japanese and Austrian ambassadors about preferential treatment for West German firms yielded a tight-lipped acknowledgment from Breuel that "certain things had apparently gone wrong at the beginning." In response to what Breuel described as "glitches," the Treuhand was now engaging foreign investment banks to ensure parity. The problem, Breuel explained, was that redoubling efforts to welcome international investors was having the unfortunate side effect of reawakening dormant interest among western Germans. And the Austrian ambassador, Herbert Grubmayr, cited a number of cases in which construction firms from his country had faced discrimination at the hands of the Treuhand, a charge Breuel and her colleagues vehemently denied.³² Japan's ambassador to Germany, Keizo Kimura, remained more than skeptical, asking incredulously whether the Treuhand had not in fact long ago disposed of the "choice cuts" (*Filetstücke*). Breuel was unable to answer Kimura's question satisfactorily, and her troubles did not end there. As Wolfgang Vehse, the Treuhand's international relations director, confided to Martin, the Treuhand's intention to appoint "senior experts" abroad had sown mistrust among officials of

31 In a letter to the American ambassador in Bonn, Daniel Weygandt, Breuel's executive vice president, Wolfgang Mueller-Stöfen, conceded the validity of critiques of the agency's inadequate bureaucracy voiced in foreign press accounts, such as scathing critique put forward by the *Journal of Commerce* showcasing negative assessments of the Treuhand's administration by the US Chamber of Commerce in Frankfurt am Main. See Bundesarchiv, Schreiben von Mueller-Stöfen an Weygandt, October 9, 1991, B 412/3231. Consult also "Investors Urged: Avoid Dealing with Germany's Truehand [sic]" *Journal of Commerce*, October 3, 1991.

32 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Österreichischer Botschafter Bonn, Gespräch mit der Präsidentin der Treuhandanstalt, Frau Birgit Breuel; Frage der Benachteiligung ausl. Firmen, September 24, 1991, Bundesministerium für auswärtige Angelegenheiten, WPOL 22.250-III.3/91. The ambassador passed on the names of these firms to the Treuhand's director of personnel, Alexander Koch.

the influential German Chamber of Industry and Commerce (Deutsche Industrie- und Handelskammer).³³

Given foreign skepticism and the Treuhand's unwillingness or, perhaps, inability to address such doubts, it comes as little surprise that the agency's engagement of foreign investors via the intermediation of bankers and consultants fell short of its stated objectives. "Our goal," Breuel claimed in mid-December 1991, "is to build an open economy, 15 percent of which would reflect foreign capital, similar to the way western Germany has grown in the past forty years. That's the best way to integrate eastern Germany into global commerce."³⁴ In fact, the percentage of foreign purchases of all Treuhand companies in December 1994 was less than 6 percent; in April 1991, before the appointment of representatives abroad and the establishment of the Investor Services directorate, foreign engagements already stood at 4 percent. In the autumn of 1992, the Treuhand boosted its own achievements by modifying the standard definition of foreign direct investment to include purchases effected by western German subsidiaries of foreign companies. Using this bent definition, foreign investors guaranteed just under 150,000 jobs in eastern Germany.

By the measure of successful investments, the promise of relationships with status-heavy foreign investors went unfulfilled. The Treuhand's

33 Schweizerisches Bundesarchiv (Bern), memorandum from Eric Martin titled "Frau Breuel sucht den Kontakt mit ausländischen Investoren," Bonn, September 30, 1991, dossier E 2200 55A#1996/50#307*. Early in 1991, the Danish ambassador to Bonn had voiced his opinion to the press that "there was nothing for foreigners to do" in the new eastern German states. See Bundesarchiv, Strategie des Delegierten der Deutschen Wirtschaft in Dänemark für eine (landesspezifische) Investoren Werbung für die neuen Länder und für die Unterstützung der Region, April 1992, AHK Kopenhagen, B 412/12141.

34 Earmarked for privatization in 1990 were more than eight thousand state-owned enterprises. This number was expanded to more than fourteen thousand as smaller enterprises were carved out of larger industrial conglomerates. Bundesarchiv, "Germany Seeking Foreign Investors to Spur Privatization; Opens N.Y. Office to Serve North American Companies," December 19, 1991, B 412/3239. The level of foreign investment in western Germany was closer to 25 percent. Measuring foreign engagement in terms of employment guarantees and investment sums yields higher percentages, in some cases as high as 10 percent.

decision to list small to medium-sized distressed enterprises internationally yielded relatively few takers. The Treuhand's Tokyo "base" was a particular flop, producing not even a single investor.³⁵ As measured by the number of discrete foreign investments in Treuhand companies, business leaders from other countries appear not to have contributed significantly to East Germany's deindustrialization.

From the perspective of the outside experts enlisted to advise the new divestment authority, the best way to absorb East Germany's ailing industrial enterprises into increasingly transnational economic networks was to advance what one brochure called "The Sale of the Century."³⁶ Initiatives such as management consultancy Arthur D. Little's to invite "selected premier investment institutions in Europe and the USA" to join what sounded like an exclusive club appealed to some German public officials. We know today that relatively few outside investors took the bait. On offer was involvement in an undertaking billed as the East German Turnaround Fund, a proposal jointly sponsored by Arthur D. Little and the Treuhand and open to a maximum of ten investors for no less than "initial funding commitments of 50 million DM." The flowery descriptions of "suitable vehicles" and "attractive opportunities" failed to obscure what many individual investors had decided to give a wide berth: the remaining large

35 Kaizo Hahimato, director of the Japan External Trade Organization, explained that he could only share his organization's secret database of potential investors with a German governmental representative and not with the Arthur Andersen representative toiling in Japan on behalf of the Treuhand. See Bundesarchiv, interoffice communication for Joachim Spill from Tom Shiraishi, Arthur Andersen & Co., February 14, 1992, B 412/12217.

36 A brochure titled "The Sale of the Century" was published, in English, to support the director of the German privatization authority's efforts to elicit foreign investment in North America and Japan. American investment bankers revised the brochure "in order to meet U.S. market standards." Bundesarchiv, memorandum from the Treuhand New York Office, August 6, 1991, B 412/3238, vol. II. The brochure's title captured the attention of business journalists. See, for one example, George Melloan, "The New Germany of Angst and Opportunity," *Wall Street Journal Europe*, July 16, 1991. On the evolving legal structure of and limited ministerial control over the Treuhand, see Jobst-Friedrich von Unger, *Staatliche Kontrolle über die Treuhandanstalt. Ein Beitrag zur Vereinigungsgeschichte* (Berlin: Finckenstein & Salmuth, 2015).

number of companies “processed” by the Treuhand but “difficult to sell, even at low prices.” Arthur D. Little’s pitch to “sponsors” was cryptic, but not so much that readers could not grasp critical essentials. One was taxation. Potential club members were assured of plans to establish the new investment fund “in a tax-efficient jurisdiction responding to the needs of the Club members, most probably the Netherlands or Luxembourg.”³⁷ More important than Arthur D. Little’s promise of an after-tax internal rate of return in excess of 40 percent of the investment was another factor critical readers could not help but recognize: the Treuhand’s participation as subsidizer. It proved willing to pay out in different ways, not least with an explicit guarantee of a preferred interest loan on up to 50 percent of the fund’s acquisitions.³⁸

Financial architects, for their part, demanded that the Treuhand guarantee a minimum return to draw in institutional investors such as pension funds and insurance companies. Such “liquidity aids” required the German federal government to retain a stake in funds until assets were purchased and the funds in question disposed of. Package deals with venture capital and investment funds often ensured generous returns for investors, while the federal government was responsible for absorbing the impact of shutdowns on eastern Germans, providing unemployment benefits, and dealing with the heavy media flak attracted by its embrace of expensive outsiders to manage tasks largely unforeseen only months earlier.

Placing the Treuhand’s New York representatives in the offices of an investment bank named after James D. Wolfensohn, the subsequent World Bank director, underscored the German privatization agency’s

37 Bundesarchiv, East German Turnaround Fund (EGTF): An Investment Proposal to Financial Investors, January 1992, B 412/3758. On the origins of Arthur D. Little, a firm whose founder tended toward the engineering rather than the managerial end of consulting, see Christopher McKenna, *The World’s Newest Profession: Management Consulting in the Twentieth Century* (New York: Cambridge University Press, 2010), 31–34.

38 Bundesarchiv, East German Turnaround Fund (EGTF): An Investment Proposal to Financial Investors, January 1992, B 412/3758.

desire to tap into personal selling channels based on the model of American Ivy League universities and elite international meetings like the World Economic Forum in Davos, Switzerland.³⁹ The initiative to establish a Treuhand presence in New York came not from the Treuhand but rather from Germany's top elected official. During his May 1991 visit to Washington, Chancellor Helmut Kohl expressed his government's aim to engage US investors more actively by drawing attention to German federal support programs and establishing a Treuhand office in the world's financial center, New York City.⁴⁰ Early that month, Chancellor Kohl's predecessor, Helmut Schmidt, had talked at length with Treuhand president Breuel and offered her his support in contacting French, Japanese, and American investors. The means to this end was not to be Schmidt's stellar political connections but rather his membership on the board of American investment banking giant J.P. Morgan.⁴¹

What led Germany's leaders to empower the Treuhand—a new, unwieldy agency immersed in head-spinning domestic challenges—to establish a self-contained office in New York and a “base” in Tokyo and to appoint formal representatives in major European capitals and commercial centers?⁴² A worsening economic outlook ensured that steps to strengthen the Treuhand's relationships with financial consultants re-

39 Wolfensohn's partner in this enterprise, former chair of the Federal Reserve, Paul Volcker, further enticed leading Treuhand officials to place their American market efforts in the hands of this particular investment consultancy. Bundesarchiv, Vorlage für den Gesamtvorstand der Treuhandanstalt. USA-Büro der Treuhandanstalt, B 412/2586.

40 Bundesarchiv, letter from Helmut Kohl to Breuel, April 29, 1991, B 412/3171.

41 Bundesarchiv, letter from Helmut Schmidt to Breuel, June 26, 1991, B 412/3239. This apparent cross-party consensus on engaging investment banks needs to be integrated into a critical examination of Schmidt's postchancellorship activities.

42 As the Treuhand's public relations office claimed following the opening of its Midtown Manhattan office in the autumn of 1991, “This is the first time a government privatization agency has opened a self-contained office, staffed with senior executives, to serve the needs of North American companies, the only one of its kind outside of Germany.” Bundesarchiv, “Germany Seeking Foreign Investors to Spur Privatization; Opens N.Y. Office to Serve North American Companies,” December 19, 1991, B 412/3239. A boom in Japanese investment in Europe culminated with more

ceived support from the highest level of government. The staggering sums made available at the time via the extraordinary growth of institutional investors—financial intermediaries that channeled capital for fixed periods on behalf of behind-the-scenes partners—help to explain Kohl’s and his direct predecessor’s enthusiasm for the tantalizing possibilities offered by international financial experts. American funds of institutional investors expanded from USD 504 billion in 1980 to USD 1.5 trillion a decade later.⁴³ They fueled a major surge in what many economists describe as “outward” FDI. Between 1986 and 1990, the stock of outward FDI had expanded by 19.8 percent.⁴⁴

Given marching orders by the country’s most important elected officials, the Treuhand nudged its way onto a crowded stage of public actors involved in soliciting foreign investments. This wider network of German investment promoters included federal ministries, notably the Ministry of Economics, state governments and their for-profit development corporations, commercial attachés in German embassies stationed around the world, and separately funded foreign and domestic chambers of commerce. All make appearances in the ensuing chapters alongside more detailed investigations of international actors. The latter hailed from government, finance, and industry, as well as little-known private associations.⁴⁵

than USD 14 billion in foreign direct investment in 1990; thereafter, however, Japanese investment declined precipitously owing to the country’s long-lasting domestic banking crisis.

43 Hartmut Berghoff, “Varieties of Financialization? Evidence from German Industry in the 1990s,” *Business History Review* 90 (spring 2016): 85. This sum increased to USD 6.4 trillion in 1997.

44 *World Investment Report* (New York: United Nations Conference on Trade and Development, 1995).

45 The study of investment promotion is often approached from the vantage point of those soliciting investments rather than pairing the goals of those with private capital with the assessments and interests of potential investors. For a recent example, see Capik, *Foreign Investment Promotion*.

Engaging Investment Banks

The much-publicized establishment of the Treuhand's Investor Services directorate, as well as the subsequent opening of Treuhand satellite offices in New York and Tokyo and enlistment of unpaid "roving ambassadors" in nine western European countries, paled in significance next to the personal engagements of Anglo-American financiers within the German public administration itself. To offer here only one example (others are discussed in Chapters 3, 4, and 5), in tailoring bids to sell the largest and most complex eastern German industrial plants, Goldman Sachs's representative Paul Achleitner cultivated close relationships with Treuhand board member Klaus Schucht. Responsible for the power-producing industry, chemicals, potash mining, and minerals, Schucht worked with Achleitner from mid-August 1991 onward, when the Treuhand extended an offer to Goldman Sachs to frame tenders and selections in Germany's highest-profile privatizations, including the acquisition of the Leuna refinery and Minol monopoly filling station network by oil giant Elf Aquitaine in a joint project with a subsidiary of West German steel giant Thyssen.⁴⁶

In his memoirs Schucht drew attention to the special bond he enjoyed with Achleitner. Their collaboration extended to hidden maneuvers to steer Treuhand sales toward favored West German purchasers—and away from foreign bidders. Of this highly delicate matter one reads that Schucht sought out Achleitner for a "very confidential conversation" in early February 1992. The reason for Schucht's subterfuge: a request to structure an

46 The Treuhand's contract with Goldman's London office contained several controversial clauses, including the following: "The full contingency fee is due, regardless of whether a potential buyer was already known to the THA [Treuhand] before the contract was awarded." Bundesarchiv, Auftrag- und Honorarvereinbarung zwischen der Treuhandanstalt und Goldman Sachs International Limited, August 12, 1991, B 412/12339. The contract noted the following fixed payments: Chemie AG Bitterfeld/Wolfen (DM 850,000), Buna AG (DM 850,000), Leuna Werke AG (DM 850,000), Hydrierwerke Zeitz GmbH (DM 500,000), Sächsische Olefinwerke AG (DM 500,000), Berlin Chemie (DM 500,000), Stickstoffwerke AG Piesteritz (DM 250,000), Filmfabrik Wolfen (DM 250,000), Minol AG (DM 250,000), Addinol Mineralöl GmbH Lützkendorf (DM 250,000), Paraffinwerke Webau GmbH (DM 250,000).

“international” tender in such a way as to ensure the sale of the ex-GDR’s potassium salt exporter went to Kali + Salz, then a subsidiary of western German chemicals giant BASF. Achleitner and Schucht’s ruse succeeded: representatives of Kali + Salz signed a contract to acquire the eastern German potash holding in May 1993.⁴⁷

The German government’s specific approach to the largest denationalizations undertaken in the former GDR—top-down and reliant on outside experts to craft and assess formal tenders—forged important ties to American financiers. As the Kali + Salz example illustrates, they entailed more than foreign investments. These bonds also extended beyond the “new” federal states of eastern Germany. Goldman Sachs’s expansion in both east-central Europe and western Germany owed much to high-level Treuhand contacts. In late October 1994, as the German privatization receivership was winding down its efforts, Breuel and Schucht enlisted Achleitner to advise Hungary’s government commissioner for privatization, central banker Ferenc Bartha, on the best ways for the Hungarian state to denationalize energy, mining, and chemical enterprises.⁴⁸ Besides Goldman’s role in the largest privatization in German history, that of Deutsche Telekom, Achleitner also received the green light to arrange the sale of Stuttgart’s airport. The Frankfurt office of America’s most successful investment bank also served as a “general expert” to the city of

47 Bundesarchiv, Tagebuch, Nachlass Klaus Schucht, N 1585/523-527. Schucht claimed a member of the Treuhand’s supervisory board insisted upon an international tender. This Goldman Sachs-mediated transaction occurred against the backdrop of dramatically worsening labor relations culminating in highly publicized hunger strikes. See Christian Rau, *Hungern für Bischofferode. Protest und Politik in der ostdeutschen Transformation* (Berlin: Campus, 2023).

48 Schucht and Achleitner met with Bartha in Budapest in late November 1994. A second board member responsible for the Treuhand’s relations with labor unions, Horst Föhr, accompanied them. Their visit followed Breuel’s to Budapest a month earlier and Hungarian minister president Gyula Horn’s to Bonn in September 1994. See Bundesarchiv, Schreiben von Breuel und Bartha, October 25, 1994, B 412/3230. For an introduction to the channels of influence pursued by foreign investment banks and consulting agencies, see Jan Drahekoupil, *Globalization and the State in Central and Eastern Europe: The Politics of Foreign Direct Investment* (New York: Routledge, 2010), esp. 136–138, 140–142, 146, 179.

Hamburg's public divestment initiatives.⁴⁹ These brief examples hint at how the Treuhand served as the crucible for divestment policies showcasing Anglo-American financiers and extending outward from the ex-GDR to east-central Europe and western Germany.

Engaging Risk Capital

Like the Treuhand's enlistment of investment banks, the decision to encourage private equity in eastern Germany came directly from Helmut Kohl, not Breuel or her top deputies. At his twentieth summit meeting with industrial and labor leaders at the end of February 1994, the chancellor spoke unambiguously of the "importance of venture capital to the development of small to medium-sized enterprises" in the former East Germany.⁵⁰

Long-standing dissatisfaction with German banks helps to explain Kohl's embrace of venture capital during the Treuhand's latter years. In early 1994, Kohl paired his personal endorsement of private equity with a request issued by the head of his Federal Chancellery, Friedrich Bohl, to invite representatives of the German banking industry to discuss the implementation of a DM 1 billion pledge in the context of the agreement known as the Solidarity Pact. Eberhard Martini, president of the Association of German Banks (Bankenverband), had leveled criticism at Kohl's extraordinary demand in several media outlets, including the country's leading daily conservative newspaper. More than a year ear-

49 Goldman Sachs also remained immersed in developments in eastern Germany: at a special gathering for US investors held in Erfurt in October 1995, Goldman Sachs's David Hormats and Johannes Ludewig discussed plans to cohost a special conference for the eastern German states in New York City. Bundesarchiv, speaker's notes, US-Investitionen in den neuen Bundesländern und Maßnahmen zur Investorenwerbung, April 15, 1996, B 102/787376.

50 Landesarchiv Sachsen-Anhalt (Magdeburg), Wesentliche Ergebnisse des 20. Spitzengesprächs des Bundeskanzlers mit Wirtschaft und Gewerkschaften am 28. Februar 1994, March 10, 1994, Referat 422, L 1, Nr. 646.

lier, in January 1993, after reaching agreement with the Federal Ministry of Finance's state secretary, Horst Köhler, Martini had dismissed the billion-deutschmark pledge as "political."⁵¹ Yet another financial power broker, the chair of the board of Deutsche Bank, Hilmar Kopper, displayed greater tact but left little doubt as to how he felt the federal government should proceed: Kopper implored the chancellor, instead of applying pressure to domestic banks, to "save, cut, and tackle taboo subjects."⁵² With reference to Kopper's last point, Martini spelled out what Kopper and other German bank chiefs had in mind: the chancellor should pressure the country's trade unions to concede wage reductions.⁵³

Bridging this public fallout between the federal government and large German banks—not to mention the western German industrial firms for which the country's *Hausbanken* generally served as guardians—fell to Breuel and the Treuhand board member responsible for finance, Heinrich Hornef. Reporting on delicate negotiations surrounding the billion-deutschmark pledge, Breuel let it be known at the end of August 1993 that West Germany's bankers "often do not share our assessment that the companies on offer are capable of being restructured." Citing her "increasingly difficult" negotiations with potential investors, in a remarkable conflation Breuel supplied three reasons for foreign investors' misgivings: foot-dragging on the part of domestic savings banks, an ongoing recession, and extraordinary labor unrest in the form of a dramatic hunger

51 Numerous press accounts reveal that profound misgivings on the part of German bankers accompanied the agreement from its inception. See "Solidarpakt: Zusätzlich 2 Mrd. DM für neue Länder. Zusage der Finanzwirtschaft," *Handelsblatt* 7, January 12, 1993. See also Gehard Kutscher, "Kreditgewerbe will sich an Solidarpakt beteiligen. Schwieriges Vorhaben," *Handelsblatt* 19, January 28, 1993, and "Banken: Osthilfe keine Standortsicherung," *Frankfurter Allgemeine Zeitung* 35, February 11, 1993, 14.

52 "Über ein Minus von zwei Prozent in diesem Jahr wäre ich froh," *Frankfurter Allgemeine Sonntagszeitung* 14, April 11, 1993. A potpourri of measures devoid of sweeping changes to wage agreements or monetary policy, the Solidary Pact also included a second billion that was to come from insurance companies.

53 "Banken verhandeln über Ost-Beteiligungen," *Frankfurter Allgemeine Zeitung* 41, February 18, 1993, 13.

strike in Bischofferode in Thuringia. To address this vexing trifecta, Breuel sought allies among her country's internationally experienced banks. As the Treuhand president and finance chief viewed the matter, they should "finally" get involved in strengthening the capital base and enhancing the reputation of Treuhand companies.⁵⁴

By the end of 1993, domestic lenders' reluctance to support Treuhand-led eastern German privatization and restructuring schemes was yielding public rebukes from the highest federal government officials, and not only Breuel. Mounting frustration with domestic lenders contributed to the government's willingness to enlist foreign credit providers in fashioning entrepreneurial alternatives to what the chancellor himself described as the heavy legacies imposed by state socialism. At Kohl's nineteenth summit meeting held in early December 1993, Martini had endured criticism of German banks' lending practices from Bohl, Breuel, federal economics minister Günter Rexrodt, and Hans-Peter Stihl, president of the German Chamber of Industry and Commerce (Deutsche Industrie- und Handelskammer). According to Breuel, the Treuhand had offered the banks four hundred firms, almost all of which Germany's top bankers had immediately rejected out of hand.⁵⁵ Breuel and her colleagues had nonetheless pressed ahead with their approach, successfully privatizing two-thirds of the companies in question. In an attempt to bridge the impasse, Bohl demanded from Martini and his colleagues a "longer line" for liquidity commitments, as well as details on the management potential German banks were willing to provide to eastern German firms. The state secretary brought the tense exchange to an abrupt end by recording Kohl's

54 See also Bundesarchiv, Schreiben von Hornef an Waigel, undated (June 1993), B 412/13084. On the major industrial action involving potash workers in Thuringia, see Christian Rau, *Hungern für Bischofferode. Protest und Politik in der ostdeutschen Transformation* (Frankfurt: Campus, 2023).

55 Bundesarchiv, Sachstand Privatisierung mit Bankenfonds im Rahmen des Solidar-paktversprechens des Kreditgewerbes, here: Vorbereitung der Gespräche beim Bundeskanzler, gez. Müller, June 3, 1993, B 412/13084.

bottom line: “Western German criteria for banking transactions must be relaxed in the new federal states.”⁵⁶

Notwithstanding substantial political pressure, modifying West German rules of finance to meet the urgent needs of eastern German companies proved a bridge too far. Speaking at the Chamber of Industry and Commerce (Industrie- und Handelskammer) in Chemnitz (known until 1990 as Karl-Marx-Stadt), Kohl chided German banks, publicly reminding them of their January 1993 promise to invest DM 1 billion in Treuhand companies. He also expressed his regret that they had “so far only very hesitantly fulfilled this promise.” Kohl crafted his public address in Saxony’s third-largest city to pressure the country’s domestic lenders, especially savings banks, to “finally prove themselves” as genuine partners of small to medium-sized enterprises in eastern Germany.⁵⁷ Hornef put the government’s message succinctly enough for journalists to capture it in a cogent headline: “Thus far, the results of the bank initiative are meager.”⁵⁸

At their February 1994 meeting with the chancellor, leading banking representatives once again renewed pledges to support the government’s Solidarity Pact. They also returned fire, at the Treuhand but not at Kohl. Wolfgang Grüger, president of the Central Credit Committee (Zentraler Kreditausschuss) claimed that the responsibility for the banks and insurance companies’ inability to deliver on the promises extracted by Kohl lay squarely with the privatization receivership, which held “a different appraisal of reorganizable [*sanierfähige*] enterprises.” Behind Grüger’s remark was the Treuhand’s wish to bundle a total of three hundred to four

56 Landesarchiv Sachsen-Anhalt (Magdeburg), Vermerk über das 19. Spitzengespräch mit Wirtschaft und Gewerkschaften am 6. Dezember 1993 im Bundeskanzleramt Bonn unter Leitung von Herrn Bundeskanzler Dr. Kohl, December 8, 1993, L 1, Nr. 646. On the federal government’s growing reliance on international capital markets to finance public debt via the Treuhand, see Roland Czada, “Das Erbe der Treuhandanstalt,” in *Einheit – Eigentum – Effizienz*, ed. Otto Depenheuer and Karl-Heinz Paqué (Berlin: Springer Verlag, 2012), 125–146.

57 “Kohl erinnert Banken an Zusage,” *VWD – Neue Bundesländer*, February 11, 1994, 3.

58 “Das Ergebnis der Banken-Initiative ist bisher mager,” *Frankfurter Allgemeine Zeitung* 38, February 15, 1994, 11. This and other critical accounts followed a press briefing hosted by the Treuhand’s Hornef the previous day.

hundred companies in portfolios of ten to twenty-five enterprises rather than to allow banks the opportunity to weigh the prospects of individual firms together with a western German partner company. Grüger also expressed his and his colleagues' displeasure with what they regarded as the Treuhand's willingness to extend lifelines to several hundred remaining firms in the holding's dwindling inventory. In a final parting shot, Grüger voiced his displeasure at Breuel's readiness to offer Treuhand companies to "other prospective interested parties contrary to agreement."⁵⁹ This oblique reference was to foreign competitors.

Grüger's remark suggests that the federal government's overtures to "other interested parties"—namely risk capitalists subsequently praised by Kohl—may well have violated a tacit understanding between German political and financial leaders. Too few details are currently available to say for certain.⁶⁰ We only know that the federal government's willingness, via the Treuhand holding, to engage foreign financiers provoked resentment among domestic bankers.⁶¹ Passed over for important deals, western German banks, especially saving banks, demonstrated a marked aversion to restructuring formerly state-owned companies with murky prospects in often uncertain markets. Hurt feelings on display, shortly before leaving

59 Landesarchiv Sachsen-Anhalt (Magdeburg), Wesentliche Ergebnisse des 20. Spitzengesprächs des Bundeskanzlers mit Wirtschaft und Gewerkschaften am 28. Februar 1994, March 10, 1994, Referat 422, L 1, Nr. 646.

60 The most relevant collections remain closed in 2023. My attempts to explore the conflict over pledges secured from German banks from the perspective of the banks, based on their own internal documentation, have been unsuccessful. Interesting records appear to be housed in the archives of the Deutsche Sparkassen- und Giroverbandes in Bonn. See Bundesarchiv, Spitzengespräch mit dem Bundesverband Deutscher Banken, June 10, 1992, B 412/22067.

61 The commissioned history of the Treuhand's main successor was among those to note this financial dynamic. See Hans Hinrich Schroeder-Hohenwarth et al. eds., *"Schnell privatisieren, entschlossen sanieren, behutsam stilllegen." Ein Rückblick auf 13 Jahre Arbeit der Treuhandanstalt und der Bundesanstalt für vereinigungsbedingte Sonderaufgaben* (Berlin: Wegweiser Verlag, 2003), 58–59. With reference to the 1993 bank pledges, see "Der Kanzler rechnet weiterhin fest mit 'Banken-Milliarden,'" *Frankfurter Allgemeine Zeitung* 41, February 18, 1994, 17, and especially "Die Banken fühlen sich von Kohl schlecht behandelt," *Frankfurter Allgemeine Zeitung* 54, March 5, 1994, 13.

his post Martini informed reporters in mid-February 1994, “The Chancellor has sometimes kicked me in the shins.”⁶²

The open breach with the Federal Republic’s most important domestic financial institutions accounts for Kohl’s—and the Treuhand’s—decision to engage private equity in eastern German privatization and restructuring. Kohl cited approvingly the engagement of private equity in what he described as his government’s ongoing attempts to overcome the pernicious effects of state socialism. For the historian-cum-chancellor, this form of lending appeared to offer an important means to rectify “one of the worst legacies of the Socialist Unity Party (SED),” the East German ruling party’s “destruction” of small to medium-sized enterprises (*Mittelstand*).⁶³

How important was private equity to the Treuhand’s sales of companies to foreigners? As measured by foreign acquisitions alone, not very. Kohl’s call to embrace private equity to overcome the long-term effects of state socialism appeared to have assumed few visible forms beyond the Treuhand’s late-hour transfer of eastern Germany’s rail rolling stock manufacturer to American private equity firm Advent International. This book’s final chapter explains why this assessment of risk capital’s reach into German public life via the Treuhand falls short of the mark.

62 “Von Kohl manchmal ans Schienbein getreten. Bankpräsident Martini kritisiert Treuhand-Anstalt/Phantastisches Jahr,” *Süddeutsche Zeitung* 53, March 5, 1994, 32. See also “Die Banken fühlen sich von Kohl schlecht behandelt,” *Frankfurter Allgemeine Zeitung* 54, March 5, 1994, 13 and “Der Kanzler rechnet weiterhin fest mit ‘Banken-Milliarde,’” *Frankfurter Allgemeine Zeitung* 41, February 18, 1994, 17.

63 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisse des 20. Spitzengesprächs des Bundeskanzlers mit Wirtschaft und Gewerkschaften am 28. Februar 1994, March 10, 1994, Referat 422, L 1, Nr. 646.

Foreign Purchases of Treuhand Companies— A Brief Overview

The relative inconsequence of international sales outreaches as measured by non-German acquisitions suggests that the terms of postsocialist industrial policy were actually set by western Germans, not foreign advisors, competition authorities, investors, or lenders. This is too simple. With reference to direct investments, the most commonly cited metric, we should avoid the temptation to dismiss the engagement of outsiders as marginal without first accounting for acquisitions, realized or not. An obvious starting point is the Treuhand's own tally of foreign sales. Foreigners invested in 858 Treuhand enterprises, often purchasing them outright. The relatively small number of sales to non-Germans should not obscure the fact that foreigners purchased some of the largest and most visible newly privatized businesses in eastern Germany. These included major acquisitions in eastern Germany's chemical, electricity, petroleum, shipbuilding, and steel industries, as well as lesser-known purchases of semiconductor and rail rolling stock companies. While few in number, foreign investors exercised outsized influence in government-led efforts to revamp what came to be known after 1991 as eastern Germany's remaining "industrial cores" (*industrielle Kerne*).

Studies conducted in the mid- to late 1990s sought to gauge the motivations of eastern Germany's foreign investors, using questionnaires distributed to individual decisionmakers, face-to-face interviews with self-described multipliers, and statistics compiled by federal authorities, notably the Treuhand itself, the German Central Bank, and the Federal Cartel Office.⁶⁴ Although useful starting points, these accounts overlook

64 See Heike Belitz, Karl Brenke, and Frank Fleischer, *Der Beitrag ausländischer Investoren zum Aufbau wettbewerbsfähiger Wirtschaftsstrukturen in den neuen Bundesländern* (Berlin: Duncker & Humboldt, 2000), 20, 84 and Carl Bauerschmitz, *Standortdeterminanten und Raumwirkungen ausländischer Direktinvestitionen in Sachsen* (Bergisch Gladbach: Eul, 1996). At least 234, or 27 percent, of the Treuhand enterprises purchased by foreigners were located in the state of Saxony. Nearly half of foreign investments during the first half of the 1990s were in enterprises with

just how deeply sources produced by policymakers were tainted by national interest. For example, as Swiss consular records reveal, a French trade representative in Bonn padded the Treuhand's monthly statistics in favor of his country before a state visit by French president François Mitterrand in September 1991.⁶⁵ A "modified" list supplied by French officials enabled the French to sail past their Alpine competitors, if only through sleight of hand.⁶⁶ Neither was the director of the Swiss embassy's consular office in Berlin above putting his own finger on the scale, supplying Treuhand international relations director Vehse with his list of Swiss investors in the eastern federal states that he insisted be treated confidentially. Other countries, too, attempted to massage their numbers. In October 1991, the British embassy's Berlin office was drawing up its own statistics on foreign investments for Vehse and requesting a meeting with him to ensure that its measure of the United Kingdom's engagements was included in the agency's future tallies.⁶⁷

For all their drawbacks, statistics generated by the Treuhand reveal significant investment activity among Germany's smaller neighbors—the Netherlands, Denmark, and especially Austria and Switzerland. And yet,

Treuhand roots. See Benedikt Haas, *Ausländische Unternehmen in Ostdeutschland. Analyse ihres Marktauftritts im Lichte der Theorie der Direktinvestition* (Frankfurt am Main: Peter Lang, 1996), 23. On methodological differences between historians and social scientists when approaching recent history, see Lutz Raphael, *Jenseits von Kohle und Stahl. Eine Gesellschaftsgeschichte Westeuropas nach dem Boom* (Berlin: Suhrkamp, 2019), 24–32, 92–95, 114–117, 138–142, 255–259.

65 Schweizerisches Bundesarchiv (Bern), Firmenverkäufe der THA, September 27, 1991, dossier E 2200 55A#1996/50#307* A planned state visit by Queen Elizabeth II led the Berlin Office of the British embassy to forward to the Treuhand additional British acquisitions not included in the Germany's agency records.

66 For an example of subsequent press coverage, see "Franzosen in Ostdeutschland an der Spitze," *Frankfurter Allgemeine Zeitung* September 18, 1991. The Treuhand's reproduction of this statistical skewing is contained in "Internationales Engagement nimmt zu," *Treuhand Informationen* 5 (October 1991): 18. Still other statistical alterations undertaken by the Treuhand are covered in Dominik von Achten, "Die Treuhandanstalt und der Markt in den neuen Bundesländern: Erfolge und Probleme französischer und britischer Unternehmen bei der Erschliessung des ostdeutschen Marktes" (PhD diss., Universität Frankfurt, 1997), 127–129.

67 Bundesarchiv, letter from Burton to Wolfgang Vehse, October 14, 1991, B 412/11856.

to date no researcher has paired an exploration of the Treuhand's international marketing efforts with the engagement of those nations most active in eastern Germany's retracting economy via archival source materials from investing countries.⁶⁸ According to the Treuhand's statistics, Switzerland led the nations investing in eastern Germany, with 139 privatizations, followed by Britain (124), Austria (100), and the Netherlands (96). As measured by volume of pledged investments, American investors (78) in Treuhand enterprises represented nearly a quarter (24.4 percent) of all foreign acquisitions, followed by France (21.2 percent) and Britain (11.0 percent).

Tallies produced by the Treuhand and the Federal Ministry of Economics confirm that Switzerland, a nation of fewer than seven million, topped the list of foreign investors in eastern Germany during the first half of the 1990s, surpassing the efforts of much bigger and more influential competitors, including enlarged Germany's most important European Community partners, Britain and France. Whereas French concerns, often majority state-owned, purchased enterprises in eastern Germany in 1990 and 1991 with the political support of the French president and German federal chancellor (the best-known example is the scandal-ridden acquisition noted above, of refinery works in Leuna and Zietz, coupled with the Minol filing station network, by a consortium led by oil giant Elf Aquitaine⁶⁹), Austrian and Swiss investments were more often realized by much smaller firms with less visible ties to political elites. For this reason, rankings of investors based on investment volume or job guarantees—factors that lend themselves to subsequent revision—overinflate the role of French (and to a lesser extent American) concerns in eastern Germany's

68 One study by a former Treuhand consultant draws on twenty-eight interviews and press accounts to explain French and British investments. See esp. von Achten, "Die Treuhandanstalt und der Markt in den neuen Bundesländern."

69 This special case, the largest French investment in the history of the Federal Republic, deserves much closer archival exploration. For Treuhand president Breuel's justification of the award to the French energy giant, see Centre des archives diplomatiques (Nantes), Rapport achat par Elf Aquitaine d'une raffinerie, January 16, 1992, Ambassade de France à Bonn, 105 PO/2.

post-Wall economy. Swiss investments, unlike those of the French and British, fell evenly across the first half of the 1990s, with the country nearly always in first or, less often, second place in monthly tallies of foreign investors maintained by the Treuhand. In contrast to British and especially French concerns, Swiss investors (mostly from the eastern, Germanophone cantons of the country) placed their funds in a broad range of industries and favored small to medium-sized enterprises. Austrian and especially British investments assumed greater relative importance from mid-1991 onward. (I provide an explanation of these specific trajectories in Chapters 2 and 3.) In eastern Germany, Swiss investors accounted for 16 percent of all firms purchased by foreigners; by 1995 Swiss entities had committed themselves to more than three hundred investments, Treuhand related and otherwise.⁷⁰

This book illustrates that, as well-informed commentators with important links to both East and West Germany, the enlarged Federal Republic's direct neighbors should receive coverage alongside such geopolitical heavyweights as the United States or larger European countries such as Britain and France. The first chapter thus focuses on the Swiss Confederation, a neighboring country granted scant attention by the Treuhand's Investor Services staff, but one especially significant among those countries investing capital and expertise in eastern Germany's reconstruction. It invites those interested in the history of eastern Germany's incorporation into the Federal Republic to expand their purview beyond the borders of Europe's largest German-speaking country. While applying this wider geographic lens to the process of East German privatization, I adopt a narrow temporal focus to the months and years immediately after 1989. However, the chapter also looks backward because, it turns out, one cannot grasp key essentials of state divestment in eastern Germany without understanding economic relations between capitalist and socialist countries in Central Europe that were forged prior to 1989. Particularly signif-

70 Schweizerisches Wirtschaftsarchiv (Basel), 50. Jahresbericht der Vereinigung Schweizerischer Unternehmen in Deutschland (VSUD), B.Verb. J 218.

icant for this story were East Germany's engagements with its physically proximate and culturally compatible neighbors, Switzerland and Austria. Pre-1989 ties with Austria and Switzerland help explain why these small countries, together with the financial juggernaut Britain, stood at the top of the list of foreign investors in Treuhand companies.

My aim in the subsequent chapters is not to ascertain what went wrong, or possibly right, in the West German Federal Republic's absorption of eastern Germany's economy. Rather, I expand the geographic focus to show how market developments within unifying Germany are best understood in conjunction with parallel actors, events, and interests in several European countries and North America. Exploring the terms and trajectory of East Germany's post-Wall economic reordering requires one to scrutinize encounters involving East and West German political, industrial, and financial elites together with well-placed counterparts from third countries. Prominent among them were little discussed, but often influential, investment mediators, a point I demonstrate in the following chapter with reference to Swiss engagements in eastern Germany after (and before) 1989.

1. Swiss Mediators in Eastern Germany after (and before) 1989

This chapter explores how a specific constellation of Swiss consulting experts, financial advisors, and diplomats became involved in the economic restructuring of eastern Germany after November 1989. A nation of fewer than seven million, the Swiss topped the list of Treuhandanstalt (Treuhand) investors in the five states of eastern Germany and the eastern half of Berlin, surpassing the efforts of much larger and more influential competitors, including the enlarged Germany's most important European Community (EC) partners, Britain and France (I address these two countries' engagements in eastern Germany in Chapter 3). During the Treuhand era, Switzerland led the nations investing in eastern Germany, with 139 privatizations, followed by Britain (124), Austria (100), and the Netherlands (96).

Ties between East and West Germany help to explain how Switzerland became an important investor in the new federal states. Even more significant in accounting for Swiss successes were features of Switzerland's own economy. The origins of Swiss engagements ultimately lay primarily in developments in Bern, Basel, and especially Zurich, and only secondarily in unifying Germany. A rapid post-Wall deepening of Swiss contacts with authorities of the German Democratic Republic helped pave the way for the involvement of Swiss consulting experts, financial professionals, and diplomats in the economic restructuring of eastern Germany as its economy simultaneously opened up and drastically contracted after November 1989. Chapter 1 illustrates that capital did not merely "flow" across unifying Germany's borders, as many economists' definitions of

direct sales to foreigners suggest. When it came to the sale of assets to investors from Switzerland and other nations, historical relationships figured in significant ways that economic theory often neglects to consider.¹ Facilitators within and beyond Germany actively promoted (and thwarted) investments. Well-placed individuals cashed in on ties forged in the 1980s with high-ranking East Germans. Nor was investment between firms—typically described by economists as private or external investment—decoupled from public debt.² Rooted in commercial relationships between the two Germanys in the decade prior to the Treuhand-led privatization, Swiss approaches represent the obverse of Anglo-American-inspired consultancy models that granted limited attention to specific investment contexts.

Swiss investment successes flowed from many cultural similarities and a few key differences. The Alpine federation and West Germany shared much, notably a language (for two-thirds of Swiss citizens), a bor-

1 Important differences between West Germany and Switzerland existed then (as today), notably the latter's neutrality, weak central government, direct democracy in the form of frequent referenda, and mandatory military service for males ages eighteen to fifty-two. East German–Swiss ties were, in any case, significant: a December 1989 questionnaire sent to members of one of the Swiss-German trade associations revealed that exactly 50 percent of Swiss respondents already maintained “economic relations with the German Democratic Republic.” Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Protokoll der 238. Vorstandssitzung, 21. Februar 1990, folder “Protokolle Vorstandssitzungen 1990.”

2 Macroeconomic approaches to foreign direct investment (FDI) in the scholarship devoted to transition/transformation studies often decouple private capital (“external investments”) and public finance (often described as “financial obligations”). This literature is too vast to cite in its entirety here. For a relatively recent definition, see Jonathan Law, “Foreign Direct Investment,” in *A Dictionary of Finance and Banking*, 6th ed. (New York: Oxford University Press, 2018), 198. Two useful historiographical overviews of FDI's relevance to the economic transformation of east-central Europe after 1989 (eastern Germany is unfortunately excluded) are Hilary Appel and Mitchell A. Orenstein, *From Triumph to Crisis: Neoliberal Economic Reform in Postcommunist Countries* (New York: Cambridge University Press, 2018), 33–64, 116–141, and especially Nina Bandelj, *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe* (Princeton, NJ: Princeton University Press, 2008). See also Ivan T. Berend, *From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern Europe since 1973* (New York: Cambridge University Press, 2009), 107–124.

der, legal norms, and extensive economic and social contacts, including with the former East Germany.³ Even apparent imbalances in the relationship, such as the fact that the Federal Republic of Germany (FRG) was Switzerland's most important trading partner and not vice versa and that Switzerland's banks were far more successful than those in West Germany in securing the wealth of private individuals from around the world, point more to shared than to divergent interests.⁴

Then as now, the importance of German economic ties for Swiss authorities can hardly be overstated. For all the similarities with West Germany's economy, notably its own niche manufacturing enterprises like those typifying the Federal Republic's *Mittelstand*, Switzerland differed from its powerful northern neighbor in significant ways. Prominent among these were its banking secrecy laws and its numerous "asset managers," affiliates, brokerages, investment houses, consulting concerns, and private banks. Having played special roles in facilitating commerce between the postwar German states during the eras of détente, these actors' engagement informed Swiss approaches immediately after the Wall fell.

A striking aspect of post-Wall economic developments in East and West Germany is the mediation of German-speaking investment promoters based in Switzerland. This chapter traces mediated Swiss engagements

3 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Protokoll der 238. Vorstandssitzung, 21 Februar 1990, folder "Protokolle Vorstandssitzungen 1990."

4 During the 1980s, the largest commercial banks in both countries sought to insert themselves in new credit markets via expanded internationalization strategies that revolved around the acquisition of investment and trade banks in the world's two main financial centers, New York and London. On how Swiss banks eclipsed their British rivals in providing private asset management to global leaders in the field after World War II, see Tobias Straumann, "Der kleine Gigant. Der Aufstieg Zürichs zu einem internationalen Finanzplatz," *Bankhistorisches Archiv* 45 (2006): 139–169. Historian Christophe Farquet has canvassed the value of Swiss neutralist banking positions across the past century, with particular attention to the interwar era. Christophe Farquet, *Histoire du paradis fiscal suisse: expansion et relations internationales du centre "offshore" suisse au XX siècle* (Paris: SciencePo, 2018). See also Felix Bühlmann et al., *Les élites économiques suisses au XXe siècle* (Neuchâtel: Éditions Alphil, 2016), 12–129.

within eastern and western Germany in order to lay bare economic interactions among several Central European nations after November 9, 1989. Swiss intermediaries moved swiftly to exploit changing relations between industrial and political leaders of the two German states. The most important organization was a Swiss-German trade association known as the Handelskammer Deutschland-Schweiz (hereafter referred to as the Handelskammer). The Handelskammer faced internal competition within Switzerland, a fact that that strengthened the Alpine country's initiatives to exploit rapidly changing relations between the two postwar German states vis-à-vis other European—and especially western German—competitors after November 9, 1989.

Inner-German Ties and Swiss Mediation

In Switzerland, rivalry within the small world of business associations animated the scramble to define investment opportunities in East Germany. The list of intermediaries extended from the Handelskammer to a less prominent association known as the Vereinigung Schweizerischer Unternehmer in Deutschland (Association of Swiss Companies in Germany, hereafter Vereinigung) based in Basel. It also included today-forgotten associations, including a German-Swiss organization named Innovatio.

Representatives of the Fribourg-based Innovatio, not the Handelskammer or the Vereinigung, arranged the first high-level East German visit to the Federal Republic after the dramatic opening of the border in divided Berlin. During the first week after November 9, 1989, Albert Jugel—the former general director of a well-known state-owned industrial conglomerate (*Kombinate*) in East Germany, the data processing and office equipment manufacturer Robotron—traveled to West Germany's capital of Bonn, as well as to the West German cities of Cologne, Dortmund, Frankfurt am Main, Hanover, Kronberg, and Munich. Jugel did so at the behest of reform-minded socialist leaders in East Germany. These included Wolfgang Berghofer, the mayor of Dresden, and Hans Modrow, the last socialist East German minister president.

Behind-the-scenes Swiss intermediation, coupled with long-standing ties between the two German states, ensured that Jugel, at that time a professor of automation technology at the Technical University in Dresden, was able to meet with influential figures in West German finance, industry, and politics. Reimut Jochimsen, the economics minister of West Germany's largest state government, North Rhine–Westphalia, and Dieter von Würzen, an influential state secretary in the Federal Ministry of Economics, were among the long list of notables to meet Jugel.⁵ The East German also exchanged views with Detlev Rohwedder, director of steel giant Hoesch and, from September 1, 1990 to April 1, 1991, president of the Treuhand. Rohwedder used Jugel's visit to explore how East German companies could be enlisted to produce steel products for West Germany's automobile industry. To this end, the Dortmund steel chief shared with Jugel his plans to meet Robotron's general director Friedrich Wokurta, Jugel's successor, and Berghofer, on December 18, 1989.⁶

Business in the weeks and months immediately after November 1989 was often grounded in socialist-era trade activities that united profit seekers from East and West Germany. In early January 1990, at least 140 West German companies were already involved in some 1,100 industrial cooperation projects across socialist East Germany.⁷ Rohwedder's ties to German Democratic Republic (GDR) authorities, like those of an impressive variety of West German industrialists and ministerial officials, were not new. First as a state secretary in the Federal Ministry of Economics and then as Hoesch's director, Rohwedder had immersed himself in trade deals with East German authorities for two decades: one of the largest was Hoesch's extensive cooperation with the EKO Stahl works in Eisenhüttenstadt on

5 "Unser Mann in Dresden," *Innovatio* 6, no. 5 (May 1990), 76–77.

6 Bundesarchiv, Auswertung Dienstreise Prof. Dr. Jugel vom 13. bis 18.11.1989, November 27, 1989, DL 226/1206. Norbert F. Pötzl, "Stasi in die Produktion," *Der Spiegel* 46 (November 15, 1999), 186.

7 thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, DDR Industrie, Deutscher Industrie und Handelstag, Abteilung X, January 1990, Bestand Hoe/12201.

East Germany's border with Poland.⁸ According to an estimate compiled by Rohwedder's deputy at Hoesch (and later the Treuhand), Hero Brahm, the Dortmund steelmaker had generated a trade volume of DM 200 million with East German enterprises in 1989 alone.⁹ At the time of Jugel's visit, the Dortmund steel director and subsequent Treuhand president was seeking to reduce his firm's dependence on Ruhr Valley competitors Thyssen and Krupp, rivals with their own inner-German industrial ties. To this end, Rohwedder set up working groups devoted to rapidly expanding Hoesch's cooperation with East German state enterprises and establish forward bases in Leipzig and other East German cities.¹⁰

In his discussions with Jugel, Rohwedder wryly noted that transferring production from West to East Germany was "simpler and cheaper than building up capacities in Portugal."¹¹ Here Rohwedder referred to the possibilities of lower-cost manufacturing in what was then the EC's newest member state. (Together with Spain, Portugal had joined the economic and political bloc less than four years earlier, in January 1986.) Rohwedder's comment draws attention to a fact about socialist East Germany's economy not lost on well-informed European contemporaries: decades

8 Archiv für Zeitgeschichte, ETH Zürich, Vortrag von Staatssekretär Dr. Rohwedder in der Friedrich-Ebert-Stiftung am 14. März 1973 zum Thema "Die Wirtschaftsbeziehungen der Bundesrepublik Deutschland zur DDR und den Staatshandelsländern," IB Vorort-Archiv, 314.3.3.8.

9 The actual volume was likely much higher, as Rohwedder's estimate excluded firms included the shadowy Commercial Coordination (KoKo) trade network. Bundesarchiv, Schreiben von Rohwedder an Professor Dr. Grünheld, Minister für Maschinenbau, December 12, 1989, DE 10/120. Marginalia in the letter indicate Rohwedder subsequently spoke by telephone with Wolfram Krause, the reform socialist instrumental in the establishment of the Treuhandanstalt (and subsequently the Treuhand's finance chief).

10 The Dortmund steelmaker cooled on eastern German prospects from mid-1990 onward, however. In a report for Hoesch's supervisory board submitted at the end of October 1990, the only East German partner deemed suitable for large-scale industrial and sales cooperation was EKO Stahl. See thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, Aufsichtsratsvorbericht, "Stand der DDR-Aktivitäten," October 31, 1990, Bestand Hoe/12202.

11 Bundesarchiv, Auswertung Dienstreise Prof. Dr. Jugel vom 13. bis 18.11.1989, November 27, 1989, DL 226/1206.

before its formal immersion into the enlarged Federal Republic on October 3, 1990, the German Democratic Republic was a de facto member of the twelve-nation western European economic bloc.

Inner-German commercial and political ties, with links to neighboring countries and EC member states, figure prominently in this (and the next) chapter on investments in eastern Germany after (and before) 1989. The specific commercial interests of many European countries, not just East and West Germany, in the high drama of post-Wall economic encounters has been glossed over by several journalists. Shortchanging the Central European dimensions of eastern Germany's immersion into the Federal Republic's economy began during the 1990s. The best-known summary of Jugel's and Rohwedder's conversation was published in the German newsmagazine, *Der Spiegel*, in November 1999. Neither the *Spiegel* article commemorating the tenth anniversary of the fall of the Berlin Wall nor an account published two years earlier by Michael Jürgs acknowledged Jugel's Swiss intermediaries or his meetings with Swiss company heads.¹² During his weeklong trip to the Federal Republic, Jugel conferred with the general directors of Credit Suisse and Nestlé in West Germany, Kurt Widmer and Helmut Maucher. The former Robotron head (and Berghofer and Modrow confidante) also spent time with (Count) Albrecht Matuschka, a Munich-based venture capital pioneer with extensive connections to Swiss, and especially American, risk capital financiers.¹³

Ties to American-led risk capital figure prominently in this book's fifth chapter, but as we already see in this discussion of Swiss investment,

12 Michael Jürgs, *Die Treuhändler. Wie Helden und Halunken die DDR verkauften* (Leipzig: List, 1997), 11–14, 17–26. Instead, the article refers only to “additional conversations in West German chancelleries,” See Jochen Bölsche, Christian Habbe, Georg Mascol, and Norbert F. Pötzl, “Ich liebe doch alle,” *Der Spiegel*, 46 (November 15, 1999), 186.

13 The list also included conversations with contacts at Citicorp (today Citi). Bundesarchiv, Auswertung Dienstreise Prof. Dr. Jugel vom 13. bis 18.11.1989, November 27, 1989, DL 226/1206. For a hagiographical description of Matuschka's engagement in West German venture capital based on oral history testimonies, see Jowett and Jowett, *Private Equity: The German Experience* (New York: PalgraveMacmillan, 2011), esp. 92–94, 149.

Americans lacked the personal and institutional connections that made Swiss intermediaries so effective. In mid-November 1989, Matuschka proposed to Jugel that his venture capital enterprise should lead a multinational effort to build a mobile telephone network across socialist East Germany. Matuschka suggested that “equity stakes” contributed by unnamed Western investors (a Boston-based company, Advent International, was among them) might complement generous aid packages to be supplied by the federal government in Bonn.¹⁴ As Jugel confided to Matuschka, the East German emissary had learned from Rohwedder and Jochimsen that federal authorities in Bonn could be persuaded to supply DM 10 to 20 billion in loans. In return, Hans Modrow, the new reform-minded socialist leader of East Germany, should pledge to abandon his party’s dominant role in East German society (*Führungsanspruch*) and allow free elections.¹⁵

Interactions between East and West German public officials and industrialists in the weeks and months after the Wall’s opening took place against the critical backdrop of international financial networks. The remainder of this chapter, as well as the following two chapters devoted to Austrian and British investments, will evaluate this relationship in more detail, focusing on interactions between East and West German public officials. Yet what we clearly see with Rohwedder and Jochimsen’s extraordinary pledges of support—regardless of whether or not they were genuine—is the context in which their offer was extended. This was an environment characterized by multinational jockeying involving potential investors from many countries, and not merely converging interests between actors based in the two postwar German states.

14 Begun in 1976, Matuschka’s collaboration with Peter Brooke intensified during the early 1980s. In 1983, Matuschka and his partner Rolf Dienst began raising funds for Advent’s investments (mostly in the United States). Peter A. Brooke, *A Vision for Venture Capital: Realizing the Promise of Global Venture Capital and Private Equity* (Boston: New Ventures Press, 2009), 30, 61–63, 73.

15 Bundesarchiv, Auswertung Dienstreise Prof. Dr. Jugel vom 13. bis 18.11.1989, November 27, 1989, DL 226/1206. Jugel was an early advocate for the introduction of the West German deutschmark to the GDR. See Albert Jugel, “Vergleich-Konkurs? *Innovatio* 6, no. 1/2 (January/February 1990), 31–33.

The Handelskammer Deutschland-Schweiz and the Treuhand

The following pages draw on newly declassified archival material from three countries—East and West Germany, and Switzerland—to explore how industrial, commercial, and especially financial actors based in Switzerland sought to exploit the fluid situation in eastern Germany to the Alpine confederation’s advantage. It explains precisely how cross-border mediators in Switzerland succeeded in inserting themselves into the Treuhand’s foreign outreach via socialist-era networks. Leveraging positions they had acquired as conduits in the clandestine world of intra-German commerce and finance during the 1980s, notably intermediation of a multi-billion-deutschmark loan extended to the East German regime by West Germany’s federal government in 1983 and 1984 (including an arrangement reached between Bavarian state president Franz Josef Strauss and chief of the East Germany’s clandestine foreign trade network, the Commercial Coordination [Kommerzielle Koordinierung, KoKo]), Swiss-based financiers with East German ties assumed important roles on behalf of the Treuhand’s formal representative in Zurich.¹⁶

16 The most prominent of these financiers was Holger Bahl. Remarkably for a Swiss banker, the West German Bahl has published his own account of his bank’s engagement in the inner-German trade during the 1970s and 1980s and his efforts to secure loan agreements on behalf of the East German regime (and perhaps also improved relations between the two postwar German states): Holger Bahl, *Als Banker zwischen Ost und West. Zürich als Drehscheibe für deutsch-deutsche Geschäfte* (Zurich: Orell Füssli, 2002). Details presented in Bahl’s account of the multi-billion-deutschmark loan agreements reached between East and West Germany during the early 1980s can be confirmed in scholarly examinations. See, for two examples, Matthias Judt, *Der Bereich Kommerzielle Koordinierung. Das DDR-Wirtschaftsimperium des Alexander Schalck-Golodkowski – Mythos and Realität* (Berlin: Christoph Links Verlag, 2013), 158–166 and Dong-Ki Lee, *Option oder Illusion? Die Idee einer nationalen Konföderation im geteilten Deutschland* (Berlin: Christoph Links Verlag, 2010), 299–311. See also Schlussbericht des Untersuchungsausschusses betreffend bayerische Bezüge der Tätigkeit des Bereichs “Kommerzielle Koordinierung” und Alexander Schalck-Golodkowski. Bayerischer Landtag. 12. Wahlperiode. July 6, 1994, Drucksache 12/16598, esp. 34–38. Introductions to the loan deals finalized by Franz Josef Strauss and Alexander Schalck-Golodkowski include Stephan Kieninger,

A closer look at the in-country infrastructure underpinning Swiss Treuhand investments reveals how the socialist past prefigured many of the Alpine country's post-Wall investments. At first glance, Switzerland appeared to be of limited relevance to the Treuhand's leadership. For instance, Switzerland was among the last foreign representatives to join the Treuhand's ranks abroad. The Swiss representative Fritz Leutwiler was appointed in June 1992 but only assumed his duties at the end of the summer. A financial heavyweight who had also previously served as president of the Swiss National Bank and the Bank of International Settlements, Leutwiler rarely engaged in cultivating individual investors for industrial properties during his eighteen-month tenure as Treuhand representative. Instead, Leutwiler and the Treuhand entrusted this task to a Swiss-German trade association, the Handelskammer Deutschland-Schweiz in Zurich. Connections forged during the Cold War in Bonn and East Berlin enabled Swiss intermediaries to jump into the fray before the German federal government had ramped up efforts to rapidly privatize state-owned assets via the intermediation of Anglo-American investment banks and management consultancies. Fritz Leutwiler delegated day-to-day responsibilities to a private association, the Handelskammer in Zurich. Behind the Handelskammer stood a private bank, Vontobel. The Handelskammer and Vontobel activated a specific constellation of Central European consulting experts and lenders. When Leutwiler resigned his position as Treuhand representative at the end of 1993, the Handelskammer formally assumed his ambassadorship, as well as expanded its purview to neighboring Austria.

“Niemand will einen Rückfall in den Kalten Krieg.’ Franz Josef Strauss, Alexander Schalck-Golodkowski und der Milliardenkredit für die DDR 1983,” *Zeitschrift für Geschichtswissenschaften* 65, no. 4 (2017): 352–371, and Veronika Heyde, “Die Rolle von Franz Josef Strauss bei der Vergabe der Milliardenkredite an die DDR 1983/84,” in *Vom Überwinden der Mauer. Bayerische Lebensbilder. Biographien, Erinnerungen, Zeugnisse*, ed. Renate Höpfinger (Munich: Hanns-Seidel-Stiftung, 2004), 3: 99–121.

The Handelskammer Deutschland-Schweiz in East Germany

How did the Swiss-German Handelskammer cultivate business ties in eastern Germany? In his memoirs, the former director of the Handelskammer, Hans-Joachim Meyer-Marsilius, traced the origins of its interest in the changing economy of eastern Germany to January 1990. In fact, Meyer-Marsilius's interest in East German foreign commerce dated back to at least the late 1960s, when Swiss security officials had asked him to assess whether the East German regime should be allowed to place representatives of its Chamber for Foreign Trade (Kammer für Aussenhandel) in Bern or Zurich.¹⁷ Meyer-Marsilius's long-standing interest, not merely the dramatic events that followed the Wall's breach in November 1989, explains why the Handelskammer's honorary president, Hans Vontobel, dispatched him to still-socialist East Berlin for a one-week semiofficial visit in January 1990. Housed in the private archives of the Handelskammer, Meyer-Marsilius's notes on that visit reveal his—and Vontobel's—objective: to prepare a new business consultancy featuring the Vontobel Holding, a banking trust presided over by Meyer-Marsilius's old superior, Hans Vontobel.

Meyer-Marsilius's Visit to East Berlin

Born in Giessen, Meyer-Marsilius worked as an attorney in Frankfurt am Main in the early 1950s before becoming director of the Handelskammer from 1957 to 1984. From 1967 to 1985, Hans Vontobel was the Handels-

17 Archiv für Zeitgeschichte, ETH Zürich, Brief von Miesch, Eidg. Politisches Departement, Politische Angelegenheiten an den Vorort des Schweizerischen Handels- und Industrie-Vereins, z. Hd. von Herrn Dr. B. Wehrli, July 31, 1968. The first such chamber was established in Vienna during the mid-1950s. See Hans-Georg Golz, "Verordnete Völkerfreundschaft? Die DDR und Grossbritannien," in *Deutsche Zeitgeschichte – Transnational*, ed. Alexander Gallus et al. (Göttingen: Wallstein, 2015), 84.

kammer's president. In December 1989, the Handelskammer boasted thirty-two hundred members, two-thirds of whom were Swiss and the other third West German. In his January 1990 visit to Berlin, the now retired director Meyer-Marsilius unofficially represented the Handelskammer and the Vontobel Holding. For someone no longer engaged in the day-to-day affairs of a business association, his itinerary reads like a who who's guide to East German foreign trade affairs. Meyer-Marsilius spoke first to Herbert W. Goulnik, deputy director of the GDR-FRG Trade Association (Handelsverein DDR-BRD). Goulnik had headed the commercial affairs section of East Germany's embassy in Switzerland from 1982 to 1986. At the time of Meyer-Marsilius's visit in January 1990, some 40 percent of the trade between the GDR and the FRG flowed through Goulnik's offices. Goulnik approved of Meyer-Marsilius's plans for what the latter described as "the consultancy" (a reference to Vontobel's EC Consultancy) noting that this initiative should begin soon in order to prevent East Germany's foreign trade relations from being tilted too heavily toward the Federal Republic (bundesdeutsch-kopflastig). Goulnik also recommended passing a note about the consultancy to Hans Modrow, the East German minister president, during the upcoming World Economic Forum meeting in Davos.¹⁸ Over the course of an evening meal and lengthy interaction with Jürgen Nitz, a longtime advisor to Gerhard Beil, East German minister for foreign and intra-German trade, further details of the Handelskammer's plan emerged. During their conversation at the five-star Palast Hotel, Nitz requested from Meyer-Marsilius a summary of plans featuring the Vontobel banking house in advance of Nitz's next scheduled trip to Switzerland in early February.

Both Swiss and East German partners were among Meyer-Marsilius's contacts during his Berlin trip. A meeting with the last Swiss ambassador to East Berlin, Franz Birrer, revealed enthusiasm for the EC Consulting initiative, which Meyer-Marsilius argued should feature a Berlin meeting of the World Economic Forum scheduled for spring 1990 and apprentice-

18 Archiv der Handelskammer Deutschland-Schweiz, Aktennotiz zum Besuch in der DDR – Berlin (Ost) vom 21.–27. Januar 1990, dossier "DDR."

ship training programs in Switzerland for aspiring East German business leaders. Meyer-Marsilius met with the deputy director of West Berlin's Chamber of Industry and Commerce (Industrie- und Handelskammer), Wolfgang Wetzke, an expert in East German commerce and thus "a man in high demand." Wetzke, too, voiced approval of the consultancy, cautioning that many West German companies were moving quickly to establish profitable relationships in East Germany. Wolfgang Richter, director of the GDR's Chamber for Foreign Trade, echoed Wetzke's appraisal, pairing his approval of the "plans of the consulting group" with the pointed observation that "a genuine invasion is in the works," one of many indications East German officials saw Swiss involvement as a defense against West German hegemony.¹⁹

This invasion metaphor also figured in remarks by Heinrich Gramer. Gramer was deputy director of the Deutsche Handelsbank, one of three institutions granted permission under East German law to take out loans in Western markets during the 1980s, and had expertise in trade ties to West Germany, specifically in commerce benefitting both unnamed Swiss financial and commercial entities and KoKo companies. Gramer encouraged Meyer-Marsilius to bring the "matter concerning the Vontobel Bank to the attention of Christian Meyer," deputy minister for external economic relations of the GDR, "during his upcoming visit to Bern and Zurich." (Meyer was Gerhard Beil's deputy; his visit to Zurich is discussed below.) In conversation with Meyer-Marsilius, Gramer also indicated his assessment that the training program should target the future leaders of small and medium-sized enterprises in the GDR, a plan Meyer-Marsilius affirmed as "absolutely in keeping with the Vontobel Bank's expertise." Gramer and Richter proposed the immediate establishment of a Vontobel office in eastern Germany; at minimum, Vontobel should host events in Berlin, Dresden, and Leipzig on different days, with sessions catering to those directors of state companies likely to be empowered as private-sector managers.

19 Archiv der Handelskammer Deutschland-Schweiz, Aktennotiz zum Besuch in der DDR – Berlin (Ost) vom 21.–27. Januar 1990, dossier "DDR"

Meyer-Marsilius also broke bread with Wolfgang Andrä, vice director-general in East Germany's Foreign Trade Ministry. Andrä expressed enthusiasm for the Vontobel plan but warned that the Swiss initiative faced the prospects of thin revenues and stiff competition from West German banks. Competitors from other nations, Andrä noted, were also on the horizon—the head of McKinsey's West German office had already paid him a long visit. Only if Vontobel and the Handelskammer acted quickly could the Swiss succeed in winning over those managers who would soon head the small to medium-sized enterprises to be carved out of the 127 industrial conglomerates.²⁰ Near the end of his weeklong visit, Meyer-Marsilius sought advice from the director of the East German Bank of Foreign Trade (Deutsche Aussenhandelsbank), Siegfried Hrzan, and his London-based deputy. Hrzan's bank was the official recipient of a DM 1 billion credit secretly negotiated between the minister-president of the state of Bavaria, Franz Josef Strauss, and Alexander Schalck-Golodkowski, head of the KoKo commercial networks and a Stasi agent during the early 1980s (Schalck-Golodkowski, unlike Stasi chief Erich Mielke, was essentially unknown in East Germany until November 1989). The loan brought with it an easing of travel restrictions to and from East Germany and was approved by West German chancellor Helmut Kohl.²¹

20 Archiv der Handelskammer Deutschland-Schweiz, Aktennotiz zum Besuch in der DDR – Berlin (Ost) vom 21.–27. Januar 1990, dossier “DDR.” The average East German conglomerate employed twenty thousand workers; the largest, such as Carl Zeiss Jena or Robotron, employed seventy thousand laborers each.

21 Bundesarchiv, Schreiben von Strauss an Schalck-Golodkowski, August 17, 1984, DL 226/1695. It also appears to have provided Strauss with the opportunity to lobby Schalck-Golodkowski for business on behalf of industrial gas giant Linde. See Hans-Liudger Dienel, *Die Linde AG. Geschichte einer Technologiekonzerns 1879–2004* (Munich: C.H. Beck, 2004), 309.

Holger Bahl and the Handelskammer Deutschland-Schweiz

Meyer-Marsilius's notes from his whirlwind tour end with an admission: nearly all his meetings in East Berlin had been set up by a West German-born, Zurich-based banker, Holger Bahl. Born in Wuppertal, Bahl had moved from West Berlin to Zurich in 1970 to work at the Kontor Handelsbank, renamed the Bank für Kredit und Aussenhandel a year later. The Bank für Kredit und Aussenhandel was a Swiss subsidiary of the state-owned bank Landesbank Rheinland-Pfalz, the chairman of whose board of directors was the state's minister president (and later German chancellor) Helmut Kohl. In 1973, Bahl assumed the directorship of the Bank für Kredit und Aussenhandel under Kohl's formal supervision. Between 1975 and 1989, under Bahl's leadership the bank exploited the growth of a new loan sector known as the Euromarket to secure consortia loans for the East German regime in London, Luxembourg, and Zurich.²²

Bahl presented himself as an expert in export finance and currency hedging. This caught the attention of Meyer-Marsilius, who enlisted him for Handelskammer publications and speaking events organized by his Handelskammer from 1979 until the early 1990s.²³ Bahl's major clients in

22 The Bank für Kredit und Aussenhandel enabled the commercial enterprises of the East German regime abroad to exploit Euromarket credit arrangements and promote nonrecourse export financing. Holger Bahl, "KoKo – ein allseits geschätzter Kreditnehmer am Euromarkt," *Deutschland Archiv. Zeitschrift für das vereinigte Deutschland* 43, no. 3 (2010): esp. 456–460. On the origins of "light touch" regulation in Swiss financial markets, see Tobias Straumann, "Finanzplatz und Pfadabhängigkeit. Die Bundesrepublik, die Schweiz und die Vertreibung der Euromärkte (1955–1980)," in *Europas Finanzzentren. Geschichte und Bedeutung im 20. Jahrhundert*, ed. Christoph Maria Merki (Frankfurt am Main: Campus, 2005), 245–268. Popular among many European bankers in the 1970s, Euromarket loan instruments were often designed to dodge taxes and conceal the identity of purchasers. Vanessa Ogle, "Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s," *American Historical Review* 122, no. 5 (December 2017), 1448–1457.

23 This export finance volume included a preface by then president of Switzerland's National Bank, Fritz Leutwiler. Holger Bahl et al., eds., *Exportfinanzierung und Wechselkursabsicherung im Deutschlandgeschäft* (Zurich: Handelskammer Deutschland-Schweiz, 1979), 16.

his capacity as head of the Bank für Kredit und Aussenhandel during the 1980s were East Germany's largest banks, the Deutsche Aussenhandelsbank and the Deutsche Handelsbank, as well as KoKo companies, specifically a firm established in 1964 named Intrac.²⁴ In the mid-1980s more of East Germany's trade flowed through KoKo channels than through planned measures by ministries such as Beil's. This was made possible by "untethered" import loans arranged by the Bank für Kredit und Aussenhandel (and quietly approved by governments in Bonn eager to keep détente in the face of hostility to Soviet cooperation in London and Washington).²⁵ Generous finder's fees were a feature of such exchanges, with a portion of commissions transferred to accounts of East German Socialist Unity Party (SED) functionaries. The volume of this trade—much of it in unexceptional goods, notably raw materials, especially metals and oil, chemicals, and agricultural products—enabled Bahl not only to raise capital and hedge against risks but also to channel proceeds to unnumbered Swiss accounts and banking arrangements outside Europe. East German records reveal that the bank activated Stasi transfers to the Caribbean, where government controls and taxes on capital gains were essentially nonexistent. To offer only one example, in June 1980, Schalck-Goldkowsky reported to Günter Mittag, the key figure in East Germany's party leadership for the socialist planned economy, that, acting on advice from Bahl, the KoKo concern Intrac would soon become a silent shareholder in a foreign subsidiary of the Swiss Bank für Kredit und Aussenhandel, the Bank for Credit and Foreign Commerce (Overseas) Ltd. in Nassau. The Bahamian bank's principal shareholders were two West German state-owned banks, Landesbank Rheinland-Pfalz (74.66 percent) and the Württembergische [sic] Kommunale Landesbank in Stuttgart. This en-

24 Intrac was the only East German foreign trade entity permitted to take out loans in western Europe without the assistance of East German banks. Bahl, "KoKo – ein allseits geschätzter Kreditnehmer am Euromarkt," 453.

25 See, esp., Ralf Ahrens, "Aussenwirtschaftspolitik zwischen Ostintegration und Westverschuldung," in *Wirtschaftspolitik in Deutschland 1917–1990. Die zentrale Wirtschaftsverwaltung in der SBZ/DDR. Akteure, Strukturen, Verwaltungspraxis*, ed. Dierk Hoffmann (Berlin: DeGruyter Oldenbourg, 2016), 3:576.

gagement would, Schalck-Golodkowski cryptically noted, facilitate “additional operational options” using funds from West Germany and the United States.²⁶ As it happened, a decade later the decision would ensure that a unified German government owned a piece of the Bank für Kredit und Aussenhandel’s business.

Holger Bahl served as president of the supervisory board (*Verwaltungsrat*) of a second financial entity, Eurasco Zürich AG, for ten years after leaving the Bank für Kredit und Aussenhandel, from 1988 to 1998. Eurasco (Europe Asia Comecon) was established with a share capital of two million Swiss francs on May 26, 1988, to act in banking, trade, and insurance with capital from the USSR, the GDR, and the FRG. Stockholder entities hailed from East and West Germany, Switzerland, and the Soviet Union. Among Eurasco’s initial shareholders were Donau Bank AG in Vienna (a subsidiary of the Bank for Foreign Trade of the USSR, Vneshtorgbank) and IK Industriekredit, with one million Swiss francs each. On October 7, 1988, the Bank for Foreign Economic Affairs of the USSR and the Landesbank Rheinland-Pfalz joined as shareholders, increasing Eurasco’s capital to five million Swiss francs. Eurasco’s aim, one reads in its 1989 annual report, was “to contribute to the revival of the East-West trade, which has stagnated over the past few years, by means of innovative measures in the fields of finance and trade, and to promote cooperation in third markets.”²⁷ To this end, the share capital was boosted again, to six million Swiss francs, in connection with the June 1989 addition of a metals-trading industrial conglomerate based in Frankfurt am Main, Metallgesellschaft AG. Together with its main stockholder, the Landesbank Rheinland-Pfalz, Eurasco opened a representation in Moscow in June 1989. Bahl sought and obtained payments to boost Eurasco’s capital stock. By August 31, 1990, Eurasco’s original capital had expanded to sev-

26 Bundesarchiv, Schreiben von Schalck an Mittag, Mitglied des Politbüros und Sekretär des ZK der SED, June 10, 1980, DL 226/1422. Nassau in the Bahamas was the most important non-European center of the tax-free Euromarket loan business. See Ogle, “Archipelago Capitalism,” esp. 1439–1446, 1449, 1452, 1456.

27 Bundesarchiv, Geschäftsbericht der Eurasco Zürich AG 1989, DL 210/3694.

enty million Swiss francs; at that time, the Bank for Foreign Economic Affairs of the USSR emerged from the cloak of the Donau Bank AG to join the list of Eurasco's equity holders.²⁸

We know more about Bahl's involvement in the brokering of multi-billion-deutschmark loans to the East German regime by West Germany's federal government in 1983 and 1984 (including arrangements ultimately reached between Bavarian state premier Franz Josef Strauss and the chief of the KoKo, Schalck-Golodkowski).²⁹ Among Bahl's West German contacts were Karl Wienand, then general secretary of the Social Democratic (SPD) parliamentary grouping (and subsequently an East-West investment consultant, thereafter a convicted Stasi agent); the minister of state at the German chancellery, Hans-Jürgen Wischnewski; and Wischnewski's successor, Philipp Jenninger.³⁰ Remarkably for a Helvetic banker, Bahl published an account of his efforts to secure loan agreements on behalf of the East German regime; it features many of the personalities mentioned in Meyer-Marsilius's notes.³¹ Bahl claims to have been motivated by a desire

28 Bundesarchiv, Eurasco Zürich AG, Zürich. Bericht der Unabhängigen Büchersachverständigen nach Artikel 723 OR über die Jahresrechnung per 31. Dezember 1989, DL 210/3695.

29 Details presented in Bahl's account of the multi-billion-deutschmark loan agreements reached between East and West Germany during the early 1980s can be confirmed in Matthias Judt, *Der Bereich Kommerzielle Koordinierung. Das DDR-Wirtschaftsimperium des Alexander Schalck-Golodkowski – Mythos and Realität* (Berlin: Ch. Links Verlag, 2013), 158–166, and Dong-Ki Lee, *Option oder Illusion? Die Idee einer nationalen Konföderation im geteilten Deutschland* (Berlin: Ch. Links Verlag, 2010), 299–311, as well as Stephan Kieninger, "Freer Movement in Return for Cash: Franz Josef Strauss, Alexander Schalck-Golodkowski, and the Millardenkredit for the GDR, 1983–1984," in *New Perspectives on the End of the Cold War: Unexpected Transformations?*, ed. Bernhard Blumenau et. al. (New York: Routledge, 2018), 117–137.

30 Chancellor Helmut Schmidt was privy to conversations shielded from parliamentary opposition and, presumably also, allies in Moscow and Washington, DC. See esp. Dong-Ki Lee, *Option oder Illusion*, 301. Swiss security files compiled on Bahl's visits to and from East Germany are accessible in Schweizerisches Bundesarchiv, Fiche Bahl, Holger 1975–1988, E4320-01C#1996/203#30.

31 A central participant in the loan negotiations and Meyer-Marsilius's notes is Jürgen Nitz. For his own accounts of the loan negotiations, consult Jürgen Nitz, *Länderspiel. Ein Insider-Report* (Berlin: Edition Ost, 1995), 11–48 and *Unterhändler zwischen*

to promote a superior form of economic union to the actual terms of East Germany's absorption into the Federal Republic in 1990.³² Whatever the true mixture of his political and pecuniary motives, by 1989 Bahl had cemented impressive governmental contacts in both West and East Germany and in the Soviet Union. Bahl's Bank für Kredit und Aussenhandel organized the Soviet Union's first bond issuance in a capitalist country in 1988, yielding a sum of one hundred million Swiss francs.

In his account, Bahl shares little about his professional activities after November 1989. Bahl mentions only a meeting he was asked to arrange immediately after the Wall's collapse between the leadership of the Handelskammer in Zurich and the commercial affairs officer of the GDR's embassy in Bern, Karl-Heinz Baron.³³ Files from the archives of the German Foreign Ministry confirm that on January 25, 1990, during Meyer-Marsilius's week in East Berlin, Bahl had convened an informal meeting in Zurich with East Germany's ambassador to Bern, the East German commercial representative in Zurich, and Handelskammer director Manfred W. Herr.³⁴ Published sources, mostly newspaper reports but also parliamentary inquiries initiated by members of the German federal parliament and state parliamentarians in Munich, add further details about Bahl. Their focus is twofold: how East Germany had obtained generous loans from the West German government and how the East German state had evaded high-technology import controls to squirrel away the proceeds of illegal commerce.³⁵ Bahl's East-West contacts from 1990 onward, by contrast, have not received scholarly attention.

Bonn und Berlin. Nach dem Häber-Prozess: zur Geschichte der deutsch-deutschen Geheimdiplomatie in den 80er Jahren (Berlin: Verlag Das Neue Berlin), 73–83.

32 Bahl, *Als Banker zwischen Ost und West* (Zurich: Orelli Füssli, 2002), 156–157, 170–171.

33 Bahl, *Als Banker zwischen Ost und West*, 156–157.

34 Politisches Archiv des Auswärtigen Amtes (Berlin), Schreiben von Eden an Wolfram Dufner, January 17, 1990, AV Neues Amt, Nr. 20966.

35 Schlussbericht des Untersuchungsausschusses betreffend bayerische Bezüge der Tätigkeit des Bereichs "Kommerzielle Koordinierung" und Alexander Schalck-Golodkowskis. Bayerischer Landtag. 12. Wahlperiode. July 6, 1994, Drucksache 12/16598, 34–38. Recent introductions to the loan deal involving Bahl and others and finalized

Competition among Investment Mediators within Switzerland

Switzerland was unique among Germany's major European trading partners in having not one, but two private chambers of commerce engaged in promoting business ties with the Federal Republic, the Handelskammer in Zurich and the Vereinigung Schweizerischer Unternehmer in Deutschland, which was based in Basel. The Vereinigung gained an initial edge on its Zurich competitor through a decision to transform a "local antenna" in East Berlin into a formal representation, a move approved by the board of directors in February 1990.³⁶ The Vereinigung's contacts enabled it to ramp up its own East German network, at the heart of which was the East German counterpart of the Christian Democratic Union (CDU) party. The Vereinigung's board also sought to enhance ties with Swiss banks with decades of experience in east-central Europe. Industrialists too—among them Hoffmann-La-Roche, Nestlé, and Asea Brown Boveri (ABB)—were quick to join the Vereinigung's GDR Working Group.³⁷

In February 1990, therefore, the Handelskammer confronted the daunting prospect of a new domestic rival focused exclusively on establishing relationships between Swiss and East German authorities; a Swiss attorney's office had also submitted a written application to the commercial affairs section of East Germany's embassy in Bern in a failed bid to establish a new Swiss-GDR Trade Association.³⁸ Beyond little-known

by Franz Josef Strauss and Alexander Schalck-Golodkowski are Stephan Kieninger, "Niemand will einen Rückfall in den Kalten Krieg," 352–371, and Heyde, "Die Rolle von Franz Josef Strauss bei der Vergabe der Milliardenkredite an die DDR 1983/84," in *Vom Überwinden der Mauer. Bayerische Lebensbilder. Biographien, Erinnerungen, Zeugnisse*, ed. Renate Höpfinger (Munich: Hanns Seidel Stiftung, 2014), 3:99–121.

36 Schweizerisches Wirtschaftsarchiv, Basel, 45. Jahresbericht der Vereinigung Schweizerischer Unternehmen in Deutschland (1990), Jahresberichte 1945–1999, B. Verb J 218.

37 Archiv für Zeitgeschichte, ETH Zürich, Vertretung ex DDR-Gebiet/Kontaktadresse der Vereinigung schweizerischer Unternehmen in Deutschland, October 10, 1990, IB VSM-Archiv, 2636.

38 Zurich-based attorney François Bernath was the applicant. Bundesarchiv, Bericht über die Dienstreise in die Schweiz vom 18.3.–21.3.1990, DL 200/494.

competitors like Innovatio, complicating matters for the Handelskammer was the fact that the East German deputy director of foreign trade, Christian Meyer, appeared to be inching toward a cooperative engagement with British authorities similar to the Vontobel proposal of training seminars for mid-level managers. Swiss ambassador Birrer, who had advocated for professional exchanges between Swiss and aspiring East German business leaders in his January 1990 meeting with Meyer-Marsilius, sounded alarm bells, warning diplomats in Bern and foreign trade officials in Zurich that Meyer had recently held productive meetings with Lord David Trefgarne, an influential Conservative politician and former undersecretary of state at the Department of Trade and Industry, and George Trevor Holdsworth, chair of the Confederation of British Industry.³⁹ These meetings threatened the progress achieved in talks between René Felber, head of the Swiss Department of Foreign Affairs and member of the Swiss Federal Council (Bundesrat), and Hans Modrow, during the Davos World Economic Forum in February 1990. There, the two had agreed to exchange mid-level managers, a form of Swiss–East German cooperation that Felber believed best suited both to serve Swiss business interests and to avoid ruffling feathers in West Germany.⁴⁰

The multiplicity of suitors gave East German trade authorities such as the Chamber for Foreign Trade a brief window of opportunity to acquire influence with the Swiss Handelskammer. Worried by this and intent on steering the Chamber of Foreign Trade away from greater cooperation

39 Archiv für Zeitgeschichte, ETH Zürich, Wirtschaftsbeziehungen DDR – Grossbritannien, F. Birrer, February 28, 1990, IB Vorort-Archiv, 314.5.6.4. The purpose of these meetings was to establish quickly an investment agreement between the GDR and Britain. See Bundesarchiv, letter from British ambassador Nigel Broomfield to Gerhard Beil, January 11, 1990, DL 2/16677. Appointed British ambassador to the GDR in 1988, Broomfield served as head of the East European and Soviet Department (later Soviet Department) in the Foreign Office during most of the 1980s.

40 Schweizerisches Bundesarchiv, Telegrammdienst EDA Bern, February 5, 1990, dossier E 2010A#1999/250#5883*. The file also reveals details of talks held between Felber and Czechoslovak prime minister Marián Čalfa, Romanian prime minister Petre Roman, and Bulgarian foreign trade minister Andrey Lukanov.

with trade experts based in West Berlin,⁴¹ Meyer-Marsilius added substance to consulting plans he had sketched during his visit to East Berlin in January 1990. The former Handelskammer director offered the Chamber three- to four-month long management training seminars targeted at three hundred to five hundred mid-level executives, with costs to be shouldered by “Swiss representatives” (in fact, Vontobel). The Handelskammer also offered to send retired Swiss senior executives to GDR state enterprises to serve as management consultants and aimed to establish, with Vontobel’s assistance, an electronic database to facilitate further exchanges in support of East German companies. Pairing these carrots with sticks, the Handelskammer impressed upon the chamber’s delegates the Swiss government’s wish to resolve some fourteen hundred property claims that had burdened relations between the two countries for decades. Sensing weakness after the March 18, 1990, elections to East Germany’s parliament, Meyer-Marsilius added to his negotiating team the head attorney of a law firm pursuing such claims, Werner Stauffacher.⁴² Whereas Meyer-Marsilius’s allies at the Handelskammer sought to distance themselves from the Chamber for Foreign Trade, labeling it in internal correspondence as an organization still dominated by socialists, Meyer-Marsilius and Stauffacher took a more positive view, seeing

41 Detailed proposals to collaborate with a range of West Berlin specialists, including West Berlin’s main foreign development agency (Berliner Absatz-Organisation) and the Industrie- und Handelskammer, were secretly drafted with West Berlin authorities several months before the collapse of the Berlin Wall. Bundesarchiv, Konzept für die Durchführung von Sprechtagen bei der Kammer für Aussenhandel der DDR und bei der IHK/BAO zu Berlin (West) für interessierte Wirtschaftskreise Berlin (West) und Aussenhandelsbetriebe/Kombinate der DDR, o.d. (September 1989), DL 200/563.

42 A Schutzgemeinschaft für Schweizer Eigentum im Ausland – Sektion Deutschland was closely allied with the Handelskammer; its head was Werner Stauffacher. See Hans Joachim Meyer-Marsilius, “Schweizer Eigentum in der DDR,” *CH-D Wirtschaft* 39, no. 10 (October 1990): 34. Pressure to dissolve the chamber, which had formally enjoyed a privileged position in foreign trade, came from newly established *Industrie- und Handelskammer* in the new federal states. A recent introduction is Jann Müller, *Die Wiederbegründung der Industrie- und Handelskammern in Ostdeutschland im Prozess der Wiedervereinigung* (Stuttgart: Franz Steiner Verlag, 2017), esp. 212–225.

a chance to get East German agreement on solutions favorable to Swiss citizens and companies.⁴³ At a follow-up meeting with East German public figures in mid-May 1990, the two men pushed still harder for restitution settlements on purely “commercial grounds” (for example, in swift payments, reached outside formal governmental agreements that would likely soon be overridden by federal legislation).⁴⁴ Also in mid-May 1990, Vontobel’s longtime former director Hans Vontobel assumed center stage at the event planned during Meyer-Marsilius’s first post-Wall visit to Berlin. Together with Ambassador Birrer, Vontobel opened an event titled “A Presentation of Switzerland’s Economy” in East Berlin’s International Trade Center.⁴⁵

Meyer-Marsilius and Stauffacher had driven hard bargains to secure restitution from East German authorities, but in late May 1990, Meyer-Marsilius’s successor as head of the Handelskammer, Haro Eden, invited Holger Bahl to head a recently established GDR advisory council.⁴⁶ Set up to counter the Vereinigung’s GDR Working Group, the Handelskammer’s

43 Bundesarchiv, Aktennotiz über das Gespräch mit den Herren H.J. Mayer-Marsilius, Ehrenvorstandmitglied der Handelskammer Deutschland-Schweiz, und W. Stauffacher, Rechtsanwalt, aus der Schweiz, May 18, 1990, DL 200/494. The East German government signed an agreement to settle restitution claims with Austria in August 1987. On the background to Austrian claims, consult esp. Maximilian Graf, Österreich und die DDR 1949–1990. Politik und Wirtschaft im Schatten der deutschen Teilung (Vienna: Verlag der Österreichischen Akademie der Wissenschaften, 2016), 549–558.

44 Bundesarchiv, Aktennotiz über das Gespräch mit den Herren H.J. Meyer-Marsilius, Ehrenvorstandmitglied der Handelskammer Deutschland-Schweiz, und W. Stauffacher, Rechtsanwalt, aus der Schweiz, May 18, 1990, DL 200/494. These efforts did not yield resolution: after three more years of negotiation, mostly with federal officials, Stauffacher would encourage Swiss clients to sue on the grounds of inaction. Werner Stauffacher, “Hoffnungen auf eine schnelle Regelung: Schweizer Vermögensansprüche in der ehemaligen DDR nur teilweise erfüllt – Entscheidungen über enteignete Vermögenswerte stehen auch drei Jahre nach der Wiedervereinigung Deutschland noch aus,” *CH-D Wirtschaft* 42, no. 10 (October 1993): 17–18.

45 “Präsentation Schweizer Unternehmen,” *Die Kammer. Organ der Kammer für Außenhandel der DDR* 6 (June 1990): 13.

46 Haro Eden succeeded Meyer-Marsilius in 1988. Archiv der Handelskammer Deutschland-Schweiz, Zürich, letter from Haro Eden to Holger Bahl, June 5, 1990, dossier “DDR.”

advisory council soon took up a suggestion that the former director of the GDR chamber, Wolfgang Richter, had made to Meyer-Marsilius five months earlier, and in late June 1990, the Handelskammer presented the first seminar run by a foreign business association in the eastern federal states. Provocatively titled “Switzerland as Economic Partner: The Obvious Alternative for Saxony’s Foreign Trade,” the two-day event held in Chemnitz (known until May 1990 as Karl-Marx-Stadt) and Radebeul near Dresden sought to help Swiss investors get a foot in the door of East Germany’s economy before their western German counterparts (and before those Swiss firms favoring the Vereinigung). As treaties were signed in Bonn and East Berlin stipulating the terms of East Germany’s absorption by the Federal Republic of Germany on June 20 and 21, the Handelskammer chartered a private jet to collect Swiss financiers and cantonal investment authorities. In Saxony, the Chemnitz and Dresden representatives of brand-new chambers of industry and commerce, together with a small number of would-be business leaders, joined them. The seminar’s official moderator was the Handelskammer’s Manfred Herr, but its star attraction was banker Holger Bahl.

As the Handelskammer’s monthly newsletter reported, even for this “doyen of the Handelskammer’s investor seminars,” the president of Eurasco Zurich AG’s supervisory board, “the opportunity to stand at the lectern in Chemnitz and present his experiences of joint ventures was truly exceptional.” A Handelskammer speaker for more than a decade, Bahl had consistently sought to underscore the value of “East-West trade via Swiss platforms.”⁴⁷ Informal conversations about Bahl’s experiences in the “Comecon area” reportedly led one participant to wonder how the Handelskammer’s seminar would have been regarded in the old days of the GDR. What Bahl shared of his past experiences in the GDR during the flight to and from Dresden and the car trip from Radebeul to Chemnitz remains a mystery. We do know Bahl invited attendees to record their

47 “Wirtschaftspartner Schweiz: die naheliegende Alternative für den Aussenhandel Sachsens,” *CH-D Wirtschaft* 39, no. 9 (September 1990): 33–40.

impressions of the Handelskammer premiere by completing the sentence “I was there, my next step will be ...” Among those to respond was Urs Künzle, a representative of the EC Consulting Group AG, Zurich, the consultancy that Vontobel Bank had set up in 1988.⁴⁸ In Künzle’s estimation, “factories in the GDR do not necessarily work worse than elsewhere”—they had merely been hamstrung by “ideological and industrial barriers.” He argued that the restructuring of the GDR’s economy had exacerbated management difficulties. Limited financial and currency reserves were hitting East German companies at the same time as investment requirements and competitive pressures were peaking. Exceptional historical circumstances demanded “problem-oriented analyses” that the EC Consulting Group, consisting of one hundred experienced employees based in Zurich, Düsseldorf, London, and Milan, was willing and able to offer “GDR managers” of businesses or “business units.” What Künzle and the Vontobel consultancy were offering remained vague. In his survey answer, he promises to identify “problem areas” that could be rectified with “relatively limited engagement,” thus producing improvements that might be of interest to a “potential partner.”⁴⁹ Weak on analysis, the solution was somewhat clearer: in hard times outsiders with deep pockets could make all the difference.

48 “Wachsender Marktanteil der Bank Vontobel. Folgen von EG92 für den Finanzplatz,” *Neue Zürcher Zeitung* 61 (March 14, 1990), 35. For an interesting review of Swiss attitudes toward unification expressed in the pages of Switzerland’s most important liberal daily, see Georg Kreis, “Die deutsche Wiedervereinigung aus Schweizerischer Sicht. Was die ‘Neue Zürcher Zeitung’ dazu schrieb,” *Europa und die deutsche Einheit. Beobachtungen, Entscheidungen und Folgen*, ed. Michael Gehler et al. (Göttingen: Vandenhoeck & Ruprecht, 2017), 241–258.

49 “Wirtschaftspartner Schweiz. Die naheliegende Alternative für den Aussenhandel Sachsens,” *CH-D Wirtschaft* 39, no. 9 (September 1990): 33–40.

The Relevance of Inter-German Trade to Postsocialist Investments

How did such “potential partners” from Switzerland acquire assets, Treuhand or otherwise? In December 1991, Swiss diplomats noted that two important reasons for their country’s early successes in the newly capitalist East lay in the recently socialist past and the activities of the Handelskammer. With reference to the former, in “most cases” Swiss investors had cultivated “a loose connection” or “some form of cooperation” in socialist times with newly purchased firms. The Zug-based apparel manufacturer Schiesser, they reported, had set up a licensing contract with the Saxon state enterprise Trikotex, and the LUWA AG had established a cooperation agreement with a state-run enterprise in Dresden specializing in air engineering instruments.⁵⁰ Such examples were the tip of the iceberg. Modest when compared to those of West Germany, Swiss contacts with the GDR were nonetheless extensive. The year 1989 was the forty-second that Swiss firms had participated in East Germany’s most important industrial event, the Leipzig trade fairs: 128 firms were represented there that March.⁵¹ Among the firms marking their twenty-fifth anniversary at Leipzig in 1989 was Ciba Geigy AG. Then the largest chemical concern in Switzerland, Ciba-Geigy had ties to East Germany extending back to the late 1950s. After the Swiss government granted East Germany formal recognition in 1972, Alexander Schalck-Golodkowski, head of the KoKo foreign trade networks, paid a visit to Ciba-Geigy’s Basel headquarters.⁵² East Germany’s foreign trade minister, Gerhard Beil, followed five years later. During his 1977 visit to Basel, Beil met the president of Ciba-Geigy’s supervisory board, Louis von Planta, along with his counterparts from Sandoz, today a division of Novartis, as well as Winterthur-based pump

50 Schweizerisches Bundesarchiv, Besuch bei schweizerischen Investoren in den neuen Bundesländern, December 5, 1991, 521.70 Allgemeines, Schweizer Investitionen 1991/1992, dossier E7220C#2006/288#368*.

51 Bundesarchiv, Arbeitsplan der HPA zur LHM 1989. August 7, 1989, DL 2/16789.

52 Schweizerisches Bundesarchiv, Fiche Schalck-Golodkowski, Alexander, 1969–1990, E4320-01C#1996/203#497.

manufacturer Sulzer, prompting observation by the Swiss intelligence authorities.⁵³

Perhaps the taint of KoKo connections led Beil to leave his numerous trips to Switzerland unmentioned in his official memoir.⁵⁴ Beil's influential deputy minister and by now state secretary for trade in Hans Modrow's government, Christian Meyer, logged more time in Switzerland, making at least one of his visits prior to the assumption of formal diplomatic relations.⁵⁵ Meyer's most important trip was probably the one he made in February 1990.⁵⁶ On this occasion his meetings with industrial contacts took place in the Zurich offices of the Schweizerische Bankgesellschaft, today the headquarters of UBS, much as they had in the 1970s and 1980s. What was new was the sheer scale of the gathering in Meyer's honor. Meyer met directors of ABB, AGIE, André & Cie, Balzers, Bühler, Cargonautic, Ciba-Geigy, Emont, Feintool, Georg Fischer, General Transport, Gyseler Cotton Company, Elektrowatt AG, F. Hoffmann-La Roche, Intermerkur, Intershop, Intrac, Lonza, Meili, Nestlé, Sandoz, Sacomintag, Schindler, Schubiger, Schweizerischer Versicherungsverband, Simec, Sprecher Energy, Swissair, Sulzer, Berno Thues, Achim Türklitz, UTC International, and Zurich Insurance. The general director of the Schweizerische Bankgesellschaft, his deputy, a vice director, and a general manager swelled the throng, and the bank's competitors, among them Schweizerischer Bankverein, Schweizerische Volksbank, Holderbank, and prestigious

53 Schweizerisches Bundesarchiv. Notiz über den Besuch des 1. Stellvertreters des Ministers für Aussenhandel der DDR, Staatssekretär Dr. G. Beil, 21. Dezember 1977, dossier E2001E-01#1988/16#5133°. See also Andreas Förster, *Eidgenossen contra Genossen* (Berlin: Christoph Links Verlag, 2016) 148–154.

54 Gerhard Beil, *Aussenhandel und Politik. Ein Minister erinnert sich* (Berlin: edition ost, 2010).

55 The first of these visits, in 1969, was subsequently removed from official protocols. Archiv für Zeitgeschichte, ETH Zürich. Fortsetzung des vertraulichen exploratorischen Gespräches mit Behördenvertretern der DDR in Berlin vom 11.–14. März 1970, NL Paul R. Jolles, 7.5.8.4., 1039.

56 Archiv für Zeitgeschichte, ETH Zürich, Brief von Silvio Arioli, Der Delegierte für Handelsverträge, an Christian Meyer, Stellvertreter des Ministers für Aussenhandel der Deutschen Demokratischen Republik, January 17, 1990, IB Vorort-Archiv, 314.5.6.5.

private banking houses Leu and Vontobel, dispatched representatives to meet him. Also joining the discussion was the former director of the Handelskammer, Meyer-Marsilius; the Vereinigung's director, Rudolf Kögler, was not in attendance.⁵⁷ In preparation for this meeting, the official trade agreements delegate (his formal title was "ambassador") of the Swiss Federal Council, Silvio Arioli, suggested that staff of East Germany's embassy in Bern compile "a Swiss wish list for improved cooperation." Keen to suggest possibilities, Arioli did not miss the opportunity to state what Meyer and his SED colleagues had grasped immediately: "without assistance from third countries (Swiss or European Community)," East Germany would be compelled "to surrender in the face of the West German offensive." "If the GDR sought to avoid the monopolization of its foreign trade," concluded Arioli, "it could only do so by opening its economy rapidly and fully to all potential investors."⁵⁸

Long-standing Swiss ties to East Germany and Handelskammer activism did not always yield new business, though they often appear to have paved the way. Not infrequently these connections led back to the KoKo. At the end of 1989, the eighth floor of the International Trade Center in Berlin hosted Nestlé World, a firm that, less than six months later, was producing at four locations in East Germany via "cooperation agreements." Whether these contacts had anything to do with earlier ties remains unknown, though one might be tempted to suspect as much given the visits during the early 1980s of two high-ranking KoKo functionaries, Günter Asbeck and Horst Steinert, to Nestlé headquarters in Vevey.⁵⁹ Still other

57 Archiv für Zeitgeschichte, ETH Zürich, Treffen zwischen Herrn Christian Meyer, Stellvertretender Aussenwirtschaftsminister der DDR, und Vertretern der schweizerischen Wirtschaft, February 13, 1990, IB Vorort-Archiv, 314.5.6.5.

58 Archiv für Zeitgeschichte, ETH Zürich. Notiz für die Botschaft der DDR in der Schweiz – HPA, undated (January 1990), IB Vorort-Archiv, 314.5.6.5.

59 Bundesarchiv, Schreiben an Herrn Haas, Nestlé World Trade Corporation, January 28, 1983, DL 226/238. See also Förster, *Eidgenossen contra Genossen*, 76, 95–96. Together with two other functionaries, Asbeck and Steinert also registered plans to visit the European headquarters of Philipp Morris in Lausanne. Stasi contacts with US-based firms like Pepsi-Cola on the other hand ended with losses for the American

firms, notably the Siemens competitor ABB, an attendee at Meyer's February 1990 conference, had been trading with East German firms for thirty years; headed by the president of its supervisory board, Fritz Leutwiler, ABB, too, was a Swiss investment leader after 1990, with ties developed by the company's West German subsidiary in Mannheim. Like many West German concerns, ABB's predecessors had done extensive business with Intrac, the largest and most important KoKo trade intermediary—and again an attendee of the February 1990 meeting in Zurich— as well as with several other KoKo concerns.⁶⁰

Hoping to expand footholds in eastern Germany's economy after November 1989, those closest to the events perceived the immediate need for insights into the inner workings of East Germany's evolving economy. That prompted Meyer-Marsilius's visit to East Berlin and also accounts for why the Vereinigung, the Handelskammer's competitor, sought in October 1990 to expand the board of its GDR Working Group, under the leadership of F. Hoffmann-La Roche's Donald de Courten, to include two or three representatives "with actual frontline experience" in East Germany.⁶¹

multinational. For a brief introduction, consult Jonathan R. Zatin, *The Currency of Socialism: Money and Political Culture in East Germany* (New York: Cambridge University Press, 2007), 94–100.

60 During the first half of 1990, such ties yielded cooperation agreements between Intrac and the ABB subsidiary in Mannheim. See, for example, Bundesarchiv, Absichtserklärung zwischen VEB Verbundnetz Elektroenergie, Berlin, Intrac Handelsgesellschaft, Berlin, und der ABB Schaltanlagen GmbH, Mannheim, April 26, 1990, DL 210/3341.

61 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel, Zirkular an die Herren des Vorstandes, Vereinigung Schweizerischer Unternehmen in Deutschland, October 19, 1990, Vorstands- und Ausschusszirkulare.

Michael Grossauer's Asada and the Handelskammer Deutschland-Schweiz

Unfortunately for the Vereinigung, the Handelskammer and Vontobel were several steps ahead, having already engaged “two to three representatives” with precisely these ties. The ace up the Handelskammer and Vontobel’s sleeve in opening eastern Germany’s economy to Swiss interests was the tradition of connections arising from Switzerland’s roles in trade between East and West Germany. Eurasco chief and Handelskammer associate Holger Bahl was not the only relevant figure in such networks. A second was investment strategist Michael Grossauer, a Vienna-born financier based not in the main Swiss banking capital of Zurich but in nearby Zug. Like Bahl’s Eurasco, Grossauer’s company Asada did not possess a Swiss banking license; instead, Grossauer presented Asada as an “engineering and finance group.” Asada’s specialization was electronics imports. Unlike the Handelskammer and the Vereinigung, both Bahl and Grossauer had long been fixtures of the Leipzig trade fairs, visiting and hosting receptions attended by Swiss ambassadors to East Berlin and other notables of East German foreign trade (including KoKo companies).⁶²

Incorporated in 1985, Asada opened an office in East Berlin’s International Trade Center the following June. In 1989, Asada marked its fifteenth anniversary at the Leipzig spring trade fair, and by March that year, Grossauer had opened offices in Warsaw, Moscow, and East Berlin.⁶³ Grossauer’s East German clients included foreign trade enterprises permitted to specialize in electronics and electrical engineering. His business was embargoed goods. Both Grossauer’s Asada and Bahl’s Eurasco moved quickly to deepen contacts they had fostered during thaws in the continent’s two-generation Cold War. Both asset managers have recently

62 Schweizerisches Bundesarchiv, Brief von Holger Bahl an Franz Birrer, Botschafter der Schweiz, February 23, 1989, dossier E2200-56-05#1997/100#108*.

63 Bundesarchiv, Ausstellerjubiläen-Schweiz, Leipziger Messe 1989, undated, DL 2/16789.

drawn criticism from sleuthing investigators, with Grossauer's role in intra-German commerce treated to a scathing portrayal by a Berlin-based Swiss historian-cum-journalist.⁶⁴

Nevertheless, the precise motives behind Bahl's and Grossauer's efforts remain unclear. Beyond dispute are their respective organizations' attempts to leverage the positions the pair had acquired as German-German go-betweens. Bahl's and Grossauer's commercial enterprises bound together economic interests in West Germany, Switzerland, East Germany, the Soviet Union, and several other east-central European countries. As a neutral power and thus only a de facto, not de jure, member of the American-led Coordinating Committee for Multilateral Export Controls, Switzerland served as a conduit of Western technology to Soviet Bloc nations. Coupled with the country's attractions as a haven for "private asset management," Switzerland's role in intra-German trade was exploited by figures like the West German Bahl and the Austrian Grossauer to their commercial advantage, paving the way for the Handelskammer's and Vontobel's later cooperation with the Treuhand.

In late January 1990, the United States Department of Commerce denied Grossauer and his firms US export privileges for ten years.⁶⁵ This

64 Ricardo Tarli claims to draw upon "ten thousand" pages of archival documents; unfortunately for his readers, he does not cite any of them. Ricardo Tarli, *Operationsgebiet Schweiz. Die dunklen Geschäfte der Stasi* (Zurich: Orelli Füssli, 2015), 15. Tarli's coverage of Grossauer claims to be based on FBI and Stasi documentation; see 81–97. Grossauer's activities, unlike Bahl's, can hardly be attributed to improving ties between the two postwar Germanys, a narrative Bahl has advanced without rebuke from his former contacts within the West German political establishment. Early attempts to document these relationships were in contemporary press coverage. See "Die Weisswaschung eines Zuger Schwarzhändlers," *Luzerner Neueste Nachrichten* 173, July 28, 1990. This and subsequent press accounts prompted a formal inquiry by the German parliament and Bavarian state parliament, which in turn used Stasi documentation to question key witnesses, including Grossauer. See *Der Bereich Kommerzielle Koordinierung und Alexander Schalck-Golodkowski: Werkzeuge des SED-Regimes*; Abschlussbericht des 1. Untersuchungsausschusses des 12. Deutschen Bundestages, Drucksache 12/7600, May 27, 1994, 47, 161, 215, 262, 267–270.

65 *Federal Register: The Daily Journal of the U.S. Government* 55, no. 46 (March 8, 1990): 8505–8508. Asada's direct predecessor, a firm named Allimex, had been temporarily denied export privileges in 1985.

decision appears to have encouraged Grossauer to deepen ties between Switzerland and East Germany. A month later, the Swiss ambassador to East Berlin, Franz Birrer, reported on a conference organized by Asada chief Grossauer with economic experts from the East German counterpart of the Christian Democratic Union.⁶⁶ Grossauer's Asada had co-hosted this event, held in East Berlin and featuring thirty prospective East German entrepreneurs, with East CDU politician Eberhard Engel, a central figure on the "Economic Committee" of the last SED-led East German government under Hans Modrow.⁶⁷ Acting on a suggestion from Birrer, at the end of February 1990 Haro Eden, head of the Handelskammer, asked Asada to join the organization. Eden and his colleagues hoped this would enable the Handelskammer to counter the Vereinigung's CDU ties in East Berlin. Eden noted with satisfaction that Grossauer immediately lent his support to the GDR Advisory Council within the Handelskammer.⁶⁸ Among the first tangible results of Grossauer's inclusion was the recruitment of another Swiss firm with East German ties, Losone-based fiber-optic cable manufacturer Diamond SA, along with the first two honorary East German members of the Handelskammer.⁶⁹ Profiled in the June 1990 issue of the Handelskammer's monthly newsletter, brand-new Handelskammer member Werner Schorrardt from Glienecke (near Potsdam) explained to readers that his new export-import firm, Beveco, was

66 Archiv für Zeitgeschichte, ETH Zürich, memorandum from Birrer to the Vorort SHIV, February 28, 1990, IB Vorort-Archiv, 314.5.6.5.

67 Archiv für Christlich-Demokratische Politik (Sankt Augustin), Vertrauliches Diskussionsmaterial für das Wirtschaftskomitee beim Ministerrat der DDR, undated [February 1990], 07-011/3893.

68 Grossauer had already put together a proposal, rejected by the directors of Credit Suisse, to set up a "Handelskammer Schweiz-DDR" competitor to the Zurich-based Handelskammer Deutschland-Schweiz. Archiv der Handelskammer Deutschland Schweiz, Zürich, letter from Michael Grossauer to Dr. Haro Eden, March 5, 1990, dossier "DDR." Instead, Credit Suisse enlisted Norbert Stelzer to establish a private equity fund devoted entirely to investments in eastern Germany. See Jowett and Jowett, *Private Equity*, 249–250.

69 Archiv der Handelskammer Deutschland-Schweiz, Zürich, Bericht über eine Vertragsveranstaltung vor dem Wirtschaftskreis der CDU-Ost am Mittwoch, dem 21. Februar 1990 in Ostberlin, dossier "DDR."

entirely different from “Schalck.”⁷⁰ The candid reference to KoKo chief Schalck-Golodkowski appears to have been lost on the newsletter’s writer: we only know that Grossauer’s Asada, a firm long favored by high-tech enterprises within Schalck’s KoKo and subsequently targeted by United States export control authorities, was making similar pitches to readers in the very same issue.⁷¹

Ten days prior to Bahl’s June 1990 seminar in Chemnitz and Radebeul, Grossauer was offering opening and closing remarks in Zurich’s Zunfthaus at a “GDR seminar” devoted to “questions of finance.”⁷² The Handelskammer’s activism was not lost on Swiss commerce officials in Bern. A report submitted by a lead official of the Swiss Federal Office for Foreign Trade (Bundesamt für Aussenwirtschaft) noted with approval that the purpose of Grossauer’s seminar was to establish a much-needed counterweight to West German financiers.⁷³ Presented on Asada stationery, Grossauer’s list of speakers included East German minister president Lothar de Maizière’s right-hand man for economic matters, state secretary Martin Dube; Eberhard Engel, co-organizer of the Asada-sponsored February gathering in East Berlin; and several individuals whom Meyer-Marsilius had met in East Berlin in January 1990 through Holger Bahl, including Heinrich Gramer, director general of the GDR’s Handelsbank (known to insiders as Schalck’s “house bank”), Karl-Heinz Baron, commercial attaché in East Germany’s embassy in Bern, and Dieter Prietzel, state secretary in the East German Ministry of Economics engaged in foreign trade matters from the mid-1950s to 1990. Participants at Grossauer’s Zunfthaus seminar learned of his plans to expand Asada’s operations in East Berlin; that month, Grossauer and his colleagues launched the Asada Business Consulting Group there. Grossauer’s team of financial auditors

70 Beveco was registered on January 8, 1990. Ina Nehls, “Wer Rat braucht, beveco fragen!” *CH-D Wirtschaft* 39, no. 6 (June 1990): 27.

71 “Wirtschaftspartner DDR,” *CH-D Wirtschaft* 39, no. 5 (May 1990): 80.

72 Archiv für Zeitgeschichte, ETH Zürich, Schreiben von Michael Grossauer, Präsident des Verwaltungsrates, May 1990, IB Vorort-Archiv, 314.5.6.3.

73 Schweizerisches Bundesarchiv, DDR-Symposium; Zürich, 12. Juni 1990, dossier E 2010A#1999/250#5886*.

and accountants focused on incorporating East German enterprises, a task to which the Treuhand (and Vontobel's EC Consulting Group) had begun to devote significant attention. The Asada Business Consulting Group also sought to insert itself into the business of winning restitution for the Swiss owners of properties in East Germany before the country's absorption into the Federal Republic.⁷⁴

Sensing commercial possibilities in the “faltering East-West commerce” to which Germany's federal government had signaled its commitment, in January 1991 Grossauer set up a “clearinghouse” for goods and services produced in eastern Germany and bound, with financial assistance from the federal government, for East European markets. Asada's exchange was a private-sector attempt to take up activities recently carried out by East German foreign trade officials including Meyer, Beil, Gramer, and Prietzel.⁷⁵ It was not successful. Still, it is worth noting that, in promoting the clearinghouse, Grossauer joined forces with a Swiss public relations firm, Klaus J. Stöhlker & Partner. Klaus Stöhlker, who had been the public relations mastermind behind the rise of Switzerland's Swiss People's Party (Schweizerische Volkspartei) during the 1980s, chose former East German state secretary Dieter Prietzel as his (and Grossauer's) lead consultant in Berlin.

The Handelskammer Deutschland-Schweiz and the Treuhand

The Handelskammer's monthly newsletter devoted coverage to Grossauer's moves after joining the Handelskammer—the establishment of a consultancy within Asada, attention to restitution claims, a clearinghouse for eastward-bound goods and services, and a partnership with a Swiss

74 “ASADA Business-Consulting Gruppe,” *CH-D Wirtschaft* 39, no. 6 (June 1990): 47.

75 “Asada SA eröffnet Clearingstelle in Berlin,” *CH-D Wirtschaft* 40, no. 2 (February 1991): 30.

public relations firm showcasing Prietzel.⁷⁶ At the same time, the Handelskammer moved forward on more conventional initiatives to expand its radius in eastern Germany. These measures, most notably an investor guide and seminar in Zurich, are important in grasping how the Handelskammer sought to leverage its ties among the Swiss, GDR, and FRG economies in the service of the German Treuhand. In June 1990, Handelskammer vice director Manfred H. Guterath published a handbook tailored to the interests of potential Swiss investors.⁷⁷ Titled “Cooperation Exchange Switzerland/GDR,” Guterath’s publication included short entries profiling businesses in both countries. Updated monthly, this catalog was available from the Handelskammer in Zurich and the Treuhand in Berlin; Guterath’s directory served as the basis for a Handelskammer database.⁷⁸ As for the Handelskammer’s ties to Vontobel, these received a boost in December 1990, when the moderator of Bahl’s Saxony seminar, Manfred Herr, left the Handelskammer after twenty-one years to accept a new position as a deputy director with the Vontobel Holding. His first act there was to orchestrate a gathering of more than four hundred participants in January 1991, featuring two speakers from the Treuhand, including Otto Gellert, a member of the Treuhand’s supervisory board.⁷⁹ Citing their engagement with the Treuhand’s leadership, Herr and the Vontobel managing board member responsible for the new consultancy, Hans F. Vögeli, contacted the Treuhand’s Wolfgang Klinz and informed him that Vontobel’s plans to engage directly in the privatization of Treuhand companies required his attention. Vontobel’s move bore fruit almost

76 “Dieter Prietzel,” *CH-D Wirtschaft* 41, no. 4 (April 1991): 41.

77 Manfred H. Guterath, *D-Ost Special 2: Absatz- und Investitionsbibel Ostdeutschland. Marktschliessung der fünf neuen Bundesländer* (Zurich: Handelskammer Deutschland-Schweiz, 1990). *D-Ost Special 1*, an earlier version of this publication, released on June 1, 1990, quickly sold out.

78 Archiv für Zeitgeschichte, ETH Zurich. “Der Umbau in Ostdeutschland muss gelingen (TS),” Vortrag vor der Handelskammer Deutschland-Schweiz vom 20.9.1992, NL Fritz Leutwiler/276.

79 Politisches Archiv des Auswärtigen Amtes (Berlin), report from the General Consulate of the Federal Republic in Zurich to the Foreign Office, Department 412, January 30, 1991, AV Neues Amt, Nr. 20966.

immediately: in late June 1991, it was enlisted by the Treuhand to promote mergers and acquisitions, joint ventures, and direct investments.⁸⁰ Herr and Vögeli were able to reach out to Treuhand managing board member Klinz because the Handelskammer had recently invited him to serve as the keynote speaker at yet another Zurich investor seminar.⁸¹ As it happened, Herr and Gutermuth had arranged this event prior to Herr's departure to Vontobel EC Consulting Group. Klinz, as Herr and Vögeli knew, was favorably disposed to grant their request for a meeting in Berlin because, during the late 1980s, he had served on the management board of Swiss energy management concern Landis & Gyr. At least equally importantly, from 1991 to 1994 Klinz was simultaneously on the board of both the Treuhand and the Handelskammer.⁸²

In early autumn 1991, Herr and Vögeli arranged a "Treuhand Workshop" in Zurich allowing potential investors and financiers to liaise with those leading Germany's denationalization drive in the East.⁸³ In October 1991, the Treuhand's Birgit Breuel selected the Handelskammer, and not the Vereinigung, as its official Swiss representation, ignoring the recommendation submitted by a further, and very influential, Swiss foreign trade association, the Schweizerischer Handels- und Industrie-Verein (today *economiesuisse*).⁸⁴

80 Schweizerisches Wirtschaftsarchiv, Basel, Die Geschäftsberichte der Vontobel-Gruppe 1991/1992, 91, Vontobel & Co. AG Zürich, Banken 1906.

81 Archiv für Zeitgeschichte, ETH Zürich, Einladung zum Seminar: Deutschland – Ost. Marktschliessung der fünf neuen Bundesländer, Kooperationen, Firmenübernahmen, Firmenbeteiligungen, Niederlassungesgründungen, Marktbearbeitung, March 11, 1991, IB VSM-Archiv, 2636.

82 Bundesarchiv, Brief an Wolfgang Klinz von H. F. Vögeli und M. W. Herr, June 20, 1991, B 412/3757.

83 "Informationsveranstaltung," *CH-D Wirtschaft* 40, no. 10 (October 1991): 49.

84 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel, Protokoll der 244. Vorstandssitzung der Vereinigung Schweizerischer Unternehmen in Deutschland, Protokolle Vorstandssitzungen 1991.

Vontobel's Consultancy and Treuhand Sales

The Vontobel EC Consulting Group, a tiny offshoot of the prestigious Zurich private banking house, had in the meantime set up offices in Düsseldorf, from where Vontobel ran projects on behalf of the Treuhand. The Vontobel consultants felt that a powerful arrow in their quiver was their "Initial Audit for the New German States." Capitalizing on the bank's ties to the German divestiture authority, Herr and his colleagues proposed to clarify for potential investors the circumstances under which arrangements with East German entities—a purchase, a joint venture, or another form of cooperation—made business sense.⁸⁵ To share knowledge about objects of interest to buyers and sellers, Vontobel's Düsseldorf-based consultants offered training seminars to mid-level public utility managers, an approach that the Swiss consultancy had developed with the Handelskammer at Ambassador Birrer's suggestion. Vontobel's focus was water treatment, a business characterized by steady demand, little or no competition, and generous infrastructure subsidies.⁸⁶ The joint Vontobel and Handelskammer training seminars were not aimed just at East Germans. Czech, Latvian, and Slovak water specialists also received instruction, with funding provided by a Swiss foreign development authority, the Schweizer Osthilfe.

Vontobel's relationships with public-sector authorities in Germany drew upon the Handelskammer's legwork, which in turn arose from sources that Bahl, Grossauer, and other East German investment strategists had cultivated in intra-German commerce. Extensive cooperation with the GDR during the 1970s and 1980s laid much of the groundwork for Swiss engagement in eastern Germany's privatization from 1990 onward. Knowledge of the old regime was initially very valuable, but it came with a limited shelf life, a fact East Germans were among the first

85 "Vontobel EC Consulting AG," *CH-D Wirtschaft* 40, no. 7–8 (July/August 1991): 31.

86 Schweizerisches Wirtschaftsarchiv, Basel, Die Geschäftsberichte der Vontobel-Gruppe 1990/1991, 90, Vontobel & Co. AG Zürich Jahresberichte (–1996) Banken 1906.

to grasp. Even for those with impeccable East German trade credentials, starting over presented considerable challenges. An example is Herbert W. Goulnik, well known to Swiss diplomats owing to his directorship of the commercial affairs section of East Germany's embassy in Bern until 1986 and deputy directorship of the GDR-FRG Trade Association (*Handelsverein*); he was now director of the newly minted Treuhand Consult GmbH. Goulnik's efforts to recast himself as a private-sector consultant were weighed up directly against his socialist past, and he was regarded by Swiss diplomats with both curiosity and suspicion—as the Swiss consulate in Berlin noted in September 1991 with a touch of distaste, perhaps Goulnik's "old-boy networks" (*alte Seilschaften*) might cancel socialism's stigma for future Swiss investors.⁸⁷

Contacts from the old regime worked best when complemented by both outstanding ties to western Germany, such as those enjoyed by the Handelskammer, and new connections forged within the governments of the new, eastern federal states. The president of the Handelskammer Deutschland-Schweiz was among the forty leading representatives of Swiss industry to enjoy an audience with West German chancellor Kohl during his April 1989 visit to Bern.⁸⁸ In eastern Germany, Vontobel made the most of these strong suits by taking yet another page out of the Vereinigung's playbook. The Vereinigung's director, Kögler, had gone out of his way to cultivate ties to the economics minister of the federal state of Brandenburg, Walter Hirche.⁸⁹ Accordingly, in November 1991, Vontobel and the Handelskammer hosted high-level meetings in Zurich for a delegation visiting from Thuringia and headed by the state's minister president Josef Duhač. His economics minister, Jürgen Bohn, accompanied by business leaders from the state, extended this initial contact by continuing their journey to Basel, St. Gallen, and Thurgau. Sponsorship

87 Schweizerisches Bundesarchiv, Memorandum titled "Treuhandels-Consult GmbH," September 10, 1991, dossier E 2200 55A#1996/50#307*.

88 Bundesarchiv, Betreffend Besuch des Bundeskanzlers in der Schweiz, gez. Wentker, April 18, 1989, B 136/59727.

89 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel, letter from Walter Hirche to Rudolf Kögler, September 4, 1991, "Zirkulare VSUD 1991."

from Vontobel and Lufthansa permitted the Handelskammer to waive fees for two hundred participants.⁹⁰ A follow-up meeting in Thuringia in 1992 engaged Ducháč's successor as minister-president, Bernhard Vogel, along with the two directors of Thuringia's state development agency.⁹¹ The Treuhand's formal representative in Switzerland, Fritz Leutwiler, also joined the event, with the Schweizerischer Bankverein (a predecessor of today's UBS) serving as its sponsor. Breuel, for her part, supported business development with a visit in February 1992 to the World Economic Forum meeting in Davos and a talk to financiers in Zurich.⁹²

Swiss Criticism (and Praise) for the Treuhand

The Vereinigung was thus denied the opportunity to serve as the Treuhand's first port of call in Switzerland and thwarted by the Handelskammer and its powerful banking allies. It increasingly found itself adding a voice of protest to the privatization authority's chorus of critics. During the summer of 1992, the board of the Basel-based association was seeking to publicize its knowledge of a failed sale to the country's largest furniture manufacturer involving the Treuhand's Suhl branch office.⁹³ A written reply from Breuel in September 1992 threatening to pursue legal action did little to resolve matters; even the intervention of the German ambassador in Switzerland and Liechtenstein, Werner Graf von der Schulenburg, appears to have been only partially successful in calming the waters.

90 H. J. Meyer Marsilius, "Thüringen als Partner der Schweiz," *CH-D Wirtschaft* 41, no. 1 (January 1992): 13.

91 Politisches Archiv des Auswärtigen Amts (Berlin), communication from Generalkonsulat der Bundesrepublik Deutschland Zürich to the Auswärtiges Amt, Bonn, Referat 422, February 7, 1992, AV Neues Amt, Nr. 20965.

92 Bundesarchiv, Rede der Präsidentin der Treuhandanstalt Frau Birgit Breuel anlässlich der Tagung der Zürcher Volkswirtschaftlichen Gesellschaft am 3. Februar 1992 in Zürich, B 412/11962.

93 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel, Protokoll der 247. Vorstandssitzung, November 25, 1992, Protokolle Vorstandssitzungen 1992.

On the contrary, members of the Vereinigung's board acerbically drew von der Schulenburg's attention to their "statutory duty" to defend Swiss members.⁹⁴

The Handelskammer did not share this negative evaluation of the Treuhand's sales efforts. Peter Stüber, Meyer-Marsilius's successor as Handelskammer president, conceded in May 1993 that the privatization agency was facing more than its share of difficulties but nonetheless insisted that its accomplishments deserved lasting respect. Under Breuel's leadership, Stüber noted, the much-maligned Treuhand had privatized more firms every day than Margaret Thatcher's government had in twelve years.⁹⁵ The featured speaker at the subsequent annual meeting of the Handelskammer, former German minister of the interior Wolfgang Schäuble, echoed Stüber's praise, highlighting the work of Treuhand representative Leutwiler and the professionalism of the Handelskammer.⁹⁶

The business case for collaborating with the Treuhand was ultimately less clear. In a public statement in the Treuhand's monthly newsletter, Vontobel's deputy director, Manfred Herr, insisted in late 1991 "The Treuhand is better than its reputation. And most of its employees are more qualified than its critics. If it didn't exist, someone would have to invent it."⁹⁷ In January 1992, Hans Vontobel was so enthusiastic about the Treuhand that he allowed Herr to suggest to the Swiss diplomats in Germany that the position of Treuhand formal representative in Switzerland be

94 Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel, Protokoll der 247. Vorstandssitzung, November 25, 1992, Protokolle Vorstandssitzungen 1992.

95 "Präsidialansprache von Dr. Peter Stüber, Präsident der Handelskammer Deutschland-Schweiz am 11. Mai 1993, 81. Mitgliederversammlung 1993 der Handelskammer Deutschland-Schweiz in Zürich," *CH-D Wirtschaft* 42, no. 7–8 (July/August 1993): 3–4.

96 Peter Stüber, "82. Mitgliederversammlung 1994 der Handelskammer Deutschland-Schweiz in Basel," *CH-D Wirtschaft* 43, no. 7–8 (June/July 1994): 3–4. Schäuble gave the keynote address to the 1997 annual gathering of the Handelskammer's competitor, the Vereinigung. Ten years earlier, in 1987, both Helmut Kohl and Franz Josef Strauss delivered speeches marking the seventy-fifth anniversary of the Handelskammer.

97 Treuhand-Information 7 (November 1991), 1.

awarded to Vontobel (and not Leutwiler).⁹⁸ On the other hand, in later years, Hans Vontobel, Meyer-Marsilius's old boss at the Handelskammer, regarded his bank's consulting engagements on behalf of the Treuhand as unsuccessful. A short history commissioned by Vontobel concedes that attempts to marry consulting with investment banking fell flat.⁹⁹ Sold at the end of 1993, Vontobel's EC Consulting Group in Düsseldorf produced little more than red ink for the private bankers, as even an in-house publication of the late 1990s admitted.¹⁰⁰ Annual reports reveal that the consultancy's major client in 1992 and 1993 was the Treuhand. Despite some sales executed on behalf of the German privatization agency, EC Consulting was struggling at the end of 1993 owing to the "growing absence of West German subsidies" and "waning enthusiasm on the part of Western investors."¹⁰¹

For the companies headed by Grossauer and Bahl, association with the Handelskammer also contributed little to bottom lines. The early 1990s presented fresh opportunities for both entities, not so much in East Germany as in the Russian Federation and several countries in east-central Europe. In 1994, Grossauer dissolved Asada, folding it into another Grossauer firm, Aurico Finanz AG. Grossauer's activities thereafter are currently difficult to trace, but Bahl's next steps at Eurasco are better documented. The largest stockholder in Eurasco at the end of 1990 was the Bank for Foreign Trade of the USSR with 14.5 million Swiss francs. The stockholders also included smaller Soviet entities, along with the West German Landesbank Rheinland-Pfalz, the Metallgesellschaft, and a nota-

98 Bundesarchiv, Brief von E. Trinkler an Vehse, January 17, 1992, B 412/12143.

99 Katharina Fehr, *Vontobel 1924–2012* (Zurich: Vontobel Bank, 2013), 68.

100 *75 Jahre Vontobel*, unter Mitwirkung von Dr. Ulrich E. Gut and Dr. Michael Wirth (Zurich: NZZ Fretz, 1999), 40.

101 Schweizerisches Wirtschaftsarchiv, Basel, Die Geschäftsberichte der Vontobel-Gruppe 1992/1993, 53, Vontobel & Co. AG Zürich, Jahresberichte, Banken 1906. Vontobel was able to compensate for losses in eastern Germany by strengthening ties to Germany, specifically western Germany, a task for which Hans Vontobel once again enlisted Meyer-Marsilius in November 1994. See Politisches Archiv des Auswärtigen Amtes (Berlin), Vermerk, Betr.: Die Schweiz und Europa, February 27, 1995, AV Neues Amt, Nr. 20966.

ble newcomer, the insurer Allianz (all three with ten million Swiss francs each).¹⁰² Three of Eurasco's five managing directors were Russian; the only German national was Kurt-Dieter Neubert, who had served as Intrac's finance director prior to joining Eurasco for two decades. In January 1991 Eurasco was touting plans to launch an insurance enterprise. Bringing together capital from the Soviet Union, the Federal Republic, and Switzerland, the new Eurasco venture targeted customers across eastern Europe from its Vienna office. The idea was to unite the capital and expertise of Zurich insurance and Germany's Allianz with contacts supplied by an entity well known to Bahl and Neubert: East Germany's foreign trade reinsurer, DARAG (Deutsche Versicherungs- und Rückversicherungs AG).¹⁰³

The best sources of information currently available on Eurasco are housed in the German Federal Archives. Most of these flow from due diligence carried out by a Swiss law firm tasked by the German Ministry of Finance with untangling Eurasco's businesses. Among its discoveries was that the German government held a 2 percent stake in Eurasco through its ownership of Intrac. Throughout the 1990s, the Treuhand and then its chief successor, the Federal Agency for Special Matters Relating to Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben) claimed to be trying to remove this asset from its books. But selling four thousand shares of Eurasco proved a challenge: while the western German state of Rheinland-Pfalz managed to dump its shares in 1994, federal authorities still held their stake in Eurasco in the early 2000s. Even a February 1997 decision by the Swiss Federal Banking Commission to approve Eurasco's banking application, an auspicious moment to sell, failed to prompt the Treuhand's successor to call its brokers.¹⁰⁴ By the end of the decade, In-

102 Bundesarchiv, Intrac Handelsgesellschaft mbH. Bereich Finanzen, Stand per Januar 1991, DL 210/1081.

103 Bundesarchiv, Antrag auf Genehmigung der Eröffnung einer oder mehrerer Repräsentanzen, February 28, 1990, DE 10/343. See also "Die 'Zurich' Versicherungs-Gesellschaft und Garant-Eurasco Versicherungs-Service GmbH," *CH-D Wirtschaft* 40, no. 2 (February 1991): 40–41.

104 Bundesarchiv, Schreiben an die Aktionäre der Eurasco Bank AG, gez. Holger Bahl, November 6, 1997, DL 210/1096.

trac's liquidators were holding a Swiss banking asset of dwindling value as one Russian bank after another collapsed. Bahl, for his part, appears to have anticipated a historic market downturn: in early 1998, he stepped down as Eurasco's director.¹⁰⁵

Refinance and the Treuhand

The German privatization agency's interests were bigger than Holger Bahl's: in key respects, they were aligned much more closely with the expertise of Vontobel and the agency's Swiss roving ambassador Leutwiler. Through "private placements" of its bonds with institutional investors, the Treuhand and its banking allies sought to appeal to large-scale investors, especially pension and mutual funds as well as venture capitalists like Albrecht Matuschka and central banks. Less than a year after they had opened, Treuhand representations abroad were seeking access to capital markets. Greater attention to credit needs within the Treuhand encouraged its leadership to look at the social costs of Germany's rapid political merger and sudden deindustrialization through the eyes of lenders increasingly based abroad. Breuel emphasized that foreign investment was flowing into eastern Germany in December 1992 "in spite of acts of violence directed at foreigners," a reference to antimigrant riots that had roiled parts of the Baltic port city of Rostock in late August 1992. The Treuhand's Swiss representative voiced a similar appraisal, elevating the opinion of American bond-ratings agencies subject to little public oversight and unseen investors above physical violence and antisemitic actions. "The danger in acts of anti-immigrant violence and antisemitism" (a reference to acts of vandalism directed against Holocaust memorial sites, notably an arson attack at Sachsenhausen in the city of Oranienburg north of Berlin) lay not so much in frightening off individual investors,

105 Bundesarchiv, Brief von Holger Bahl an H. Gohr, Geschäftsführer der INTRAC Handelsgesellschaft, September [undated] 1998, DL 210/1096.

Fritz Leutwiler in Zurich asserted: the reason violence against foreigners had to be taken “very, very seriously” was the agency’s dependence on “highly sensitive financial markets,” a reference to the placement of Treuhand securities.¹⁰⁶

Conclusion

Foreign engagement in eastern Germany after November 1989 took myriad forms. This chapter has traced linkages involving Swiss investors and mediators. Commercial ties forged between the two German states during the 1970s and 1980s help to explain how consulting experts, lenders, advisors, and investors informed the Treuhand’s foreign outreach. Institutionally, the Treuhand itself came to embody East and West Germany’s Cold War–era ties, as the choice of its emissaries in Switzerland (and Austria) made clear. As foreign entanglements in unifying Germany’s economy also illustrate, mediators like the Handelskammer, the Vereinigung, and Leutwiler mattered: investments were often indirect, with trade associations, rival initiatives, and the competing priorities of German federal and state officials shaping options. Most importantly, pasts persisted. The economic legacies of the German Democratic Republic cannot be reduced to environmental destruction, outdated industrial technologies, and stagnating productivity. Nor can the turbulent first years of German unity, often subsumed under the mantle of “transition” or “transformation,” be understood without tracing continuities to the four-decade-long era of

106 Quoted in “Breuel: Keine Investorenabsagen,” *Der Tagesspiegel* 47, no. 345 (December 12, 1992). “Rostock” and “Sachsenhausen” were subjects that occupied the attention of the Treuhand’s mergers-and-acquisitions bankers in New York, as the New York consulate of the German embassy reported. See Politisches Archiv des Auswärtigen Amtes (Berlin), Zwischenarchiv, Fernschreiben an 411, October 26, 1992, B 52 (ZA), 174093 USA. By mid-1993, foreigners held at least a third of all securities issued by the Treuhand. For an early assessment of the Treuhand’s efforts to attract private equity, see Joël Massol, “La Treuhandanstalt et le ‘venture capital’ dans les nouveaux Länder,” *Revue d’études comparatives Est-Ouest* 26 (March 1995): 95–113, esp. 102–107.

dual nationhood. For-profit commercial activity between the two German states, East and West, was a key element in determining the trajectory of postsocialist capitalism in eastern Germany, foreshadowing investment patterns during the early 1990s. Finally, contrary to most economists' definition of foreign direct investment, public debt and private investment were closely linked. From loans underwritten by the Bonn government via Swiss intermediaries like Holger Bahl to the Treuhand's own massive borrowing operations, selling to private investors was bound up with public finance. As early as October 1990, the Federal Ministry of Finance in Bonn had begun to conflate the urgent need for investment capital to restructure state-owned enterprises with the "capital requirements" of the Treuhand divestment agency itself.¹⁰⁷

The Treuhand's commitment to swiftly reducing the federal government's holdings of commercial and industrial assets was embedded in a hastily arranged political union of two dramatically unequal partners, East and West Germany, that involved both domestic and foreign actors and concerns. Researchers have highlighted either the dizzying challenges faced by the Treuhand's beleaguered managers, on the one hand, or the burdens imposed by its full-throated embrace of privatization, on the other.¹⁰⁸ These contrasting perspectives have tended to obscure ways in

107 To ensure the Treuhand obtained favorable terms, in October 1990 the Finance Ministry took the extraordinary measure of granting the Treuhand, an agency less than one year old, the reputation status enjoyed by the federal government's development bank, the venerable Kreditanstalt für Wiederaufbau. This move was taken with two aims: to strengthen the Treuhand's position when approaching domestic and foreign banks and to boost its international appeal (*Publizitätswirkung nach aussen – Ausland*). In other words, both the Finance Ministry and the Treuhand itself hoped the expanded mandate for bankers would exercise "a positive effect on the privatization of Treuhand firms." Bundesarchiv, Grundsätze für die Mittelaufnahme der Treuhandanstalt, October 30, 1990, B 412/2549.

108 The most informative firsthand accounts of the Treuhand produced by contemporaries grant extensive attention to federal policymakers. Wolfgang Seibel, *Verwaltete Illusionen. Die Privatisierung der DDR-Wirtschaft durch die Treuhandanstalt und ihre Nachfolger 1990–2000* (Frankfurt am Main: Campus Verlag, 2005); Marc Kemmler, *Die Entstehung der Treuhandanstalt. Von der Wahrung zur Privatisierung des DDR-Volkseigentums* (Frankfurt am Main: Campus Verlag, 1994). Based on an impressively wide range of interview material, see esp. Marcus Böick, *Die*

which the reforms of the GDR's economy resembled the redesign of other east-central European economies despite the fact that eastern Germany presumably benefitted from advantages in institutional transfer, notably a famously hard currency in the West German deutschmark, the availability of existing laws and institutions that could be adopted wholesale, and prodigious financial transfers. An engine of neither national unity nor betrayal, the German privatization agency was bound up with a complicated history of national division and globalizing capital markets that extended beyond the unifying Federal Republic.

The Treuhand's decision to empower international finance conferred advantages on financial mediators across continental Europe, not just Switzerland or still better-known Anglo-American lineages associated with the increasing late-twentieth-century domination of finance over other areas of economic activity. Evidence from Austria corroborates the fact that the Danube Republic's connections to both cross-border finance and the socialist era past informed state property redistribution drives—both in eastern Germany and within Austria.

As the next chapter demonstrates, both Austria's slow start as an investing nation in eastern Germany and Switzerland's early successes with the Treuhand via the Handelskammer's intermediation are attributable to legacies of the socialist era, albeit in dramatically different ways. Unlike Switzerland, Austria's nationalized industries, not intrepid investment mediators, led the charge into East German markets, a fact that shaped the specific trajectory of the Danube Republic's engagements in the new federal states of eastern Germany during the early 1990s.

Treuhand. Idee – Praxis – Erfahrung 1990–1994 (Göttingen: Wallstein, 2018). Andreas Malycha has produced a detailed study of the short-lived agency's organizational culture. See *Vom Hoffnungsträger zum Prügelknaben. Die Treuhandanstalt zwischen wirtschaftlichen Erwartungen und politischen Zwängen* (Berlin: Ch. Links Verlag, 2022), esp. 91–152, 195–302, 441–544.

2. State-Run Enterprises in Postsocialist Futures: Austria and East(ern) Germany

This chapter investigates the course of Austrian investments in eastern Germany after 1989. According to statistics produced by the German privatization authority, the Treuhandanstalt (Treuhand), Austria emerged as the third leading purchaser of Treuhand companies, obtaining equity in 100, behind Switzerland (139) and Britain (124). A shared language, geographic proximity, and strong economic ties to both postwar German states offered Austrian businesses powerful advantages over foreign rivals. Intimate cultural ties, as the specific trajectory of Austria's German Democratic Republic (GDR)–era investments illustrate, propelled foreign investments. These benefits might lead one to assume that Austria, like neighboring Switzerland, jumped quickly to the front of the pack of foreign investors in Treuhand companies. In fact, the opposite was true. Explaining the trajectory of Austrian engagements—first slow, then fast, and concentrated mainly in public-sector investment—is the purpose of this chapter.

In 1990 and 1991, Austrian firms were investment laggards, not leaders, in eastern Germany. Somewhat paradoxically, an initial dearth of Austrian investments owed much to what appeared to be clear early advantages. Austrian companies moved quickly into East Germany after November 9, 1989. Austrian politicians flanked their charge. In late November 1989, Austrian chancellor Franz Vranitzky became the first “Western” leader to visit the East German capital after the fall of the Berlin Wall. His entourage included the directors of Austrian state enterprises and majority-state-owned banks. Less than two months after the Austrian

chancellor's controversial visit to East Berlin, the last socialist East German minister president, Hans Modrow, traveled to Vienna. Discussions in both capitals revolved around dramatically expanding agricultural, commercial, and industrial cooperation.

Austrian state companies were conspicuously involved in charting futures for state enterprise in East Germany. The Treuhand, the holding established by East Germany's last socialist government in March 1990 and transformed into a privatization agency by its last freely elected government several months later, also sought early on to engage Austrians. Treuhand presidents Rainer Maria Gohlke and Karsten Detlev Rohwedder lavished attention on Austrian political leaders, industrialists, and lenders; Rohwedder paid multiple visits to Vienna during the second half of 1990. After sketching plans to restructure the Treuhand into four for-profit companies, Gohlke abruptly resigned upon his return to Berlin in August 1990.¹ On a second visit that autumn, Rohwedder infamously overestimated the value of assets held by the Treuhand at DM 600 billion.² Perhaps the former Hoesch steel chief was seeking to underscore the value of East German enterprises to potential purchasers. As it happened, the Treuhand closed its books with over DM 250 billion in losses at the end of 1994.

1 Acting on suggestions from consultants Roland Berger and McKinsey, Gohlke's successor, Detlev Rohwedder, enacted a decentralized reform of the Treuhand empowering both regional sales offices and an administrative layer directly below the management board staffed by investment banks in the Treuhand's Berlin headquarters. Chancellor Kohl and the state minister presidents endorsed the new organizational structure. Bundesarchiv, Vermerk. Betr.: DDR-Treuhandanstalt, gez. Plessing, September 10, 1990, B 102/372179. See also Marc Kemmler, *Die Entstehung der Treuhandanstalt. Von der Wahrung zur Privatisierung des DDR-Volkseigentums* (Frankfurt am Main: Campus Verlag, 1994), 218–225.

2 Rohwedder's comment was likely based on the assessment of the GDR's state bank. For recent discussions of this and other estimates, see Andreas Rödder, *Geschichte der deutschen Vereinigung* (Munich: C.H. Beck, 2011), 95–96; Norbert F. Pötzl, *Der Treuhand-Komplex. Legenden, Fakten, Emotionen* (Kursbuch; Hamburg, Kursbuch Verlag, 2019), 52–98; Michael Schönherr, "Der Lange Schatten der Treuhand," in *Die Treuhand. Ein deutsches Drama*, ed. Olaf Jacobs (Halle [Saale]: Mitteldeutscher Verlag, 2020), 95–98.

While Gohlke's swift departure and Rohwedder's memorable gaffe received extensive coverage, another comment made by Rohwedder in Vienna has faded into obscurity. Speaking at the country's powerful business chamber, the Bundeskammer für gewerbliche Wirtschaft (Bundeskammer), Rohwedder announced his intention to engage Austrians in the Treuhand organization itself. Other Treuhand officials subsequently echoed Rohwedder's pledge, including the Treuhand's personnel chief, Alexander Koch, who paid his own visit to the Austrian capital in mid-March 1991. Rohwedder's (and Koch's) promise acquired some substance when his longest-serving successor, Birgit Breuel, traveled to Vienna in early November 1991. Speaking at an event held in the headquarters of Austria's largest bank, the Creditanstalt, Breuel announced her privatization authority's first official foreign emissary. Breuel, a politician, writer, and daughter of one of West Germany's most important bankers, Alwin Münchmeyer, observed that her "roving ambassador," Gerd Graenz, was especially qualified to serve as her Austrian mediator owing to contacts he had cultivated while setting up the Creditanstalt's presence in socialist East Berlin during the late 1980s.³

Austrian ties to both West and East Germany, including those acquired by Graenz in East Berlin, played a significant role in Austria's Treuhand investments, albeit in different ways than in the Swiss case described in the previous chapter. In one important respect, however, the two narratives are similar, if not the same. Grasping how industrial and commercial agreements forged between Austria and East Germany hamstrung the Alpine nation's initial efforts to acquire industrial companies in eastern Germany requires one to survey developments both before and after November 1989.

Austrian state conglomerates played an outsized role in the Alpine nation's foreign commerce during the 1980s. This was especially true of

3 Bundesarchiv, Besuch von Frau Präsidentin Birgit Breuel in der Republik Österreich am 6./7.11.1991 in Wien, B 412/11936, Bd. I. In her personal account of the Treuhand era, Breuel omitted this part of Graenz's biography. See Birgit Breuel, *Treuhand intern* (Frankfurt am Main: Ullstein, 1993), 348.

Austrian trade with socialist countries, above all with East Germany.⁴ Nationalized industries executed a majority of Austria's trade with the GDR during the 1980s: in some years, when especially large projects were completed (often on behalf of third countries), the figure approached 90 percent. Austrian public utilities also forged export arrangements with East Germany. A state-owned electricity provider led the way.

Austrian plans for economic expansion in eastern Germany had many origins. Among the most important were schemes to revamp Austrian state enterprises via enhanced trade with socialist countries. Austrian contemporaries tended to view the dramatic changes then sweeping eastern Europe through the prism of ongoing industrial reform within their own country. This explains why top Austrian financiers, industrialists, and officials went to considerable lengths to generate new business in the still socialist GDR, as well as in other countries then increasingly described as "reform oriented," especially Czechoslovakia and Hungary.

During the months immediately after the Berlin Wall's opening—an event that Treuhand representative Graenz had observed firsthand from the Creditanstalt's new office in East Berlin on November 9, 1989—significant commercial agreements forged between Austrian state-owned companies and East German ministries, industries, and agricultural concerns morphed into unforeseen financial liabilities. Negotiating with representatives of unified Germany's Federal Ministry of Economics, Austrian diplomats pressed for compensation of losses incurred by private and state-owned Austrian firms. For Austrian national enterprises undergoing restructuring, East Germany's rapid absorption into the economy of the Federal Republic produced financial setbacks. In the weeks and months immediately after formal national unification on October 3, 1990, German trade officials refused to consider Austrian pleas. Choosing to overlook their own country's extensive connections to the German

4 Andrea Komlosy, "Österreichs Brückenfunktion und die Durchlässigkeit des Eisernen Vorhangs," in *Zarte Bande. Österreich und die planwirtschaftlichen Länder*, ed. Gertrude Ende-Burcel et al. (Vienna: Österreichisches Staatsarchiv, 2006), 107–129, esp. 112–115.

Democratic Republic, representatives of the German Federal Ministry of Economics countered that the scale of Austria's trade with the socialist GDR had been disproportionate.

At the heart of Austrian demands lay a conundrum: what constituted the German federal government's contractual debt vis-à-vis the GDR? In pressing their claims for compensation, Austrian officials cited a clause in the unification treaty between West and East Germany designed to mitigate the effects on the East German government's trading partners in socialist Europe of the July 1, 1990, currency union between the two German states. Austrians sought to turn the unification treaty's provision for "protection of legitimate expectations" (*Vertrauensschutz*) to their own benefit. Their bid ultimately produced moderately successful results. In April 1991, the German Federal Ministry of Economics quietly agreed to Austrian demands for advanced information about pending Treuhand privatizations. This quid pro quo coincided with the Treuhand's expansion of its foreign outreach, including Breuel's appointment of foreign emissaries. Thereafter, the Treuhand president announced her first representative abroad in the Austrian capital, rather than in London, Paris, or New York. The Austrians' initial investment strategy—a dramatic expansion of ties between state enterprises in East Germany and Austria—yielded losses. But the indirect concession Austrian diplomats had wrung from federal authorities in Bonn—advanced notice of privatization tenders—aided Austrian companies in obtaining Treuhand assets. Resolving tensions over Austria's GDR-era agreements allowed select firms to make full use of the advantages granted by language, culture, and long-standing ties between Austrians and Germans, East and West.

The fate of bilateral agreements between Austria and GDR industries—an oft-overlooked wrinkle in East Germany's merger into the Federal Republic—helps to explain the trajectory of Austrian Treuhand investments.⁵ Austrian investors gained momentum from mid-1992 on-

5 The GDR's foreign commitments were extensive. A July 1990 report produced by the European Parliament estimated that East German had reached some 3,000 agreements with third countries, mostly with Soviet Union but also developing countries such as

ward. In 1993 and 1994, Austrian companies invested at a faster rate than all foreign rivals in eastern Germany. Like their Swiss and western German rivals, Austrian firms were especially active in Saxony and Thuringia, the southernmost states in the ex-GDR. Even after the Treuhand's formal dissolution at the end of 1994, ties forged with the German divestiture holding and governments in these two states informed Austrian investments, including a majority stake in a microelectronics enterprise located in Erfurt, the capital of Thuringia (Chapter 4 explores this case at length).

Austria and West Germany

As was the case with many countries in western Europe, including Switzerland, Austria's most important trading partner in the 1980s was West Germany. In 1989, Austrian businesses exported twenty-six times as much to the Federal Republic of Germany as to the German Democratic Republic (GDR). Unification only deepened Austrian economic ties to the western parts of the newly expanded Germany. In 1990, Austria reached a new bilateral foreign trade record with the old West Germany. Austrian exports to this area expanded by 14 percent that year, with only a corresponding increase in imports of 8 percent. This export surge slashed Austria's deficit with the old Federal Republic, tipping Austria's trade balance still further away from the former East. In 1990, Austria exported fifty times as much to West/western as to East/eastern Germany, as its foreign trade with the region constituting the former East Germany fell by a whopping 40 percent.⁶

Vietnam and Cuba. The GDR's trading partners among capitalist countries were not examined. See Historical Archives of the European Parliament (Luxembourg), Interim Report on the Implications of German Unification on the European Community, Rapporteur: A. J. Donnelly, A3-183/90/Part B.

6 "Aussenhandel Österreichs mit Deutschland," *Wirtschafts-Spiegel* (July–August 1990), 9–10.

Trade among State Enterprises: Austrian and East German

Unimportant in macroeconomic terms, eastern Germany nonetheless cast long shadows over Austrian politics and economics in the months immediately following the opening of the border between the German states and two halves of Berlin. The tiny and shrinking portion of Austrian exports to eastern Germany in 1990 belies the importance Austrian politicians and business leaders had assigned to markets in the GDR only a few months earlier.

Austria's nationalized industries were a prominent feature of economic life that distinguished the Alpine nation. Founded in 1946, Austria's state-owned sector in January 1990 consisted of some four hundred engagements, with companies accounting for 18 percent of both Austrian industrial employment and exports. Aluminum, iron, steel, and oil production, as well as mining, mechanical engineering, and the chemicals and electronics sectors, were all managed on behalf of the Austrian government by a state-run holding company rebranded in January 1990 as Austrian Industries AG. With eighty thousand employees, the Austrian Industries holding was the Danube Republic's biggest employer. Modest in comparison to the national economy as a whole, which at that time boasted over 3 million employees (in a population of a little over 7.5 million), Austrian Industries nonetheless constituted a majority of the foreign production among Austrian companies.

Despite the significance of state-directed companies to the export economy, uncertainty about their future marred the fortieth anniversary of nationalized industry in Austria in 1986. Voest-Alpine, with fifty thousand employees the largest company within Austrian Industries, experienced record losses in the mid-1980s. The troubles of this steel, engineering, and electronics group precipitated a political crisis, feeding into calls, often inspired by changes in several western European countries to reduce the role of government in economic life. Voest-Alpine's difficulties began with an international crisis of production engulfing steel companies across Europe, North America, and East Asia, but they did not end there.

The company suffered from self-inflicted errors. It had invested substantial capital in a struggling microchip venture named Austria Mikro Systeme International (discussed in Chapter 4) and an ill-fated investment in a state-of-the-art steel facility in the US state of Louisiana. Even more costly was an unsuccessful speculation in Iranian oil markets carried out by a free-floating consultancy within Voest-Alpine called Intertrading. Whatever their sources, Voest-Alpine's losses called into question not only the steel giant's business model but that of Austrian nationalized industry itself.⁷

In both Austria and East Germany, a severe crisis in state-owned enterprises arose exactly forty years after the start of state planning in the economy. To redesign Austria's industrial conglomerate, Austrian political leaders set up policies to direct significant flows of private capital into state enterprises during the late 1980s. Major restructuring plans for Austrian state industries, long regarded as pillars of the postwar Second Republic, coupled emergency cash injections with warnings that companies must attain targets for operating profits, sell shares to private investors to meet future financial needs, and boost overseas investments.⁸ The goal in the late 1980s was not full privatization but rather restructuring of state

7 The steel conglomerate was the result of the 1973 merger of VOEST and Alpine Montan AG. A good, though unfortunately unpublished, introduction to state industrial reform in Austria during the 1970s and 1980s is Ines Kastil, "Von der Verstaatlichung zur Privatisierung," (PhD diss., Wirtschaftsuniversität Vienna, 2006), 150–160, 169–175. A less reliable guide is Franz Summer, *Das VOEST-Debakel* (Vienna: Orac, 1987). The Austrian government provided export guarantees to support Austrian exports to Iran (of Austrian goods) and to the GDR (of Iranian crude oil). Intertrading sold Iranian oil to the GDR Commercial Coordination Area (KoKo) firm Intrac. A Swedish company, Axel Johnson, also played a critical role in the commercial networks involving Austrian, East German, and Iranian enterprises and public figures. A concise introduction is Matthias Judt, *Der Bereich Kommerzielle Koordinierung. Das DDR-Wirtschaftsimperium des Alexander Schalck-Golodkowski: Mythos und Realität* (Berlin: Christoph Links Verlag, 2013), 156–157.

8 For an overview based predominately on published accounts written by politicians and ministers, Dieter Stiefel, *Verstaatlichung und Privatisierung in Österreich. Illusion und Wirklichkeit* (Vienna: Böhlau, 2011), esp. 168–170, 178–182, 187–191, 203, 218–239.

industrial conglomerates via foreign engagement. Economic reordering extended beyond massive conglomerates to include public utilities and two nationalized banks, Creditanstalt and Länderbank. Political leaders instructed state enterprises that they needed to forge plans to approach capital markets in two to three years. Blessed with an overabundance of hydroelectric power (a key element in Voest-Alpine's postwar success), Austria's state-run electricity-generating firm led the charge. A partial privatization in 1987 (51 percent of the stock remained in government hands) with assistance from both domestic and foreign banks garnered British interest, with the largest number of non-Austrian subscribers hailing from the United Kingdom.⁹

State industries' turn toward financial markets reflected changes in Austrian politics. In 1986, the Austrian government consisted of a coalition of the country's two largest parties, the Social Democratic Party of Austria and the Austrian People's Party (Österreichische Volkspartei). Both shared a commitment to budget consolidation forged in the mid-1980s-era crisis unleashed by Intertrading's disastrous financial speculation. The most significant alterations in Austrian politics came from the center-left Social Democrats. Social Democrat Franz Vranitzky led grand coalition governments for eleven years, from 1986 to 1997. Vranitzky's entire professional career before becoming chancellor was in accounting and banking, including periods with the Austrian National Bank and the Ministry of Finance; he held no political office before his appointment to head the Finance Ministry in 1984. This background enabled Vranitzky to forge close personal contacts within the international financial community, including with American and British venture capitalists and banks, as witnessed by his participation in the Austrian Bankers' Mission to the

9 The National Archives (London), Prime Minister's Bilateral with Chancellor Vranitzky, April 18, 1989, FCO 33/10091. For an examination of the strong correlation between socialist-era joint ventures and post-1989 investments in East European economies more generally, see Besnik Pula, *Globalization under and after Socialism: The Evolution of Transnational Capital in Central and Eastern Europe* (Stanford, CA: Stanford University Press, 2018), esp. 108–131.

United Kingdom in October 1982.¹⁰ Vranitzky's most significant challenge before becoming finance minister, and then chancellor two years later, was to restructure the country's second-largest bank, the Länderbank, following the collapse of its large industrial investments. Shaped by the institutions and personal networks of his past, Vranitzky received a severance payment and pension arrangement when he joined the national government as finance minister.

As banker, finance minister, and chancellor of a neutral country, Vranitzky enjoyed strong relations with leaders in both capitalist and socialist Europe. During the first years of his chancellorship, Austria's largely uncontroversial image abroad was tarnished by a scandal concerning the Nazi-era military service of Austrian president Kurt Waldheim. At the height of the Waldheim affair, a time when many western European heads of government refused to visit Vienna, the Austrian chancellor was granted private audiences with Margaret Thatcher, including one held in London in 1988. Vranitzky also spent time with the UK prime minister, then Europe's leading privatizer, during her vacations in Austria. At a bilateral meeting with Vranitzky in Luxembourg in April 1989, Thatcher voiced her government's interest in closer cooperation with Austria's state-owned industries. In March of that year, in a speech to Austrian industrialists, the UK minister of trade and industry, David Trefgarne, had given encouragement to Austria's pro-reformers by extolling the benefits of deregulation in his country's recent experience. His comments in Vienna came shortly after a senior group from the national holding company had paid a sponsored visit to Britain. There, Austrian company directors held meetings with representatives of recently privatized British Steel and British Petroleum, as well as the multinational engineering group Davy McKee.¹¹

10 Vranitzky was among the few elected European leaders to receive favorable mention by venture capital pioneer Peter A. Brooke. See his book titled *A Vision for Venture Capital: Realizing the Promise of Global Venture Capital and Private Equity* (Boston: New Ventures Press, 2009), 105.

11 Modern Records Centre, University of Warwick, Confederation of British Industry Collection, Austria Seminar, undated (April 1989), MSS.200/C/April 2002/Box 8121.

Austrians sought to insert their reforming country's state companies into western Europe's privatizing mainstream by maximizing long-standing ties to socialist Europe, especially the GDR. Austrian business and political leaders deepened business links to the socialist GDR as part of an undertaking to restructure Austrian, not East German, state enterprises.

Austrian trade outreach featuring state-run concerns had little to do with altering state socialism, at least in the sense reform came to be known in countries like Hungary, Czechoslovakia, and the GDR after 1989. An intensification of commercial relations between Austrian and East German state enterprises took place in the late 1980s, that is, before the swift opening—and then dramatic collapse—of East Germany's economy under the Treuhand's stewardship. An important step (one that eluded Swiss authorities) in deepening ties to the GDR was a formal agreement to resolve outstanding property-restitution claims. In August 1987, Austrian vice chancellor and foreign minister Alois Mock signed such an agreement with Gerhard Beil, East German minister for foreign and intra-German trade. The agreement signed at their meeting paved the way for the Vranitzky's visit to the GDR the following June. Accompanied by Rudolf Streicher, the Austrian minister of transport and nationalized industries, and twenty-six general directors of state-run and private enterprises, including banks owned mainly by the state, Vranitzky joined East German leader Erich Honecker to conclude an extensive trade agreement. New business involved the Austrian state holding and a GDR consortium of more than a dozen East German foreign trade companies (*Aussenhandelsbetriebe*). In order to conclude business deals amounting initially to fifteen billion Austrian schillings, Vranitzky and Honecker approved the establishment of a new consortium consisting of three cross-national bodies, the executive committee (*Leitungsgremium*), a lower-level working group to address branch-specific challenges, and an expert group to resolve outstanding problems. The most important of these bodies, the executive committee, involved the Austrian side of the holding, as well as seven representatives of the management board of companies under Streicher's wing. Meetings of the binational executive committee were to be held during the subsequent five years in the GDR and Austria. Each

side appointed a special commissioner to address questions arising from large-scale projects to be executed on behalf of third countries.¹²

The intensification of contacts between nationalized industries in the two economically different, but linguistically compatible, countries involved four main areas of cooperation: machine and plant engineering, electronics, metallurgy, and chemicals. Diplomatic competition played a role in the deepening of relations: Honecker's visit to Bonn in 1987 and Paris the following year likely encouraged Austrian leaders to work harder to deepen ties to the GDR.¹³ These relations built upon long-standing industrial bonds between East German conglomerates and large West German companies, prominent among them, the sprawling EKO Stahl facilities in Eisenhüttenstadt and the Hoesch steelmaking operations headed by Detlev Rohwedder.¹⁴ Annual agreements signed by Vranitzky and Günter Mittag, the key official from the Socialist Unity Party (Sozialistische Einheitspartei Deutschlands, SED) responsible for East German economic planning, reflected the urge to deepen ties during the late 1980s. They specified imports and exports of a wide range of commodities, from fodder to cosmetics to metallurgy products.

With Austria's two major parties firmly committed to budget stabilization and international financial engagement, the country's leaders

12 The consortium agreement expanded on earlier agreements reached by Austrian state concerns, especially the largest in the holding, Voest-Alpine. See Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Abkommen über wirtschaftliche, industrielle und technisch-wissenschaftliche Zusammenarbeit zwischen einem Konsortium Volkseigener Aussenhandelsbetriebe der Deutschen Demokratischen Republik vertreten durch: im folgenden AHB/DDR genannt und einem Konsortium von Unternehmen der Österreichischen Industrie-Aktiengesellschaften vertreten durch: im folgenden ÖIAG genannt, o.D. (1988), ÖIAG-Bestand, Nr. 134.

13 For an overview of the diplomatic maneuvers, not the industrial and commercial ties, hashed out at these and other meetings between SED and western European (especially Austrian and West German) leaders, see Maximilian Graf, *Österreich und die DDR 1949–1990. Politik und Wirtschaft im Schatten der deutschen Teilung* (Vienna: Verlag der Österreichischen Akademie der Wissenschaften, 2016), 549–558, 568–570.

14 thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, Besuchsbericht, Besuchte Firma: Eisenhüttenstadt Ost (EKO), April 24–25, 1990, May 8, 1990, Bestand Hoe/1589.

sought to maximize export-led growth—including to socialist countries—to implement the redesign of domestic state enterprise begun in the mid-1980s. State industry chiefs, for their part, prodded Vranitzky to boost the role of Austrian industry in the GDR economy. That explains why the general director of Voest-Alpine, the largest company in the state holding, wrote to Vranitzky just prior to his June 1988 visit to East Berlin to recommend that the Austrian chancellor visit East Germany's largest chemical conglomerate, the Kombinat VEB Leuna Werke. There Vranitzky would have been able to observe firsthand the process-engineering components Voest-Alpine had contributed to the vast Leuna facilities since the late 1970s—investments valued at 8.5 billion Austrian schillings and delivered, at least in Herbert Lewinsky's estimation, to “the customer's complete satisfaction.”¹⁵

After being appointed top manager at Voest-Alpine after the speculation-induced crash in 1986, Lewinsky prodded Vranitzky to expand industrial contacts to socialist countries, especially the GDR.¹⁶ In meetings with GDR decisionmakers, both Vranitzky and Rudolf Streicher subsequently touted Voest-Alpine's strengths as a plant and machinery supplier. Projects then undertaken on behalf of enterprises in third countries, including elaborate steel plant complexes in Algeria and the Soviet Union, involved extensive interaction among Austrian state-owned concerns and East German conglomerates and foreign trade companies. The expansion of Voest-Alpine's role in steelmaking at Brandenburg's Eisenhüttenstadt and chemical works at Leuna encouraged Voest-Alpine subcontractors based in Munich, Vienna, and Zurich to open offices in East Berlin.¹⁷

15 Prior to the 1988 consortium agreement, Voest-Alpine alone had signed five long-term cooperation agreements with GDR authorities. Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Lewinsky an Vranitzky, August 3, 1988, BKA 401.213/25-IV/1/89.

16 Lewinsky was critical of Voest-Alpine's investments in electronics and relative neglect of finished steel exports. Stiefel, *Verstaatlichung*, 197.

17 See, for one example, the application submitted by B.E.X-Bau (Vienna), Braun-Bau (Munich), and Ost-West-Montage (Zurich), Bundesarchiv, Antrag auf Firmenzulassung in der DDR, January 18, 1985, DL 2/6469.

In other words, the intensification of economic contacts between Austria and the GDR extended far beyond German-speaking Europe while at the same time deepening ties among companies based in Austria, Switzerland, and East and West Germany.

GDR business was important to Austrian state conglomerates and a variety of much smaller companies, including agricultural enterprises. The Alpine country's partially privatized public utilities also profited from expanded ties to socialist neighbors. Here, too, third countries, albeit closer to home, played a key role in enabling commerce between the GDR and Austria. In 1987, Austrian exports to East Germany spiked by 20 percent, owing to a dramatic boost in electricity deliveries. That year, Austria conveyed, via Czechoslovakia, nearly 60 percent more electricity to the GDR than it had the previous year, yielding Austria's majority-state-owned electricity company six billion Austrian schillings in additional revenue. The Austrian Electricity Works (Österreichische Elektrizitätswirtschafts AG) rapidly secured two further short-term contracts, in April and December 1987.¹⁸ The director of the Austrian Electricity Works, Walther Fremuth, formally concluded these arrangements with a firm named Intrac.

Alexander Schalck-Golodkowski and Austrian Electricity

Intrac was the only East German foreign trade entity permitted to take out loans in western Europe without the assistance of East German banks and was the most important entity in East Germany's clandestine foreign trade network, the Commercial Coordination (Kommerzielle Koordination, KoKo), headed by Alexander Schalck-Golodkowski. Schalck-Golodkowski, in turn, answered directly to Günter Mittag, secretary for

¹⁸ Bundesarchiv, Vorschlag zur Weiterführung des Importes von Elektroindustrie aus Österreich im Jahre 1987, gez. W. Rauchfuss, W. Mitzinger, A. Schalck, January 22, 1987, DL 226/1681.

the economy of the Central Committee of the SED. Though Schalck-Golodkowski is notorious today, at the time he was unknown. And despite this notoriety, much of his influence in economic relations between Austria and the two Germanys remains unexamined. This makes it worth recounting Fremuth's explanation in order to understand how Austrian companies acquired market positions in the last years of the GDR, only to quickly lose them to West German competitors in 1990.

Schalck-Golodkowski is best known as the negotiator of an agreement reached with the minister president of the state of Bavaria, Franz Josef Strauss, for a DM 1 billion loan during the early 1980s. Subsequently, during the mid-1980s more of East Germany's trade flowed through KoKo channels than through measures planned by the East German Ministry of External Trade.¹⁹ To compensate for supply shortfalls, Intrac imported electricity from both Austrian and West German providers²⁰ The most important among the latter was a West German firm known as Preussen-Elektra.²¹ The inner-German electricity deal, like its Austrian equivalent, enjoyed the highest political support. Both West German chancellor Helmut Kohl and East German socialist leader Erich Honecker welcomed

19 On paper, Schalck-Golodkowski answered to Gerhard Beil. On the origins and scope of Commercial Coordination Area activities, see Judt, *Der Bereich Kommerzielle Koordinierung*, esp. 9–15, 25–28, 41–47; on GDR foreign trade policy more generally, consult Ralf Ahrens, "Aussenwirtschaftspolitik zwischen Ostintegration und Westverschuldung," in *Wirtschaftspolitik in Deutschland 1917–1990. Die zentrale Wirtschaftsverwaltung in der SBZ/DDR. Akteure, Strukturen, Verwaltungspraxis*, ed. Dierk Hoffmann (Berlin: De Gruyter Oldenbourg, 2016), 3:510–590.

20 Holger Bahl, "KoKo. Ein allseits geschätzter Kreditnehmer am Euromarkt," *Deutschland Archiv. Zeitschrift für das vereinigte Deutschland* 43, no. 3 (2010): esp. 456–460.

21 A review of GDR electricity (and attempted power plant) imports from West Germany based on East German sources (but not Commercial Coordination Area files) and thirty-nine interviews conducted between 1995 and 1997 may be found in Jörg Matthies, *Entwicklungsprobleme und Perspektiven der ostdeutschen Elektrizitätswirtschaft* (Berlin: Trafo, 1991), esp. 73–75, 105–106. The deal also involved the West Berlin electricity provider Bewag.

PreussenElektra's engagement during the latter's (de facto state) visit to Bonn in September 1987.²²

Growing demand from the GDR and the highly public moves by West German rivals encouraged Austrian Electricity Works president Walther Fremuth to enlist his country's top leadership. Fremuth sought to obtain a delivery contract with the GDR extending to the year 2000.²³ This explains why Fremuth penned a long personal letter to Vranitzky in advance of the Austrian chancellor's June 1988 state visit to East Berlin. In this letter, Fremuth explained that the origins of his company's success in the late 1980s lay in credit arrangements reached with Schalck-Golodkowski's KoKo companies more than a decade earlier. In the mid-1970s, as deputy director of the Girozentrale, an Austrian bank, Fremuth had been approached by high-ranking representatives of Intrac. Fremuth's Girozentrale and especially his close ties to finance minister and vice chancellor Hannes Androsch subsequently played the leading role in enabling GDR officials to obtain consortia loans in a new sector known as the Euomarket.²⁴ The Girozentrale's success managed to frustrate a bid mounted by UK financiers.²⁵

22 The arrangement set in motion plans to build a vast electricity infrastructure connecting West Germany and West Berlin via East Germany. Felix Christian Matthes, *Stromwirtschaft und die deutsche Einheit. Eine Fallstudie zur Transformation der Elektrizitätswirtschaft in Ost-Deutschland* (Norderstedt: Libri, 2000), 74–75. See also Bundesarchiv, Konzeption für die Gestaltung von partnerschaftlichen Vertragsverhältnissen zum Bau und zum Betrieb von zwei Steinkohlenkraftwerken in der BRD und der DDR, undated, DL 210/3340.

23 Fremuth provided the background of his company's GDR links to Vranitzky in April 1988 in order to encourage the chancellor to expand business with GDR officials still further. See Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Walther Fremuth an Vranitzky, April 27, 1988, BKA 401.213/25-IV/1/88. The (mainly Austrian) sources cited in the present book amplify the narrative presented in Judt, *Der Bereich Kommerzielle Koordinierung*, 188–191.

24 This assessment was Schalck-Golodkowski's. See Bundesarchiv, Information, gez. Alexander Schalck, October 21, 1977, DL 226/1344.

25 Bundesarchiv, Schreiben von Schalck an Mittag über die Gewährung eines Euromarktkredites durch die österreichische Girozentrale, October 21, 1977, DY 30/2963. Euomarket loan instruments were designed to conceal the identity of purchasers.

Fremuth's explanation of the deal reached between Intrac and Fremuth's Austrian Electricity Works featured the head of the shadowy KoKo. In October 1986, Fremuth received an emergency call from Alexander Schalck-Golodkowski. The GDR, the KoKo chief reported, desperately required urgent emergency electricity deliveries. In order to quickly negotiate an emergency delivery agreement with Fremuth, Schalck-Golodkowski dispatched Intrac officials to Austria for weekend negotiations held at Fremuth's private residence. In January 1987, explosions at two brown-coal power blocks in the GDR (near Boxberg in Saxony and Jänschwalde in Brandenburg) led to a renewed bid for Austrian assistance, followed by extraordinary efforts by Fremuth's majority-state-owned enterprise to bridge the GDR's emergency energy needs. Fremuth's public utility responded to East German distress by conveying some twelve hundred megawatts of emergency supply via neighboring Czechoslovakia's electricity network.²⁶ Precisely what state authorities in Austria (and Czechoslovakia) obtained for their extraordinary actions went unmentioned in Fremuth's letter to his du friend Vranitzky. (The steep prices demanded by Fremuth's company likely motivated East German officials to reach a parallel agreement with the West German PreussenElektra.²⁷) One reads in Fremuth's letter to Vranitzky that a third contract obtained by Fremuth was scheduled to expire in March 1990.²⁸ A few weeks after receiving Fremuth's letter, Vranitzky paid a private visit to Dresden in May 1988—that is, four weeks prior to his official state visit to the GDR.²⁹

See Vanessa Ogle, "Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s," *American Historical Review* 122, no. 5 (December 2017): 1448–1457.

26 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Walther Fremuth an Vranitzky, April 27, 1988, BKA 401.213/25-IV/1/88.

27 Bundesarchiv, Information über die Paraphierung der Grundsatzvereinbarung über den Bezug und die Lieferung von Elektroenergie aus bzw. nach der BRD und Westberlin, January 14, 1988, DL 226/1664.

28 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Walther Fremuth an Vranitzky, April 27, 1988, BKA 401.213/25-IV/1/88.

29 Bundesarchiv, Information, gez. Beil, April 19, 1988, DY 30/2986. Also cited in Judt, *Der Bereich Kommerzielle Koordinierung*, 103–104.

Whether electricity exports figured in Vranitzky's unofficial talks in the Saxon capital is currently unknown.

The advances of Austrian state enterprises in the GDR, including Voest-Alpine and Fremuth's Austrian Electricity Works, were not lost on the Alpine nation's banks. High-ranking financial representatives from Austria, including Fremuth's former employer, the Girozentrale, had taken part in Vranitzky's June 1988 state visit. Following the formal conclusion of the agreements between industrial partners in both countries, several Austrian state-owned banks moved to establish independent offices in the GDR's capital. Austria's leading lender, the then majority state-owned Creditanstalt, led the way. The Creditanstalt laid the groundwork, upgrading its presence in East Berlin to an official representation, a move the largest Austrian bank coordinated closely with the Deutsche Aussenhandelsbank AG, the recipient of the secret DM 1 billion credit noted above.³⁰ The official opening of the Creditanstalt's new office took place on October 16, 1989. Attendees included Wolfgang Schüssel, the Austrian minister for economic affairs (and vocal privatization advocate)³¹; Rudolf Sallinger, the president of the country's powerful (domestic and foreign) business chamber (Bundeskammer); and Guido Schmidt-Chiari, the chairman of the board of the Creditanstalt. The most prominent East German attendee was economic secretary Günter Mittag. The Creditanstalt opening was Mittag's last public event.³² The next day, both Mittag

30 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), letter from the Creditanstalt-Bankverein to the Bundesministerium für Auswärtige Angelegenheiten, Wirtschaftssektion, November 8, 1989, WPOL 43.160/III 1/89. On the special role of Austrian banks in supplying credit to the GDR, see Judt, *Der Bereich Kommerzielle Koordinierung*, 102–103.

31 On Schüssel's advocacy of denationalization, see esp. Johannes Hawlik and Wolfgang Schüssel, *Mehr privat – weniger Staat. Anregungen zur Begrenzung öffentlicher Aufgaben* (Vienna: Signum, 1983), and Johannes Hawlik and Wolfgang Schüssel, *Staat lass nach. Vorschläge zur Begrenzung und Privatisierung öffentlicher Aufgaben* (Munich: Herold, 1985).

32 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Erleichterungen für den dienstlichen Reiseverkehr zwischen Berlin, Hauptstadt der DDR, und West-Berlin bzw. zwischen der DDR und der Bundesrepublik Deutschland für den Repräsen-

and Honecker were expelled from the Central Committee of the East German Socialist Unity Party.

Among the lesser-known attendees of the Creditanstalt's East Berlin gathering was Gerd Graenz, the head of the Creditanstalt's newest foreign office and subsequent Treuhand emissary in Vienna. Forty-eight hours after the Berlin Wall fell, Graenz was drafting suggestions to expand dramatically the Creditanstalt's engagement in East Germany—now in a process of reform led by socialists. Graenz addressed his suggestions to Creditanstalt chief Schmidt-Chiari. We know of his letter only because of his decision to share a copy with KoKo officials.³³ What became of Graenz's proposals remain a mystery: given the fact he had requested an audience with Schmidt-Chiari, perhaps an answer may one day emerge from collections housed in the corporate archive of the Creditanstalt's successor, the Hypovereinsbank. In the KoKo files, one reads only of Graenz's desire to leverage to his bank's advantage an upcoming state visit of the Austrian chancellor to East Berlin.

Franz Vranitzky in East Berlin

Controversy has long surrounded Vranitzky's visit to East Berlin shortly after the dramatic opening of the Berlin Wall. Vranitzky, for his part, has stressed that his visit was coordinated closely with West German chancellor Helmut Kohl.³⁴ In lieu of his scheduled meetings with Honecker, Vranitzky convened with Hans Modrow. Despite a dramatic 70 percent boost in Austrian agricultural exports to the GDR during the first eleven months of 1989, the leaders' primary objectives—as in June 1988—lay mainly in industrial restructuring. The two leaders enshrined their shared commit-

tanten der Creditanstalt-Bankverein, Repräsentanz Berlin, August 11, 1989, WPOL 43.540/III 1/89. For an official press account, see "Im Handel mit Österreich wird 1989 Steigerung erwartet," *Neues Deutschland*, October 17, 1989.

33 Bundesarchiv, Schreiben von Gerd Graenz an Guido Schmidt-Chiari, November 11, 1989, DL 226/368.

34 Franz Vranitzky, *Politische Erinnerungen* (Vienna: Zsolnay, 2004), 209.

ment to cooperative, state-led restructuring in an eight-page agreement outlining fifteen billion Austrian schillings in new business. This Vranitzky-Modrow agreement covered the period from 1990 to 1995. It encompassed projects between the two countries, as well as joint undertakings on three additional continents. Third-party endeavors named therein included steel complexes in Algeria, Australia, and Egypt, a metallurgy operation in Malaysia, and a cement works in Venezuela. Closer to home, the document called for Austrian enterprises to integrate GDR suppliers into both ongoing and future projects; the latter included the construction of new two-floor passenger railcars for the Austrian Graz-Köflacher Bahn und Busbetrieb. The document signed by Vranitzky and Modrow also spelled out a bigger role for Austrian state industries in East German metallurgy processing. The most specific plans channeled lucrative projects to Voest-Alpine, which was to complete the massive steelworks known as EKO Stahl in Eisenhüttenstadt, close to the East German-Polish border (this project is discussed in Chapter 4). Beyond industrial cooperation in this key area of the East German economy, as well as in electronics (also discussed in Chapter 4) and machine tools, the accord also spelled out specific import volumes for a host of products. These included textiles, leather goods, cosmetics, and food and beverages (900 million Austrian schillings); chemicals (350 million Austrian schillings); stainless steel, nonferrous metals, and calcium steel (300 million Austrian schillings); and electric motors (100 million Austrian schillings). The largest item in the Vranitzky-Modrow November 1989 agreement was electrical energy: here the new GDR minister president committed his cash-strapped country to a future expenditure of one billion Austrian schillings. Agriculture and forestry rounded out the list. Depending on Austrian supply and East German demand, Austrian delegates pledged to deliver, on an as-needed basis, up to three hundred thousand tons of feed grain in 1990.³⁵

The weeks following Vranitzky's last sojourn in the East German

35 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Vereinbarung, gez. von Franz Vranitzky und Hans Modrow, BKA 401.213/15-IV/1/1990.

capital witnessed a flurry of diplomatic and commercial activity between the two nations. Electricity transmission received immediate attention. A framework contract reached on November 29, 1989, between the Austrian Electricity Works and Intrac spelled out deliveries and purchases to cover the period until March 1996.³⁶ The agreement took effect the next day. December began with the visit of the GDR deputy foreign minister, Kurt Nier, to Vienna. Nier sought to quickly resolve remaining differences between the two countries about investment protection. Parallel to Nier's visit, joint venture discussions in Vienna involving officials from the Austrian Federal Ministry for Economic Affairs, the Bundeskammer, and state enterprises from both countries proved less contentious. Management training, machine tools, and environmental remediation emerged as three areas for immediate in-depth cooperation.

Improved relations between the two countries also moved forward quickly in December 1989 on the basis of existing agreements. The June 1988 Honecker-Vranitzky agreement featuring heads of Austrian holding companies and directors of East German foreign trade enterprises called for the establishment of binational management teams. These teams of managers then sought to add depth to these plans in late December 1989. A new memorandum of understanding documented their intent to dramatically expand industrial engagements between the two reforming countries. The document explained that recently enacted Austrian reforms would serve as a roadmap for the GDR's pending restructuring plans. It called for the establishment of jointly owned (50/50) engineering firms. These Austro-GDR joint ventures would lead the restructuring of older plants, supervise production in existing ones, and also create entirely new production facilities. Work was to commence immediately in the areas of chemicals, environmental remediation, health services, metallurgy, power generation, and production automation. Future cooperation would extend to aluminum, petrochemicals, railway

36 Bundesarchiv, Rahmenvertrag zwischen der ÖVG und INTRAC, November 29, 1989, DL 210/3309.

engineering, machine tool production, and steel. Austrian state-company heads proposed to assist their East German counterparts via software exchanges and unspecified compensation transactions. Alongside general goals for products, sales, and investment targets in key industrial areas, the joint memorandum recorded Austrian Industries' specific interest in acquiring a massive metals conglomerate in Mansfeld. The Austrians sought to fuse East German aluminum remelting operations with domestic and West German capabilities. A new, Austrian-led aluminum alliance to unite enterprises in both East and West Germany aimed to exploit market opportunities in Czechoslovakia and Hungary.³⁷

Austrians and East Germans: The Final Months

In November and December 1989, both Vranitzky and the Austrian Federal Ministry for Foreign Affairs, along with Austrian state industries, scrambled to determine how best to link dramatic openings in still socialist East Germany and other reforming nations in east-central Europe with existing capabilities at home and in more established markets, including West Germany. By early January 1990, however, Austro–East German plans had already started to fade.

The year began with the outgoing Austrian ambassador to East Berlin, Franz Wunderbaldinger, reminding his superiors in the Ministry of Foreign Affairs of Modrow's desire to visit Vienna as soon as possible.³⁸ Ministerial officials in Vienna moved to ascertain Modrow's intentions. A week later, Wunderbaldinger's successor, Erich Binder, the last Austrian ambassador to East Germany, observed while receiving his accreditation

37 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Memorandum zur Intensivierung der wirtschaftlichen Zusammenarbeit mit der DDR, Jänner 1990, ÖIAG-Bestand, Nr. 124.

38 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Bericht an den Herrn Bundesminister für auswärtige Angelegenheiten, January 9, 1990, WPOL 43.010/III 1/90.

that the country's economic problems were now the East German Foreign Ministry's main concern. GDR state secretary Herbert Krolikowski instructed Binder that Austria too needed to alter its policies to reflect the GDR's evolving priorities. Specifically, he argued, Austrian officials needed to craft, alongside existing measures for conglomerates and foreign trade enterprises, initiatives to support small to medium-sized companies, an area of economic activity Krolikowski acknowledged had long been neglected in the GDR. Noting that the "old structures" were now only "partially in operation," Krolikowski observed that East Germany's top leadership was struggling to find ways to reshape the conglomerate structure set up in the early 1970s while creating enough room for smaller firms to gradually assume a larger role in East German economic life.³⁹

The rapidly changing situation, especially the question of East Germany's financial solvency, led the Austrian Federal Chancellor's Office to solicit opinions beyond those of Austrian diplomats. A note from the Bundeskammer, the country's national business chamber, pointed out that Austrian enterprises specialized in plant installations remained well positioned to take advantage of changes in East Germany's economy. An unnamed official of the Bundeskammer based in Vienna cited a company within the Voest-Alpine group specialized in industrial plant construction, Voest-Alpine Industrieanlagenbau, as particularly well suited for East German needs. At that time, this company had five ongoing projects in the GDR. The Bundeskammer's memorandum to the Austrian chancellor nonetheless warned of payment difficulties. To cast greater light on the vexing question of East German solvency, the director of the Bundeskammer's East Berlin office, Stephen Kuzmich, had spoken with the de facto GDR economics minister, Christa Luft. Based on Luft's assessment of the GDR's commitments to nonsocialist countries and its foreign exchange income and expenditures, Kuzmich reported to the Austrian Federal Chancellor's Office that "the GDR enjoys an excellent reputation

39 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Gespräch mit Staatssekretär im MFAA Krolikowski, January 23, 1990, WPOL 43.040/III 1/90.

as a debtor country.”⁴⁰ Perhaps this was wishful thinking; much depended on the East German regime’s ability to borrow on international credit markets. Kuzmich’s sympathies appear to have lain with the East Germans. In mid-January 1990, Kuzmich had reported to East Germany’s minister for science and technology his government’s ardent wish to bolster East German sovereignty for as long as possible.⁴¹

With Modrow’s state visit only days away, new government-sponsored loans appeared to figure prominently in the minds of leaders in both East Berlin and Vienna, a fact confirmed by a somewhat unlikely source: Salzburg’s mayor, Josef Reschen. This second *du* friend of Vranitzky’s had written the Austrian chancellor to convey details of plans Reschen had recently cultivated, together with area business leaders and the mayor of Dresden, Wolfgang Berghofer, with industrial concerns in the Saxon capital of Dresden.⁴² To ensure this new business moved forward (a follow-up trip to Dresden was in the offing to thwart recent advances by economic delegations from the West German city of Hamburg), Reschen recommended that Vranitzky expand and improve the credit line the government in Vienna had already extended to the GDR.⁴³

Reschen’s concluded his note to Vranitzky with a warning: according to Dresden’s mayor, Modrow intended to raise the issue of the credit line

40 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Wirtschaftsinformation für den Herrn Bundeskanzler anlässlich des offiziellen Besuchs des Ministerpräsidenten der Deutschen Demokratischen Republik, Hans Modrow, am 26. Jänner 1990, BKA-401.213/5-IV/1/90.

41 Bundesarchiv, Information über ein Gespräch mit dem Handelsrat der Botschaft der Republik Österreich in der DDR, Herrn Stephan Kuzmich, am 18. Januar 1990, verfasst von (Peter-Klaus) Budig (Ministerium für Wissenschaft und Technik), DC 20/4961. Also cited in Graf, *Österreich und die DDR*, 595–596.

42 The two mayors had begun to discuss a city partnership, including joint ventures, in early September 1988. Stadtarchiv Salzburg, Festlegungsprotokoll zu den Verhandlungen der Delegation der Stadt Dresden vom 18. bis 21. Januar 1990 and Protokoll über eine Arbeitsbesprechung in Dresden bezüglich der geplanten Partnerschaft zwischen Dresden und Salzburg am Sonntag, 11. September 1988, SG: 350.110, Nr. 001198.

43 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Josef Reschen an Vranitzky, January 24, 1990, BKA-401.213/5-IV/1/90.

at the leaders' upcoming meeting. This eventuality prompted Vranitzky's personal secretary, Gerhard Praschak, to solicit the wisdom of the Länderbank, the chancellor's old employer, as to what credit wishes the bank's directors felt Modrow might raise. The directors of the Länderbank's export bank then wrote to Praschak to offer their assessment: the East German minister president was likely to request a fresh credit line to the amount of five billion Austrian schillings. With reference to loan terms, the Länderbank representatives noted that Modrow appeared poised to demand conditions similar to those the Republic of Austria had recently granted to the Chinese government. The Länderbank directors recommended to Praschak that Vranitzky embrace a generous approach to East German credit wishes in light of the "massive interest of the West German side." Having clarified matters of substance prior to the official discussion in Vienna, the note from the Länderbank contains the following handwritten message from Vranitzky: "positive reaction from Modrow, Beil."⁴⁴

Aside from the important credit line, the second Vranitzky-Modrow summit in Vienna yielded less of substance than Vranitzky's state visits to East Berlin in June 1988 and November 1989. Differences began with a request by Modrow for a bilateral agreement to reduce tariffs similar to what many east-central European states had reached with another neutral country, Finland. Austrian negotiators felt unable to grant this wish, citing likely objections from members of the European Free Trade Association (EFTA) member countries, notably Switzerland and Sweden. Instead, Austrian officials voiced general support for the longer-term prospect of convergence between EFTA and the European Community (EC) on the one hand and the Soviet-led Council for Mutual Economic Assistance (Comecon) countries on the other.⁴⁵ The Austrian side also pledged to second East Germany's approaches to the Council of Europe, yet another multinational body positioning itself amid the dramatic political changes

44 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von H. Bohunovsky und G. Gruber an Gerhard Praschak, January 24, 1990, Vranitzky, January 24, 1990, BKA-401.213/5-IV/1/90

45 Bundesarchiv, 12. Sitzung des Ministerrates vom 1. Februar 1990, DC 20/1/3/2904.

then sweeping east-central Europe.⁴⁶ Neither of these promises addressed the much more immediate challenges then facing the GDR's last socialist minister president, not least, how to slow the exodus of East Germans to West Germany.

The Austrians wished to ensure that Modrow did not return to East Berlin empty-handed. In addition to establishing the credit line, the two leaders agreed to suspend the visa requirement between Austria and East Germany for three months as of February 1, 1990. To promote tourism between the two countries, foreign trade minister Gerhard Beil opened an annex of the East German trade mission in Innsbruck; Salzburg's tourist authority, with support from Reschen and Berghofer, had already set up the first for-profit foreign tourism authority in Dresden, with an initial focus on organized trips from Dresden and East Berlin to Austria's second-largest city.⁴⁷ At pains to secure whatever advantages possible, the socialist Modrow paid a courtesy call to controversial Austrian president Waldheim, as well as the head of the Bundeskammer, Rudolf Sallinger. The most significant public outcome of Modrow's visit was an agreement, signed not by Modrow and Vranitzky but rather foreign trade minister Gerhard Beil and minister for economic affairs Wolfgang Schüssel, pledging greater cooperation between small and medium-sized enterprises from both countries.⁴⁸ Notably, this arrangement contained none

46 Bundesarchiv, Empfehlungen für das Gespräch des Vorsitzenden des Ministerrates der DDR, Hans Modrow, in Wien/Österreich am 26.01.1990, DC 20/4961. For a review of these meetings based exclusively on East German sources, see Graf, *Österreich und die DDR*, 596–598.

47 "Salzburg kurbelt Tourismus mit der DDR an und liefert know how," *Der Standard*, January 21, 1990, 14.

48 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Wirtschaftsinformation für den Herrn Bundeskanzler anlässlich des offiziellen Besuchs des Ministerpräsidenten der Deutschen Demokratischen Republik Hans Modrow am 26. Jänner 1990, WPOL 43.192/III 3/90. None of these details are conveyed in Vranitzky's publication recollection of the meeting; most recently, Vranitzky has merely acknowledged "Die österreichischen Unternehmen mit starker Marktpräsenz in der DDR waren es zufrieden." See Franz Vranitzky, "Vorwort," in *Der "Ostfaktor": Die österreichische Wirtschaft 1989–2009* (Vienna: Böhlau Verlag, 2010), 13.

of the specific clauses delimited in the agreement forged between the two leaders two months earlier. The spirit of agreements between Vranitzky and Modrow was not, however, completely extinguished. In early February 1990, Fremuth wrote to Vranitzky to report on new plans to expand his utility's GDR business via two subsidiary companies, Verbundplan and Tauernkraftwerke.⁴⁹ Their involvement called for the Austrian Electricity Works to extend its Intrac contract until 2002. Conditions of the new agreement were "fundamentally unchanged," owing to the "friction-free cooperation of GDR authorities." Fremuth was pleased to note that his public utility had prevailed over intense competition from an unnamed West German competitor (most likely PreussenElektra).⁵⁰

Vis-à-vis East Germany, large industry remained Austria's priority in early 1990, notwithstanding the accord signed by Beil and Schüssel. The reason: the Austrian government's multiyear focus on restructuring its own state enterprises had by that time assumed highly public forms. The most visible change, introduced in February 1990, was a new name for the state holding: Austrian Industries AG. During the first half of 1990, radio, television, and print advertisements crafted by "international consultants" informed Austrians (and foreigners in several languages other than German and English) of the newly christened company's plans to issue its own debt instrument. Oscar Grünwald, Austrian Industries' financial chief and deputy director, explained to fellow board members that "going public" (a phrase he and his colleagues did not translate into German) constituted a trial run. Securing funds on bonds markets was only one step toward a larger, more important goal: a stock market listing for Austrian Industries in the near future. In June 1990, the eighty-five-thousand-employee holding entrusted the Creditanstalt with the "lead management" (yet an-

49 The participation of Tauernwerke board member Willi Gmeinhard in the Dresden/Salzburg city twinning project prompted Fremuth's letter to Vranitzky. Stadtarchiv Salzburg, Schreiben von Willibald Gmeinhard an Walther Fremuth, January 21, 1990, SG: 350.110, Nr. 001198.

50 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Schreiben von Walter Fremuth an Vranitzky, February 2, 1990, BKA-401.213/31-IV/1/88.

other cryptic phrase left untranslated) for Grünwald's "going public" bond issue.⁵¹

Why did Austrian Industries' leaders seek fresh injections of capital in the form of bonds and the intention to one day issue stock? The holding's directors sought to increase exports among its member companies, which already boasted strengths in chemicals, iron and steel, lumber, textiles, and select consumer items in areas comparatively underdeveloped within the holding. The directors identified future growth areas in electronics, machine tools, waste management, and energy. With this end in mind, dramatic changes in neighboring countries represented both an existential danger and an important opportunity. External capital was necessary to ensure the holding was ready for this threat/challenge. As the holding's director, Hugo Sekyra, explained at its board meeting in January 1990, Austrian Industries had to swiftly exploit low-wage, highly skilled labor in new markets across east-central Europe. Were the holding to prevaricate, he argued, American and Japanese rivals would immediately sweep into the concern's backyard. And, he continued, once multinationals from these countries had put down roots, they would rapidly exploit new advantages and flood Austrian Industries' core markets in western Europe.⁵²

Alongside its outreach to capital markets, the holding responded to the challenge outlined by Sekyra by widening its provision of expertise in steel production, industrial machinery, and oil and chemical industries in Czechoslovakia, Hungary, and the GDR. The Austrian approach to conducting new business with long-standing foreign partners in these countries and the Soviet Union revolved around the establishment of specialized engineering joint ventures. A "know-how" transfer, described by Sekyra as the conveyance of "software," constituted phase I. The second phase involved ramping up minority shareholdings in refineries, petro-

51 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Tagesordnung für die 3. Ordentliche Sitzung des Aufsichtsrates der Austrian Industries AG am 18. Mai 1990, ÖIAG-Bestand, Nr. 52.

52 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Protokoll über die 4. Ordentliche Sitzung des Aufsichtsrates der Industrie- und Beteiligungsgesellschaft am 15. Jänner 1990, ÖIAG-Bestand, Nr. 43a.

chemicals, and metallurgical areas (especially related to steel and aluminum production).

To oversee both phases, the holding appointed a general representative for specific countries. Temporary, in-country representatives reported to a new unit within the holding named Austrian Industries Consulting.⁵³ Alongside East Germany, neighboring Czechoslovakia and Hungary received early attention. In mid-January 1990, Valtr Komárek, the Czechoslovak deputy prime minister, held talks with Vranitzky and Rudolf Streicher in Vienna and Linz, home to several of Austria's nationalized industries. An outcome of Komárek's visit was an agreement similar to what Austrian leaders had concluded with East German and Hungarian leaders to cooperate in the area of industrial restructuring. In July 1990, the new partners established a bilateral office in Prague to advance bilateral industrial modernization. The head of this new office in Prague, named the Austrian Industries Haus, was Miroslav Hradil, a Czech emigrant to Austria and former assistant to Komárek. Hradil laid the groundwork for more than a dozen engineering joint ventures in 1990, including a project involving the NHKG (Nové Huti Klementa Gottwalda), a steelmaking facility near Kunčice. Austrian Industries attained still greater visibility in Hungary. Minister Streicher, as well as Sekyra and other members of the holding's board, had granted interviews to Hungarian newspapers touting the three joint ventures in place in early 1990 and underscoring the good working relationship with Hungarian minister of industry and trade, Péter Ákos Bod. Initial prospects in East Berlin were also encouraging. In early March 1990, Sekyra and Grünwald wrote to Beil and his deputy, Christian Meyer. Their shared objective was to open a new Berlin office for Austria's largest company, Austrian Industries. The proposed head of the Austrian Industries Consulting venture in East Berlin was among those individuals chiefly responsible for the heavy losses incurred by Voest-Alpine in futures trading during the mid-1980s. Before

53 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Inhaltliche Ausgestaltung der Tagesordnungspunkte für die Sitzung des Gesamtvorstandes der IBVG am 19. Februar 1990, ÖIAG-Bestand, Nr. 124.

joining the new Austrian Industries consultancy, Horst Mikolajczak had since September 1978 served as Voest-Alpine Intertrading's representative in East Berlin.⁵⁴ Austrian Industries Consulting's presence in East Berlin even outlasted the GDR. After the incorporation of the ex-GDR into the Federal Republic on October 3, 1990, Austrian Industries Consulting soldiered on in eastern Germany, albeit without Mikolajczak. His successor as consultant and coordinator for the "ex-GDR" after November 1990 was a still more important figure in socialist-era commerce between the two countries: former minister Gerhard Beil.⁵⁵ Mikolajczak's and Beil's engagement in the Austrian Industries consultancy points to the relevance of socialist-era old boys' networks in Austrian bids to secure commercial advantages in the GDR. As in other countries across east-central Europe, the ex-GDR's new capitalist class included former party officials with 1980s-era ties to the capitalist West, in this instance to neutral Austria.

West German Advances—In Austria and East Germany

To advance Austrian interests in reforming East Germany, including those of the state holding, Austrian diplomats diligently monitored the evolving plans of the West German Federal Republic. The urge to protect industrial interests in the GDR explains why, in mid-March 1990, only a few days before the first free election in East Germany, Austrian ambassador to West Germany Friedrich Bauer and Austrian diplomat Wolfgang Loibl were soliciting expert viewpoints from officials in the Federal Ministry of Economics in Bonn charged with drafting plans for the East German economy. Bauer and Loibl reported to Foreign Ministry superiors in

54 Bundesarchiv, Schreiben von Sekyra and Grünwald an Beil and Meyer, March 7, 1990, DL 2/6469.

55 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Tätigkeitsbericht 1990/91 der AIC, ÖIAG-Bestand, Nr. 125. Beil had first served as an East German trade representative in Austria in 1958. Gerhard Beil, *Aussenhandel und Politik. Ein Minister erinnert sich* (Berlin: edition ost, 2010), 9, 173–187.

Vienna that their audience consisted of various high-ranking ministerial officials, including the acting head of a new Managerial Team Germany (Leitungsstab Deutschland). The pair of Austrian diplomats learned first of what their West German informants described as the utter necessity of an immediate currency union. Above all, the accelerated introduction of the West German currency to the GDR was required to ensure that East Germans stayed where they were rather than continuing to emigrate to the Federal Republic. The main concern in Bonn, at least according to this pair of Austrian diplomats, was not the difficulties faced by GDR enterprises but rather the threat poised to West Germany's social fabric by the ongoing influx of economic refugees from the East. Bauer and Loibl purportedly received an earful about the "disastrous condition" of GDR land registers, to which the expert pair claimed no changes had been made for decades. Trouble with records spelled major trouble not only for potential investors but also for those West Germans seeking justice for Communist-era property seizures. The contested legal status of properties meant that West German efforts to address "previous injustices"—that is, confiscations by East German (and Soviet) socialist authorities—faced major headwinds.

In mid-March 1990, compensating injured West Germans, it seems, weighed heavily on the minds of the federal government's economic experts. The growing unwillingness among East Germans to pay taxes meant the government in East Berlin faced massive budget deficits. With so many migrants on the move and the GDR economy in the doldrums, the incoming government had no choice but to immediately embrace radical reform. Once the currency union took hold, the new government would need to push for swift closures. West Germany's experience restructuring the Saar region along the French border provided grounds for optimism: determined state action to shut down state industry there had, Bauer and Loibl learned, cleared the way for the establishment of new small to medium-sized enterprises. For larger firms, the joint ventures already underway with VW, Opel, and Mercedes needed time to develop traction. Inflation management, not industrial planning, was the challenge that officials in Bonn felt they faced: for these policymakers, West

Germany's strong growth in 1989 provided a clear indication of where future priorities must lie—in ensuring western Germany remained western Europe's economic powerhouse.⁵⁶ The reasons informing the West German government's decision to involve foreigners in this highly fluid situation in March 1990 came at the tail end of Bauer's and Loibl's meeting. The Austrian diplomats learned that West German officials considered international investment in the GDR's future economy important for two main reasons. First, political: acceptance among the GDR population would be much greater if it did not feel exposed to "West German capitalists," but rather was integrated into the "international division of labor." And second, foreign participation by neighboring countries would ensure that Europe would not one day face an enlarged but decoupled Germany, and that a united Germany remained fully engaged in existing contracts.⁵⁷ Bauer and Loibl were requested to pass on their impressions of this briefing to potential Austrian investors.

The mid-March 1990 elections to East Germany's parliament delivered a resounding victory to conservative parties. Results moved the new government in the GDR, the country's last, to declare strongly for the West German currency and German unity. A memorandum prepared by representatives of Streicher's Ministry for State Industries explained how Austria's state-run industrial holding might profitably adjust to the new East German reality. With rapid unification looming on the horizon, West German companies were accelerating moves to assume control of the GDR's economy. The alacrity of the West German advance meant Austrian state-run enterprises would inevitably lose many long-held positions. At the same time, pending delivery cancellations from Soviet enterprises meant Austrian state-run companies would struggle to maintain positions within the EC. In this context, East Germany, a country set to be absorbed into the Community's markets, played a special role. Frustrat-

56 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Währungsunion mit der DDR, Bauer/Loibl, March 13, 1990, WPOL 43.110/III 1/90.

57 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Währungsunion mit der DDR, Bauer/Loibl, March 13, 1990, WPOL 43.110/III 1/90.

ingly, Austrian Industries' companies faced new obstacles in East German markets, and not only because of the moves of West German companies. Despite having the better bid, for instance, a Voest-Alpine company had recently failed to secure a major contract to build a new vacuum distillation plant at Leuna. Voest-Alpine had lost the bid to Toyo Engineering, a Japanese competitor with its own extensive ties to the GDR.

Notwithstanding this and other recent setbacks, if Austrian Industries' companies proved able to hold on to existing footholds in the GDR, and perhaps even to squeeze out a few more last-minute acquisitions, the postunification value would, in Sekyra's estimation, have proved well worth the effort. Projects in which Austrian Industries' companies were close to an agreement but final approvals had not yet been obtained, included companies active in aluminum, chemical, and steel markets. Securing these last-minute deals required a concerted effort by the country's political leaders. One pending project in particular, valued at more than 6.5 billion Austrian schillings, dwarfed all others. It entailed a slab casting and rolling plant that the Voest-Alpine group proposed to build for EKO Stahl in Eisenhüttenstadt. The project's content—the manufacture and sale of surface-treated sheets for the automotive and house appliance industries—appeared especially promising given the likely demand in these consumer areas within the EC and across east-central Europe. Other pending bids included another undertaking at Leuna, two steelworks (in addition to EKO) in Brandenburg and Thuringia, and a refinery (PCK AG) in Schwedt along the German-Polish border.⁵⁸

Voest-Alpine and other industrial producers faced setbacks as a consequence of East Germany's swift absorption into the economy of the West German Federal Republic. The potential damage to the Austrian

58 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), DDR; Offizieller Besuch des Ministerpräsidenten der DDR, Lothar de M., am 25. und am 26. Juli 1990 in Österreich: Übermittlung einer Gesprächsunterlage, BKM-401.213/64-IV/1/90. See also Michael Gehler, "Von der Befürwortung zur Verzögerung und Verhinderung: Österreichs EG-Antragsgesuch, die Bundesrepublik und die Annäherung der DDR an die Europäischen Gemeinschaften 1989–1990" in Gehler and Graf, *Europa und die deutsche Einheit*, 295–374.

economy extended beyond large-scale manufacturing and extraction. With the establishment of the currency union on July 1, 1990, East Germany stood poised to enforce almost all the European Community's regulations concerning tariffs and trade. The GDR's move toward de jure EC membership threatened to deliver still further blows to the Alpine nation's trade interests. Working together, Austrian and East German officials came up with a creative work-around to partially avert damage to the export deal spelled out in the first Vranitzky-Modrow agreement. It involved using Austria's membership in the European Free Trade Association (an important, if smaller, counterpart to the EC then engaged in its own complicated negotiations with the better-known body to promote broader economic cooperation) to circumvent the imposition of new trade hurdles between the GDR and Austria before the former's inclusion in an enlarged Germany. To complete the deal covering the short period until October 3, 1990, GDR delegates expressed their willingness to establish free trade relations with all EFTA member states on the basis of agreements the Geneva-based organization had concluded with the EC.⁵⁹

The joint Austro–East German bid involving the EC and EFTA succeeded in fending off new trade barriers. For Austria, it paid immediate dividends, albeit for the country's industrial and commercial sectors and not agriculture. The challenges presented by agricultural commodities, a strongly protected area within the EC trade bloc, proved too large to include in the hastily composed agreement before the July 1, 1990, deadline imposed by the West German currency union. Now facing discrimination from a long-favored partner, the GDR, Austrian agricultural interest groups raised loud objections in the lower house of the Austrian parliament, the National Council (Nationalrat). Trade advocates sought to extend traditional business relationships with the GDR by ensuring the legislation adopted in accordance with the EC-EFTA agreement covered agricultural products, including processed foodstuffs. The Bundeskam-

59 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), letter from the Wirtschaftsministerium (Dr. Feith) to the Österreichische Botschaft Bonn, July 29, 1990, WPOL 43.621/III 1/90.

mer and the Austrian Chamber of Labor vigorously resisted this bid in the country's most important legislative body. Industry and labor prevailed in the final legislation, but not before exacerbating rifts among the conservative Austrian People's Party's urban and rural constituents. The parliamentary debate exposed that the agreement's clauses contained a provision regarding third parties. While imports from other countries were to be subjected to EC rules, obligations from previous contracts involving third countries—including undertakings involving Austrian state industry and East German firms operating abroad, in countries such as Australia, Malaysia, and Venezuela—remained unaffected.⁶⁰ Displeased with this arrangement, representatives of the Austrian Ministry for Agriculture and Forestry pressed on with their own bilateral dialogue. Austrian officials requested, and received, from a GDR delegation led by Christian Meyer precise figures on the volume of cheese, grain, and wine that had been exported during the past three years to the GDR.

Extending preferential arrangements with the GDR, if only for a few months, required extraordinary efforts involving diplomats and lawmakers in several countries, as well as international bodies, to forge stopgap arrangements. The expenditure of political capital no doubt came with a price; we currently only know that the Austrian government succeeded in prodding all EFTA governments to affirm the unchanged status of obligations under existing agreements between the GDR and EFTA countries.⁶¹ Precisely what member state governments within EFTA demanded for their cooperation nevertheless remains unknown. Easier to discern were the domestic costs to Austria's social harmony, a key draw for those invest-

60 *Wirtschaftliche Auswirkungen der Wirtschafts- und Währungsunion zwischen der Bundesrepublik Deutschland und der Deutschen Demokratischen Republik auf Österreich* Bundesgesetzblatt für die Republik Österreich. 422. Bundesgesetz. July 13, 1990, 277, and *Verordnung des Bundesministers für wirtschaftliche Angelegenheiten vom 14. Juli 1990 über die Behandlung von Waren mit Ursprungsland Deutsche Demokratische Republik*, Bundesgesetzblatt für die Republik Österreich. 425, July 14, 1990, 280.

61 Archives of the European Free Trade Association (Geneva). Existing Agreements with the German Democratic Republic and the Forthcoming German Unification; Some Tentative Legal Considerations, July 6, 1990, LA 157/90.

ing capital in the Alpine nation. Forced to prioritize industrial over agricultural trade with the GDR, Austria's conservative People's Party had to put its cards on the table about its ultimate economic priorities. This pushed many farm producers into the arms of a hard-right opposition party then led by Jörg Haider, the Austrian Freedom Party (Freiheitliche Partei Österreichs).

Notwithstanding East Germans' willingness to soften blows, the GDR's rapidly approaching integration into the Federal Republic—and the European Community—was exacerbating divisions among Austrians. State-run industry stood to lose major contracts, and agricultural interests too saw their trades on the chopping block. Austrian leaders, for their part, remained eager to participate in the European Community's future "single market" (a blanket term that covered vast changes in member states' public procurement and insurance, transport, taxation, and financial services, among many other areas) as fully as possible.⁶² The trouble was that, with the rapid changes in eastern Europe, Austria's formal application to the EC was placed on hold. In early May 1990, Vranitzky and his foreign affairs advisor, Eva Nowotny, sought leverage from several quarters, including UK prime minister Margaret Thatcher. Expressing frustration about East Germany's progress toward membership in the Community while his country's application was stalled, Vranitzky confided to Thatcher that "Austria would not come in as a third German state, but as the one and only Austrian state."⁶³ Thatcher sympathized with Austria's plight; for her country, too, German economic and monetary union and West Germany's rapid advance into east-central Europe spelled trouble. According to the UK prime minister, the future of Europe, not merely Germany, hung in the balance.

62 The Single European Act of 1986 enabled the removal of capital controls within the EC. For concise introductions to the Single Market Program, see Laurent Warloutzet, *Governing Europe in a Globalizing World: Neoliberalism and Its Alternatives following the 1973 Oil Crisis* (New York: Routledge, 2018), 182–186, 192–194, 199–201, 216–217 and Harold James, *Europe Contested: From the Kaiser to Brexit*, 2nd ed. (New York: Routledge, 2020), 352–354.

63 The National Archives (London), Prime Minister's Meeting with the Austrian Chancellor, May 8, 1990, PREM 19/3612.

The July 1990 visit to Vienna of the last East German minister president, Lothar de Maizière, provided the Austrian government with last-minute opportunities to exert control over the future of Austrian economic interests in eastern Germany vis-à-vis GDR authorities. Once again, state industry, not recently discussed efforts between Beil and Schüssel to bolster small to medium-sized enterprises, emerged as the shared priority. Talks between Vranitzky and Schüssel on the one side, and de Maizière and his economics minister, Gerhard Pohl, Beil's successor, on the other centered on the Treuhand, the state holding repurposed after the March 18, 1990, election to promote the privatization of eastern German commerce and especially industry. Until October 3, 1990, the Treuhand's chief formally reported to de Maizière, who oversaw the creation of a government and bureaucracy molded on West German examples. In practice, the Treuhand increasingly answered to ministerial officials in Bonn, but the (last) minister president in East Berlin was not completely devoid of influence, as events after his Vienna visit make clear. De Maizière shared his impressions of his talks in Vienna with the Austrian ambassador to the GDR, Erich Binder, on their shared return flight to East Berlin. De Maizière purportedly underscored the "great importance" he placed on having "not only West German companies" active in Germany's East. To this end, the East German minister president offered to dispatch both the Treuhand and the head of the Treuhand's supervisory board to Vienna immediately, "possibly as early as next week."⁶⁴ Binder swiftly followed up on de Maizière's offer. Less than three weeks later, Gohlke and Rohwedder were in Vienna. The more than thirty company directors and ministerial officials summoned to meet the Treuhand pair included the Austrian Electricity Works' Fremuth, the Creditanstalt's Schmidt-Chiari, and Austrian Industries' Sekyra. Gohlke and Rohwedder explained their intention to establish four massive Treuhand AGs—for nine hundred companies in raw materials industries; twenty-two hun-

64 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Telefax von Binder an Aussenamt Wien, Betrifft: DDR, Wirtschaftliche Kooperation, July 26, 1990, BKA-401.212/70-IV/1/90.

dred companies in such capital goods industries as energy, water, mining, chemicals, metallurgy, and paper; some two thousand companies in the consumer goods sector (construction, electronics, machinery, optics, steel, and vehicles); and eighteen hundred service companies—as well as to place responsibility for these four AGs in the hands of the Treuhand board director responsible for restructuring, Klaus-Peter Wild.⁶⁵

Gohlke resigned three days later. The circumstances of his exit remain unclear. French diplomats in Bonn noted that Gohlke was under immense pressure owing to acute liquidity problems facing East German enterprises. Gohlke's dark assessment of the financial situation—he spoke to French diplomats of the asphyxiation of East Germany's economy—led him to conclude that the agency would not be able to function for several more months and that “practically no East German company is competitive.”⁶⁶

The official reason given for Gohlke's abrupt resignation was differences of opinion with the supervisory board. That's probably not far from the truth. The head of that body, West German Hoesch steel company chief Rohwedder, replaced him. Although he shared Gohlke's skepticism about eliminating state involvement in eastern German industry, Rohwedder quietly ditched plans to create four massive holding companies out of the Treuhand. In early September, Streicher's ministry, the Ministry for Economic Affairs, and the Bundeskammer requested that Rohwedder return to the Austrian capital, citing press reports of Rohwedder's plans to visit Japan and the United States. In mid-October, on his second visit in so many months, Rohwedder obliged his Austrian hosts.⁶⁷

65 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Wienbesuch des Präsidenten der Treuhandanstalt der DDR, Dr. Reiner Gohlke am 17.08.1990; Redeunterlagen, BKA 401.213/01-IV/90.

66 Centre des archives diplomatiques (Nantes), Rapport l'économie est-allemande est-elle victime du manque de liquidités, Ambassade de France à Bonn, August 17, 1990, 105 PO/2.

67 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Telefax an das Bundesministerium für auswärtige Angelegenheiten, gez. Dr. Feith, September 18, 1990, WPOL 43.691/III 1/90.

For all the encouraging attention from de Maizière and the leadership of the Treuhand, Austrian purchases were markedly slow in coming. An oft-mentioned source of frustration to Austrian companies, shared by other foreigners and expressed to Rohwedder in no uncertain terms during his 1990 visits, was the brazenness of West German investors. And yet, a few notable Austrians seized early opportunities. One was Martin Schlaff. As representative of the Robert Placzek AG in the GDR, Schlaff leveraged ties he had expanded in the late 1980s to purchase a long-standing business partner, a wood trade operation outside Dresden.⁶⁸ In 2023 one of the richest Austrians, Schlaff had long served as the East Berlin representative of several Austrian trading firms, a fact he shared with Austria's most important weekly newsmagazine in late 2019.⁶⁹ Particularly in construction, where government-approved and -financed projects underwent dramatically accelerated approval procedures, Austrian firms emerged, albeit slowly, as eastern German investment leaders. Austrian investors' early quiescence compared to foreign rivals is striking. Until late 1992, companies from France and Switzerland raced ahead of the Austrians.

The specific course and direction of Austrian engagements in the early 1990s owe much to developments in Austro–East German commercial relations during the late 1980s. The Austrian thrust in 1990 was bound up with more important domestic considerations, including a state divestment drive within Austria under the government led by Vranitzky. The finance-savvy Austrian chancellor, his ministers, and the directors of state-run industries and public utilities moved quickly to expand relations with GDR firms after the dramatic opening on November 9, 1989. In the aftermath of the March 18, 1990, elections in the GDR, however, economic

68 The firm in question was VEB-Kombinat Holzhandel GmbH. Bundesarchiv, Bericht über die Tätigkeit des Repräsentanzbüros der Firma Robert Placzek, January 26, 1990, DL 2/6469.

69 Schlaff recently acknowledged some of these ties in a 2019 interview. See Martin Nikbakhsh, "Martin Schlaff: Der Mann hinter der Mauer," *profil*, November 9, 2019, 32–39, <https://www.profil.at/wirtschaft/martin-schlaff-mann-mauer-11209384> (last accessed on November 16, 2022).

interests forged between Austria and the GDR became subject to the aims of West German industrialists and political leaders. From March 1990 onward, decisions reached by West German federal authorities in Bonn increasingly shaped Austria's advance into eastern German markets and, in a real sense, Austria's position in Europe. In this larger geopolitical context, the Berlin-based Treuhand assumed a central, if short-lived, position.

Austro–East German Trade: West German Dimensions

Austrians leapt to the front of the pack of Treuhand investors after 1992. Before that, Austrian officials struggled with West German officials to settle East German accounts. Forging a consensus involved multiple rounds of behind-the-scenes diplomacy. The decisionmakers were commercial diplomats in Bonn. Civil servants in the German Federal Ministries of Economics and Foreign Affairs fielded inquiries from their Austrian counterparts.

Resolution required more than six months of intense Austro–West German dialogue. The minutes of semiannual meetings (*Kontaktgespräche*), dating back to 1968, held between high-level civil servants from the Austrian and West German ministries of economics, provide key details. The twentieth such “informal” gathering took place in Munich in June 1990. There, officials of the Austrian Federal Ministry for Economic Affairs explained to West German counterparts that their country's food and agriculture exports to East Germany—specifically of cheese, grain, and wine—were rapidly declining. West Germany's advances into GDR markets for foodstuffs explained Austrian losses incurred by the country's agricultural interests, especially farmers. In a summary report to Vranitzky's office, Austrian economic diplomats noted that the leader of the West German delegation, Arnold Streit, had expressed sympathy for the plight of Austrian agricultural exporters. According to the Austrian version of this meeting, Streit claimed that West German government agencies were keen to ensure that the GDR's trade, “whether with the West or with the

East,” should not encounter “abrupt declines.” Streit concluded that the “protection of legitimate expectations” (*Vertrauensschutz*) should certainly be granted.⁷⁰

Streit’s oblique reference to compensation in the form of legitimate expectations figured prominently in subsequent Austrian attempts to secure redress from (West) German federal officials. The twenty-first expert meeting between officials of the two countries’ economics ministries provided Austrian representatives a fresh opportunity to press claims for GDR losses. The date and venue lent themselves to historical allusions. The two parties gathered in Berlin on October 3, 1990, a date today celebrated in Germany as Unification Day. That October 3 marked the formal incorporation of the territory of the former GDR—reconstituted as five federal states and the now unified former capital of Berlin—into a dramatically enlarged German Federal Republic. October 3, 1990 also marked a less-known milestone. From then on, the Federal Ministry of Finance in Bonn (not the Federal Ministry of Economics or the Office of the Federal Chancellor) assumed formal responsibility for the Berlin-headquartered Treuhand.

The Austrian head delegate, Josef Tschach, labored to capture the right tone for the historic gathering in the former capital of the German Reich, a polity that, from 1938 to 1945, had included Austria as well. Significantly, Tschach congratulated “the German delegation and the German people” not for attaining national unity but rather for “regaining full sovereignty.” Tschach’s backhanded compliment referenced an achievement granted to Austrians in 1955 but denied to Germans until the conclusion of agreements with the four occupying powers, the United States, Britain, France, and the Soviet Union, in 1990. Perhaps eager to bracket a potentially divisive discussion of German speakers’ history, the (West)

70 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Resuméprotokoll über das Ergebnis der 3. Tagung der Arbeitsgruppe für bilaterale Wirtschaftsfragen der informellen wirtschaftspolitischen Kontaktgespräche Österreich-Bundesrepublik Deutschland auf Beamtenebene; 25./26. Juni 1990 in München, BKA-401.213/65-IV/A/1/90.

German leader of the delegation, Rudolf Morawitz, quickly moved to survey the heady challenges of the ongoing economic merger. Morawitz's account differed radically from the one Austrian diplomats had received in Bonn less than six months earlier. Since then, East Germany's industrial production had dramatically declined. Stabilization was more than a year away. According to Morawitz, the essential problem was a lack of private, not public, investment. Here a sense of guarded optimism returned to Morawitz's remarks to the Austrians. Yes, wage increases of 20 to 50 percent represented the chief barrier to investment. But other "problem areas"—"inherited liabilities" (*Altlasten*), that is, socialist-era debts incurred by East German enterprises, as well as disputed ownership claims and environment-cleanup costs—"had more or less been eliminated." Truly sobering in the version of Morawitz's remarks captured by the Austrians was the cost of unification to the German federal government. Citing credit requirements for 1990 between DM 100 billion and DM 120 billion for the coming year, Morawitz observed that the federal budget's debt-to-GDP ratio stood likely to reach 4 percent by the end of 1991.⁷¹

The Austrian delegation, for its part, sought to ensure that the more recent past was not ignored in the bilateral discussion of trade relations. Probably seeking to exploit the opening offered by Streit in Munich, the initial exchanges about GDR-era trade concerned agriculture. The Austrians insisted that the volume of future deliveries to what were referred to as the "new German states" must approximately match previous years. Morawitz reluctantly agreed to consider the matter in light of Article 12 of the Unification Treaty—the clause acknowledging "legitimate expectations" with reference to the GDR's trade agreements—but then immediately backtracked to insist that the ultimate authority to make decisions about agriculture lay in Brussels, not Bonn. Unable, and perhaps unwilling, to grant Austrians favors without the permission of the European Commission, the executive arm of the European Community, Morawitz

71 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), 21. Informelle wirtschaftspolitische Kontaktgespräche auf Beamtenebene am 3./4.10.1990 in Berlin, WPOL 22.622/III 3/91.

claimed his hands were tied by a more powerful third party over which his Austrian counterpart enjoyed no real influence. Morawitz and his colleagues would do what they could to uphold Austria's vested rights (*Be-sitzstand*), but the "sentiment in Brussels was not on their side." Thus, they should thus "not entertain high hopes." In comments that probably reflected mounting frustration among the Germans, Morawitz's colleague, Arnold Streit, the progenitor of the remark about "legitimate expectations," pointedly added, "Austria's trade relations with the GDR cannot simply be transferred." Pouring salt into the wound, Streit then asserted that "Austria's agricultural trade with the GDR had been disproportionately large compared to other industrialized countries."⁷² Streit's assessment was not so much wrong as incomplete. It conveniently overlooked the dominant role West Germany had played in the GDR's foreign trade during postwar national division.

The Austrian attendees in Berlin refused to engage in exchanges about the competencies of the European Community or to take affront at Streit's assertion. Perhaps seeking to cool tempers, Austrian delegation leader Tschach expressed his intention to report to Vienna the German federal government's willingness to support the Austrian position in upcoming agricultural talks with the European Commission. A close read of Tschach's remarks shows that the Austrian commercial diplomat's main concern was not agriculture but rather the principle of treaty continuation. To this end, the Austrian delegation leader coolly stated that Austria formally assumed that the now united Germany "would enter into consultations with the GDR's contract partners and that an agreement [would] in any case be reached between the two governments on the ultimate fate of each contract in question."⁷³ The German federal govern-

72 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), 21. Informelle wirtschaftspolitische Kontaktgespräche auf Beamtenenebene am 3./4.10.1990 in Berlin, WPOL 22.622/III 3/91.

73 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), 21. Informelle wirtschaftspolitische Kontaktgespräche auf Beamtenenebene am 3./4.10.1990 in Berlin, WPOL 22.622/III 3/91.

ment, Tschach proclaimed, could not unilaterally dispose of any contract. For the Austrians, the thorny matter was serious enough to require the involvement of formal diplomatic representatives: Tschach notified his German counterparts that a special emissary from the Austrian Ministry for Foreign Affairs, State Secretary Hans Winkler, would promptly be dispatched to the German Foreign Ministry in Bonn. How the German delegates regarded this no doubt well-prepared speech is not recorded in the Austrian minutes; one learns only that German delegates noted their wish to receive a copy of all treaties and agreements with GDR entities that the Austrians deemed relevant. At this tense point in the deliberations, an unnamed member of the Austrian delegation observed that an additional area of concern arose from the contracts reached between Austrian companies and the GDR's foreign-trade concerns (*Aussenhandelsbetriebe*). These matters, too, required high-level German attention. Cancellations of orders involving Austrian companies not covered by formal agreements signed by the two countries' political leaders had also led to Austrian losses.

Immersed in the more immediate challenges of uniting two very different economies, the German delegation had come to the October 1990 meeting prepared to refute, not resolve, Austrian claims. As German attendees insisted, with reference to the question of contractual compliance, what mattered was not the socialist past but changes in post-Wall eastern Germany, specifically within the Treuhand. East German conglomerates under the Treuhand's authority, one reads, had all become public companies. If newly established companies were unable to meet obligations vis-à-vis Austrian concerns, then the affected Austrian company would have to sue for breach of contract in the competent civil court. Citing another provision (Article 24) of the Unification Treaty, Morawitz pulled a fresh arrow from his quiver: with reference to questions of foreign trade, the settlement of claims and liabilities dating back to the period before the accession of the five new federal states and East Berlin to the Federal Republic fell not to his ministry but rather to the Treuhand's new official overseer, the Federal Ministry of Finance. The GDR's external liabilities were thus not merely yesterday's news. Insofar as they involved German

representatives, they were decidedly not the German Federal Ministry of Economics' problem.⁷⁴

At stake for the Austrians was business flowing from agreements with GDR ministries and firms, but precisely how much? Austrian officials insisted a solution to their dilemma was urgently required but were unwilling to define the scale of their losses. Tschach merely pointed out that he and his colleagues were under pressure from (unnamed) Austrian companies suffering from abrupt contract cancellations. Tschach noted that another attendee of the meeting, longtime head of the Bundeskammer's (East) Berlin office Stephen Kuzmich, had been charged with compiling a comprehensive review of all relevant cases. The Austrian delegation leader also acknowledged that the GDR had, in late September 1990, voided a long-term trade agreement reached with his country in November 1980. By implication, a long list of agreements between entities in the two countries forged since then, that is, across the entire 1980s and into the first months of the subsequent decade, remained on the table. The economic framework agreements and letters of intent signed by Vranitzky and Modrow on November 24, 1989, certainly made the Austrians' (undisclosed) running list, including the specific allocations for particular goods contained therein.⁷⁵

Although they shared a culture, a history, and a language, in October 1990 officials in the economics ministries in both of Europe's largest German-speaking countries stood far apart on the meaning of *Vertrauensschutz*. Part of the problem lay in the fact that Austrian losses did not end with the GDR: many Austrian businesses had planned for extensive trade with GDR authorities for years to come. One reason for the difficulty in specifying their losses, the Austrians claimed, lay in their evolving nature, as the case of Austrian electricity deliveries helps to illustrate. Among

74 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), 21. Informelle wirtschaftspolitische Kontaktgespräche auf Beamtenenebene am 3./4.10.1990 in Berlin, WPOL 22.622/III 3/91.

75 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), 21. Informelle wirtschaftspolitische Kontaktgespräche auf Beamtenenebene am 3./4.10.1990 in Berlin, WPOL 22.622/III 3/91.

the Austrian firms to seek redress via Tschach and his colleagues in the Federal Ministry for Economic Affairs in Vienna was Fremuth's Austrian Electricity Works. Negotiations in September and early October 1990 with an affiliated company (Verbundnetz Elektroenergie, VEAG) set up by the Treuhand (then still under the formal administration of the East German government) yielded Austrian revenue shortfalls—and new, behind-the-scenes Austro-German conflicts. In German records, one reads that after October 3, 1990, third-party provision via Czechoslovakia's network, for years obstacle-free, now presented major "technical difficulties." Indignant about the Austrians' unwillingness to acknowledge the "entirely new conditions" prevailing after national unification, ten days after the binational contact group's meeting in Berlin, VEAG abruptly cancelled all Austrian deliveries.⁷⁶ VEAG's decision to cut the cord produced fresh Austrian breeches-of-contract allegations, damage claims, and indignant exchanges about penalties. Behind the cancellation of the Austrian Electricity Works' profitable engagement in eastern Germany's market was not so much the Treuhand, the West German Federal Ministries of Economics and Finance, or the government led by Lothar de Maizière but rather three firms "affiliated" in the new VEAG: West Germany utilities PreussenElektra, Rheinisch-Westfälisches Elektrizitätswerk (RWE), and Bayernwerk.⁷⁷ All three firms had been active in the GDR's electricity market long before, and especially in the weeks immediately after, November 9, 1989. At that time, PreussenElektra, RWE, and Bayernwerk commanded 60 percent of market share in West Germany. The new contract granted VEAG complete control of the electricity market in the fifteen districts of the still existent GDR, raising the group's share of the

76 Bundesarchiv, Konzept zur Verhandlung mit dem Vorstand der Österreichischen Elektrizitätswirtschaft-AG über Beendigung bzw. Modifizierung des Stromvertrages, November 23, 1990, DL 210/980.

77 Bundesarchiv, Konzept zur Verhandlung mit dem Vorstand der Österreichischen Elektrizitätswirtschaft-AG über Beendigung bzw. Modifizierung des Stromvertrages, November 23, 1990, DL 210/980. The federal cartel office applied pressure to ensure five smaller companies joined the consortium in December 1990. See also Matthes, *Stromwirtschaft und deutsche Einheit*, 361–367.

soon-to-be-unified German market to nearly 70 percent.⁷⁸ Justified on the basis of environmental relief, planned investments, and supply reliability, the controversial agreement essentially replaced a state monopoly with a private one. Managing the conflicts that were entailed in the controversial agreement, which covered coal mines, atomic plants, and supply networks, fell to the increasingly overwhelmed Treuhand. The long list of critics included liberal and Green Party opposition figures in the East German parliament (Volkshammer), West German state governments in Hamburg and the Saarland, and the top Brussels official responsible for competition policy within the European Community, Leon Brittan.⁷⁹

European Commissioner Brittan was prominent among those to offer a partial solution to the energy monopoly snafu: the commercial engagement of regional energy companies and enterprises from other Community countries in the GDR (his role in eastern German markets is explored in detail in the next chapter). Brittan's wish to engage EC countries in eastern Germany's future energy mix found vocal support in East Germany's parliament.⁸⁰ Negotiations featuring the Treuhand and the Federal Cartel Office (Bundeskartellamt) widened the circle of West German providers in 1990 but initially failed to include foreigners. The future entailed Treuhand-tailored engagements for select foreign energy providers (and anglophone investment banks). At the time, however, practically no one observed that the rapid embrace of large West German companies hastened the exclusion of those foreign-owned companies already active in the GDR's energy market, including the Austrian Electricity Works.⁸¹

78 See Bundesarchiv, Stellungnahme zum Vertragsentwurf, Amt für Wettbewerbschutz, July 13, 1990, B 246/795.

79 Bundesarchiv, Sprechzettel, Betr. Elektrizitätswirtschaftliche Kooperation mit der DDR; here: Ihr Gespräch mit EG-Kommission Sir Leon Brittan am 26. Juli 1990, July 23, 1990, B 246/794.

80 On the East German parliament's attempts to alter the controversial electricity deal, Matthes, *Stromwirtschaft*, 329–338, 345–351, 372–373.

81 A formal complaint about the electricity deal with the Federal Constitutional Court was lodged by 164 municipalities. This dimension of the struggle over eastern German energy commanded the attention of most parties in eastern and western Ger-

Germany's Federal Ministry of Economics attempted to deflect foreign criticism of advantages granted to West German investors by hosting high-profile events in late 1990. One such gathering, held in mid-November 1990 at Bellevue Palace (today the residence of the German president), featured the economics ministers of Austria, Germany, and Switzerland. There, Morawitz's and Streit's boss, federal economics minister Helmut Haussmann, expressed his willingness to accept "lower-level" foreign involvement, in this instance Austrian and Swiss, in the Treuhand.⁸² Austrian ears perked up then and again in mid-March 1991, when the Treuhand's human resources chief, Alexander Koch, claimed on his visit to Vienna that he and his colleagues would welcome Austrian involvement in the holding's most important decisionmaking bodies.⁸³ All the while, Austrian officials from the Ministry of Economic Affairs continued to insist on a comprehensive, state-to-state resolution of the Alpine nation's GDR-era trade across the entire decade of the 1980s.

In early 1991, the two matters—past compensation claims and future outside influence over the course of German privatization—merged in the form of the Alpine nation's attempt to obtain an "Austrian platform" within the Treuhand. Austria's general consul in Frankfurt am Main, Heinrich Winter, assumed the initial lead in developing a Treuhand-centered solution to the Austro-German standoff over GDR-era claims. Acting on instructions from Vranitzky's office, Winter discussed greater Austrian

many. The long-awaited decision of the Federal Constitution Court was reached not in Karlsruhe, its home city, but rather in Stendal in Saxony-Anhalt in late October 1992. See Matthes, *Stromwirtschaft*, 416–432, 446–453, 462–464.

82 Bundesarchiv, Gesprächsunterlage. Betr.: Trilaterale Unternehmerkonferenz D/A/CH über Investitionen im Gebiet der frühen DDR am 15.11.1990 in Berlin, October 12, 1990, B 102/372179.

83 Alexander Koch interview by *Die Presse* on March 15, 1991. Calls to include foreigners in the Treuhand's main decisionmaking bodies dated back to June 1990. Harald Ringsdorff, a representative of the East German parliament, the Volkskammer, issued such a call to include "persons and companies from the USA, Great Britain, Switzerland, and other countries" in early June 1990. Volkskammer der DDR, 11. Tagung, June 7, 1990: Antrag des Ministerrates der DDR, Gesetz zur Privatisierung und Reorganisation des volkseigenen Vermögens Treuhandgesetz, 1. Lesung, in Treuhandanstalt, Dokumentation 1990–1994, vol. 1, 188.

involvement in the Treuhand with critical German actors, including Treuhand president Rohwedder, unnamed members of his management board, presidium member of the Federation of German Industries (Bundesverband der deutschen Industrie, BDI) Ludolf-Georg von Wartenberg, and representatives of West German companies, banks, and industry lobbying associations. In late March 1991, Winter directed a request to Vranitzky's personal secretary: Could the Frankfurt general consul move forward with a suggestion to approach the head of the Treuhand's supervisory board, Jens Odewald?⁸⁴ Praschek's assessment, seconded by Berlin representatives of the Bundeskammer, was negative: a special Austrian "platform" within the Treuhand was no longer desirable as it might attract unwanted interest from foreign rivals.⁸⁵ Praschek, presumably also Vranitzky, ordered Winter to stand down.

Not until late March 1991 did Vranitzky's official diplomatic emissary, a much better known Austrian foreign affairs official, Hans Winkler (not Winter), receive an invitation to resolve the matter of GDR-era claims against the German Federal Republic. As Winkler explained in correspondence with his Ministry of Foreign Affairs superiors, negotiation was to take place not in Bonn (then the German Foreign Office's headquarters) but rather again in the former (and future) capital Berlin. The reason was the Treuhand. What role the German privatization authority played in the conflict's resolution remained at that time unspecified. We know from German sources that Federal Ministry of Economics officials in Bonn requested from Wolfgang Vehse, the Treuhand's international relations director in Berlin, a memorandum on Austrian investment attempts to date, citing Austrian wishes to discuss problems related to "past and future cooperation with the Austrian state holding."⁸⁶

84 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), BRD-Treuhandanstalt. Frage einer österreichischen Präsenz, March 22, 1991, BKA-401.213/40-IV/1/91.

85 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Einlageblatt, o.D., BKA-401.213/40-IV/1/91.

86 Bundesarchiv, Schreiben von Messerschmidt an Vehse, April 8, 1991, B 412/11936, vol. IV.

Austrian records show that, in order to increase the likelihood that this second round of “informal” talks would produce a positive outcome, decisionmakers in Vienna decided to put forward fresh faces. Led by high-level Austrian diplomats and not officials from the Ministry of Economic Affairs, this second Austrian delegation dispatched to Berlin also enlisted representatives of Streicher’s Ministry for Nationalized Industry and Kuzmich from the Bundeskammer’s office in Berlin. In other words, the constellation behind many of the original agreements with the GDR-Austrian state industry and the Bundeskammer’s point man in (East) Berlin on the one hand and East German companies operating under the wing of state ministries (now subsumed in the Treuhand and accountable, after the GDR’s demise, to the German Federal Ministry of Finance) on the other—was reproduced at this Austro-German gathering.

Addressing the core Austrian concern—the legal status of contracts forged with GDR officials, notably the agreements featuring nationalized industry and formalized by Vranitzky and SED leaders—proved a bridge too far for the Germans. Bonn officials once again insisted that these agreements were private in nature and avowedly not matters of state. Their fate—or fulfillment—was a matter for courts, not diplomats. Despite the fact that the GDR had similar agreements with other countries in the West, German federal authorities exhibited little patience for the argument that they were somehow obliged to accept what their Austrian counterparts continued to describe as “government debts.”⁸⁷ Austrian arguments—the involvement of Vranitzky and Modrow (the 1988 agreement signed with Honecker was conveniently left out of the picture) and the fact no other “Western” country had reached such agreements with the GDR—failed to sway German opinions. In the minds of German officials, such arguments bore no relevance to Austrian claims that the economic relations between the two countries constituted a form of “public-law” obligation.

87 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Frage der Verträge mit der ehem. DDR; wirtschaftliche Vereinbarungen; Expertengespräche am 19.04.1991 in Berlin; DR von Ges. Dr. Hans Winkler, March 26, 1991, WPOL 22.621/III 3/91.

Time was not on Austria's side. The rapid slide of the East German economy into deep recession following the Gulf War and the collapse of trade across east-central Europe and the still extant Soviet Union argued for closure. So did the many important relationships the Austria enjoyed with its most economically powerful neighbor. And yet, Austrian economic diplomats were unwilling to walk away empty-handed. Forced to cut losses, Austrian representatives put forward a new demand: the "continuation of a certain special relationship" (*Fortführung eines gewissen Sonderverhältnisses*) in the form of "exceptional consultation rights" with reference to the sale of GDR enterprises by the Treuhand. Austrian state secretary (and subsequently Austrian permanent representative to the Council of Europe) Hans Winkler noted that this demand also went too far for the German side. Representatives from Bonn insisted that this suggestion be stricken from the official record. (Winkler nonetheless retained the Austrian request in his notes of the meeting.) Winkler's summary also records what Austrian government officials succeeded in attaining from their German counterparts: a provision granting Austrian commercial authorities the opportunity to contact either the Federal Ministry of Economics or the Treuhand in instances where Austrian companies wished to hold talks or receive information about pending sales. In Winkler's assessment, the attainment of exceptional consultation rights represented the maximum of what could be achieved. In a remarkable conclusion, Winkler's report ends with an admonition. The "question of claims resulting from the Vranitzky-Modrow agreement" had been settled, once and for all: no further talks between representatives of the two governments related to GDR-era contracts would be permitted to take place.⁸⁸

In important respects, the last word on Austria's 1980s-era trade relations with the GDR was "Treuhand." Having finally devised a way to unlock horns, so-called natural advantages—oft-cited linguistic and cultural

88 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Konsultationen mit der BRD über wirtschaftliche Verträge Österreich – DDR; Berlin, 19.4.1991, gez. Winkler, April 23, 1991, WPOL 250-III 1/91. Winkler directed the Vienna School of International Studies until July 2017.

ties—facilitated Austrian acquisitions. A major focus of Austro-German collaboration under the Treuhand umbrella was construction, where information about pending sales likely granted Austrian investors subtle advantages over foreign rivals. Keen Austrian interest in construction projects explains why Austria's ambassador to Bonn, Herbert Grubmayr, had cited a number of cases in which construction firms from his country had faced discrimination at the hands of the Treuhand at a gathering of Organization for Economic Co-operation and Development ambassadors hosted by Breuel at Cecilienhof Palace in late September 1991. After airing his concern, Grubmayr was invited to pass on the names of these firms to the Treuhand's director of personnel (and erstwhile advocate for greater Austrian involvement), Alexander Koch.⁸⁹ In November 1991, Breuel went forward with her plan to appoint "roving ambassadors." The first introduction took place at the Creditanstalt's opulent headquarters. There, Breuel introduced her Austrian mediator, Gerd Graenz, an interlocutor in Austrian-GDR trade relations during the late 1980s. She also held talks with Sekyra, the chair of the board of Austrian Industries, about his holding's interest in a premium steelworks in Freital (Saxony), a grinding plant in Burg (Saxony-Anhalt), and metallurgy plans for the largest eastern German steel plant in Eisenhüttenstadt, EKO Stahl.⁹⁰ The Austrian state holding's ties to steelworks in the Oder Valley were extensive; they encompassed compensation agreements managed by Voest-Alpine's Intertrading's Berlin representative, Horst Mikolajczak.⁹¹ Neither considerable GDR-era ties nor Sekyra's direct access to Breuel yielded Sekyra's holding

89 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Österreichische Botschafter Bonn, Gespräch mit der Präsidentin der Treuhandanstalt, Frau Birgit Breuel; Frage der Benachteiligung ausländ. Firmen, September 24, 1991, Bundesministerium für auswärtige Angelegenheiten, WPOL 22.250-III.3/91. On the importance of special assistance funds in fueling the eastern German building boom of the 1990s, see Karl-Heinz Paqué, *Die Bilanz. Eine wirtschaftliche Analyse der Deutschen Einheit* (Munich: Carl Hanser, 2009), 99–109.

90 Bundesarchiv, Schreiben von Vehse an Breuel, November 14, 1991, B 412/11936, vol. I.

91 Bundesarchiv, Ergänzung zur Genehmigung, gez. Mikolajczak, September 20, 1984, DL 2/6469.

Treuhand investments. Late November 1991 also witnessed the first official visit of Leopold Maderthaner, head of the powerful Bundeskammer, to eastern Germany; accompanied by Grubmayr, Maderthaner stopped in Berlin, Potsdam, and Dresden. In the Saxon capital, Maderthaner opened an annex of the national (and international) business lobby, a move that prepared the groundwork for a presentation of Saxon companies in Vienna several months later. Thereafter, a new Berlin representative of the Bundeskammer, Kuzmich's successor, Alfons Wagenhofer, directed queries on behalf of Austrian construction companies to leading Treuhand officials, including Günter Rexrodt, member of the Treuhand's managing board (and subsequently head of the Federal Ministry of Economics).⁹²

The emphasis of Austrian investments during the second half of 1992 and 1993 was public contract work in construction, focused mainly in Thuringia, Saxony, and also the Berlin capital region. Difficult-to-quantify cultural ties facilitated these acquisitions. Able to correspond and converse in a shared language, leading representatives of both countries cultivated special ties between the two German-speaking countries. To offer two examples, the minister president of Saxony, Kurt Biedenkopf, held an honorary professorship in Salzburg; his son-in-law was an Austrian citizen. Biedenkopf's economics minister, Kajo Schommer, had studied in Vienna and boasted many friends in politics and business circles in the Austrian capital, including the Bundeskammer's Maderthaner. Another important element in the promotion of Austrian acquisitions in the construction sector was finance. Most of Graenz's investments centered on investments brokered by banks, with his former employer, the Creditanstalt, playing a leading role.⁹³ Among the most active Austrian companies in eastern Germany with fifteen Treuhand acquisitions was the Maculan Holding. Listed on the Vienna Stock Exchange in September 1990, the company, aided by its eastern German acquisitions, vaulted to Austria's

92 Bundesarchiv, Schreiben von Wagenhofer an Rexrodt, May 13, 1992, B 412/11936, vol. I.

93 See the summary of his activities contained in Bundesarchiv, Brief von Graenz an Vehse, March 31, 1994, B 412/12114.

second largest construction concern during the mid-1990s. Among the earliest Treuhand purchases were a structural engineering firm in Dresden and a gravel plant near Magdeburg.⁹⁴ The holding company's director commissioned a British investment bank to sell its securities, including a convertible note popular with speculators, then relatively unknown in German-speaking Europe. It allowed the Maculan Holding to raise nearly two billion Austrian schillings in 1990 and 1991. A majority of these funds went toward acquisitions in eastern Germany. By 1993, two-thirds of the Maculan Holding's shareholders were "institutional investors" from the United Kingdom or United States.⁹⁵ Coupling foreign capital with important external contacts, Maculan's owner received consideration from the German ambassador to Austria (and former president of the lower house of the German parliament), Philipp Jenninger. On Maculan's behalf, Jenninger requested the intervention of his du friend Helmut Kohl in the firm's bid to acquire an East Berlin highway and street construction firm (Tief- und Verkehrsbau GmbH).⁹⁶ Whether Kohl lent his support to the successful bid is unknown. Records from the Office of the Federal Chancellor reveal that Treuhand representatives "had held out the prospect of a sale to Maculan."⁹⁷ This sounds like an oblique reference to the arrangement concluded by Austrian diplomat Winkler. Still more certain is the fact that the financing behind Maculan's acquisition was as much Anglo-American as Austrian.

94 Sabine Müllauer, "Internationalisierung, Struktur und Organisation von Bauunternehmen am Beispiel der Maculan Holding AG und ihre Bauaktivitäten in den 'Neuen Bundesländern'" (Diploma thesis, WU-Wien, 1995), 39–40.

95 Alexander Maculan and Marie Thérèse Gudenus, *Mein Fall: Traum und Alptraum eines Unternehmers* (Munich: Wirtschaftsverl. Langen Müller/Herbig, 1997), 181, 206–207.

96 Bundesarchiv, Schreiben von Philipp Jenninger an Helmut Kohl, May 20, 1992, B 136/37714.

97 Bundesarchiv, Betr.: Privatisierung der Berliner Tief- und Verkehrsbau GmbH; Brief des deutschen Botschafters Dr. Jenninger vom 20. Mai 1992, June 17, 1992, B 136/37714. Maculan won a parallel contract to the build highway between Vienna and Budapest.

Conclusion

The legacy of trade between Austria and East Germany in the years immediately preceding the opening of the inner-German border and the collapse of the border regime dividing the former capital of Berlin warrants detailed investigation. The dramatic collapse of state socialism and ensuing scramble to sell businesses in Germany's East should not obscure how pre-Wall ties figured in post-1989 investment patterns. The Austrian case underscores that these engagements had unintended consequences beyond the era of state socialism. For Austria, reordering state industry's priorities began at home, in its own state industrial sector, and extended outward from there to embrace markets in other countries. These included socialist, later reform-oriented, nations across east-central Europe and the Soviet Union, especially Czechoslovakia, Hungary, and the GDR. Expanding trade in these countries emerged as an element of export-oriented domestic restructuring. The demands of reordering industry in the Danube Republic and the desire to embed Austria's future in the European Community help to explain why Austrian officials remained determined to extract advantages from the unified German state months after the GDR's disappearance.

Rooted in language and culture, most of Austria's Treuhand acquisitions in eastern Germany emerged after the country's economic diplomats found a way to convert demands flowing from the country's socialist-era bonds to the GDR into de facto concessions from the German federal government. Somewhat surprisingly, firsthand knowledge of the GDR economy and extensive commitments to the socialist state actually slowed Austrian advances in eastern Germany, if only for a time. German public infrastructure expenditure and the federal government's quiet willingness to share information about Treuhand tenders laid the groundwork for Austrian purchases. The interplay of politics between close neighbors and the logic of multinational finance informed Austrian engagements, albeit not in a deterministic, straightforward fashion.

Alongside obvious advantages flowing from the close relations between the Federal Republic and Austria, an important factor in explaining

Austrian (and Swiss) engagements in eastern Germany after 1989 was international finance. Here, other countries enjoyed greater opportunities. As the next chapter demonstrates, no country in Europe profited more from the German federal government's decision to empower Anglo-American financial advisors than Britain. Unlike Alpine competitors, the United Kingdom had only a handful of ties to the GDR before 1989. Much like their Austrian counterparts (and unlike the French), British companies proceeded into eastern Germany slowly.

As the next two chapters illustrate, British approaches to the rapid opening of eastern Germany's economy reflected British ambivalences over the long-term implications of German (and European) unity. Understanding how they were partially overcome requires knowledge of how German authorities, including but by no means limited to the Treuhand, embraced financial solutions to reshape eastern German industry from mid-1991 onward.

3. Empowering Finance: Britain (and France) in Eastern Germany's Immersion into an Enlarged Federal Republic

This chapter expands the geographical purview of this book beyond Austria and Switzerland to assess the importance of the United Kingdom of Great Britain and Northern Ireland (hereafter the United Kingdom or Britain) and the European Community (EC: after November 1, 1993, the European Union, or EU) in shaping economic developments in eastern Germany. Aside from the (West) German Federal Republic, no member of the EC exerted greater influence on industrial policy in eastern Germany in the years immediately after 1989 than Britain. UK investments in 124 newly privatized East German firms and, even more, the widespread engagement of UK and US financial advisors in the operations of the German privatization authority (Treuhandanstalt, hereafter Treuhand) warrant attention. Considered together, they reveal neglected dimensions of foreigners' engagements in unifying Germany's economy.

This chapter traces how the Office of the Prime Minister, the Foreign and Commonwealth Office, the Department of Trade and Industry (the UK Economics Ministry), and Britain's main business lobby, the Confederation of British Industry, sought to leverage UK privatization expertise to secure influence over the Treuhand and acquire stakes in the receiver's firms. The turn to financial solutions within Germany's federal government after mid-1991 helped UK businesses catapult ahead of all European competitors, apart from Switzerland. Even France, an early leader in Treuhand acquisitions, fell behind Britain (as well as Switzerland and Austria) after 1992.

As in the case of Austria, albeit for different reasons, discord char-

acterized Anglo–West German relations during the year following the opening of the border between East and West Germany and the fall of the Berlin Wall. Acrimony between governments in London and Bonn helps to explain the slow start of British companies. In the months after November 1989, UK frustration with the course of events in Central Europe boiled over on several occasions, but arguably at no time more than when Nicholas Ridley, the British secretary of state (minister) for trade and industry published an interview in the British weekly *The Spectator* in July 1990. A close ally of Prime Minister Margaret Thatcher, Ridley explained to readers that the European monetary system then being introduced to the European Community was “all a German racket designed to take over the whole of Europe,” adding “I’m not against giving up sovereignty in principle, but not to this lot. You might as well have given it Hitler ... I’m not sure I wouldn’t rather have the shelters and the chance to fight back than simply being taken over by economics.”¹ Soon after these histrionic comments, Ridley resigned. An unsuccessful attempt to reform local government finance led Thatcher to follow in November 1990.

A well-documented chapter in the two countries’ relations, the cir-

1 *The Spectator* published the interview with Ridley under the title “Saying the Unsayable about the Germans.” Ridley also maligned both the French as “acting like poodles to the Germans” and the European Commission as “seventeen unelected politicians.” A recent introduction to the Ridley Affair, as it popularly called, is Klaus Larres, “Margaret Thatcher and German Unification Revisited,” in *The Revolutions of 1989: A Handbook*, ed. Wolfgang Mueller et al. (Vienna: Verlag der Österreichischen Akademie der Wissenschaften, 2015), 383–384. For a German-language historiographical introduction to Anglo-German relations in 1990, see Hinnerk Meyer, “Participation on Limited Cooperation. Grossbritanniens schwierige Rolle im deutschen Einigungsprozess 1989/90,” in *Europa und die deutsche Einheit. Beobachtungen, Entscheidungen und Folgen*, ed. Michael Gehler and Maximilian Graf (Göttingen: Vandenhoeck & Ruprecht, 2017), 141–160. Historical scholarship on British policy during this era is currently based on the often-cited Documents on British Policy Overseas series; analysis often revolves around alleged differences of opinion between the Foreign and Commonwealth Office on the one hand and the Prime Minister’s Office on the other. A widely cited, recent journalistic rendition of Ridley’s remarks is contained in Fintan O’Toole, *Heroic Failure: Brexit and the Politics of Pain* (London: Zeus, 2018), 35–36. See also Frederico Fabrini, ed., *The Law and Politics of Brexit* (New York: Oxford University Press, 2017).

cumstances surrounding Ridley's departure gained a new lease on life when a thin majority of Britons voted to leave the European Union in June 2016. English populist surges and longer-standing English antipathy toward major continental rivals France and Germany should not obscure Britain's substantial integration with West Germany and western Europe during the 1980s. Britain boasted excellent economic relations with West Germany in the decade prior to German unification. The United Kingdom topped the list of foreign investors in the Federal Republic during the years 1979 to 1988. Well over a thousand companies in West Germany were partly or wholly owned by British firms in 1989. By contrast, the United Kingdom's ties to socialist East Germany were miniscule. In 1989, the ratio of UK investments in the West and East German states was 1:100.

Changes in the neighboring part of the Federal Republic after November 9, 1989, provoked considerable, if by no means universal, consternation among British conservative elites. In Britain and France, the implications of West Germans' growing influence within Europe yielded different political responses, which in turn shaped the course of the two countries' investments in Germany's East. In 1990, the UK government expended political capital in a failed bid to slow East Germany's rapid accession to the Federal Republic and the European Community. British elected officials' objections began with the likely costs. Top British government officials insisted that the German Democratic Republic's (GDR) economic reconstruction must fall entirely on German shoulders, not Europe's. This line consistently marked early British exchanges with EC leaders. In a meeting with Italian prime minister Giulio Andreotti on February 23, 1990, Margaret Thatcher explained: "We must establish from the beginning that the additional costs would be borne by the Federal Republic."²

2 The National Archives (London), Anglo-Italian Summit, February 23, 1990, memorandum from Charles Powell, FCO 30/9154. On the emergence of a more flexible approach to German unification in Italy from December 1989 onward, see Deborah Cuccia, *There Are Two German States and Two Must Remain? Italy and the Long Path from the German Question to the Re-unification* (Hildesheim: Georg Olms, 2019), 287–298, 338–345.

French and British Treuhand Investments: A Study in Contrasts

Interests quickly diverged among the most powerful member-state governments, on this point and others. French officials, for their part, sympathized with the assessment that wealthier EC states should assign the costs of unification to the Federal Republic while they at the same time subordinated this short-term objective to long-standing French ambitions for pan-European institutions. Leading French politicians sought to convince British elites to see the unification as an opportunity. At an early March 1990 meeting in Paris involving British diplomats, Édith Cresson, minister for European affairs, explained that while “the bill for bringing East Germany up to scratch must fall largely to the [Federal Republic of Germany], for the Community to decline to make any contribution would give the wrong signals when the main aim was to bind Germany into the Community.”³ The French government would agree to a contribution from the Community budget to offset the costs of German unity and in return would extract concessions, most likely with a view toward accelerated European monetary union. France’s prime minister, Michel Rocard, echoed Cresson’s view in a meeting with Thatcher at the end of March 1990. According to an assessment by Thatcher’s Foreign Office private secretary, Charles Powell, Rocard acknowledged her plea to be “more robust in standing up to Germany” while noting that France did not at all share the British government’s pessimism that increasing Europe’s unity would make the Community into a German preserve.⁴

3 The National Archives (London), cable from Paris embassy to FCO, March 9, 1990, FCO 30/9156.

4 The National Archives (London), notes on Prime Minister’s Meeting with the Prime Minister of France, Charles Powell, March 26, 1990, FCO 30/9158. On the clashes and late-1980s-era intellectual consensus behind the achievement of monetary union (without broader institutional innovation), consult Harold James, *Making the European Monetary Union: The Role of the Committee of Central Bank Governors and the Origins of the European Central Bank* (Cambridge, MA: Harvard University Press, 2012), 210–344, 382–390.

France's early successes as an investor nation in eastern Germany flowed from French leaders' objective to couple German unity with the project of European monetary union. Amity between governments in Bonn and Paris facilitated early Treuhand acquisitions on the part of Air Liquide, Ciment Français (despite its name, the majority owners of this company were Italians), Compagnie Générale des Eaux, Elf Aquitaine, Gaz de France, and Saint-Gobain. Notably, small- to medium-sized French enterprises played almost no role as investors in eastern Germany. The scandal-ridden acquisition of the Leuna refinery and Minol monopoly filling station network by oil giant Elf Aquitaine in a joint project with a subsidiary of West German steel giant Thyssen dwarfed all others. Access to the region's filling stations drove Elf's decision; the cost of construction for the new refinery subsequently became a major bone of contention.

Key details of the largest French engagement in the history of the postwar Federal Republic remain unknown. Recipients most probably included Helmut Kohl's political party. French prosecutors have established the payment of multimillion deutschmark "commissions" to Swiss bank accounts, quite likely with the firsthand involvement of political leaders in both countries. In total, the state government of Saxony-Anhalt and the federal government doled out over DM 5 billion to ensure the deal's completion.⁵ In September 2001, Hans Modrow, a member of the European Parliament (and former East German minister president), was among those to press the European Commission for details on the sale.

5 Federal minister Friedrich Bohl played a key role in facilitating contacts between the Office of the Federal Chancellor and the president of Elf Aquitaine, Loïk Le Floch-Prigent. See Landesarchiv Sachsen-Anhalt (Magdeburg), Schreiben von Le Floch Prigent an Friedrich Bohl, December 7, 1992, Elf Aquitaine. L 25/291, vol. I. Coverage of the privatization and restructuring of the Zeitz/Leuna refineries remains frustratingly incomplete. Media accounts are too numerous to cite individually here. A recent scholarly introduction is Rainer Karlsch, "Die Leuna-Minol-Privatisierung: Skandalfall oder Erfolgsgeschichte?," *Deutschland Archiv*, May 25, 2020, www.bpb.de/310467. See also *Beschlussempfehlung und Bericht des 1. Untersuchungsausschusses nach Artikel 44 des Grundgesetzes*, Deutscher Bundestag, Drucksache 14/9300, June 2002, esp. 202–326. Precisely who paid how much remains shrouded in mystery. Extant records appear not to exist in the German federal archives' holdings in Koblenz.

Mario Monti, European commissioner for the Internal Market, Financial Services, and Taxation (and unelected Italian prime minister from 2011 to 2013), affirmed the Commission's involvement in approving aid measures and examining purchase offers but insisted that responsibility for judiciary proceedings fell not to the Commission, but rather that of the individual member states. Monti also noted that the German government's "open call for tenders" had been prepared by American investment bank Goldman Sachs.⁶

The Elf case is illustrative in another sense: majority-owned state enterprises in France with close ties to politics leapt to the front of the pack of foreign investors in eastern Germany in 1990, then fell behind in the following years. Unlike in Switzerland, socialist-era ties forged by influence-wielding mediators appear not to have been centrally important in navigating the uncertainties of Germany's East. And in contrast to their Austrian counterparts, French officials generally chose not to leverage connections to East German state enterprises and socialist leaders like Modrow.⁷ When reprivatized construction materials company Saint-Gobain tapped into significant GDR-era ties in the acquisition of eastern German glassmaking facilities, it did so with the consent of West German officials.

In the weeks immediately after the opening of the Berlin Wall French leaders sought to improve ties to East German leaders, but not at the expense of far more important ties to West Germany. The contrast with

6 Written Question E-1990/01 by Hans Modrow (GUE/NGL) to the Commission, ELF Aquitaine/Leuna. Official Journal of the European Communities C 40 E, vol. 45, February 14, 2002, 157–158. See also 23rd Report on Competition Policy 1993 (Luxembourg: Office for Official Publications of the European Communities, 1994), 258, 476, 489. Monti served as an advisor to Goldman Sachs before receiving an invitation to form a government from Italian president Giorgio Napolitano.

7 Official trade statistics indicated that France, although far behind West Germany, was the GDR's second most important "nonsocialist" commerce partner in 1989. The volume of trade between France and the GDR stood at seven billion French francs that year, boosted substantially by the GDR's purchase of three Airbus planes, a large project involving West German partners. For a succinct overview of France's commercial ties to the GDR, see Daniela Heimerl, "La France, premier partenaire de l'ex-RDA," *Le courrier des pays de l'Est* (December 1992), esp. 4–8, 10.

Austria is instructive. Yes, the optics of French president François Mitterrand's three-day journey to East Germany mirrored those of Austrian chancellor Franz Vranitzky's trip to East Berlin a month earlier. Both leaders were accompanied by a large delegation of economic and political leaders.⁸ France, like Austria, extended promises to the reform socialist government led by Minister President Hans Modrow. The strongest French pledges came not from Mitterrand but from those close to him. For example, Cresson informed East German foreign trade minister Gerhard Beil that her government stood ready to provide support to ensure the GDR remained a sovereign nation. Notably, Cresson and her government enabled the GDR to begin talks to negotiate a trade and cooperation agreement between the EC and the GDR, initially for a ten-year period, on December 22, 1989.⁹ Less than a month later, the French president and West German chancellor jointly wrote Irish prime minister Charles Haughey (at that time also president of the EC Council of Ministers) to propose an intergovernmental conference on European political unity (in addition to the one devoted to European monetary union). Thereafter, high-ranking French government officials walked back pledges to the East German government, including the prospect of the still socialist nation joining the European Community as an independent member. In subsequent correspondence with the East German Ministry of Economics, French interactions with GDR officials zeroed in on cases where specific firms were seeking to break into East German markets and

8 This fact has not been lost on scholars. See, for example, Ulrich Lappenküper, "La faiblesse soviétique fait la force des Allemands' François Mitterrand et die Wiedervereinigung Deutschlands 1989/1990," in Klaus Hildebrand et al., *Geschichtswissenschaft und Zeiterkenntnis. Von der Aufklärung bis zur Gegenwart* (Munich: Oldenbourg, 2008), 383–395.

9 Bundesarchiv, Vier-Augen Gespräch zwischen Beil und Cresson auf Wunsch von Cresson, undated [December 1989], gez. Beil, DL 2/17699, vol. II. Beil's account likely exaggerates Cresson's willingness to accommodate East German interests. Both French and East German diplomatic files confirm that Beil, Cresson, French minister Pierre Bérégovoy, and foreign trade minister Jean-Marie Rausch, had discussed initiatives to secure new investments for French enterprises as early as mid-November 1989. The two governments initialed an agreement in mid-March 1990.

the future staffing needs of what was then the world's largest enterprise holding.

Vis-à-vis East German officials, French representatives pushed hard, if not always successfully, for tangible concessions.¹⁰ Citing the labors of the main French employers' organization, the Conseil national du patronat français on behalf of the Hungarian government, Cresson recommended the names of senior advisors to staff the Treuhand's management and supervisory boards.¹¹ British diplomats in Paris correctly assessed that the mid-June 1990 visit there of East Germany's last (and first democratically elected) minister president, Lothar de Maizière, was essentially a courtesy call, with Cresson and French minister for economy and finance, Pierre Bérégovoy, looking right through the short-lived transitional leader to a united Germany.¹²

French leaders shared anxieties with British counterparts about the implications of the collapse of socialism across much of east-central Europe but drew different conclusions about western Europe's future economic makeup. Unlike the United Kingdom, France was already linked to the West German currency through the exchange rate mechanism of the European Monetary System, the precursor to the euro. This fact encouraged French authorities to press forward with economic and monetary harmonization within western Europe in order to embed unified Germany in the European Community. Their approach dovetailed with West German objectives. The Franco-German convergence made it possible for East and West German authorities to carve out a role for French investors in eastern German privatizations. It also facilitated West German

10 See, for example, Bundesarchiv, Benachteiligung französischer Firmen bei der Gestaltung der industriellen Kooperation mit der DDR-Industrie, June 14, 1990, DE 10/38.

11 East German leaders ignored this offer but remained, at the behest of officials in Bonn, open to French bids for individual Treuhand firms. Bundesarchiv, Information für Minister Dr. Pohl, June 13, 1990, DE 10/38. The Treuhand's supervisory board drew its members from federal ministries, eastern German state governments, and also business groups and trade union representatives.

12 The National Archives (London), memorandum on Visit of GDR Prime Minister to France, June 20, 1990, FCO 33/10758.

investments in French companies with close ties to government, notably in infrastructure planning and nuclear energy.¹³

Intense and varied, Franco–West German exchanges in 1990 reflected the two governments’ convergent aims. The dramatic opening of the East German economy should be viewed in light of enhanced cooperation between the two governments. At the first Franco–West German summit held after the March 18, 1990, elections in East Germany, French foreign minister Roland Dumas pressed for assurances that French industry would be granted opportunities to invest in the GDR. According to a report submitted by the British ambassador to France, Ewen Fergusson, West German foreign minister Hans-Dietrich Genscher welcomed Dumas’s interest. Genscher also warned French companies not to become involved in the modernization of massive East German conglomerates (Kombinate) as these were, at least in the German foreign minister’s assessment, “guaranteed losers.”¹⁴ The implication of Genscher’s remarks was clear: follow the lead of the Bonn government in pursuing opportunities in Germany’s East, and not the overtures of the newly elected government (and its socialist-era administration) in East Berlin. Unlike many Austrians, French officials generally heeded Genscher’s advice.

Three official Franco–West German consultations held that year laid the foundation for specific investment opportunities in eastern Germany. The nexus of politics and economics between the two countries was striking. The second Franco–West German business gathering, held in July in the West German capital of Bonn, involved 550 French busi-

13 Enhancing Franco–West German cooperation in nuclear energy was a major focus of the April and November 1989 Franco–German consultations involving Mitterrand and Kohl, as well as West German environmental minister Klaus Töpfer and French industry and regional planning minister Roger Fauroux. See Bundesarchiv, Plenarsitzung der Delegation anlässlich der Deutsch-Französischen Konsultationen, November 3, 1989, B 136/59728. On the convergence of French and West German economic and monetary aims more generally, see Andreas Wirsching, *Der Preis der Freiheit. Geschichte Europas in unserer Zeit* (Munich: C.H. Beck, 2012), esp. 155–164.

14 The National Archives (London), telefax from Fergusson, Franco-German Summit: Dumas/Genscher Talks, April 27, 1990, FCO 33/10758.

ness leaders. French political leaders, for their part, used the gatherings to emphasize their essentially positive assessments of German national unity. As external trade minister Jean-Marie Rausch surmised at the last Franco-German consultation held in early September 1990, German unification would likely contribute a full percentage point of supplementary export growth to the French economy in the coming years.¹⁵ In Rausch's estimation, even for firms excluded from the Treuhand spoils, including his country's small to medium-sized manufacturers, French businesses stood to profit handsomely, if indirectly, from Germany's enlargement. As Wolfgang Momberger, board member of Steigenberger Hotels, surmised, the way for large-scale French investors to succeed in Germany's East was to include West German counterparts in a shared effort to prevent the "monopolization of East German markets."¹⁶ With reference to the biggest French industrial engagement in the history of the Federal Republic, Momberger's (and Genschler's) suggestion appears to have found important adherents. France's ambassador to Germany, Serge Boidevaix, argued that the consortium led by Elf Aquitaine prevailed against competitors because the French bid contained, unlike others, a West German partner.¹⁷

The Treuhand, for its part, made France (and Austria) a priority in its early foreign outreach efforts. In late October 1990, Treuhand pres-

15 The June 1989 summit between the two countries established the precedent of bringing together French and West German business leaders under the auspices of the two governments. Records of the three meetings held in 1990 are housed in the Centre des archives diplomatiques (Nantes), Rencontre franco-allemande de dirigeants d'entreprises, September 8, 1990, Ambassade de France à Bonn, 105 PO/2.

16 In targeting East German markets, Momberger observed that "speed matters more than accuracy." Centre des archives diplomatiques (Nantes), Rencontre franco-allemande de dirigeants d'entreprises, September 8, 1990, Ambassade de France à Bonn, 105 PO/2. For an overview of Steigenberger's 1990 controversial acquisition of Interhotel against the wishes of Treuhandanstalt president Rohwedder, see Wolfgang Seibel, *Verwaltete Illusionen. Die Privatisierung der DDR-Wirtschaft durch die Treuhandanstalt und ihre Nachfolger, 1990–2000* (Frankfurt am Main: Campus Verlag, 2005), 133–134.

17 Total, BP, AGIP, and Statoil put forward the other offers. Elf Aquitaine's German partner was Thyssen. For Boidevaix's assessment, see Centre des archives diplomatiques (Nantes), Rapport rachat par ELF des raffineries de Leuna et de Zeitz et du réseau de distribution de Minol, January 21, 1992, 105 PO/2.

ident Detlev Rohwedder visited Paris. This provided French company heads and public officials firsthand opportunities to follow up on specific leads generated during the recent Franco-German consultations.¹⁸ Also notable were Rohwedder's frank, off-the-record exchanges with potential French investors. In early November 1990, the Treuhand president shared his personal assessment with French business leaders that "the vast majority of [Treuhand] companies are doomed to be shut down." Most of the eight thousand state-owned firms for which his organization was responsible, Rohwedder confided, "would be unable to find buyers."¹⁹ The Treuhand president's gloomy prediction contrasted sharply with his wildly optimistic assessment of the state receivership's value offered only a few weeks earlier to Austrian business leaders, especially directors of state enterprises.

Granted insights into the Treuhand's inner workings, leading French officials avoided blanket criticisms of (West) German industry. In April 1991, at yet another Franco-German business summit, German diplomats in Paris observed that Rausch had restricted specific criticisms of energy monopolists' access to the Treuhand while emphasizing the *partie loyale* enjoyed by French companies to date.²⁰ Meanwhile, French members of the European Parliament pressured Leon Brittan, vice-president of the European Commission and commissioner for competition and financial institutions, for information about the extent of involvement of non-German companies in different sectors of eastern Germany's economy.²¹ On the bilateral front, notwithstanding media scrutiny, formal relations generally remained cordial. In October 1991, Rohwed-

18 Bundesarchiv, Brief von Vehse, Direktorium Setorale und regionale Strukturen, an die Gesellschaft zur Privatisierung des Handels Herrn Dr. Bernhardt, October 31, 1990, B 412/3704.

19 Centre des archives diplomatiques (Nantes), Rapport Berlin et les cinq nouveaux länder un mois après l'unité, November 2, 1990, Ambassade de France à Bonn, 105 PO/2.

20 Politisches Archiv des Auswärtigen Amtes (Berlin), Herr Botschafter zur Information, April 16, 1991, AV Neues Amt, Nr. 16990 Paris.

21 See, for instance, Archives of the European Parliament (Luxembourg), Official Journal of the European Communities, No. C 199/21, July 29, 1991.

der's successor, Birgit Breuel, traveled to Paris and announced the appointment of the Treuhand's formal representative, Henri Monod. There, the Treuhand president (and the new French prime minister, Cresson) explained that Monod would be toiling closely with a new Franco-German entity. Opened by federal economics minister Jürgen Möllemann, French Finance and Economics minister Pierre Bérégovoy, and Breuel, a Paris-based Cellule nouveaux Länder sought to dispel lingering doubts that eastern Germany represented a *chasse gardée* for West German industrialists.²² In yet another contrast with Austria, the powerful French external trade agency, the Centre français du commerce extérieur, threw its support behind the cellule and Monod's Treuhand office.²³

Britain, Unifying Germany, and the European Community

While their French counterparts pressed early advantages stemming from West German ties, leading British officials used their access to Bonn decisionmakers to take aim at the federal government's nascent plans for

22 In yet another sign of the relative openness between political leaders of the two countries, German diplomats in Paris noted that Breuel acknowledged to Bérégovoy, Cresson, and Elf Aquitaine head Loïk Le Floch-Prigent that the Treuhand was not entirely free of bias toward West German purchasers. Bundesarchiv, telex to 422, Betr.: Besuch von THA-Präsidentin Breuel, Paris, 10.11. und 11.11.91, October 13, 1991, B 102/790877.

23 The longest-serving Treuhand representative, Monod combined responsibilities to the federal and state governments until April 1994; thereafter, he remained the formal representative in francophone Europe for the for-profit Treuhand spin-off devoted to commercial real estate development, today's TLG Immobilien AG. Thuringia was the first federal state in eastern Germany to establish a Paris office in April 1993. Under Monod's guidance, Brandenburg was the second. Monod's sole major investment success as Treuhand representative fell to a Belgian company, albeit with substantial French ownership: Cockerill-Sambre's acquisition of EKO Stahl in late 1994 (this case is discussed in the next chapter). Brandenburgisches Landeshauptarchiv, Vermerk über eine Besprechung vom 19. Mai 1993 mit Herrn Henry [sic] Monod, June 3, 1993, Rep. 1700 MW 3 Z, Nr. 2041.

East Germany (and the European Community). This came across loud and clear in a mid-February 1990 meeting involving John Redwood, parliamentary undersecretary of state for corporate affairs in the Department of Trade and Industry (DTI), and two representatives of the Office of the Federal Chancellor in Bonn, Norbert Prill and Michael Mertes. Resentment toward Germany on full display, Redwood's Bonn meeting produced bracing assessments. Specifically, the British financial advisor pointed out to his hosts that the enlarged Federal Republic would in a few short years wield still greater influence in European Community institutions. More immediately, Redwood argued, the introduction to the European Community of East Germany would involve "substantial derogations from their European Community obligations." (EC-approved subsidies to eastern German shipbuilding and steel are covered in the next chapter.) Adding insult to injury, Redwood then launched into a heated exchange with the two representatives of the federal chancellor about "the usual argument, political union in Europe."

In notes prepared for DTI chief Ridley, Redwood asserted "They [Prill and Mertes] are blind to the wider European and International relations implications and their haste keeps them from consulting their EC partners properly and from considering the practical effects of the sudden arrival of East Germany." In the event the Germans did not change their tune, Redwood suggested the British stance should be to deny access to "EC monies for East Germany from Regional and Social funds, as we would not have negotiated their entry." Redwood explained to Ridley that he, "naturally," had made the point that they should not advance "headlong into this sort of development without consulting their EC partners."²⁴ As Redwood (and probably Ridley) viewed the matter, "notifying Monsieur Delors alone" by no means sufficed. Going forward, all twelve member states would have to be consulted on all questions related to the GDR's

24 The National Archives (London), Report on Meeting with Chancellor Kohl's Senior Advisors from John Redwood to Secretary of State, February 19, 1990, FCO 30/9154.

economic future. As Redwood acerbically concluded, “There was, not surprisingly, really no common ground between us.”²⁵

Redwood’s sharp-toothed exchange in Bonn with Prill and Mertes reflected deepening concern among senior DTI officials about the implications of the GDR’s immersion into the European Community. Redwood’s was not the most pessimistic assessment. Others within the country’s Economics Ministry argued that increasingly efficient GDR companies under West German management would rapidly step forward to exploit inner-German trade arrangements to pour cheap goods into the EC market to the disadvantage of British manufacturers. This was not quite as far-fetched as it may sound. A founding document of the European Community, the 1957 Treaty of Rome, defined trade between East and West Germany as domestic in nature. Given the EC’s nonexistent control over the GDR’s future exploitation of western European markets, DTI representatives pondered how the inner-German border or, in a worst-case scenario, the UK border might be policed to thwart inflows of subsidized East German products.

Dire assessments of unifying Germany’s economic potency, not merely anti-German sentiment per se, help to explain why Ridley, Redwood, and lesser-known DTI officials sought to mobilize the EC to slow the advance of West German authorities. They welcomed the fact that, a week after Redwood’s heated exchange with Prill and Mertes in Bonn, the EC commissioners had invited to their offices in Brussels key figures in the Federal Republic’s plans to promote speedy monetary union. DTI’s concerns appear to have been alleviated by the fact that the most important EC official was one of Ridley’s predecessors at DTI (and a former British home secretary). In Brussels, the (aptly named and knighted) Leon Brittan served as one of two British representatives to the European Commission

25 Jacques Delors, a European federalist, was head of the European Community from 1984 to 1994. The National Archives (London), report on meeting with Chancellor Kohl’s senior advisors from John Redwood to Secretary of State, February 19, 1990, FCO 30/9154. A brief introduction to Delors’s views on markets is Laurent Warloutzet, *Governing Europe in a Globalizing World: Neoliberalism and Its Alternatives following the 1973 Oil Crisis* (New York: Routledge, 2018), 192–194.

from 1989 to 1993. During those years, Brittan bore formal responsibility for the EC's competition policy.²⁶

In late February 1990, Brittan and his colleagues convened with influential West German state secretaries from the Federal Ministries of Finance and Economics, Horst Köhler and Otto Schlecht, as well as the future president of the German Bundesbank, Hans Tietmeyer. The commissioners requested to learn firsthand from this trio about the West German government's evolving plans to advance rapid monetary union. Subsidies, tax, and interest relief—in Brussels parlance, “state aid”—were the chief focus, though other topics, such as West German takeovers of GDR monopolies and East Germany's external trade agreements also received a hearing.²⁷ Of secondary interest at this gathering was the German federal government's attitude toward foreign, especially EC, investors. The two sides agreed that relations between the Community and the Bonn government with reference to both subsidies and disadvantages to competitors in other parts of the Community required exceptional delicacy.

26 For an introduction to how state aid (and merger) control became more rigorous under Commissioners Peter Sutherland and Leon Brittan from the mid-1980s onward, see Warlouzet, *Governing Europe in a Globalizing World*, 158–174 and Michelle Cini and Lee McGowan, *Competition Policy in the European Union*, 2nd ed. (New York: Palgrave Macmillan, 2009), esp. 31–35. A thought-provoking interpretation of EC/EU competition as evolving from centralized enforcement (from the 1950s to the early 1990s) to decentralizing reforms favoring private actors accessing national and European courts (enacted in May 2004) is R. Daniel Kelemen, *Eurolegalism: The Transformation of Law and Regulation in the European Union* (Cambridge, MA: Harvard University Press, 2011), 143–147, 153–194. Leon Brittan's account of his expanding remit is *European Competition Policy: Keeping the Playing-Field Level* (London: Brassey's, 1992).

27 The official EC/EU definition of state aid read as follows: “an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities.” EC scrutiny of (West) Germany's federal government in 1990 is missing from the otherwise interesting study (based primarily on expert interviews) of Jeffrey Anderson, *German Unification and the Union of Europe: The Domestic Politics of Integration Policy* (New York: Cambridge University Press, 1999), 114–147. The omission is striking given the fact that Brittan acknowledged (in 1992) that “the Treuhand privatizations in East Germany are the largest such exercise the Commission has yet to deal with.” See Leon Brittan, *European Competition Policy: Keeping the Playing-Field Level* (Brussels: Center for European Policy Studies, 1992), 92.

As Brittan explained to his German guests, “Misunderstandings about the competition situation must be avoided.” In particular, “Aids must be completely transparent.”²⁸

The commissioners also impressed on Köhler, Schlecht, and Tietmeyer their wish to be notified of state aid to the GDR in the period before formal enlargement of the Federal Republic (how long this period might be—several months or perhaps even a year or two—was at that point unclear). In other words, both the UK government and the European Commission sought to ensure that any derogations the EC granted to the GDR would not be exploited by West Germans to commercial advantage within the Community as a whole. Stated much more diplomatically, Brittan’s remarks nonetheless echoed points Redwood had raised a week earlier in his contentious meeting with Mertes and Prill at the Federal Chancellor’s Office in Bonn. The degree to which the UK government and competition commissioner Brittan collaborated with his former UK colleagues to set parameters for West Germany’s advance into the GDR remains somewhat obscured. British archival documents reveal that the UK permanent representative to the EC, David Hannay, procured, “in confidence” internal reports on East German state aids from the EC’s Legal Service. UK representatives in Brussels, perhaps Hannay, then forwarded these and other documents to DTI and Foreign Office representatives in London. In addition, Hannay regularly summarized monitoring plans hashed out within the Commission. At a minimum, Hannay’s listening post afforded DTI officials a remarkably clear sense of Brittan’s intentions (and vice versa).

Hannay reported extensively, and knowledgably, on Commission deliberations over the submersion of the GDR into the EC, including the meeting with Köhler, Schlecht, and Tietmeyer. Subsequent sessions with

28 The National Archives (London), cable from UK Rep Brussels to FCO, February 22, 1990, FCO 30/9153. For an introduction to the regime of notification to control state aids established by Brittan (and his Irish predecessor, Peter Sutherland), see Stephen Wilks and Lee McGowan, “Competition Policy in the European Union: Creating a Federal Agency,” in *Comparative Competition Policy: National Institutions in a Global Market*, ed. G. Bruce Doern and Stephen Wilks (Oxford, UK: Clarendon Press, 1996), esp. 231, 233–235, 246–248, 251, 257.

other West German federal representatives did not escape his attention. In early March, Brittan was—at least according to Hannay—welcoming the Bonn government’s decision to give notification of federal subsidies granted to firms operating in East Germany, but this did not lessen the Commission’s responsibility to “get involved early in the questions of regional aids.” “The process of taking over the Kombinate [conglomerates] by western companies,” Brittan stressed, “would have to be carefully watched.” In Hannay’s account, Brittan’s colleagues raised still other matters where the Commission would need to exert influence over the Federal Republic’s actions. Here it becomes apparent that the commissioners often reflected concerns in their home countries. In keeping with comments German foreign minister Genscher offered to his French counterpart, West German commissioner Peter Schmidhuber insisted that East German industries must be “demonopolized.” The comment accorded with the Commission’s official standpoints; it also appeared design to ensure the Bonn government attained the latitude it required to redesign the GDR’s economy. Schmidhuber’s Portuguese colleague, António Cardoso e Cunha, drew attention to the likely extension of initiatives for small to medium-sized enterprises in the GDR. Portugal’s first European commissioner emphasized that generosity toward East Germany might soon threaten state aid directed to the three newest members of the EC: his country, Greece, and Spain.²⁹ To quell anxiety among member-state governments, Brittan had purportedly instructed German representatives to notify the Commission of all federal assistance granted to West German firms to set up operations in the East. Brittan balanced new requirements with the observation that the Commission should attempt to draw a distinction between “generalized aids designed to help East German industry as a whole” and “more focused aid to a particular industry which might have a disruptive effect on the Community’s existing industry.” In an apparent acknowledgment that this requirement would be difficult to

29 The National Archives (London), Note on Commission Discussions on 8 March, subject: German Unification, Frame Economic, from UK Rep Brussels, David Hannay, March 9, 1990, FCO 30/9156.

enforce, Brittan offered his personal view that “the Commission should be generous with the former (help across the board) but not the latter (help to specific industries).”³⁰

Such abstractions reflected the finesse of diplomats, not the alacrity and hardheadedness required to nose out powerful and well-informed West German enterprises. Leading DTI officials understood that preventing West German firms from establishing advantageous positions in East Germany would be an exceptionally difficult matter. As Hannay in Brussels observed, the Commission’s mandate in the period before formal immersion of the GDR into the EC remained ambiguous. Leon Brittan’s competition directorate could, and did, advocate greater control in personal meetings with West German antitrust and competition authorities. In the final analysis, however, the Commission relied on voluntary compliance by West Germany’s federal government. Bonn officials, for their part, appeared to understand the advantages they enjoyed in Brussels. In their own summaries of meetings with Brittan during the first half of 1990, West German Federal Ministry of Economics officials, including Schlecht, revealed their knowledge that Brittan was—at least until formal unification—essentially dependent on their cooperation, not the other way around.³¹

DTI officials, too, understood the Commission’s position of relative weakness. Interestingly, they sought influence not so much in West as in

30 The National Archives (London), Cable from Hannay, UK Rep. Brussels, to FCO Telno 650, March 5, 1990, PREM 19/3000, vol. 2. See also the discussion of state aids in Michelle Cini and Lee McGowan, *Competition Policy in the European Union*, 2nd ed. (New York: Palgrave Macmillan, 2009), 162–182. The EC/EU’s founding document, the Treaty of Rome, contained the following special clause relating to Germany: “The following shall be compatible with the Common Market: aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division.” Consolidated Version of the Treaty Establishing the European Community, Official Journal of the European Communities, C325/35, December 24, 2002.

31 Bundesarchiv, Gespräch zwischen StS Schlecht und Vizepräsident Brittan, April 1990, B 102/395046. In official reports, Brittan and his staff stressed its strong ties with anti-trust authorities in Bonn but declined to assess their efficacy. See 20th Report on Competition Policy (Brussels: Commission of the European Communities, 1991), 41.

East Germany. DTI officials prodded the Federal Cartel Office in Bonn to set up an antimonopoly office in East Berlin. The West German government acceded to this wish but, to the frustration of British observers, the short-lived entity exercised no real oversight. An especially glaring and well-publicized example of the East Berlin office's lax antitrust enforcement was West German insurance giant Allianz's rapid absorption of the GDR's state insurer in one piece.

Confronted with EC and DTI assessments that anticompetitive positions in the GDR were taking hold in the reunification period, West German economics minister Helmut Haussmann sought to place the blame squarely on the East German government, informing DTI's Vivian Brown that the federal government in Bonn was pressing the GDR to disallow the acquisition of the Allianz deal. Unconvinced by Haussmann's remonstrations and the new East Berlin office's lax review of individual cases, DTI officials in early April 1990 glumly predicted matters would worsen as the federal government began to actively encourage West German companies to invest heavily in green field investments, joint ventures, and socialist companies under the wing of the newly established Treuhand holding in East Berlin.³²

The pending end of restrictions on investment in the GDR after German monetary union (effected on July 1, 1990) provoked dire British assessments about the likely emergence of West German—dominated monopolies. Here, too, concerns were by no means entirely misplaced. To the consternation of DTI officials, in insurance and banking but also in transport and energy, powerful West German companies surged forward. Pledges, such as those made by domestic acquirer Allianz, of up-front employment guarantees were especially irksome to British officials. At stake were precedents for all of Europe, not just East Germany. From DTI's vantagepoint, assurances that jobs would remain proved a particularly galling source of advantage. Such declarations not only carried favor in Bonn and

32 The National Archives (London), memorandum from Vivian Brown, DTI, to Jonathan Rees, UK Rep. Brussels, April 2, 1990, FCO 30/9159.

East Berlin but also established dangerous precedents for the Community as a whole. The West German social market appeared poised to gain still greater influence and even industrious new adherents east of the Elbe. As formal West German plans emerged to subsume the GDR into the successful Federal Republic, anxiety mounted in London. In early April 1990, DTI official Neil Thornton vented his and his colleagues' exasperation, insisting that the new Unification Treaty would prove "a hopelessly inadequate safeguard for the Commission's and other Member States' concerns." Viewed from this perspective, Britain's—and Brittan's—options in the face of the West German advance were few. Aligning UK policy with the Commission appeared in this light to have been the best among bad options. That probably explains why DTI's Thornton insisted "Whatever the legal niceties, we must argue, together with Sir Leon Brittan, for Commission scrutiny on an 'as if' basis during the period running up to unification."³³

Competition commissioner Brittan proved savvy enough to position himself vis-à-vis his home government and leading German federal officials in Bonn. The latter, for their part, increasingly found themselves parrying complaints lodged with antitrust authorities elsewhere in Brussels. Anglo–West German clashes played themselves out in a still more important EC body, the Industry Council, a regular gathering of the twelve EC ministers of economics. In May 1990, federal economics minister Haussmann was explaining at the Industry Council that "investment conditions and subsidies [in eastern Germany] would be the same for all EC companies." Haussmann echoed Chancellor Kohl's remarks, including those delivered two weeks earlier at a conference of the Federation of German Industries (Bundesverband der Deutschen Industrie, or BDI) in Bonn.³⁴ West German takeovers of state monopolies, such as Ruhrgas's

33 The National Archives (London), letter from Neil Thornton, DTI, to John Kerr, FCO, April 11, 1990, FCO 30/9160. John Kerr was then the Foreign Office undersecretary responsible for the European Community. He subsequently served as UK permanent representative in Brussels.

34 The National Archives (London), letter from Pauline Neville Jones, British Embassy Bonn, to John Kerr, June 21, 1990, July 16, 1990, FCO 30/9169.

and Allianz's acquisition of East German assets, cast doubt on Haussmann's—and Kohl's—pronouncements. With DTI's support, British Gas sought recourse by lodging a formal complaint with the European Commission. Other moves by West German companies, such as Lufthansa's attempt to acquire parts of the East German airline Interflug, prompted Commission "monitoring," if not formal investigation. Here DTI appears to have reached its limits in Brussels, at least within the Commission. Formal reports issued by Brussels competition authorities attest to the Commission's attempts to sway the Treuhand to enlist non-German companies but provide no indication of hard-nosed public investigations during this critical period.³⁵

With the most profitable parts of the East German economy clearly up for grabs, British officials in London and Brussels redoubled efforts to block West German advances, extending their campaign to still another EC body, the Foreign Affairs Council. At the mid-July 1990 meeting of the diplomats' pendant to the Industry Council, Hannay underscored the importance of investment opportunities in the GDR "for all EC members," while in the same breath voicing criticism of West Germany's exercise of "unfair competitive advantages" in its recent takeovers of the GDR's state monopolies. Stressing the principles of equal access and fair competition likely earned the United Kingdom few friends among West German decisionmakers. In both the EC Commission and Council, the overall impact also appears to have been negligible. Hannay's pessimistic assessment of the intergovernmental session got straight to the point: "the Commission would have no say in this [scrutiny of monopoly purchases]." Significantly, EC Commission president Jacques Delors, also in attendance at the Foreign Affairs Council meeting, had offered little tangible support for Hannay's positions.³⁶

35 See 20th Report on Competition Policy (Brussels: Commission of the European Communities, 1991), 41, 43.

36 The National Archives (London), telefax from Hannay to FCO, Foreign Affairs Council, Brussels, July 16, 1990, FCO 30/9169.

Increasingly frustrated by the Community's weak-willed enforcement of antitrust policies, UK diplomats attempted to convince select EC partners of what they described as the mounting dangers posed by West Germany's swift advances in the East. This bid yielded private assurances but few public declarations of support. Notably, French officials remained perched on the sidelines. Immediately after the July 1990 Foreign Affairs Council meeting, French minister of foreign affairs Roland Dumas offered sympathetic words in private to David Hannay, Margaret Thatcher's permanent representative in Brussels, citing a French railway contract in East Germany that had been "cancelled on orders from Bonn."³⁷ Dominant positions attained by West German companies drew private expressions of ire but no pledges of coordinated action to counter West German advances. Brussels, too, offered little encouragement. Plans to establish a separate European Cartel Office, an initiative put forward in the European Parliament, inched forward, but the legislative wheels there turned far too slowly to make an impact on the expansion of private enterprise within the soon-to-disappear GDR. The same was true of demands, also voiced in the European Parliament, that the Commission submit reports on Treuhand-endorsed West German takeovers and public-sales procedures.³⁸ Brittan preferred to operate quietly behind the scenes rather than in the glare of parliamentary scrutiny; that's part of the reason he resisted the establishment of an independent European Cartel Office.

In late July 1990, Commissioner Brittan attempted to exert influence over the reshaping of the GDR economy by meeting with the director of the Treuhand, Rainer Maria Gohlke, and supervisory board head (and subsequent Treuhand chief) Rohwedder. The meeting between Brittan and the two West German industrialists enlisted to steer the East German Treuhand privatization agency was held not in Brussels, Bonn, or East Berlin but rather in the West German city of Düsseldorf. Center stage

37 The National Archives (London), telefax from Hannay to FCO, Foreign Affairs Council, Brussels, July 16, 1990, FCO 30/9169.

38 20th Report on Competition Policy (Brussels: Commission of the European Communities, 1991), 251–252.

in their discussions were ways to “increase European confidence.” Concurrence here was easiest: the three agreed on a press campaign featuring foreign newspapers, including the *Financial Times*. They also paid lip service to the idea of international public tenders for the sale of East German companies. More tangibly, Brittan pressed for foreign participation in Treuhand operations. The European commissioner for competition thanked Gohlke and Rohwedder for their willingness to include “non-German personalities” on the boards and in the senior management of four soon-to-be founded Treuhand stock corporations, as well as those of individual Treuhand companies under their oversight.

Recent monopoly takeovers, by contrast, received scant attention. Treuhand sources indicate that Brittan expressed his gratitude for Gohlke’s and Rohwedder’s willingness to look into the complaints lodged by EC companies, citing not a British bidder but rather an offer submitted by France’s Air Liquide.³⁹ Records from the West German Federal Cartel Office show Air Liquide had also made its concerns known in the West German capital.⁴⁰ With backers in Brussels, Bonn, and Paris, Air Liquide succeeded, if only just barely, in outmaneuvering a Munich-based competitor, industrial gas manufacturer Linde, to acquire Treuhand-administered manufacturing facilities in Leipzig and the eastern half of Berlin. In June and July 1990, Linde attempted to block Air Liquide’s acquisition by taking legal action in a Berlin district court to suspend the sale. The Treuhand’s support enabled Air Liquide to overcome this unforeseen hurdle, but trouble did not end there. Air Liquide’s difficulties appeared to have cooled enthusiasm for Treuhand investments among French companies. In the view of French commercial diplomats in Bonn, Linde’s court action had created a lingering impression of legal uncertainty. French diplomats in the West German capital concluded that the final outcome, while in-

39 Bundesarchiv, letter from Sir Leon Brittan to Detlev Rohwedder, July 24, 1990, B 412/3702. See also “Brittan informiert sich über Treuhandanstalt,” *Handelsblatt*, July 25, 1990.

40 The East German competition authority noted this support. Aktennotiz über ein Konsultationsgespräch der französischen Firma Air Liquide GmbH beim Vizepräsidenten, Herrn Dr. Wutzke, am 14.5.1990, gez. Scheuermann, May 16, 1990, B 246/790.

deed positive for Air Liquide, would nonetheless likely increase, not diminish, foreign investors' reluctance to acquire Treuhand businesses.⁴¹

Aside from his intervention on behalf of Air Liquide, the net effect of Brittan's July 1990 visit with the two Treuhand chiefs yielded few tangible results. The proposal to reorganize the subholding into four stock corporations went unrealized. To understand why, one has to look beyond the Berlin-based privatization authority to the most important decision-makers in Bonn. Both federal economics minister Helmut Haussmann⁴² and a powerful state secretary in the Ministry of Finance, Thilo Sarrazin, lobbied strongly against their creation.⁴³ Nor were foreigners formally included in the Treuhand's managing board. With the sole exception of the Belgian André Leysen, the supervisory board remained an exclusively German institution during its nearly five-year history.⁴⁴ Yes, Treuhand chiefs Gohlke and Rohwedder pledged allegiance to the idea of unfettered access for Community companies. Expensive print advertisements emerged as elements in the agency's asset-selling repertoire. International public tenders, however, came after their time, with Rohwedder's much-maligned successor, Birgit Breuel, leading a belated charge.

How Brittan and his colleagues in Brussels regarded the Treuhand chiefs' mixed record in delivering on their various pledges remains unknown. The polite tone of the correspondence between Brittan and the Treuhand duo of Gohlke and Rohwedder, then head of West German steel giant Hoesch, contains no hint of surprise investigations. This much

41 The report draws attention to after-sale battles the Treuhand faced in courts about its investment decisions. See Centre des archives diplomatiques (Nantes), Rapport rachat d'une entreprise est-allemande par Air Liquide, August 16, 1990, 105 PO/2.

42 West German economics minister Haussmann vigorously resisted this proposed institutional change. Instead, in correspondence with the head of the Office of the Federal Chancellor, Rudolf Seiters, he advocated a decentralized structure to promote rapid sales. Bundesarchiv, Schreiben von Haussmann an Seiters, June 7, 1990, B 136/35286.

43 Bundesarchiv, Schreiben von Sarrazin an Köhler, July 2, 1990, B 126/14519.

44 For a summary of Leysen's involvement as the sole foreigner in this nearly three-dozen member body, see Marcus Böick, *Die Treuhand. Idee – Praxis – Erfahrung, 1990–1994* (Göttingen: Wallstein, 2018), 699–702.

is certain: throughout 1990, the Commission placed no formal obstacles in the way of certain highly controversial German-German mergers. In subsequent correspondence with Brittan, Rohwedder restated his commitment to a policy of equal access for foreign companies, but the Treuhand president glossed over how this lofty objective would actually be realized.⁴⁵ On questions especially dear to the West German federal government and rigorously opposed by DTI, the Commission sided with Bonn. This observation is especially true of subsidies to eastern German industries, where assessments of the Commission and UK government diverged. Brittan personally resisted efforts from DTI officials to push for limits on steel aids to eastern Germany.⁴⁶

In 1990, the British government lost its bid to prevent the extension of new steel subsidies to eastern German producers. DTI authorities nonetheless kept up the drumbeat of criticism, and not only in such as ailing industries as steelmaking. Extensive efforts to influence Brussels, East German authorities, and the West German Federal Cartel Office to block Lufthansa's takeover of Interflug, which not only ran the state airline but also controlled airports and airport slots in East Germany, ended in failure.⁴⁷ Applying pressure on cartel authorities in Bonn and East Berlin also provoked criticism from the then majority-state-owned West German airline, whose spokesman wryly observed in the country's leading business daily that the West German agency's mandate was to promote German competition law, not to serve as an "investment promotion agency for for-

45 Bundesarchiv, Schreiben von Rohwedder an Brittan, October 31, 1990, B 412/3704.

46 That's why Brittan instructed an Irish member of his cabinet, Catherine Day, to inform the UK government that the Commission's focus at the October 1990 meeting of the Industry Council was on reducing aids in the former West Germany and not the ex-GDR. The National Archives (London), letter from Jonathan Rees, Office of the Permanent Representative to the European Community to Neil Thornton, IEP Division, DTI, October 16, 1990, FCO 30/9186.

47 Bundesarchiv, Schreiben an das Bundeskartellamt Berlin, Betr.: Kooperation zwischen Deutsche Lufthansa AG und Interflug/DDR, February 2, 1990, B 246/738. The Lufthansa bid was ultimately decided not by the Treuhand in East Berlin but rather by federal ministries in Bonn. See Bundesarchiv, letter from Rohwedder to Sir Christopher Mallaby, November 28, 1990, B 412/3713.

eigners.”⁴⁸ (The Treuhand’s legacy in state- and federal-level investment promotion is covered in Chapter 5.) His boss’s dim view of civil servants’ efforts to ensure access to transportation markets found expression at a Franco-German investor seminar held in early September in the informal setting of the Vosges region of northeastern France. There, Lufthansa’s Heinz Ruhnau wondered aloud what purpose national antitrust authorities actually served in “globalized” markets.⁴⁹ Suspicious of Lufthansa’s ties within the Bonn government and unwilling to put faith in the Federal Cartel Office’s decision to block Lufthansa’s purchase, British Airways refused to submit an offer to rescue Interflug. In February 1991, the Treuhand liquidated one of the GDR’s most visible companies.

Finance, the United Kingdom, and East German Advances

Throughout 1990, the British government’s desire to slow East Germany’s immersion into the Federal Republic prevailed over wishes to exploit swiftly changing market conditions in eastern Germany. Although merger control and public scrutiny of Treuhand sales emerged as the main planks of UK policy, UK involvement in the GDR economy did not end with elaborate, ultimately unsuccessful braking maneuvers. Immediately after November 9, 1989, Foreign and Commonwealth Office officials, led by the top representatives of the two UK embassies in Bonn and East Berlin, sought to explore what commercial possibilities might accrue to Britain

48 Lufthansa was at that time majority owned (55 percent) by the federal government. The Finance Ministry division responsible for state participation in industry was known as *Industrielles Bundesvermögen*. “Zusammenarbeit keine Wettbewerbsbeschränkung,” *Handelsblatt*, August 7, 1990.

49 Ruhnau also provocatively asked whether all members of the European Monetary System were ready to accept that the deutschmark would become Europe’s currency. The Lufthansa president also complained about the willingness of French companies to join in his Russian and Bulgarian joint ventures. See Centre des archives diplomatiques (Nantes), *Synthèse rencontre franco-allemande des dirigeants d’entreprise*, September 8, 1990, Ambassade de France à Bonn, 105 PO/2.

were East Germany to adopt far-reaching market reforms under UK tutelage. In this effort, British diplomats found an ally in a vocal critic of the West German Federal Republic, DTI's John Redwood.

A tempered readiness to assess evolving possibilities emerged as a notable theme in dispatches from the two UK embassies in Bonn and East Berlin. In his November 17, 1989, cable to London, Britain's ambassador to West Germany, Christopher Mallaby, began his survey of the "GDR as future export market" with caveats. First and foremost, the regeneration of the GDR economy must be undertaken in strict accordance with EC rules. Even then, the Federal Republic stood to gain the most, owing to existing links, language, geographical advantages, common standards, and similar training schemes. Fresh injections of capital and the sharing of machine tools from Bonn would further boost West Germans' prodigious advantages. All that said, British capital and consumer goods stood to gain, and not only in the reformed GDR but also in additional markets long dominated by West German companies. In the British ambassador's assessment, West Germany's permeation of East German industry likely meant retreat elsewhere. Third country markets in which West German firms would likely be temporarily unable to supply finished products could thus yield time-sensitive advantages to intrepid UK manufacturers and service providers.⁵⁰

Within the British government, openness to commercial possibilities presented by East Germany's embrace of market reform grew by fits and starts. High-profile visits helped to build momentum. Much anticipated was the foreign secretary's trip to East Berlin in late January 1990. It came after visits by the Austrian chancellor, the French president, and the United States secretary of state. Douglas Hurd recorded his conversation with Hans Modrow, the last socialist minister president of the GDR, in a memorandum drafted for Prime Minister Thatcher's Foreign Office private secretary, Charles Powell. Therein, Hurd characterized Modrow,

50 The National Archives (London), telefax from Bonn Embassy to FCO, Subject: Economic Reform in the GDR, Possible Long-Term Implications, November 17, 1989, PREM 19/2696.

“as a decent, tired man ... near the end of his tether” who had, perhaps for this reason, chosen to speak “very freely.” Modrow explained to Hurd that practical unification was well underway, as exemplified by the fact that Lufthansa had moved in to dominate the GDR airline, and automaker Volkswagen had announced its plans to build a huge car factory. In fact, the most senior figures at both Lufthansa and Volkswagen had long cultivated relations with Alexander Schalck-Golodkowski, head of East Germany’s clandestine foreign trade network, the Commercial Coordination (Kommerzielle Koordinierung, KoKo). In May 1988, Lufthansa’s chief executive officer (and former state secretary in the Federal Transportation Ministry), Heinz Ruhнау, sought out Schalck-Golodkowski in order to advance plans to create scheduled air service between the East German city of Leipzig and the West German cities of Düsseldorf, Frankfurt am Main, and Stuttgart.⁵¹ Cooperative agreements culminating in regular service between Düsseldorf, Frankfurt am Main, and the East German city of Leipzig were reached between the two German states in August 1989. Intended for his skeptical prime minister, Hurd’s note conveyed an air of resignation. It ended with a baleful plea: “We must thicken up our trade and educational links,” Hurd surmised, “but neither we nor anyone else can match the German thrust.”⁵²

Austrian archival correspondence reveals that Hurd did more than exchange impressions with the “tired old man” Modrow during his time in East Berlin. In fact, Hurd quietly devoted himself to the practical task of “thickening up” ties with an old acquaintance, East German foreign trade minister Gerhard Beil. Austrian diplomats based in East Berlin noted that Beil was so pleased with Hurd’s proposal to raise foreign participations

51 Though Schalck-Golodkowski is notorious today as the negotiator of an agreement reached with the minister president of the state of Bavaria, Franz Josef Strauss, for a DM 1 billion deutschmark loan during the early 1980s, at the time he was essentially unknown. Bundesarchiv, Vermerk über ein informelles Gespräch zwischen Genossen Schalck und dem Vorstandsvorsitzenden der Lufthansa der BRD, Heinz Ruhнау, am 4.5.1988, DL 226/1605.

52 The National Archives (London), visit to the GDR: 22–24 January, note from Douglas Hurd to the Prime Minister, January 25, 1990, PREM 19/2998.

in joint ventures from 49 to 100 percent that the East German minister joked of introducing Hurd as his “principal witness” at the ongoing round-table talks with East German opposition leaders.⁵³ Hurd and Beil also attempted to chart an agenda for the upcoming visit of Christian Meyer, Beil’s influential deputy, and a large group of East German company directors to London in early February. To ensure Anglo–East German talks bore fruit, Hurd asked Beil to ensure that a flexible approach was taken to caps on foreign participation in joint venture companies. More importantly, during his East Berlin visit Hurd announced his government’s decision to extend to the GDR a new UK aid initiative, called the Know How Fund. The idea behind the Know How Fund was to pair UK expertise in privatization with the immediate needs of government officials in reforming socialist countries. Foreign and Commonwealth officials in London stressed that the Know How Fund featured specialist knowledge of privatization, not capital expenditure. Acting on a suggestion from the British ambassador in East Berlin, Nigel Broomfield, Hurd proclaimed that the fund could be extended beyond Hungary and Poland to include East Germany on January 22, 1990. The GDR program was to feature “pre-investment feasibility studies” undertaken by British consultants to inform UK firms’ investment decisions.

Hurd expressed his hope that British industrialists attending the Leipzig Trade Fair in March 1990 would step forward to exploit the new government fund, to be administered by Ridley’s Department of Trade and Industry. Improving relations between the GDR and United Kingdom might even allow rapid progress toward larger goals. At the top of Hurd’s list were the completion of a double-taxation convention and fast-track plans to protect UK investments in the GDR. More immediately, Hurd encouraged Beil to tap into the expertise of the Bank of England in

53 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Besuch des britischen Aussenministers Hurd in Berlin, January 26, 1990, WPOL 43.090/III 1/90. Beil’s about-face was dramatic: prior to 1989, within the Soviet trading bloc only the GDR had chosen not to legalize joint ventures with Western companies; after 1987, even the Soviet Union allowed Western joint ventures up to 49 percent.

devising privatization plans for the still socialist country. East German records confirm that Beil accepted Hurd's offer to obtain "technical assistance" from the Bank of England. For his part, the East German minister (and future Austrian Industries consultant) encouraged Hurd to nudge UK banks to open branches in the GDR, a piece of advice Hurd conveyed to bank directors in the City of London.⁵⁴ Meyer's subsequent visit to London, followed six weeks later by a British group's trip to the biannual trade fair in Leipzig, underscored the two countries' readiness to expand commerce. The latter delegation was headed by the minister of state at the Department of Trade and Industry, Ridley's predecessor, David Trefgarne, an indication that DTI, too, stood ready to support limited business development in the GDR.⁵⁵

Forward movement with the Know How Fund dovetailed with efforts already underway among UK consultancies. Among the most active was Price Waterhouse's Peter Driscoll. At the end of March 1990, the management consultancy's point man for east-central Europe was explaining to officials from the Foreign and Commonwealth Office's Joint Assistance Unit how his consultancy stood ready to provide "British input" to the proposed Know How Fund based on discussions Driscoll had recently held with high-ranking officials at Beil's external Trade Ministry. Working in concert with Driscoll, officials of the British embassy in East Berlin set out to connect state directors of the GDR railroad with those British banks—Barclays, Lazard Brothers, and Lloyds Merchant—involved in the then recent privatizations of British Rail.⁵⁶

Neither British overtures to the GDR nor British diffidence about

54 Bundesarchiv, Vermerk über das Gespräch des Ministers für Aussenwirtschaft, Dr. G. Beil, mit dem britischen Aussenminister, Hurd, am 24.1. im MAW, undated, gez. Dr. Mitdank, DC 20/5027.

55 Bundesarchiv, Empfehlung für das Gespräch des Ministers für Außenwirtschaft, Dr. G. Beil, mit dem Minister für Handel im Ministerium für Handel und Industrie des Vereinigten Königreiches von Großbritannien und Nordirland, Lord Trefgarne, am 16.03.1990, March 8, 1990, DE 10/659.

56 The National Archives (London), letter from Lamont to Hurd, March 29, 1990, FCO 33/10726.

West Germany's growing strength in the reform-minded East went unnoticed in Bonn. Immediately after Hurd's visit to East Berlin, the British ambassador was summoned to meet Chancellor Kohl. Mallaby dutifully began his report by "describing your [Hurd's] visit to the GDR, [his] talk with Modrow, and what [he] had said in public." Mallaby noted that Kohl was "confident, energetic, and loquacious." Kohl spent most of their meeting outlining his thinking. UK criticisms of West German advances into East German markets figured in his remarks. Still more prominent were two seemingly unrelated political concerns: blunting migration of East Germans (according to the country's constitution, the Basic Law, citizens of the Federal Republic) to West Germany and UK press criticisms of West German efforts to shape events in the GDR.

Kohl expressed to the UK ambassador his belief that "a range of steps would now be taken to give the East German population confidence that there was light at the end of the tunnel, so that the rate of emigration should decline." Here Mallaby had little to offer. More of interest to the UK ambassador was an issue raised by Hurd in East Berlin: allowing foreign participation in East German joint venture companies to exceed 50 percent. Kohl appears to have ignored Mallaby's concern altogether. Rather than address the British ambassador's question, Kohl explained that he was already in contact with about fifty major West German companies interested in joint ventures. What's more, the West German leader would be seeking to persuade each of them to take immediate steps to enact West-East German joint ventures quickly. Kohl also asserted that four to five hundred small businesses would be established with West German participation in the coming months. In sum, West Germany's economy was powerful enough to shoulder the burdens of the East, thus ensuring the vast majority of East Germans remained precisely where most West Germans wanted them: east of the Elbe. "As soon as the three-point star of Mercedes was shining above the planned site of a Mercedes car factory in the GDR," Kohl explained, "people would see that life was going to get better." Perhaps frustrated by Kohl's unwillingness to discuss the specifics of East Germany's joint venture law, the British ambassador proclaimed that "self-determination [in East Germany] required some clear act of

choice." Kohl countered that the new government in the GDR after the elections would declare for German unity. In the meantime, Kohl insisted, western European integration must proceed ahead as fast as possible. At this point in the conversation, the chancellor threw in a barb: "The more German sovereignty was fused in the European Community," Chancellor Kohl opined, "the less there should be articles about a supposed Fourth Reich in London newspapers." Kohl's rebuke led the British ambassador to interject that the author of the article in question had been Conor Cruise O'Brien, a former Irish, and not British, minister.⁵⁷ How Kohl responded to Mallaby's explanation is unrecorded in the Foreign Office version of their exchange.

Irritated by Nazi-era comparisons, the West German leader countered by laying out his official strategy of twinning German and European unity. For all his bluster, Kohl also implied that his country's most important EC partners, namely France and the United Kingdom, could enjoy market opportunities in East Germany. Precisely what form these possibilities might assume was left to others to define. Kohl's desire to extend olive branches to EC partners nonetheless explains why Lutz Stavenhagen, the minister of state at the Office of the Federal Chancellor charged with responsibility for European Community affairs, wrote all twelve Community ambassadors stationed in Bonn to outline commercial opportunities for EC partners in East Germany. Sent in late February 1990, Stavenhagen's memorandum began with an admission: "It cannot be denied that the Federal Republic has the best starting position because of the importance of inner-German trade (approximately 14 percent of GDR imports)." While acknowledging that the volume of this trade granted West German companies strong starting positions, Stavenhagen claimed the federal government was determined to prevent the replacement of state monopolies with private ones. This decision granted Community companies, not just West German ones, important openings. True, British exports

57 The National Archives (London), telefax from Bonn Embassy to FCO, January 25, 1990, PREM 19/2998.

to the GDR stood at a meager 0.13 percent. They were concentrated in foodstuffs, raw materials, chemicals, and machinery. Stavenhagen nonetheless stressed that growth in these sectors, and possibly also others, was possible. Stavenhagen pinpointed an area where the trade of goods between the United Kingdom and East Germany might expand: technical medical equipment. Finally, he conceded: "In the medium and long term, Great Britain can certainly expect opportunities in the service sector, particularly in the banking and insurance market."⁵⁸

How was Stavenhagen's memo received among UK decisionmakers? In a cover letter penned to Hurd and Ridley, Mallaby opined that "as a piece of analysis, the paper is not especially impressive." Unconvinced by Stavenhagen's (and thus Kohl's) gesture, the British ambassador nonetheless recommended efforts to discern the extent to which the German federal government's willingness to engage outsiders might be turned to the United Kingdom's advantage. Hurd and Ridley agreed. To this end, Mallaby proposed to seek an audience with Stavenhagen to underscore one key point: that opportunities in financial services should emerge much sooner than in "the medium and longer term." The UK ambassador to West Germany sought to throw open the East German banking and insurance markets to British interests by thrusting this central UK concern directly into what was at that time the most important project within the European Community as a whole: the single-market campaign, as it was called. Mallaby proposed to ensure that the finance sector in the GDR was open to all foreign competitors or, short of that, denied full domestic protection in a soon-to-be united Germany.⁵⁹ In other words, Mallaby's approach to expanding the United Kingdom's economic footprint in East

58 The National Archives (London), letter from Lutz Stavenhagen, State Secretary in the Chancellor's Office, to Sir Christopher Mallaby (unofficial translation), March 9, 1990, FCO 30/9156.

59 The National Archives (London), telefax from Mallaby (restricted), undated [February 1990], FCO 30/9155. For an introduction to the influence of large corporations on the plans, regulations, and (thousands) of amendments behind the creation of the vast Single Market project, see Ivan T. Berend, *The History of the European Union: A New Perspective* (New York: Routledge, 2016), 149–151, 158–199.

Germany, not unlike Hannay's (and DTI's) braking maneuvers in Brussels, revolved around the future direction of the EC.

The executive summary of Mallaby's subsequent talks with Stavenhagen attempted to draw his superiors' attention to his country's overarching aim: "Minister of State Stavenhagen encourages British firms to get involved in the GDR. He sees early opportunities for them. I [Mallaby] question him about financial services."⁶⁰ For Mallaby and the UK government, the ultimate objective was not investment opportunities in East Germany but rather EC-wide concessions for UK-based insurance and banking interests. In other words, opening the GDR to UK finance was a means to an end. Mallaby noted with interest that Stavenhagen did not reject Mallaby's argument. Legislative concessions to British banking and insurance interests across the EC were not entirely off the table. Trouble was, as Stavenhagen explained, measures to open banking and insurance Community-wide would face stiff opposition from West Germany's consumer-protection lobby.⁶¹ Here, Stavenhagen appeared to suggest, his government's hands were tied.

Redesigning financial markets across the EC, or at minimum within the reforming GDR, focused attention in UK governing circles. Such visions held less allure for top officials in Bonn. Mallaby and Stavenhagen nonetheless came together in more tangible ways. In a move similar to how the Bonn government would subsequently attempt to mollify Austrian diplomats, Stavenhagen provided the United Kingdom's top representative in West Germany with insider information. It came in the form of two lists. The first outlined major infrastructure projects planned by the federal government in the GDR. The second provided details on those West German firms known to be considering investments in the GDR.⁶² Mallaby dutifully forwarded these lists to Ridley.

60 The National Archives (London), telefax from Mallaby (restricted), undated [March 1990], FCO 30/9155.

61 The National Archives (London), telefax from Mallaby (restricted), undated [March 1990], FCO 30/9155.

62 The National Archives (London), letter from Mallaby to Ridley, March 6, 1990, FCO 30/9155.

How Ridley regarded Stavenhagen's lists is unknown. Most likely they were not important enough to warrant his personal attention. At an Anglo-German summit held later that month, the DTI head sought to ensure that capital requirements for those providing financial services within the EC would in the near future be related to risk rather than the nature of the institution.⁶³ Ridley's priority underscored the UK government's overriding concern: molding the future of the European Community's Single Market Program according to Britain's own turn toward finance-driven capitalism (as opposed to an economic model more akin to the social market capitalism of the West German Federal Republic). Prying open insurance and banking across the EC assumed far greater importance than the incomparably smaller fry presented by industrial and commercial opportunities for British firms in the still existing GDR. A layer below Ridley, however, British interest in East Germany's rapidly evolving economy was more closely aligned with the advances of the country's ambassadors in Bonn and East Berlin. The key DTI official was John Redwood. Pairing anglophone finance with Hurd's Know How Fund informed his advance.

John Redwood became a member of Parliament in 1987. He had previously set up non-UK privatization business for N. M. Rothschild & Sons and then, before joining DTI, as director of a special policy unit within the Office of the Prime Minister. By 1989, Redwood was a highly familiar face both in the City of London and in the Office of the Prime Minister. In the latter role, he pushed hard for privatizations at the outset of Thatcher's third term in government, arguing that the UK government should attempt to consolidate reductions achieved in reducing the "excessive power" of miners in the nationalized coal industry by establishing several electricity-generating companies.⁶⁴ Like long-serving Treuhand president Breuel, Redwood had by then also established his literary bona

63 The National Archives (London), statement by Mr. Ridley and Dr. Waigel on Investment Services and Insurance, undated [March 1990], PREM 19/3007.

64 Redwood's reference is to the 1984 miners' strike. In privatizing British Coal, Redwood advocated management and employee buyouts to reduce the power of trade unions. Raising proceeds for the Treasury also figured prominently in his arguments.

fides as a state divestment advocate. Redwood based his publications on work completed on behalf of domestic and foreign clients. Prominent among the latter was the government of Jamaica.⁶⁵ In Kingston, Redwood had established on behalf of the National Investment Bank of Jamaica and a government Divestment Committee a debt swap to transfer state assets to the private sector. This involved the transfer of foreign debt in exchange for equity, a move that appeared to benefit borrowers, in this case the Jamaican government. In exchange, lenders and investors received market-friendly government policies. The US government actively supported Redwood's (and other US consultants') bid by tying its loans to the Jamaican government to annual public audits of state enterprises and pledges to sell or lease under foreign management hotels owned by the government.⁶⁶

John Redwood paid his first official visit to East Berlin in February 1990.⁶⁷ There he sought ways to flesh out Hurd's Know How Fund, announced during Hurd's recent visit to East Berlin. Supported by the United Kingdom's embassy in East Berlin, Redwood sought to replicate UK-led equity deals in East Germany similar to those he had crafted in Kingston. The culmination of Redwood's behind-the-scenes efforts came during a three-day visit to East Berlin in May 1990. In talks with top East

See The National Archives (London), memorandum [for the Prime Minister], entitled "Privatisation of the Coal and Electricity Industries," January 23, 1987, PREM 19/2101.

65 Redwood dated his interest in privatization "worldwide" to a February 1986 Washington conference set up by USAID and attended by representatives of sixty countries. USAID's Bureau for Private Enterprise administered this conference attended by 250 participants from forty different countries. I wish to thank USAID's Development Experience Clearinghouse for providing me with a copy of this summary. See Report on the International Conference on Privatization, February 17–19, 1986, PNAAV442. See also Redwood's preface in Oliver Letwin, *Privatizing the World: A Study of International Privatization in Theory and Practice* (London: Cassell, 1988), viii, ix, x. For press coverage, see Martin Tolchin, "U.S. Links Some Foreign Aid to Privatization," *New York Times*, February 20, 1986, A13.

66 See John Redwood, *Popular Capitalism* (New York: Routledge, 1988), viii, ix, 74–76, 87, 89, 96–98.

67 The National Archives (London), Electronic Diary of Redwood, NK 5/4.

German officials, Redwood sought to convince his hosts that Britain's success in liberalizing capital markets was directly relevant to their plans to advance sales of state assets in the automobile, shipbuilding, and steel industries, as well as in public utility sectors such as electricity, telecommunications, and water management.⁶⁸

Redwood's East Berlin entourage included representatives of Barclays Bank International, Price Waterhouse, Trust House Forte, British Water Industries Group, and British Electricity International. On the opposite side of the table sat the East German ministers of finance and economics, state secretaries from these and several other ministries, the head of the future state of Saxony's international investment promotion office, and the de facto acting director of the Treuhand, Wolfram Krause. UK company representatives accompanying Redwood were especially interested in utilities, asking whether water, waste treatment, and electricity would remain in the public sector. With reference to "monopoly utilities," Redwood pointedly asked whether the GDR "was opposed to the introduction of private capital."⁶⁹ East Germany's economics minister demurred, though Gerhard Pohl claimed to welcome ideas about how to improve infrastructure. Pohl also purportedly signaled his willingness to accept foreign nonexecutive directors on the board of Treuhand companies. Redwood's aim appears to have been to channel foreign business to recently privatized UK water authorities seeking to expand revenues in response to increased competition in domestic markets. With funds supplied by the Bonn government, major infrastructure programs were poised to raise water and waste treatment in eastern Germany to EC standards.

68 See the memorandum compiled by Dieter Prietzel, state secretary in the East German Ministry of Economics engaged in East German foreign trade matters. Prietzel served the East German state from the mid-1950s to 1990. Bundesarchiv, Besuch des Parlamentarischen Unterstaatssekretärs im britischen Ministerium für Handel und Industrie, Mr. J. Redwood, MP, D. Prietzel, May 21, 1990, DE 10/659. On the transfer of water delivery from public good to tradeable asset during the 1980s and 1990s, see Kate Bayliss, "The Financialization of Water," *Review of Radical Political Economics* 43, no. 3 (2014), 292–307, esp. 295–299.

69 The National Archives (London), GDR: Mr. Redwood's Meeting with Minister of Economy, June 6, 1990, FCO 30/9168.

Investments in sanitation were especially interesting to foreigners as they appeared to present a way to obtain local and state government contracts; in West Germany, such services had long been the preserve of national companies.⁷⁰ Redwood sweetened his pitch for UK financial expertise in the GDR's state divestment plans by emphasizing his country's goodwill toward the GDR's political aims.⁷¹

Redwood's June 1990 visit to East Germany provided multiple opportunities to curry support. Among the more remarkable, and unlikely, offers he extended to East German ministers was a pledge to second the GDR's application to join the European Community as the thirteenth member state (as opposed to what was then already well underway in Brussels: the formal inclusion of the territory of East Germany as part of the Federal Republic).⁷² Strikingly, Brussels figured prominently in the DTI official's efforts to woo East German officials. Redwood pointedly asked what future derogations the GDR might require from the EC's Internal Market Council, still another supranational decisionmaking body, in the weeks leading up to unification. Like the ploy to extend EC membership, the offer to support efforts to carve out benefits for the GDR in the European Council may well have been hollow. Minutes of the June 1990 Internal Market Council meeting submitted by the UK ambassador to Luxembourg, Juliet Campbell, recorded Redwood's attendance but no mention of East German derogations. Instead, in a question-and-answer session with West German Ministry of Economics state secretary (and Mont Pèlerin Society member) Otto Schlecht, Redwood raised pointed

70 Comments offered by the representative of Lyonnaise des Eaux at Franco-German consultations confirm this point. See Centre des archives diplomatiques (Nantes), Synthèse rencontre franco-allemande des dirigeants d'entreprise, September 8, 1990, Ambassade de France à Bonn 105 PO/2.

71 Redwood neglected to spell out which East German aims his government proposed to support. The National Archives (London), GDR: Mr. Redwood's Meeting with Minister of Economy, June 6, 1990, FCO 30/9168.

72 Bundesarchiv, Information über den DDR-Besuch des Parlamentarischen Unterstaatssekretärs im Ministerium für Handel und Industrie des Vereinigten Königreiches vom Großbritannien und Nordirland, Mr. J. Redwood, vom 05.06. bis 07.06.1990, DC 20/18520.

questions about the volume and terms of foreign access to future West German subsidies earmarked for the GDR.⁷³

Redwood's approaches reached East German minister president de Maizière's office. To drive home Redwood's message, a British economic diplomat stationed in the UK embassy in East Berlin, John Ramsden, followed up with a detailed memorandum addressed to de Maizière's private secretary. Titled "British Support for the Treuhand," Ramsden's note began with a self-congratulatory observation: "In 1979, the UK Government [had] launched a demanding and highly successful program for the return of state-owned enterprises to the private sector." "As a result," Ramsden explained, "UK commercial banks, accountants, lawyers, brokers, and business consultants have gained unprecedented expertise and have been assisting other governments in implementing their national privatization programs for some time." In Ramsden's (and thus also Redwood's) assessment, the UK government possessed the unique experience East German authorities needed "to support the privatization of GDR companies and to encourage British firms to look for opportunities for investment and other forms of participation in the transformation of the GDR economy." According to Ramsden's note shared with de Maizière's personal secretary, Redwood had also voiced three central UK requirements during his visit. Reminding de Maizière of his government's standing offer, Ramsden reduced his message to three succinct points:

1. Nominate a well-respected, well-known personality to serve on the supervisory board of the Treuhandanstalt
2. Identify experts who have the skills necessary for successful privatization
3. Submit the names and details of fluent German-speaking British businessmen who will, in principle, be prepared to work as non-executive directors in the newly privatized companies⁷⁴

73 The National Archives (London), report on the Internal Market Council: June 20, 1990, FCO 30/9166.

74 Bundesarchiv, Schreiben von J. C. J. Ramsden an Voigt, Office of the Minister President, undated, DC 20/6069.

Almost word for word, Ramsden's (and Redwood's) demands matched those submitted by Austrian, French, and Swiss officials, among others. The Treuhand attempted to deflect similar demands put forward by French embassy officials, citing the need to strike a careful balance between "federal, state, and socioeconomic stakeholders."⁷⁵ According to accounts supplied by French diplomats based in Bonn, officials within the Treuhand's Investor Services directorate claimed that the decision ultimately rested in the hands of officials within the Federal Ministry of Finance and that, in any event, the Treuhand's supervisory board only exerted influence over large investments. Neither the French nor the British found such arguments convincing.

East German records reveal that the United Kingdom's list of requests extended still further. To guide the course of privatization in Germany's East, Ramsden, via Redwood, also called for the inclusion of a British expert on the managing board (Vorstand) of the Treuhand; the participation of a British bank in a future consortium tasked with establishing private corporations; and support from specialized British consultancies in the preparation of opening balance sheets denominated in the currency introduced in East Germany on July 1, 1990, the West German deutschmark.⁷⁶ Finally, to maximize British involvement in restructuring the GDR economy, Redwood offered to host a high-profile seminar in London tailored to the specific requirements of Treuhand representatives.⁷⁷ Perhaps sensing a need to add some final substance to Redwood's pitch, Ramsden enclosed in an annex to his letter to de Maizière's personal secretary a background report issued by Her Majesty's Treasury Department on

75 Centre des archives diplomatiques (Nantes), Rapport choix d'un représentant à Paris, August 30, 1991, Ambassade de France à Bonn, 105 PO/2.

76 Bundesarchiv, Information über den DDR-Besuch des Parlamentarischen Unterstaatssekretärs im Ministerium für Handel und Industrie des Vereinigten Königreiches von Großbritannien und Nordirland, Mr. J. Redwood, vom 05.06.1990 bis 07.06.1990, June 11, 1990, DE 10/659.

77 Bundesarchiv, Information über den DDR-Besuch des Parlamentarischen Unterstaatssekretärs im Ministerium für Handel und Industrie des Vereinigten Königreiches von Großbritannien und Nordirland, Mr. J. Redwood, vom 05.06.1990 bis 07.06.1990, June 11, 1990, DE 10/659.

all UK companies then involved in privatization processes at home and abroad.⁷⁸

Redwood's plans for the GDR's economy, and for the Treuhand in particular, were extensive. To what degree had he (and Ramsden) managed to get through to de Maizière? We know that enlisting UK expertise in East German privatization subsequently figured prominently in the highest-level exchanges between the East German and British governments. It was notably prominent among the issues discussed during de Maizière's visit to London at the end of June 1990. British embassy officials in East Berlin were pleased to report that de Maizière was keen to discuss with Prime Minister Thatcher "how British expertise could help in the task of privatizing the GDR's 8,000-odd state-owned enterprises." Thatcher, for her part, laid out her country's order of priorities now that East German voters, with assistance from Chancellor Kohl, had defined the path to unification, observing "We [Britain] would be happy to provide training in this country and advice on privatization. We would also encourage our firms to invest in the GDR." De Maizière and his accompanying ministers (including his deputy spokesperson and subsequent German chancellor Angela Merkel) purportedly welcomed exchanges and training, as they offered ways for East Germans to acquire expertise beyond the West German Federal Republic.⁷⁹

How much of this behind-the-scenes governmental wheeling and dealing informed actual Treuhand investments? The success of Britain's first major investment in East Germany, Readymix's acquisition of a smelt-furnace cement works in Rüdersdorf, thirty kilometers from Berlin, can be directly traced to de Maizière's visit to London. The timing owed much to the personal intervention of Prime Minister Thatcher. As Thatcher wrote to de Maizière in July, "During our very useful meeting on 27 June I promised to encourage British firms to invest in the Ger-

78 Bundesarchiv, memorandum from J. C. J. Ramsden to Voigt, Office of the Minister President, DC 20/6069.

79 The National Archives (London), telefax, Subject: Visit of De Maiziere, Ramsden, June 26, 1990, PREM 19/3004.

man Democratic Republic. Since then Readymix Concrete plc have been in touch with my office. This major British company wishes to buy the Ruedersdorfer Cement Works with which it already has a long-established working relationship through its subsidiary in the Federal Republic. Readymix are prepared to make a major investment in the future of Ruedersdorf." While noting that the decision ultimately lay with the Treuhandanstalt, the state holding that, until October 3, 1990, formally reported to de Maizière, the UK leader stated, "I very much hope this major investment project will go ahead. It would be an early sign of the contribution which British industry can make in the GDR, and a great encouragement to other British investors. It would also create more competition in the marketplace."⁸⁰

British economic diplomats and ambassadors in Bonn and East Berlin, for their part, sought to exploit the opportunity by relaying advice that a personal message from Thatcher to de Maizière "would greatly help to secure purchase by Ready Mix Concrete of the Rüdersdorf cement works."⁸¹ Asserting themselves on behalf of Readymix required UK diplomats to provide a closer read of the motives of the most important political actors in West Germany. UK embassy staff in Bonn noted that difficulties lay not with the Federal Cartel Office in Bonn, which purportedly welcomed foreign bidders. The problem appeared to rest with the Treuhand, or, more to the point, pressure being exerted on the East German state holding by a West German bidder. The sale of the Rüdersdorf works took place in the immediate aftermath of the acquisition by France's Lafarge Coppée of the GDR's largest cement works in Karsdorf (today in the eastern German state of Saxony-Anhalt). Both capital-intensive companies with excellent market prospects faced an immediate liquidity crisis owing to the currency union. François Mitterrand had lent his support to the bid by what was then the world's second-largest cement producer

80 Bundesarchiv, letter from Margaret Thatcher to Lothar de Maziere [sic], July 24, 1990, DC 20/6069.

81 The National Archives (London), dispatch from East Berlin Embassy to Prime Minister's Desk, PREM 19/3001.

to gain a foothold in the promising eastern German construction and transport industries.⁸²

The comingling of politics and economics in Treuhand acquisitions involving non-Germans was by no means only a French phenomenon. A secondary aim behind Thatcher's initiative on behalf of Readymix was to generate positive headlines in the wake of the Ridley affair. Producing an acquisition for Readymix required currying favor in East Berlin but also overcoming the legal maneuvers of a Swiss–West German rival. Having recently come up short against a French competitor, West Germany's Alsen-Breitenburg, a company majority owned by the Swiss entity Holderbank, proved unwilling to step aside for a British bidder. But yield Alsen-Breitenburg did. Support from Rüdersdorf's managing director, Klaus Lamprecht, for Alsen-Breitenburg's proposal was insufficient to tip the balance in favor of the Swiss–West German competitor.⁸³ An injunction from the dispirited Alsen-Breitenburg slowed Readymix's takeover but in the end proved ineffectual. Instead, a British candidate emerged as the Treuhand's choice. Remonstrations to the Federal Cartel Office in Bonn and its short-lived East German counterpart in East Berlin probably aided Readymix's advances.⁸⁴ Somewhat more rigorous antitrust oversight by mid-June 1990 had dovetailed with the assessment in Bonn government circles that the Berlin-based Treuhand must increasingly accommodate EC investors.⁸⁵

Access to East Germany's—and thus the enlarged Germany's—cement industry emerged as a political consolation prize. The economic benefit was modest, if real. As Readymix's president John Camden ac-

82 Heimerl, "La France, premier partenaire de l'ex-RDA," 31.

83 Bundesarchiv, Vermerk für Herrn Richter zu einigen Hintergründen in der Sache Rüdersdorfer Zement GmbH/Alsen Breitenburg/Treuhandanstalt, undated, gez. Trostel, B 412/28194.

84 Bundesarchiv, Votum zum Zusammenschlussvorhaben Readymix AG mit der Rüdersdorfer Zementwerke, August 16, 1990, B 246/814.

85 See the following assessment of the federal cartel office: Bundesarchiv, Betr.: Fusionsrechtliche Beurteilung des Erwerbs von Anteilen an Zementwerken in der DDR durch bundesdeutsche (oder ausländische) Unternehmen, June 19, 1990, gez. Jesse, B 412/28192.

knowledgeed in his thank-you letter to Thatcher, the successful bid to acquire one of the four major cement works in the former German Democratic Republic drew on groundwork laid by officials of the United Kingdom's Department of Trade and Industry. Camden and his German representative also lauded the Treuhand. In a note to Chancellor Kohl, the chairman of the British building materials group in West Germany, Gerd Hörstensmeyer, extended praise to Rohwedder and his colleagues, sharing a copy of his communiqué with Thatcher.⁸⁶ In his note to Kohl Hörstensmeyer left unmentioned the fact his firm and Rohwedder's Hoesch jointly owned and operated a state-of-the-art grinding plant in the West German city of Dortmund. In an August 1990 letter to Rohwedder in his capacity as Hoesch's director, Hörstensmeyer expressed his hope that, once paired with the firms' technical experience in the use of granulated blast furnace slag, Hoesch and Readymix might be able to deepen their joint holding company's cooperation with eastern Germany's largest steelmaker, EKO Stahl.⁸⁷

A measure of rapprochement between particular UK and West German businesses and political leaders coincided with a more general desire to generate positive headlines in the aftermath of Ridley's Spectator interview and high-profile resignation. Also important in this successful UK acquisition were ties that Readymix's West German subsidiary had cultivated with East German cement works since the late 1960s.⁸⁸ The leading West German company in ready-mixed concrete was no stranger to East Germany. A subsidiary of Readymix's West German operation, Seyd and Heinrichs Transportkontor, was one of two companies permitted by GDR

86 The National Archives (London), letter from Gerd Hörstensmeyer to Chancellor Helmut Kohl, October 17, 1990, PREM 19/3002.

87 thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, Schreiben von Gerd Hörstensmeyer an Detlev Rohwedder, August 7, 1990, Bestand Hoe/12202.

88 Bundesarchiv, letter from Gerd Hörstensmeyer, Readymix Aktiengesellschaft für Beteiligungen, to Detlev Rohwedder, July 30, 1990, B 412/22070, Bd. 2. Thatcher herself acknowledged the importance of these socialist-era ties. See the National Archives (London), letter from RMC Group Chairman John Camden to Prime Minister Margaret Thatcher, August 23, 1990, PREM 19/3004.

authorities to import gravel and sand into the walled-in enclave of West Berlin.⁸⁹ Encouraged by Hörstensmeyer's firsthand knowledge of market possibilities acquired through his companies' extensive socialist-era transactions, Camden set aside concerns regarding the absence of balance sheets, future pension responsibilities, restitution claims, and environmental costs.⁹⁰

Socialist-era ties played only a marginal role in assessing Treuhand-led sales and industrial restructuring efforts involving Britons as compared to the Austrians or the Swiss. Readymix proved a prominent exception to the trend in 1990: that year, the United Kingdom, unlike France, acquired very few Treuhand properties. UK companies with long-standing ties to the GDR, such as C. Z. (Carl Zeiss) Scientific Instruments in London, yielded no post-Wall business.⁹¹ The reasons for British quiescence were more immediate than Ridley's outburst or the country's relative lack of GDR-era trade ties. At the end of July 1990, UK chancellor of the exchequer Norman Lamont abruptly denied Hurd funds to develop joint venture training and preinvestment feasibility studies under the umbrella of the Know How Fund in East Germany. Tightfistedness and prior commitments to initiatives in Hungary and Poland carried the day in a move designed to embarrass Hurd. Announced in the immediate aftermath of Ridley's meltdown and resignation, the Treasury's abrupt stand-down order appeared to reflect deepening divisions within the Conservative Party. The Euroskeptic Lamont's decision undercut Hurd's—and Redwood's—efforts to include British representatives in the Treuhand's most important decisionmaking bodies.

89 Bundesarchiv, communication from the Bundeskartellamt to Rechtsanwälte Quack, Kühn & Partner, December 12, 1990, gez. Jesse, B 246/889.

90 RMC Group plc owned 63.6 percent of Readymix. German companies (Klößner & Co., Raab Karcher, and Rheinische Kalksteinwerke, a firm owned by Thyssen) also held shares in Readymix AG. Modern Records Centre, University of Warwick, Confederation of British Industry Collection, Anglo-German Discussions in Berlin, September 10, 1990, MSS.200/C/2003/Box 363.

91 C. Z. Scientific Instruments opened its first East Berlin office in 1966. Bundesarchiv, Registrierung unserer Berliner Büros, gez. Ikier, September 14, 1978, DL 2/6469.

Notwithstanding Lamont's decision and the trepidation with which many British government officials approached West Germany's enhanced role in the European Community, the short-lived Know How Fund probably lent some medium-term impetus to UK involvement in eastern German state-led divestment. Ramsden in June 1990 rightly predicted that the "great interest in the UK water industry and in the financial techniques we have developed for investment in water" would yield future business; as it happened, two years later the joint venture operations Redwood had outlined emerged in the form of UK shareholdings in Treuhand businesses.⁹² The United Kingdom's two embassies in Bonn and East Berlin had also planted seeds by bringing together Price Waterhouse's expertise in public calls for tenders (drafted according to EC guidelines) on the one hand and management-training sessions for state enterprises tailored to the requirements of GDR ministries on the other. Still more important was the legwork of Price Waterhouse's Peter Driscoll. Someday an archival opening may provide the opportunity to take the full measure of his company's advocacy.

More than a year after the decision to eliminate the Know How Fund in East Germany, in September 1991, Ambassador Mallaby attempted to mislead an Anglo-German gathering about the nature of his country's investments. At a meeting involving British and German historians held in Coburg, the United Kingdom's most important representative in Germany claimed that "there had of course been no British investment in the ex-GDR."⁹³ His account underscores the perils of postevent narratives supplied by ostensibly knowledgeable participants. Patently untrue, Mallaby's remark obscures the GDR-era roots of post-1989 Treuhand (and so-called greenfield) investments. Yes, British trade to the former East represented less than 1 percent of the United Kingdom's commerce with

92 The National Archives (London), telefax, Subject: GDR Know How Fund, Ramsden, June 21, 1990, FCO 30/10727.

93 See Christopher Mallaby, "Britain and the New Länder," in *Grossbritannien und Ostdeutschland seit 1918 – Britain and East Germany since 1918*, ed. Adolf M. Birke and Günther Heydemann (Munich: K. G. Saur, 1992), 24.

the Federal Republic. And yet, a handful of GDR-era connections, such as Readymix's, laid the foundations for UK acquisitions of East German depots, gravel pits, and sales offices during the early 1990s. Readymix, the RMC Group, went on to purchase four more Treuhand companies. Still more active was Redland Tiles. This building trades firm acquired eight Treuhand-held brickworks, clay reserves, and tile factories. Like many UK companies, Redland Tiles was in 1990 not solely a British concern. Infusions of capital from Lafarge Coppée, an early French investor in the ex-GDR, fueled Redland's growth in eastern Germany (Redland was at that time only 63 percent UK owned). In other words, here what looked like a British company may well have profited from French political connections. But then again, perhaps the socialist-era ties of Redland Tile's West Berlin subsidiary, Braas & Co., provided decisionmakers with sufficient clarity about markets to embrace a risky purchase.

Aside from Redland Tiles and Readymix, British investors proved slow to grasp opportunities in East Germany. Well-placed contemporaries, including Treuhand president Rohwedder, zeroed in on this fact by highlighting differences between British and French companies. In an August 1990 message to West Germany's ambassador to the United Kingdom, Baron Hermann von Richthofen, Rohwedder claimed to find "it interesting that England, quite unlike France, hardly bothers to secure engagements in the GDR." In Rohwedder's assessment, "Certainly Readymix is making quite an effort, but that remains the exception." Rohwedder colorfully (and characteristically) described the "jostling for the good bits in the GDR" as "tremendous," adding "the English were going to have put more oars in the water [etwas starker in die Riemen legen] if they wished to achieve anything over there."⁹⁴ Receptive to Rohwedder's call to obtain footholds "over there," von Richthofen conveyed the substance of the Treuhand president's remarks at the Anglo-German conference attended a little more than a year later by Mallaby, observing that "investors from

94 Bundesarchiv, Schreiben von Detlev Rohwedder an Baron Hermann von Richthofen, August 28, 1990, B 412/3702.

Great Britain had made too little use of the great potential” unleashed by the decision of the German federal government to ensure “as many foreigners invested in the five new states as possible.”⁹⁵

The head of the United Kingdom’s most important business lobby group, the Confederation of British Industry, John Banham, was prominent among those one might have expected to be picking up the slack noted by Rohwedder (and subsequently by von Richthofen). Banham’s participation in an investor seminar held in early September 1990 at Bellevue Palace in (West) Berlin (today the residence of the German president) reminds us that British industrialists pursued opportunities in eastern Germany that year, albeit often flanked by high-ranking political representatives. The gathering brought not only Banham but also Ridley’s successor as head of the Department of Trade and Industry, Peter Lilley, to the former German capital. There, Lilley and Banham sat down with Ludolf-Georg von Wartenberg, director of the most prominent German business lobby, the Federation of German Industries (Bundesverband der Deutschen Industrie, BDI). The host of the Bellevue Palace gathering was federal economics minister Helmut Haussmann.

Publicly, both West German and British government representatives went to great lengths to distance themselves from Ridley’s comments on German economic ambitions for Europe. On his first visit to Germany since his predecessor’s resignation, Lilley made a point of stating to journalists that he “unreservedly” welcomed unification, noting the process offered British companies a “great chance” to enter German markets.⁹⁶ Behind the scenes, neither the high-profile German delegation nor the ostentatious setting worked wonders on the British guests of honor. Addressing Haussmann and von Wartenberg, Banham in particular exhibited little patience for diplomatic niceties. The director of the Confederation of British Industry “made very clear that British companies had

95 Hermann von Richthofen, “Die neuen Bundesländer,” in Birke and Heydemann, *Grossbritannien und Ostdeutschland*, 21.

96 Anne McElvoy, “Britain’s Trade Secretary Predicts Rush to Invest in East Germany,” *The Times*, September 11, 1990.

many choices in allocating their overseas investments and they were not convinced that the West German government (let alone its industrialists) were serious in seeking international capital to deal with the problems of the GDR, despite all their protestations.”⁹⁷ Banham’s jarring remarks—a remarkable opening for an invitee in his position—thus appeared to have undercut the well-orchestrated attempt on the part of German officials to entice British investors. Notably, his comments were in keeping with those of the UK business leaders attending the event. For their part, they stressed the many complexities presented by doing business in East Germany. The industrialists accompanying Banham and Lilley also seemed primed to stir controversy. As Wynn Kenrick, director of the UK company Mowlem and chair of British Water Industries Group, noted, key positions in state governments were being assumed by West German officials who would soon be channeling public funds to favored West German companies. To counter West German industrialists’ influence within state government bureaucracies and, increasingly, the East German Treuhand, Kenrick called for the establishment of a “centralized investment office.”⁹⁸

Quiet for much of the meeting, the highest-ranking UK representative, DTI chief Peter Lilley, seconded Kenrick’s call, suggesting this point of contact could relate the “latest state of play on legislation and the activities of the Treuhandanstalt.” Lilley added that recent UK bidders such as British Airways and British Gas had received nothing approaching even-handed treatment. Banham, for his part, sought greater clarity from federal authorities about “investment assistance” and, above all, “clear signals” in the form of decisions of the West German Cartel Office and the privatization of the various GDR industries. He also sought to use the investment seminar to shift attention to a goal closer to the hearts of British business elites: the future direction of the European Community. Banham

97 Modern Records Centre, University of Warwick, Confederation of British Industry Collection, memorandum from John Banham to John Scates, September 11, 1990, MSS.200/C/2003/Box 363.

98 Modern Records Centre, University of Warwick, Confederation of British Industry Collection, memorandum from John Banham to John Scates, September 11, 1990, MSS.200/C/2003/Box 363.

let it be known that “we would also be concerned about the West German government’s attitude to Social Europe,” a reference to attempts, subsequently frustrated, to enshrine pension and work rights at the EC level.⁹⁹

Federal minister of economics Haussmann sidestepped a debate about the perceived virtues of Anglo-American versus Continental approaches to Europe’s economic future. In a measure of the distance between the two delegations gathered at Bellevue Palace, and perhaps also the two governments, he chose to respond to the extensive airing of British criticisms by redirecting attention to the purpose of their gathering. Haussmann explained that, for industrialists in both countries, Germany’s East presented opportunities for the taking. Immediate action was required, not another round of deliberation about the future of Europe. Those who neglected to step forward quickly would soon find they had missed the boat. In a remarkable move, Haussmann then sought to turn Kenrick’s critique of West German influence in local and state governments and the Treuhand on its head.

Ignoring altogether Kenrick’s call for a “central investment office” within the Treuhand tailored to the specific requirements of foreigners (German state and federal efforts to solicit international engagement via promotion agencies are covered in Chapter 5), Haussmann chose instead to speak at length about what he regarded as glaring deficiencies within the privatization authority in Berlin. Not the advance of West Germans into the East but rather the Treuhand holding’s ties to socialist East Germany were, in Haussmann’s explanation, the ultimate source of foreigners’ troubles with investing in East German companies. Investors and advisors from other countries, Haussmann insisted, could play an important role in reversing difficulties. The means to this end: expel socialist-era officials from bureaucracies in the ex-GDR, especially in the Treuhand.

Both Kenrick and Haussmann spoke of old boys’ networks but meant different things. The source of prejudice for Kenrick was West German.

99 A succinct account of this effort to merge industry and social policy within the EC is contained in Warlouzet, *Governing Europe in a Globalizing World*, 202–204.

Hausmann insisted that West Germans and foreigners alike faced problems stemming from favoritism rooted in holdovers from the state socialist era. Hausmann confided to his British guests that “until recently the Treuhandanstalt had been staffed by GDR people who had made decisions which had favored former members of the SED [Socialist Unity Party]. Old boys’ networks engendered corruption. They could, however, be overcome by putting all new privatizations to international tenders. In this view, not West but rather East Germans presented the most significant obstacles to both foreign investment and capitalist advancement.” To liberate eastern Germany from its burdensome socialist past, the Treuhandanstalt would soon boast a “new streamlined organization with fifteen decentralized agencies who have the task of privatizing municipally owned business.” Problems encountered by would-be investors in state and local governments stemmed from the fact that “only the top level of the administrations had changed.” “At the lower levels,” as Hausmann was at pains to draw out, “officials of the old regime were ubiquitous.”¹⁰⁰ In other words, the relative absence—not the growing presence—of West Germans in the East presented market capitalism with its greatest challenge. The federal government was working closely with the Federation of German Industries (Bundesverband der Deutschen Industrie, BDI) and municipal-level chambers of commerce to ensure that the administrative experts from West Germany would soon be available to adequately meet the needs of foreign investors.

Hausmann’s explanation of the difficulties faced by UK companies appeared to change few opinions among his invited guests. No friends of socialism, neither Banham nor Lilley were moved by his attempt to exculpate West German administrators of eastern Germany’s economic future. In a tense exchange with Ridley’s successor, Hausmann expressed his hope that “the British businessmen had taken away the message that it was unimaginable that conditions in the GDR would not quickly be

100 Modern Records Centre, University of Warwick, Notes of the Plenary Session of Anglo-German Discussions, Berlin, 10 October, September 24, 1990, MSS.200/C/2003/Box 363.

similar to those in West Germany.” Unimpressed by this platitude, Lilley countered that UK business leaders were “choosy people.” The new DTI chief refused to pretend, for Haussmann’s sake, that “the GDR economy would be flooded with British money.”¹⁰¹

Haussmann’s responses to pointed criticisms raised by British industrialists lacked substance. Acknowledging a concern voiced by the Ready-mix chairman about the lack of reliable opening balance sheets, Haussmann conceded that the Treuhand, working in concert with “international experts,” would need to make swift progress. On the question of relieving new private businesses of socialist-era state debt, Haussmann referred to arrangements, then in the works, to be made available by the Bonn government. Turning to property rights, the Bonn minister pointed out that “in cases of dispute, commercial investment would take precedence if job creation was assured. On environmental questions, application should be made to the Federal Environmental Ministry for compensation.”¹⁰² On the whole, Haussmann presented notoriously difficult problems as inherently manageable.

Weak on analysis and short on solutions, the West German minister nonetheless strove to ensure federal inducements were well known. In his final remarks, Haussmann canvassed “allowances” and “equity capital” measures for potential foreign investors. The latter included “help toward reducing personnel,” retraining costs, and EC-sanctioned assistance for industries beset with overproduction—especially shipbuilding and steel.

101 The National Archives (London), Bilateral with Herr Haussmann, Notes from Martin Stanley, September 12, 1990, FCO 30/9178. In a conversation with the Dutch ambassador to the Federal Republic, Jan van der Tas, another high-ranking official of the Federal Economics Ministry, Jürgen Becker, cited the ideological hurdles poised by socialist-era bureaucrats, but stopped short of claiming that the problem was universal. See Telegram Nr. 394 (incoming, translated from the Dutch) in *When the Wall Came Down: The Perception of German Unification in International Diplomatic Documents, 1989–1990*, ed. Marc Dierikx and Sacha Zala (Bern: Diplomatic Documents of Switzerland, 2019), 227–228. dodis.ch/52963.

102 Modern Records Centre, University of Warwick. Notes of the Plenary Session of Anglo-German Discussions, Berlin, October 10, September 24, 1990, MSS.200/C/2003/Box 363.

Details about these measures to assist those willing to risk capital in eastern Germany, helpfully translated into English, were circulated after the meeting to Banham, Lilley, and other British attendees. Notable among these incentives was support for external advisors. One reads that “for consulting services, the Federal Ministry of Economics in Bonn can, within the framework of available budget funds, grant funds amounting to as much as 50% of the approved expenditures.” What, precisely, were outside experts expected to accomplish in eastern Germany with federal funding? Anything related to market fitness appeared acceptable: “The consulting services help both in analyzing competitiveness and in developing and applying measures that boost competitiveness or create the prerequisites for doing so. In this context, the consulting may relate to corporate goals, business policy, and individual, selected sub-areas (accounting, marketing, organization, etc.)” The fine print revealed still greater latitude: “Eligible for support are, in particular, individual consulting services that relate to economic, financial, and technical problems of the companies in conjunction with the adjustment to market conditions, including help in translating specific suggestions into commercial practice.”¹⁰³

In an immediate sense, outside experts helped the Treuhand by drawing up missing balance sheets—socialist requirements were entirely different—and staffing local privatization offices. Staffed by external consultants, local Treuhand officials were the vanguard of rapid-fire privatization; the Federal Ministry of Economics strove to ensure the Treuhand’s branch offices were staffed by individuals with staunch commitments to divestment. These also included secondments from West German companies; less well known is the fact the Treuhand made room for foreigners to be seconded to the privatization agency, including a representative of the Mowlem construction company.

As Haussmann’s remarks make clear, the presence of foreigners, and especially international consultants, signaled to potential investors the

103 Modern Records Centre, University of Warwick. Report Titled “Economic Assistance for the GDR,” Bundesministerium für Wirtschaft, Annex C, September 1990, MSS.200/C/2003/Box 363.

German federal government's willingness to root out the pernicious influence of state socialism within the Treuhand. Left unsaid was the fact they served as largely symbolic concessions to the growing presence of West German decisionmakers in East German state and local governments. Over time, they also served, in exchange for hefty fees, as convenient scapegoats for highly unpopular decisions endorsed by federal officials in Bonn.

The process of enlisting financial consultants as privatization foot soldiers—as Haussmann's responses to British queries indicate—emerged at least as much within the Federal Ministry of Economics as in the Treuhand. Under Rohwedder's leadership, the holding kept some of the most expensive financial advisors, if by no means all, at arm's length. The Treuhand files contain many attempts by investment bank chiefs to present their unique qualifications to the agency's president. Among the most persistent was Barclays Bank deputy chairman Martin Jacomb. He wrote to Rohwedder in August 1990. Citing a mutual acquaintance, Robert Scholey, the business leader charged with the privatization of British Steel by Margaret Thatcher and the closure of a major steel works in Scotland (discussed in the next chapter), Jacomb attempted to set up a meeting with the Treuhand director. Jacomb touted his work on behalf of governments in Hungary and Poland but saved his choicest remarks for tasks completed on behalf of the United Kingdom. As Jacomb immodestly noted, "I myself led the team advising the British Government in connection with the privatization of British Telecom which was a great success as you know, but we [Barclays] have other significant experience, the most recent examples being the flotation of British Steel itself, and currently we are advising the British Government on the privatization of the Scottish Electricity industry."¹⁰⁴

104 Bundesarchiv, letter from Martin Jacomb to Detlev Rohwedder, August 17, 1990, B 412/3702. The privatization of British Telecom produced a massive shareholding, with more than 2.3 million Britons buying shares. Unlike America's ATT, British Telecom was privatized without being broken up. See Brian Harrison, *Finding a Role? The United Kingdom, 1970–1990* (New York: Clarendon Press, 2011), 338–347, and Massimo Florio, *The Great Divestiture: Evaluating the Welfare Impact of the*

Rohwedder brushed off Jacomb's inquiry, but that was not the end of the story with Barclays. Rohwedder's in-box soon filled with follow-up letters from the chief of Barclays's investment bank, David Band, who cited his attendance at Haussmann's gathering at Bellevue Palace as entitling him to an audience with the Treuhand president.¹⁰⁵ Neither Band nor Jacomb succeeded. French banks, too, also made their voices heard. The Frankfurt chief of Banque Paribas offered to host gatherings of carefully vetted potential investors in Paribas's Paris or London offices.¹⁰⁶ Rohwedder responded to this note by indicating his aim to invite investment bank heads to East Berlin in October; plans to travel abroad to Paris and London, as well as New York and Tokyo, were also in the works.¹⁰⁷ As it happened, Rohwedder, after visits to Paris and Vienna that autumn, addressed a conference organized by Banham's Confederation of British Industry in London in mid-January 1991.¹⁰⁸

Britain expanded its role in the post-GDR economic landscape in conjunction with the Treuhand's embrace of the financial services industry under Breuel's, not Rohwedder's, leadership. Federal Ministry of Economics officials several rungs below Haussmann argued that encouraging greater UK (and French) involvement in ex-GDR businesses via financial mediators served to assuage lingering UK fears about German economic

British Privatizations, 1979–1997 (Cambridge, MA: MIT Press, 2004), 297–338 and especially David Parker's *The Official History of Privatization. Popular Capitalism, 1987–1997*, vol. 2 (New York: Routledge, 2012), 294, 305–319.

105 Bundesarchiv, letter from David Band, Barclays de Zoete Wedd Holdings Limited, September 12, 1990, B 412/3702.

106 Bundesarchiv, letter from Gernot Busch to Detlev Rohwedder, September 6, 1990, B 412/3702.

107 Bundesarchiv, letter from Detlev Rohwedder to Gernot Busch, September 10, 1990, B 412/3702.

108 According to Ambassador von Richthofen, Rohwedder insisted that the common language, culture, and geographic proximity West Germans enjoyed as investors in Germany's East "could not plausibly be regarded as evidence of discrimination" against British companies. See Bundesarchiv, Besuch des Präsidenten der Treuhandanstalt in Großbritannien am 16. und 17. Januar 1991, January 22, 1991, gez. von Richthofen, B 102/790878.

strengths.¹⁰⁹ By early 1991, German pleas for greater foreign engagement also coincided with a rapid deterioration in the economic outlook for the “new” federal states of eastern Germany. Thereafter, at home and abroad the specter of socialist “old boys’ networks” was invoked to explain corruption, irregularities, and privatization delays.¹¹⁰ By June 1992, the drive to root out socialist influences cost the Treuhand’s chief financial official and erstwhile acting director, Wolfram Krause, his job. The sole East German member of the Treuhand managing board, Krause appears to have done nothing wrong. By contrast, the extensive GDR-era ties of many West German industrialists and a good many West German politicians rarely figured in public debate. The West German consequences of socialist-era ties stirred few passions. Also widely ignored were the socialist-era connections of foreigners, especially western Europeans. As business conditions rapidly deteriorated in Germany’s East, they mattered less and less.

The appointment in late November 1991 of the Treuhand’s UK figurehead, former energy minister and later British Gas consultant (nonexecutive director) Peter Walker, followed the Treuhand’s decision to expand financial corporations’ involvement in selling Treuhand companies. At his introduction, Walker stressed his unwillingness to act as a salesman. Instead, Walker stated his intention to persuade financial advisers to bring to their clients’ attention hidden gems among the ex-GDR’s former state businesses as the Treuhand’s pace of nudging firms out of the public sector accelerated.¹¹¹ Breuel, for her part, pledged to shoulder environmental

109 Bundesarchiv, Sprechzettel, Betr.: D-GB Regierungsausschuss für Wirtschaftsfragen, here: EG-Strukturfonds für neue Länder, April 16, 1991, B 136/26623.

110 For a British example, see “Socialist Paradise Full of Serpents,” *The Economist*, January 26, 1991.

111 Roland Rudd, “A Love Affair with the Business World Grows,” *Financial Times*, November 27, 1991. See also “Walker to Head UK Treuhand,” *Daily Telegraph*, November 27, 1991. Treuhand managing board member Karl Schirner explained to representatives of British Gas why the spoils of gas privatization would go mainly to West German interests and not those of other EC member states. The National Archives (London), memorandum from C. Bradley to Robert Fitchett, FCO, October 3, 1990, FCO 30/9215.

burdens and restitution claims. She also reiterated that western German investors enjoyed no preferential treatment in price or choice of companies.¹¹² Her assertions remain difficult to verify.

Walker's appointment in London was a far cry from Redwood's June 1990 wish to staff senior positions on the Treuhand's managing and supervisory boards with Britons. In the end, Germany's federal government made few concessions to foreign leaders; outside of the much-touted Investors Services directorate, foreigners were rare among Treuhand staff, and never enjoyed positions of genuine authority. Notably, France's Cresson, who in March 1991 had submitted to Rohwedder the names of French foreign experts to serve within the Treuhand, was forced to settle instead for Monod, an unpaid "roving ambassador" stationed in Paris, not Berlin or Bonn. Socialist delegates in the European Parliament pushed the Commission to determine whether the Treuhand planned to add non-Germans to its managing board, but they, too, failed to reach their objective.¹¹³ Despite various promises to the contrary, foreign representation within the central organs of the Berlin-based privatization agency remained an oft-expressed, unrealized objective.¹¹⁴

For Britons, 1992 and 1993 brought some limited improvements in Treuhand investments. More frequent bilateral exchanges underpinned the expansion of anglophone engagement. By then, substantial subsidies, tax advantages, and, above all, a massive transfer of public funds to build infrastructure were driving investment decisions in a buyer's market. Recession at home made the prospect of deals in eastern Germany attractive for some corporate financiers.¹¹⁵ Among the most prominent UK investors were recently privatized utilities—not coincidentally, those erstwhile public enterprises that had come into the orbit of privatizing investment banks like Barclays only a few short years earlier. Thames Water, denational-

112 "Business Is Lagging in the German Race," *The Independent*, November 27, 1991.

113 Archives of the European Parliament (Luxembourg), Oral Question (0-0130/91), May 22, 1991, Document No. B3-929/91.

114 Bundesarchiv, Schreiben von Cresson an Rohwedder, March 13, 1991, B 412/3703.

115 This development was not lost on journalists. See "The West's Lost Legions," *The Economist*, July 18, 1992.

ized in 1989, led the way with no less than twenty-six acquisitions. British Gas, another privatized company, was not far behind; it obtained modest shareholdings in regional gas distributions in the Halle and Leipzig areas and a stake in the transmission company set up for eastern Germany as a whole. Walker had laid the groundwork for British Gas shortly before moving to the Treuhand. Controversially, Walker continued to lobby for his former client from his unpaid position with the German privatization authority. (Walker also remained a director at the security house Smith New Court.) British Gas also received some assistance in breaking into eastern German markets from the European Commission. A formal investigation launched by Brittan's competition directorate encouraged the federal government in Bonn to evaluate foreign offers in eastern Germany's energy sector.¹¹⁶ By May 1993, top federal officials in Bonn were stressing the "financial benefits" of water and sanitation privatization.¹¹⁷

The German federal government's willingness to embrace foreign financial expertise yielded limited progress for UK investors. The controller of new business at British Gas voiced his concern about political influence but also conceded his company had enjoyed "good discussions" with the Treuhand.¹¹⁸ Important to British Gas's engagements were the creation of a venture capital fund to assist eastern German companies with which the UK energy giant wished to cooperate and the Treuhand's invitation to financial actors to define the parameters of contentious tenders. Germany's Economics Ministry supported UK bids, as they lent impetus to both countries' attempts to promote third-party access to national energy grids across the European Community. The very first moves to begin talks

116 Schreiben von G. Rocca, Direktor, Generaldirektion für Wettbewerb, Kommission der Europäischen Gemeinschaften, an den Vorstand des Verbundnetz Gas AG, July 25, 1991, B 246/801. See also 20th Report on Competition Policy (Brussels: Commission of the European Communities, 1991), 43.

117 Sächsisches Hauptstaatsarchiv Dresden, Ergebnisprotokoll der 28. Arbeitsbesprechung des Chefs des Bundeskanzleramtes mit den Chefs der Staatskanzleien der neuen Länder und dem Chef der Staatskanzlei des Landes Berlin am 13. Mai 1993 in Bonn, May 19, 1993, 12891 (Staatskanzlei), Nr. 81.

118 Robyn Gehde, "British Gas Fears Political Role in German Contracts," *Daily Telegraph*, October 26, 1990.

with British and French gas companies dated back to Gohlke's brief term as Treuhand chief.¹¹⁹ British Gas also tapped into built-in knowledge of the legal and tax system by partnering in its acquisitions with western German companies.

The desire to encourage further UK investment and to improve the optics of a major state visit led representatives of the Office of the Federal Chancellor to invite German representatives of Readymix, Redland Tiles, and other early UK investors to meet Kohl during Prime Minister John Major's visit to Bonn in early June 1992.¹²⁰ By then, UK investment banks touting their recent experience privatizations with Britain. They pitched "private-sector solutions to public sector tasks in the environmental field" in eastern Germany.¹²¹ In July 1993, the minister president of Mecklenburg–West Pomerania, Berndt Seite, visited the German Chambers of Business and Commerce in London to explain the financial inducement his state could offer to facilitate water and sewage deals featuring UK lenders.¹²² Strong British ties to third countries, especially the United States, also occasionally aided UK investments. The German federal government's decision to entrust the opening of eastern Germany's energy sector to Goldman Sachs vaulted an Anglo-American consortium of three companies to the front of the line of purchasers involved in the denationalization of open-cast brown coal mining pits (and power plant suppliers). Goldman's involvement flanked heavy lobbying from both the

119 "Government Agency in Gas Talks with UK and France," *Times*, August 17, 1990.

120 Bundesarchiv, Mögliche Teilnehmer für die industriepolitischen Treffen des Bundeskanzlers, June 1, 1992, B 136/26504.

121 See, for one of many examples, a finance presentation from a representative of Barclays Bank held in Schwerin, the state capital of Mecklenburg–West Pomerania. Bundesarchiv, Internationale Konferenz "Privatwirtschaftliche Lösungen öffentlicher Aufgaben im Umweltbereich" am 13. April 1992 in Schwerin, B 102/410823. The desire to promote greenfield investments, not Treuhand ones, helps to explain the opening of a British Trade Office in Leipzig in May 1993.

122 Landeshauptarchiv Mecklenburg-Vorpommern (Schwerin), Rede des Ministerpräsidenten Dr. Berndt Seite vor der Deutschen Industrie- und Handelskammer in London anlässlich der Großbritannien-Reise vom 12. bis 14. Juli 1993, 8.11-1 Staatskanzlei des Landes Mecklenburg-Vorpommern, Nr. 169. See also "German State Seeks Investment," *Financial Times*, July 15, 1993.

UK and US ambassadors in Bonn. The object was not primarily to gain title to coal fields in the states of Saxony and Saxony-Anhalt but rather to secure a foothold in long-protected national power-generation markets and their future liberalization across the European Community.¹²³ The Anglo-American consortium prevailed over West German electricity monopolists and dogged resistance from the works councils (*Betriebsräte*) of three German firms.¹²⁴ The Treuhand-sanctioned deal received approval during the second half of 1993 and the chancellor's formal blessing at the end of February 1994.¹²⁵

State-led divestment via international financial intermediation profited a modest number of British investors, as well as UK-based management consultancies and investment banks. English-speaking advisors exercised authority because top officials at powerful ministries wanted them there, not merely because of the Treuhand's designs or the advocacy of officials like DTI's Redwood or the consultants themselves. The background of France's most successful investment in the history of the Federal Republic serves to illustrate this point. In 1991, both Norway's Statoil and the United Kingdom's British Petroleum appeared to be in

123 See comments by PowerGen's Peter Hughes in Landesarchiv Sachsen-Anhalt (Magdeburg), Wesentliche Ergebnisse des 20. Spitzengesprächs des Bundeskanzlers mit Wirtschaft und Gewerkschaften am 28. Februar 1994, March 10, 1994, L 1, Nr. 646.

124 See Bundesarchiv, Brief von den Gesamtbetriebsräten LAUBAG, MIBRAG und VEAG to Chancellor Helmut Kohl, March 23, 1992, Nachlass Klaus Schucht, Tagebuch, N 1585/16. Works councils are representative bodies of companies. Together with employee representation on supervisory boards, they provide employees with some influence over decisionmaking within German companies.

125 Estimates of its value differ substantially. According to Klaus Schucht, the agreement was worth DM 13 billion. See Landesarchiv Sachsen-Anhalt (Magdeburg), Wesentliche Ergebnisse des 20. Spitzengesprächs des Bundeskanzlers mit Wirtschaft und Gewerkschaften am 28. Februar 1994, March 10, 1994, L 1, Nr. 646. Hans Apel, at the time chair of the supervisory boards of Energiewerke Schwarze Pumpe in Brandenburg and Lausitzer Braunkohle AG in Senftenberg, put the actual figure at DM 2.1 billion. See his book titled *Zerstörte Illusionen. Meine ostdeutschen Jahre* (Munich: Deutsche Verlags-Anstalt, 2000), 116–118. The British company in the consortium, PowerGen, was privatized in March 1991. John Redwood produced the policy brief outlining how to privatize UK coal and electricity industries in late January 1987.

the running but came up short against a powerful coalition consisting of the European Commission, the Leuna board, and President Mitterrand. Facing bids from rival consortia, the German Federal Ministry of Economics state secretary Dieter von Würzen sought to assuage British concerns about partiality to the French oil group by pointing out that the Treuhand's tender to sell the Leuna refinery in Saxony-Anhalt and the Minol network of filling stations across the ex-GDR was not run by ministries in Bonn or the Berlin-based industrial holding, but rather by "independent consultants Goldman Sachs."¹²⁶ The best-known American investment bank was also behind the decision to pair the two refineries and the filling station network.

Anglophone experts in tapping private capital and public subsidies ran the gambit from such high-profile entities as Goldman Sachs and Barclays to largely forgotten Anglo-German entities given Treuhand mandates, such as Morgan Grenfell, an investment bank acquired by Deutsche Bank in the autumn of 1989, and Schroeder, Muenchmeyer & Hengst (then part of the Lloyds Group). Notable among the latter was an East German Investment Trust run by an Anglo-German entity, Ermgassen & Co. Listed on the London Stock Exchange in February 1991, this little-known trust's sixteen purchases included a minority (25.3 percent) stake in n-tv, the first twenty-four-hour German-language television news channel. Olav zu Ermgassen founded his corporate finance firm in London in 1988 after establishing Morgan Stanley's office in Frankfurt am Main.¹²⁷ Ermgassen's Berlin representative was Wolfgang Rauchfuss, who had previously served as GDR minister for materials management, deputy chair of the Council of Ministers, and a member of the politburo of the

126 The National Archives (London), telefax from Mallaby, Bonn Embassy, to Telno 25, January 14, 1991, PREM 19/3764/1, vol. 1. For a description of the close collaboration between the Goldman Sachs' representative in Frankfurt, Paul Achleitner, and the member of the Treuhand managing board responsible for energy matters, Klaus Schucht, see Abschlussbericht der 1. Untersuchungsausschusses, Deutscher Bundestag 14. Wahlperiode, Bundestagdrucksache 14/9300, 302–325.

127 For an account of the East German Investment Trust based largely on an interview conducted with Olav zu Ermgassen in 2007, see Jowett, *Private Equity*, 264–268.

East German Socialist Unity Party (SED).¹²⁸ Rauchfuss's involvement as an investment mediator points to the fact that British intermediaries were not without their own socialist-era ties to GDR authorities, albeit fewer than Austrian, Swiss, or West German competitors had.

Close relations to the Treuhand brought foreign mediators into other lucrative areas of business with government officials. By early 1992 the German privatization authority was actively encouraging foreigners to purchase major categories of real estate, including farms and forests. To that end, a wholly owned subsidiary company of the Treuhand, the Liegenschaftsgesellschaft der Treuhandanstalt (TLG), set up an investor seminar in London in March 1992. To boost UK interest in eastern German properties, Walker established a Treuhand Advisory Group.¹²⁹ Results appear to have been mixed. In a letter to the editor of the *Financial Times*, a potential agricultural investor from Hampshire County in the south of England argued readers should "ignore the siren calls of the Treuhand and their British selling agents." As Anthony Rosen, chief executive of Feenix Farming, concluded, "The Treuhand in London conveys one message, in Berlin another, and yet a third view is given by the Treuhand in the Länder."¹³⁰

Walker's legwork to expand UK market share in eastern Germany was carried out by the London-based German Chamber of Industry and Commerce, much as former Swiss central banker Fritz Leutwiler's relied on the Handelskammer Deutschland-Schweiz in Zurich to complete deals on behalf of Swiss investors.¹³¹ The overriding interest of the

128 Günter Mittag's successor, Rauchfuss also served briefly as an employee of the Treuhand after March 1990. Rohwedder responded to Rauchfuss's involvement in the privatization agency in one of the final sessions of the East German parliament. See *Stenographische Niederschrift der 35. Tagung der Volkskammer der DDR am 13. 09. 1990, Protokolle der Volkskammer*, vol. 3 (Opladen: Leske und Budrich Verlag, 2000), 1685.

129 Wolfgang Munchau, "Treuhand Enlarges British Offshoot," *Times*, February 26, 1992. On the TLG, see Seibel, *Verwaltete Illusionen*, 418.

130 "Buying into Eastern Germany: The Dream and the Reality," *Financial Times*, August 17, 1992.

131 See this summary put together for the German ambassador to Switzerland, Politisches Archiv des Auswärtigen Amtes (Berlin), Schreiben von Vehse an von der Schulenburg, April 21, 1992, AV Neues Amt, Nr. 20965.

German Chamber, as well as Leutwiler and Walker, was not in real estate or individual Treuhand companies, but rather in “private placements” of Treuhand bonds. The public holding and its banking allies sought to appeal to even larger-scale investors, especially pension and mutual funds but also central banks. The Treuhand stepped forward as the first government entity in Germany to make use of commercial paper (CP) financing, a funding option enabled from January 1991 onward by the abolition of the stock exchange turnover tax (*Börsenumsatzsteuer*) and new licensure requirements for the issuance of domestic debentures (*inländische Schuldverschreibungen*).¹³²

Commercial paper, a type of bond that ran from seven days to two years, was subjected only to indirect government oversight. The Treuhand’s success in placing CP with national and international investors led the agency to expand the CP initiative from two billion to five billion in July 1991. Breuel’s and finance director Paul Hadrys’s explicit aim was to “stimulate” foreign investors—exactly how was undefined.¹³³ The Treuhand’s finance department embraced further novel measures, among them, “medium-term notes,” made possible by growing latitude on the part of security regulators. To place these debt obligations, the Treuhand called upon the likes of J.P. Morgan, Morgan Stanley, Salomon Brothers, and the Schweizerische Bankgesellschaft.

Linking up credit markets with investors took on larger dimensions with the passage of the Treuhand Credit Act in July 1992. This raised the Treuhand’s “special-asset status” yet again, enabling the industrial receivership to issue its own bonds. The first tranches of Treuhand bonds were posted in Frankfurt am Main, with subsequent iterations in London’s International Financial Futures Exchange. Backed by the full faith and authority of the German treasury, the new security was awarded the coveted

132 Bundesarchiv, Vorlage für den Vorstand der Treuhandanstalt. Commercial-Paper-Programm der Treuhandanstalt – DM 2 Mrd. – February 21, 1991, B 412/2564.

133 Bundesarchiv, Information für den Vorstand der Treuhandanstalt. Mandatierung weiterer Plazeure für das erweiterte Commercial Paper Programm der THA – DM 5 Mrd. –, July 11, 1991, B 412/2587.

triple-A status by ratings agencies Standard & Poor's and Moody's, gatekeepers of the international credit world.¹³⁴ The Treuhand hoped that the AAA rating from these private American firms would bolster its efforts to market its own "assets" to investors, especially foreigners.¹³⁵ Even after the Treuhand had dismissed foreign representatives such as Walker in London, visits abroad to discuss the ongoing refinancing needs of German privatization authorities featuring members of the managing board and the agency's finance director Hadrys remained a key dimension of state divestment.¹³⁶

134 Bundesarchiv, Rede von Dr. Paul Hadrys, Direktor Finanzierung THA (U5F), bei Veranstaltungen zur Vorstellung der THA-Anleihe, undated (September 1992), B 412/20232. A notable guide to how quintessentially American companies came to judge foreign sovereign debt is Pierre Pénét, "Calculating and Governing Risk in Times of Crisis: The Role of Credit Ratings in Regulatory Reasoning and Legal Change" (PhD diss., Institut d'études politiques de Paris, 2014). Obtaining sovereign reports from these American ratings agencies has long frustrated social scientists. See also Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007), 181–182.

135 Bundesarchiv, Vorlage für den Vorstand der Treuhandanstalt, Rating der THA als internationaler Kreditnehmer und Geschäftspartner (bonitätsmäßige Einstufung der THA durch die US-Agenturen Standard and Poor's and Moody's), July 11, 1991, B 412/2587. Among those to make the link explicit between Japanese purchases of Treuhand debt and potential foreign investors in Treuhand firms was Breuel's vice-president Hero Brahm. See "Treuhand präsentiert sich in Tokio," *Börsen-Zeitung* 188, September 30, 1992. Of the invitees to the Tokyo "roadshow," all 102 were institutional investors.

136 Treuhand finance director Paul Hadrys piloted these lending initiatives. They continued in the years after the Treuhand closed its doors. Before joining the Treuhand, Hadrys had crafted a computer-driven system that balanced revolving credit requirements at aircraft manufacturing giant Airbus. His work was formally overseen by Treuhand board member Heinrich Hornef. For a description of Hadrys's work in their words, see "Professionelles Treuhand-Schuldenmanagement," *Börsen-Zeitung* 96, May 22, 1993, 19–20. After the Treuhand's dissolution, Hadrys directed one of its spin-offs, the Beteiligungs-Management-Gesellschaft Berlin. This entity worked with consultancy KPMG to promote venture capital sales in Germany during the mid-1990s.

Conclusion

Improved intergovernmental relations after 1990 yielded British investments in 124 Treuhand enterprises. Capital goods industries, especially construction, led the way. GDR-era connections were not unheard of but were relatively insignificant compared to those of Austrian, Swiss, and especially West German competitors. Unlike their French counterparts, leading British officials spent the critical first months after November 1989 hurling criticisms at the federal government's rapidly evolving plans for East Germany (and the European Community). German efforts to address concerns in the United Kingdom about German dominance within Europe, especially the EC/EU, played a role in federal calculations, albeit a less pressing one than in France.

Riding a giant wave of federal subsidies, a small number of British investors and a much larger entourage of anglophone advisors and lenders nonetheless followed in the wake of UK financial institutions with recent privatization experience. The Federal Ministry of Economics in Bonn, not merely the Berlin-based Treuhand, hastened their arrival. Bond markets in London and accreditations offered by American rating agencies proved important to the Treuhand's ability to carry out its core activities. This essential, if seldom discussed, aspect of the receivership's wide-ranging international operations warrants scrutiny alongside exploration of much-touted efforts to establish formal representatives abroad. While foreigners ended up owning a mere 6 percent of Treuhand firms, 40 percent of the Treuhand's CP and bonds landed in the pockets of non-Germans. Sale of the Treuhand's various debt instruments was more internationalized than efforts to promote the sales of Treuhand firms.

The story of UK financial influence in eastern Germany's economy extends to restructuring, an area of industrial policy that gained significant attention within the federal and state governments after mid-1991. As the next chapter shows, Anglo-German tussles and fleet-footed intermediaries remained staples of industrial relations in eastern Germany, not least because of the German federal government's decision in to modify slightly the Treuhand's focus on rapid privatization to accommodate

the formation of what became known as “industrial cores” (*industrielle Kerne*). Projects extended from shipbuilding in Mecklenburg–West Pomerania to chemical production in Saxony-Anhalt, optics and microelectronics in Thuringia, and steel making in Brandenburg.¹³⁷

Reordering eastern German industry showcased non-German investors, anglophone financial advisors, and also decisionmakers based abroad. During the 1990s, establishing industrial cores required the federal government to cover not only large bank loans granted to ailing steelworks but also major capital outlays to much smaller companies in smaller sectors designated as “future industries.”

Both selling and salvaging remnants of eastern German industry generated frictions between European governments. State-led restructuring also created new opportunities for cross-border mediators. It is to the process of selective industrial restructuring in Germany’s East that we turn in the next chapter, considering the involvement of foreign actors and interests in eastern German industry across the 1990s.

137 The best firm-level history of post-Wall restructuring in eastern Germany covers Thuringia’s optical industry. See Louis Pahlow and André Steiner, *Die Carl-Zeiss-Stiftung in Wiedervereinigung und Globalisierung 1989–2004* (Göttingen: Wallstein, 2017). For an oft-cited introduction to the shipbuilding in Mecklenburg–West Pomerania and steel in Brandenburg, albeit without references to archival collections, see Jörg Raab, *Steuerung von Privatisierung. Eine Analyse der Steuerungsstrukturen der Privatisierung der ostdeutschen Werft- und Stahlindustrie 1990–1994* (Wiesbaden: Westdeutscher Verlag, 2002).

4. Salvaging Shipbuilding, Steel, and Semiconductors: Foreigners in Eastern German Restructuring during the 1990s

This chapter takes a multinational perspective to investigate the restructuring of eastern German industry. It explains how cross-border actors and institutions, and not just German government officials, industrialists, and labor representatives, shaped what became known as “industrial cores” (*industrielle Kerne*).

Public decisions in Germany to favor select restructuring initiatives prompted the European Commission to expand its purview beyond the enforcement of antitrust regulations and appeals for transparency and fairness in tenders. Hence in specific industries, granting major incentives to select concerns required German public authorities to secure permissions from the European Community (EC: after November 1993, the European Union, EU) and member-state governments. The process of restructuring German Democratic Republic (GDR) industries led the EU to become more economically interventionist. From German perspectives, restructuring involved both enticing private-sector investors and obtaining agreement within the EU. These moves to secure purchasers and permissions played themselves out in press outlets, national parliaments, the European Commission, the European Parliament, and the European Court of Justice.

This chapter thus explores how individual EU member states, the Commission, and the Industry Council, a decisionmaking body that brought together the EU’s economics ministers to adjudicate subsidy cases, shaped industrial reordering in eastern Germany—and well beyond. Broadly speaking, economics ministers of member states convened

in the Industry Council to forge binding agreements after receiving formal submissions from the Commission. At monthly gatherings, the Industry Council attempted to reach unanimous decisions. Thereafter, agreements were directly applicable in the laws of member states. The diplomats' pendant to the Industry Council, the Foreign Affairs Council, provided an alternative venue to sanction industrial decisions. In the Foreign Affairs Council, a simple majority sufficed to reach agreement.

This chapter's first part focuses on the salvaging of eastern German shipbuilding and especially steel. The common regulation of steel had been a founding aim of the 1951–1952 European Coal and Steel Community, and this economic sector fell squarely within the purview of European institutions. Wrangling over steel pitted German federal and state officials against representatives of the Kingdom of Denmark and especially the United Kingdom of Great Britain and Northern Ireland (hereafter the United Kingdom or Britain). Tensions mounted when German officials put forward plans to build a new steelmaking facility and to allow the German privatization authority, the Treuhandanstalt (Treuhand), to cover losses after sales in an industry in which individual European governments, the European Commission, and the Industry Council had repeatedly committed themselves to reducing capacity.

This chapter shows how restructuring industry in eastern Germany came to embody the aims and interests of different European nations, not merely those of the German federal and state governments. The principle of unanimous assent within the Industry Council promoted the comingling of interests among EU member-state governments. Decisions about how to revamp eastern German industry became entangled with subjects and regions far removed from developments in the new federal states of Germany's East.

These tensions are the topics of this chapter's first part. Specifically, I examine negotiations that took place in 1993 and 1994, when the German federal government's intention to extend nearly GBP 500 million in subsidies to restructure the largest steel mill in eastern Germany required the Industry Council's approval. Anglo-German clashes over financial assistance to EKO Stahl in Eisenhüttenstadt, home of East Germany's

best-known Soviet-style factory town and employer of more than thirteen thousand individuals in 1989, played themselves out in high-level bilateral summits and ministerial exchanges, as well as in the preparations for the European Council meeting held in the German city of Essen. In December 1994, on the eve of a European Council summit, personal interventions by Prime Minister John Major and Chancellor Helmut Kohl yielded last-minute agreement in the Industry Council. The two leaders' concurrence permitted the German federal government to grant loans and other concessions to a Belgian investor, Cockerill-Sambre. To ensure the Belgian-German steel deal moved forward, however, German officials offered the UK government concessions. These included an EU economic assistance package for Northern Ireland, agreement to quietly shelve a data-protection regulation during the last days of the German EU presidency in December 1994, and the prospect of the engagement of a British investment bank in the privatization of Deutsche Telekom in 1996.¹

The chapter's second part then shifts the focus from international struggles over steel subsidies to zero in on a single investment in the industry most often identified with the future in recent decades: micro-electronics. Restructuring semiconductor manufacturing transferred, albeit never completely, the institutional nexus of eastern German indus-

1 This chapter takes up Kiran Klaus Patel's challenge to write the history of Europe's integration both within and outside European institutions. See his essay titled "Provincializing European Union: Co-operation and Integration in a Historical Perspective," *Contemporary European History* 22, no. 4 (November 2013): 649–673. On the need to embed the history of German unification in Europe's first eastward expansion and ongoing integration, see Kiran Klaus Patel and Hans Christian Röhr, *Transformation durch Recht. Geschichte und Jurisprudenz Europäischer Integration 1985–1992* (Tübingen: Mohr Siebeck, 2020), esp. 224–225. A brief introduction to the European Commission's and European Parliament's support of reconciliation in Northern Ireland is Piers Ludlow, "The Peace Programme for Northern Ireland," in *The European Commission 1986–2000: History and Memories of an Institution*, ed. Vincent Dujardin et al. (Luxembourg: Publications Office of the European Union, 2019), 426–428. For this third volume of the history of the European Commission, representatives of the institution decided to allow a special consortium of researchers to have access to specific files in addition to expert interviews with former Commission staff.

trial restructuring from federal authorities in Bonn to three state governments in eastern Germany: Brandenburg, Saxony, and Thuringia.

As with steel and shipbuilding, both before and after 1989 the development of customized semiconductors in eastern Germany owed much to outsiders. Prodigious federal subsidies, coupled with the industrial ambitions of state governments, propelled multinational investment mediators boasting Treuhand-era ties into positions of influence. Tech-savvy experts with California credentials led the way. Investors and advisors from Austria and Switzerland proved more important. The most significant foreign investor in Thuringia's semiconductor industry during the second half of the 1990s was not from Silicon Valley but rather from Austria's Styria. Austria Mikro Systeme (AMS) was a spin-off of Austria's nationalized steel company, Voest-Alpine.

In the industries being examined here—shipbuilding, steel, and semiconductors—decisions to grant subsidies in the name of restructuring depended not merely on the aims of the German political leaders, industry chiefs, and organized labor. Nor were private investors, including foreign ones, the sole drivers of industrial decisionmaking in eastern Germany. Alongside competition authorities in Brussels, cross-border investment advisors also played critical roles in shaping restructuring. They succeeded by aligning their futures with clients' competing needs.

State officials were joint owners who required timely information about the health of their investments to interest potential buyers in their shareholdings. In competition with parallel initiatives underway in other eastern German state governments, above all in neighboring Saxony, officials in Thuringia forged costly plans to reshape their region's economic future.² Ministers and civil servants alike affirmed commitments to market impartiality by proclaiming their desire to sell their remaining

2 In Saxony, the impetus to overcome the "giant lead" enjoyed by Japanese and American tech companies by establishing an industrial core in microelectronics received strong support from the CDU faction of the state parliament. See Antrag der CDU-Fraktion, Aufbau eines Zentrums für Mikroelektronik in Sachsen, Sächsischer Landtag, 1. Wahlperiode, Drucksache 1/1713, March 31, 1992.

shares to especially suitable private investors. They concurrently sought to mold enterprises still partially under their control. Their ambitious designs—and competing requirements—granted entry to outside mediators. As advisors, investors, and sanction-granting authorities, foreigners shaped the specific trajectory of eastern German restructuring—in sprawling industrial behemoths as well as in research-intensive medium-sized companies.

Shipbuilding Aids and the Danes: A Precursor to Anglo-German Steel Conflicts

In sharp contrast to the semiconductor industry, which witnessed dramatic growth and investment before, during, and after the mass privatization drives of the 1990s, Europe's steel industry suffered from vast overcapacities in the last two and half decades of the twentieth century.³ During the 1980s, the largest steel producer within the EC, West Germany, actively supported the Commission's approach to stringent steel quotas and tightened controls on subsidies. From 1980 to 1988, steel companies across the European Community eliminated a quarter of a million jobs.⁴

3 For a concise introduction to how national governments and the European Commission under the leadership of Belgian commissioner for industrial affairs Étienne Davignon sought to address the dire circumstances of western Europe's steel industry following the oil shocks of the 1970s, see esp. Laurent Warlouzet, *Governing Europe in a Globalizing World: Neoliberalism and Its Alternatives following the 1973 Oil Crisis* (New York: Routledge, 2018), 78, 99, 106–112, 117–118, 167, and his essay “When Germany Accepted a European Industrial Policy: Managing the Decline of Steel from 1977 to 1984,” *Jahrbuch für Wirtschaftsgeschichte* 58, no. 1 (2017): 137–162.

4 Unemployment in the steel sector fell from 672,000 to 409,000. Europe's strongest competitors at that time were South Korean companies, notably Posco. For careful consultation of British, French, and West German archival sources created during that decade, see Warlouzet, *Governing Europe in a Globalizing World*, esp. 167, 175, 223–224.

The EC's first major eastward enlargement immediately exacerbated the stresses of industrial restructuring in western Europe.⁵ In steel as in several other industries, notably shipbuilding, eastern German industry dramatically increased the EC's inventories. The capacity of East Germany's shipyards was three times greater than France's and two and a half times the United Kingdom's. The formal immersion of the ex-GDR into the EC led to a change in the (West) German government's approach to state aids. The European Commission and member-state governments applied the set of laws required for accession to the territory of ex-East Germany, with agreed-upon derogations extended to select industries, notably the EC-designated "sensitive" sectors of steel and shipbuilding.

While the European Commission initially imposed few burdens on German authorities, pressure to allow foreign companies to bid on eastern German public works contracts mounted after decisions emerged to revamp, rather than to quickly sell or scrap, select industrial concerns. EU-sanctioned aids to shipbuilding provoked early clashes, pitting the Danish and German governments against one another. In oversupplied markets, the main preoccupation of the Commission and select member-state governments was capacity reduction.⁶ When German federal

5 The East-West process of "cotransformation"—that is, how rapid deindustrialization in Germany's East remodeled the cooperative capitalism of West Germany—is described in Philipp Ther, *Europe since 1989: A History*, trans. Charlotte Hughes-Kreutzmüller (Princeton, NJ: Princeton University Press, 2018), esp. 88–90, 190–192, 259–287, and Wolfgang Streeck, *Re-forming Capitalism: Institutional Change in the German Political Economy* (New York: Oxford University Press, 2010), esp. 207–216.

6 Scrutiny from the European Parliament (specifically its Committee on Economic and Monetary Affairs) and the European Court of Justice did not fundamentally alter this equation during the early 1990s. See, for instance, the controversial decision to terminate the Commission's investigation of the state of Thuringia's decision to channel nearly DM 3 billion to optics works from mid-June 1991 onward outlined in *23rd Report on Competition Policy 1993* (Luxembourg: Office for Official Publications of the European Communities, 1994), 257–260, 358, 428. Notably, state economics ministers in West Germany voiced satisfaction with the Commission's light touch approach to subsidies in mid-September 1990. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Wirtschaftsministerkonferenz am 18./19. September 1990 in Würzburg, 6-82-3001, Nr. 2466. cursory overviews of European competition oversight are Michelle

officials succeeded in adding a special clause covering a higher level of operating aid to a proposal for the Seventh Council Directive on Aid to Shipbuilding (formally adopted by the Industry Council in November 1990), Denmark's representative sharply criticized its provisions for capital investment aid and loss compensation.⁷ At issue was a clause formally obtained by the German government in late December 1990 to ensure shipyards in eastern Germany could be granted a "temporary derogation" from the provisions of the new directive reducing state aid to shipyards from 27 to 9 percent of the sales value.⁸ Frustrated by the Industry Council's (and the Commission's) decision to grant the German public authorities this exception, members of the European Parliament joined the Danish government in voicing "deep regret" about the declaration in favor of the Community's most powerful member without for-

Cini and Lee McGowan, *Competition Policy in the European Union*, 2nd ed. (New York: Palgrave Macmillan, 2009), esp. 11–61, and R. Daniel Kelemen, *Eurolegalism: The Transformation of Law and Regulation in the European Union* (Cambridge, MA: Harvard University Press, 2011), 143–177, esp. 157–166.

7 These early moves are described in the following document produced by the Danish Industry Ministry: *Fordeling af støtte til seks værfter i Mecklenbourg/Vorpommern*, July 26, 1992. The seventh directive on aid to the shipbuilding industry covered ships of at least one hundred gross register tons (GRT) for the transport of persons and/or goods, fishing vessels, dredgers, or vessels for other types of work at sea, excluding drilling rigs and tugboats with an engine power upward of 365 kilowatts. I wish to express my thanks to the Danish parliament's International Secretariat for providing me with summary reports of ministerial responses to Danish parliamentary inquiries (hereafter cited as Archives of the Danish Parliament [Folketing]). Ministerial responses to questions raised in the market and foreign affairs committees of the Danish parliament regarding aid to GDR shipyards are also cited herein.

8 In eastern Germany, state aid was thus permitted to a maximum of 36 percent of shipbuilding costs, while in the rest of the EC the maximum aid was 9 percent. For a narrative of Brussels requirements and support described from the perspective of the German federal government, see Bundesarchiv, Ergebnisvermerk, Betr.: EG-Beihilfekontrolle, July 19, 1991, gez. Dr. Schütterle, B 136/37709. Publicly, the Danish minister of industry, Anne Lundholt, claimed that her government had managed to block special aid to the former GDR and obtain approval from EC commissioner Leon Brittan that support for shipyard modernization in eastern Germany would be subject to strict observance of EC rules. See "EF-løfte om værftstøtte," *Morgenavisen Jyllands-Posten*, December 4, 1990, 2.

mal notification.⁹ By June 1991, the European commissioner in charge of competition policy, Leon Brittan, while initially generally supportive of the federal government's challenges in Germany's East, quietly faulted the Bonn government for its lack of clarity about the future structure of the shipping sector. Financial backing from the Treuhand in the form of loan guarantees encouraged competition authorities to demand greater specifics about the privatization holding's plans and the exact state of Treuhand companies' order books.¹⁰

In exchanges of letters with Brussels competition authorities, German policymakers emphasized the bleak commercial prospects of Mecklenburg – West Pomerania's four-hundred-kilometer coastal region resulting

9 Members of the European Parliament appears not to have been formally consulted about the Commission's decision to grant the shipbuilding derogation to the German federal government via the inclusion of a special amendment to the Seventh Directive. Historical Archives of the European Parliament (Luxembourg), Report of the Committee on Economic and Monetary Affairs and Industrial Policy, Subject: Commission Proposal for a Council Directive Providing for Changes to the Seventh Council Directive on Aid to Shipbuilding of 21 December 1990, July 6, 1992, A3-0250/92. See also *21st Report on Competition Policy 1991* (Brussels: Office for Official Publications of the European Communities, 1992), 220, 231. Within Denmark, EC decisions to allow greater aid to shipbuilders ensured that Danish members of parliament from Funen County (today part of the Region of Southern Denmark) questioned the national government's "excessive haste" in retracting state aid. See "Fyns Amt: Værfterne i klemme," *Fyens Stiftstidende*, December 28, 1990, 10.

10 Historical Archives of the European Union (Florence), communication from Sir Leon Brittan to the Commission on Aid to shipbuilding: Aid Package for Former DDR Yards, Aid- Nr. 359/91, June 4, 1991, GR-162, Unification allemande: integration de la République démocratique allemande dans la Communauté européenne. See also "The European Community and German Unification," *Bulletin of the European Communities* 4 (1990): 106–111. As described in the previous chapter, Brittan and other European commissioners initially offered the German federal government in Bonn and the Berlin-based Treuhand wide latitude. For example, the Commission granted the federal government permission to cancel socialist-era state debts assigned to newly privatized firms (*Altschulden*), finance environmental cleanup (*Altlasten*), and absorb the rapidly ballooning costs associated with closures and layoffs. Kohl's close advisor Johannes Ludewig acknowledges the Commission's "trust" in his memoirs but leaves undiscussed how federal ministries obtained shipbuilding subsidies. See Johannes Ludewig, *Unternehmen Vereinigung. Von Planern, Machern, Visionären* (Hamburg: Osburg, 2015), 170.

from Soviet, later Russian, contract cancellations.¹¹ At the same time, negotiators in Brussels heard from Danish representatives that DM 6.2 billion in proposed aid to yards engaged in seagoing and inland vessel production would have strongly negative employment implications for shipping companies within the EC. German authorities and the Commission also faced criticism from European legislators. Alan Donnelly, a British member of the European Parliament and author of the legislature's special report on the proposed changes to the December 1990 shipbuilding directive, pressed the Commission for a "clear overview" of how the German federal government planned to implement reductions of 40 percent in capacity while concurrently moving forward with costly restructuring initiatives.¹²

11 Landesarchiv Mecklenburg-Vorpommern (Schwerin), 1524 Tagung des AStV am 12.06.1992, here: Vorbereitung des Industrierates am 17.06.1992, Punkt 5: Ausnahmeentscheidung des Rates betr. Beihilfen für Schiffswerften in der ehem. DDR, June 12, 1992, 8.11-1 Staatskanzlei des Landes Mecklenburg-Vorpommern, Nr. 117. Jörg Raab, *Steuerung von Privatisierung. Eine Analyse der Steuerungsstrukturen der Privatisierung der ostdeutschen Werft- und Stahlindustrie 1990–1994* (Wiesbaden: Westdeutscher Verlag, 2002), 112–120. For sympathetic Danish press coverage of the commercial difficulties facing the former GDR's biggest shipyard, Stralsund Volkswerft, at that time the world's largest builder of fishing vessels, see "Østtyske skibsværfter saneres," *Morgenavisen Jyllands-Posten*, January 2, 1991, 7.

12 Acting on suggestions from the European Community Shipbuilders Association, the European Parliament's Committee on Economic and Monetary Affairs called for a 55 percent reduction in eastern German yards. In remarks directed to European commissioner for competition Leon Brittan, Donnelly asserted that "I am sure the House would agree with me that, while we want to sort out the problems in the new Länder, we do not want to do so by exporting unemployment from the former East Germany to other regions of the European Community. I think—and I say this to the Vice-President with great sincerity—that if he presses his case today, and does not accept the amendments of this Parliament, he and his staff are responsible for potentially exporting unemployment around the EC." Historical Archives of the European Parliament (Luxembourg), Debates of the European Parliament, no. 3-420/271, July 9, 1992. Two-thirds of German subsidies came from the federal government in Bonn; the state government in Schwerin supplied the final third. See Historical Archives of the European Union (Florence), Réductions de capacité dans les chantiers navals de l'Allemagne de l'Est, October 5, 1992, PE3-34964. For an introduction to the European Commission's limited but growing influence on western Europe's (especially France's) shipyards during the 1980s, consult Laurent Warloutzet, "The Collapse of the French Shipyard of Dunkirk and EEC State-Aid Control (1977–1986)," *Business History* 62, no. 5 (2017), esp. 861–864, 866–868, 870–872.

By June 1992, with three of the six major shipyards in the northern state of Mecklenburg–West Pomerania in private hands, the question of how German investment aid might be finding its way into the pockets of western German competitors stirred passions in several EC countries, none more than Denmark. The debate over shipbuilding subsidies to the ex-GDR played out against the backdrop of Denmark's narrow rejection of the Maastricht Treaty on June 2, 1992 (a second referendum approved the treaty the following May). Both before and immediately after the unsuccessful referendum, Denmark's industry minister, Anne Birgitte Lundholt, devoted her attention to ensuring that the federal government in Bonn and state authorities in Schwerin enforced major production cutbacks as they moved forward with plans to modernize shipbuilding in the ex-GDR's north. Following her country's rejection of the Maastricht Treaty, Lundholt convened a special session of the twelve ministers of industry to address the concerns of Danish shipyards and their eight thousand employees, along with additional objections outlined by members of the European Parliament.¹³ It fell flat. Neither Competition Commissioner Leon Brittan nor the eleven other member states supported her calls for substantial revisions. Instead, the Committee of the Permanent Representatives of the Governments of the Member States to the European Community (COREPER), the body meant to prepare decisions for the Council of Ministers, shifted the aid measures for Mecklenburg–West Pomerania from the Industry Council to its diplomatic pendant. At the July 20, 1992, meeting of the Council of Foreign Ministers chaired by British foreign minister Douglas Hurd, Danish foreign minister Uffe Ellemann-Jansen alone voted against amendments to the draft shipbuilding directive favoring Mecklenburg–West Pomerania, which was then adopted with the support of eleven countries, including Britain.

Before and after Ellemann-Jansen's defeat in the Foreign Affairs Council, Denmark's media, trade unions, and the national shipbuilding

13 Historical Archives of the European Parliament (Luxembourg), Debates of the European Parliament, no. 3-420/271, July 9, 1992.

association applied pressure to the Danish government to challenge the German decision to swing open state coffers to underwrite eastern German shipbuilding. One of Denmark's "big three" national newspapers invited readers to contemplate the consequences of more than DM 6 billion in eastern German subsidies for Danish shipbuilding, citing Svendborg shipyard director Per Glente's dire assessment that "the Germans will now be able to construct a new ship at a price that is less than that which a Danish shipyard will need to pay for materials alone."¹⁴ The *Berlingske Tidende's* editors conceded that no one could be entirely sure whether Glente's math was accurate. Still, they insisted that "in two or three years we will see a number of debt-free German shipyards which, by virtue of cutting-edge production facilities, will be more capable than ever of running Danish shipyards into the ground."¹⁵ Thorkil Christensen, president of the Association of Danish Shipbuilders, seconded the dire assessment. In a piece published in *Jyllands-Posten*, Christensen observed, "The expanded shipyard capacity and the cash production subsidy will ensure that either the other EC shipyards will have to close in order to ensure the existence of those in the former GDR or that the price of building new ships will fall." "In other words," Christensen added, "closures and layoffs."¹⁶ Cato F. Sverdrup, head of maritime engine producer Burmeister and Wain, echoed Christensen's assessment, offering the bleak prediction that competition from modernized eastern German companies aided by public money would lead to the "ultimate closure of all Danish yards."¹⁷

14 The Svendborg facility employed seven hundred individuals. Of the eight thousand jobs in Danish shipbuilding, twenty-eight hundred were located in Funen Country in central Denmark (in total, eleven thousand positions were indirectly dependent on shipbuilding in Funen). "Danske værfter i klemme," *Berlingske Tidende*, July 22, 1992, 6.

15 "Danske værfter i klemme," 6. Germany became, after unification, the largest shipbuilder in the EC, a fact not lost on western European shipbuilding nations.

16 "Tysk værftsstøtte skaber oprør," *Jyllands-Posten*, June 19, 1992, 1.

17 Nils Søholt Christensen, "Danske værfter frygter katastrofe," *Jyllands-Posten*, June 19, 1992, 1. Burmeister & Wain was the largest Danish shipbuilder. On yard closures and trade union politics in Denmark up to the early 1980s, see Bo Stråth, *The Politics of De-industrialisation: The Contraction of the West European Shipbuilding Industry* (New York: Croom Helm, 1987), 183–206.

Both the Association of Danish Shipbuilders and Danish maritime company directors—together with the Danish Metal Workers' Union (Dansk Metalarbejderforbund) and the Confederation of Danish Industry (Dansk Industri)—railed against the new round of state aid for East German shipyards, presenting a united front to highlight examples where, as they argued, aid agreed upon in the December 1990 deal had wound up in the pockets of West German competitors, prominent among them Bremer Vulkan, the largest West German shipyard and the biggest investor in eastern Germany's northernmost state.¹⁸ A fierce opponent of both the German scheme and the Maastricht Treaty, Annette Just, took up the cause against the state-sponsored threat from the south, expressing in a parliamentary (market committee) meeting her view that the best outcome would be to close all eastern German ship production.¹⁹ The specter of new and highly efficient shipyards active in the same markets as Danish competitors also drew Just's ire. The chair of the committee, former economics minister Ivar Nørgaard, shared Just's assessment. He put forward

18 Ole Bang Nielsen, "Danmark må håbe på EFs værfts-kontrol," *Berlingske Tidende*, June 19, 1992, 3. By the end of 1994, Bremer Vulkan had invested at six industrial sites in Rostock, Stralsund, and Wismar. On July 20, 1994, the Association of Danish Shipbuilders initiated court proceedings against the European Commission without the formal support of the Danish government. At issue were subsidies for the MTW shipyard; its owner was Bremer Vulkan. See Landesarchiv Mecklenburg-Vorpommern (Schwerin), letter from the Association of Danish Shipbuilders to the Staatskanzlei Mecklenburg-Vorpommern, October 26, 1995, 8.11-1 Staatskanzlei des Landes Mecklenburg-Vorpommern, Nr. 120. Bremer Vulkan declared bankruptcy in 1996; the firm's embezzlement of EU-approved subsidies further tarnished its owners' (and the Treuhand's) reputation. See the unpublished dissertation by Vijayakala Seevaratnam, "Governing the Shipyards: Europeanization and the German Shipbuilding Industry" (unpublished PhD thesis, London School of Economics, 2004), esp. 160–219 and Carsten Pingel, "Europa-kommissionens kontrol med statsstøtte" (unpublished PhD thesis, Aarhus Universitet, 2003), and Eva Lütkemeyer, "'Zum Glück bauen wir keinen Trabant!' Die ostdeutsche Werftindustrie zwischen Zukunftsoptimismus und Krise, 1989/90 bis 1994," *Zeitschrift für Unternehmensgeschichte* 65, no. 2 (2019): 253–279.

19 Just left unmentioned the fact that almost 50 percent of all industrial employment in Mecklenburg–West Pomerania flowed from shipbuilding industries. Archives of the Danish Parliament (Folketing), Copenhagen, Forhandlingsoplæg, Markedsudvalget, June 6, 1992, 51. MKU-møde.

the idea of having a major portion of the former GDR's capacity rebuilt as scrapyards. Nørsgaard also suggested his government attempt to require all tankers entering EC ports to be double-hulled, "thus protecting the environment and curbing the disruption in the shipping market caused by the massive amounts of support given to the East German shipyards."²⁰

Lundholt registered the criticisms but felt it unwise to take on the question of double-hulled ships. She also pointed out, no doubt correctly, that German authorities were unlikely to be interested in shipbreaking because of the environmental problems it created. Especially concerned about the future prospects of the Svendborg and Odense Steel shipyards, Danish parliamentarians and Lundholt were both eager to keep state aid out of the pockets of western German shipbuilders. Complicating matters was the fact that EC-approved aid supplied by the German federal government—including development aid to promote the sale of ships to companies in Cameroon, China, and Indonesia—benefitted not only shipyards headquartered in western Germany but also those of a Nordic competitor. In fact, the greatest amount of aid from the deal sanctioned in Brussels in June 1992 went to Kværner, then a Norwegian engineering and construction group.

With order books filling in several countries, the allies of the EC's second largest shipbuilder (after Germany) appeared to be few: while Hans van den Broek, the Dutch foreign minister, had lamented the decision to renovate existing shipyards in eastern Germany, saying, "We too are sick to the stomach," in the end his country, like Britain, sided against the Danes.²¹ Like their Danish colleagues, Dutch parliamentarians levelled criticism at their country's minister of economic affairs for the Dutch government's formal decision to allow the European Commission to sanction German public support for the shipyards of the ex-GDR. In his formal written response, J. E. Andriessen emphasized the Dutch government's

20 Archives of the Danish Parliament (Folketing), Copenhagen, Forhandlingsoplæg, Markedsudvalget, July 10, 1992, 55. MKU-møde.

21 Archives of the Danish Parliament (Folketing), Copenhagen, Forhandlingsoplæg, Markedsudvalget, July 23, 1992, 56. MKU-møde.

overarching goal: the reduction of support to shipbuilding across the EC as a whole in order to avoid “a war of the treasuries.”²² Records of closed-door committee sessions in Copenhagen reveal more muscular responses to German state support. Danish Social Democrat Risgaard Knudsen wondered aloud whether Japan, South Korea, or the United States might not find the aid proposed for Mecklenburg–West Pomerania concerning, in light of ongoing negotiations in an older forum of intergovernmental experts, the Organization for Economic Co-operation and Development (OECD).²³ Reflecting the dark mood and comments voiced by French minister for industry Dominique Strauss-Kahn, Knudsen also voiced his suspicion that France might be tempted to reopen a previously closed shipyard without first approaching the Commission.²⁴ Both Knudsen and right-wing Progress Party (*Fremskridtspartiet*) deputy Kim Behnke pressed for details on what the Danish government would now do to halt the construction of new docks, slipways, and ships in Mecklenburg–West Pomerania, with Behnke rhetorically asking whether Lundholt and Ellemann-Jansen had been “too slow to hit the brakes” in Brussels. The

22 Official Record of the Dutch Parliament (Tweede Kamer), vergaderjaar 1992–1993, 22 800 XIII, no. 10, October 23, 1992, 33–34. https://repository.overheid.nl/frbr/sgd/19921993/0000015134/1/pdf/SGD_19921993_0004656.pdf.

23 As Danish experts were aware, the OECD was coordinating negotiations between the governments of the European Union, United States, Japan, South Korea, and Norway (at that time 80 percent of shipbuilding capacity) to completely abolish all state aid since 1988. See “Værft har fundet sin niche,” *Berlingske Tidende*, March 9, 1994, 30. For a sociological interpretation of the OECD’s role in enlarging international financial transactions via the organization’s Code of Liberalization of Capital Movements, see Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007), 86–122.

24 At the June 1992 meeting of EC industry ministers, Strauss-Kahn informed his colleagues that EC countries should be empowered to promote industrial development using their own resources if EC fund were unavailable. See “France Urges More National Aid for E.C. Industry,” *Agence France presse*, English, June 17, 1992. With reference to the aids for eastern German shipyards, Strauss-Kahn nonetheless publicly insisted that “this aid must not in any way be used as a subsidy for the construction of new ships.” See “Accord pour une importante aide aux chantiers navals de l’ex-RDA,” *Agence France presse*, June 17, 1992. <https://advance-lexis-com.proxy.uva.nl:2443/api/document?collection=news&id=urn:contentItem:4DD0-HHP0-TWMD-532T-00000-00&context=1516831>.

implication: with greater effort, more could have been achieved to impede the Treuhand's investment schemes. Within Denmark's parliament, the issue of eastern German aid remained divisive. In mid-November 1992, domestic frictions were on display when Nørgaard's committee formally reprimanded the Danish government for its failure to provide the legislative body in Copenhagen with a sufficient overview of the application of the new aid scheme to eastern German shipbuilding.²⁵

Having failed to block the shipyard package and facing intense media and parliamentary scrutiny at home, Denmark's government appeared unlikely to quietly compromise on eastern German steel. But interestingly, that's exactly what the Danish government did. Yes, Danish representatives initially joined Dutch and UK counterparts in arguing that revisions advanced by German public authorities would invite new cases. Chaired by the new Danish minister for industry, Jan Trøjborg, a daylong meeting of the Industry Council in late February 1993 ended with the unanimous decision to reduce steel capacity throughout the Community by the end of 1994.²⁶

Quickly thereafter, however, the Danish and German governments came to a compromise on shipbuilding and steel aids. Precisely how they reached their agreements remains unclear, though the pact may well have

25 Markedsudvalget. "Beretning om statsstøtte til skibbygningsindustrien i det tidligere DDR," *Beretning 2* (November 13, 1992), <https://www.folketingstidende.dk/ebog/19921B?s=99>. Deputies in Mecklenburg–West Pomerania's state parliament acknowledged that the European Commission had managed to address "the objections of the Danish Ministry of industry," but neglected to explain how. Submitted by SPD parliamentary leader (and future minister president) Harald Ringstorff, the below-cited documents also underscore the central importance of the EU's Industry Council in securing shipbuilding subsidies. See *Antrag der Fraktion der SPD: Genehmigung der Standortverlagerung der Meeres-Technik-Werft Wismar durch die Europäische Union*, Landtag Mecklenburg-Vorpommern, Drucksache 1/4399, April 20, 1994 and *Genehmigung der Standortverlagerung der Meeres-Technik-Wismar durch die Kommission der Europäischen Union*, Landtag Mecklenburg-Vorpommern, Plenarberatung 1/102, April 21, 1994.

26 This Industry Council meeting was attended by all twelve ministers of economics and European commissioners Martin Bangemann, Leon Brittan, and Karel Van Miert. Brandenburgisches Landeshauptarchiv (Potsdam), 1643, Tagung des Rates – Industrie – am 25. Februar 1993 in Brüssel, Rep. 1700 MW 3 Z, Nr. 661.

been forged at a meeting brokered by the Commission. Acting on a recommendation from competition commissioner Karel Van Miert, Leon Brittan's successor, leading German representatives sought to defuse Danish resistance by meeting with Trøjborg in Copenhagen. The German order of priorities: clear the way for subsidies to benefit a new shipyard owner in Wismar, Bremer Vulkan, but do so without ruffling feathers in advance of likely clashes over "more important cases, such as EKO Stahl."²⁷

British Objections to Steel Restructuring

The "more important case" of EKO Stahl brings us to the question of how precisely European institutions and EU member-state governments shaped the industrial landscape of Germany's East (and vice-versa). As with shipbuilding, the most important venue was the Industry Council. The most significant lines of conflict shifted from German public authorities on the one hand to British representatives on the other. Not maritime industries but rather steel subsidies to the German state of Brandenburg provoked intense Anglo-German exchanges. Records of the November 1993 meeting of the Industry Council note that the only item on the agenda—the restructuring of the EU's steel industry with its 370,000 employees (about 70,000 of them were employed in eastern Germany)—provoked discord.

27 Bundesarchiv, Über Herrn Gruppenleiter 42, Betr.: Meerestechnik Werft in Wismar, October 7, 1993, gez. Kindler, B 136/37709. Precisely how the German government addressed Trøjborg's concerns remains unclear. German federal economics minister Günter Rexrodt underscored he was "fighting for EKO in Brussels" in gatherings involving the federal chancellor and the five minister presidents from eastern Germany and the head of Berlin's state government. Sächsisches Hauptstaatsarchiv Dresden. Ergebnisprotokoll des Gesprächs des Bundeskanzlers mit den Ministerpräsidenten der neuen Länder und dem Regierenden Bürgermeister von Berlin am 23. September 1993 in Bonn, September 24, 1993, 12891 (Staatskanzlei), Nr. 81. Clearing the way for the heavily subsidized sale of the shipyards in Wismar to Bremer Vulkan required Chancellor Kohl to solicit the support of Danish minister president Poul Rasmussen. See Landesarchiv Mecklenburg-Vorpommern (Schwerin), Verlagerung der Werft in Wismar, Staatskanzlei Abteilung 2 an den Ministerpräsidenten, April 19, 1994, 8.11-1 Staatskanzlei des Landes Mecklenburg-Vorpommern, Nr. 120.

That gathering ended in deadlock, with the German economics minister blaming the United Kingdom's opposition for the Council's failure to reach conclusions based on the Commission's proposals.

At issue were German plans to provide more than GBP 445 million in state aid toward the construction of a new hot strip mill to increase capacity at Brandenburg's EKO Stahl (EKO is an abbreviation for Eisenhüttenkombinat Ost). Formal responsibility for the steel mill employing thirty-five hundred individuals fell not to the Federal Ministry of Economics in Bonn, but rather to the Berlin-based German privatization authority, the Treuhand. In early November 1993, the German federal government requested from the European Commission a derogation under Article 95 of the European Coal and Steel Community Treaty for Brandenburg's largest steelmaker. The first and second paragraphs of Article 95 empowered the European Commission to adopt decisions or recommendations that had received the unanimous consent of the European Council. Tied to the German request were plans to transfer 60 percent of the shares of the steelmaker to an Italian company, the Riva group.²⁸

The German federal government's rescue plans for one of the former GDR's most important industrial regions met with immediate opposition in London. High-ranking officials with the Department of Trade and Industry (DTI) sought to convince Major's private secretary, Roderic Lyne, that the UK prime minister must adopt a stringent position in an upcoming telephone call with the German chancellor about the mill's future. "Ekostahl proposal does present major difficulty to UK," their note

28 Originally set for July, the November 1993 meeting of EU industry ministers had been twice postponed owing to a dispute regarding state aid to the Italian steelworkers company ILVA, Ekostahl, and a similar case in Spain. See "Kun støtte til italiensk stålike til tysk stål," *Berlingske Tidende*, November 11, 1993, 8. For a summary of the meeting itself, see Central Archives of the European Council and of the Council of the European Union (Brussels), *Projet de Proces-Verbal de la 1705ème session du Conseil (Industrie)*, November 18, 1993.

proclaimed. DTI officials stressed that new capacity, with state aid, ran against the “entire thrust” of Community policy to encourage cuts.²⁹

Within the British government, formal responsibility for steel policy fell to the head of DTI. Under the restrictions (aid code) prevailing at that time within the European Community, investment support granted to producers in the former East Germany was conditional on the aided investment not leading to an increase in capacity. In July 1991, the Commission had assigned a deadline to the granting of aid to the East German steel industry: December 31, 1994.³⁰ DTI officials sought to remind Major that Her Majesty’s government had already “shown flexibility on shipbuilding,” a reference to EC-sanctioned subsidies British authorities had allowed for twenty-four shipyards and related industrial sites along the Baltic coast in the June 1992 meeting of the Industry Council.³¹ This case was different. Subsidizing a new steel plant in a market suffering from excess capacity punished lean producers, notably the recently privatized British Steel Corporation (BSC). (Like most other EC states, the United Kingdom had only one major steel producer; unlike almost all other EC states, British Steel was, in the early 1990s, no longer state owned.) Other

29 Major was aware that overcapacity in world steel markets was significant; most experts at that time reported excess capacity in the EC of over thirty million tons annually. See The National Archives (London), Steel/Germany Background, Roderic Lyne, November 24, 1993, PREM 19/4167.

30 The background to this decision is outlined in The National Archives (London), Communication from the Commission to the Council. Request for the Unanimous Assent of the Council under Article 95 of the ECSC Treaty (in respect of a draft Commission decision concerning Community rules for aid to the steel industry applicable from 1.1.1992), Sec(91) 1044 final, Brussels, for the Commission Sir Leon Brittan, Vice-President, July 3, 1991, FCO 30/9978.

31 For the limits placed on shipbuilding and ship-conversion facilities in the ex-GDR by this agreement, see Council Directive 92/68/EEC of July 20, 1992, amending Directive 90/684/EEC on aid to shipbuilding, *Official Journal of the European Communities*, no. L 219, August 4, 1992, 54–55. The total package entailed state aids in excess of DM 4 billion. For a brief account from the competition commissioner’s perspective, see Karel Van Miert, *Markt, Macht, Wettbewerb. Meine Erfahrungen als Kommissar in Brüssel*, trans. Stefanie Schäfer (Munich: Deutsche Verlags-Anstalt, 2000), 258–266.

member states purportedly shared the United Kingdom's concerns but had been unwilling to speak up. This task now fell to Major.³² Because Article 95 of the treaty establishing the European Coal and Steel Community required unanimity, UK officials—indeed any of the EC governments—exercised the right to hold German turnaround plans captive.

The United Kingdom's intention to deny Germany consent to move forward with plans to restructure the largest steel plant in eastern Germany provoked consternation in Bonn. In response, Johannes Ludewig, a close aide of Chancellor Kohl, summoned the UK ambassador in Bonn to the Federal Chancellery. Ludewig informed Nigel Broomfield that German officials were "surprised and very disappointed" by what they characterized as the "uncompromising British line." EKO Stahl was not, in the German government's assessment, a "traditional steel problem" but was instead "highly political" and had arisen "in unique circumstances." Read between the lines, Ludewig's comments boiled down to three points: restructuring demanded subsidies; the legacy of state socialism bore no resemblance to manufacturing problems in western Europe; federal elections, less than a year off, were rapidly approaching.³³

Broomfield was unmoved by Ludewig's entreaties, which included a plea to consider the "very hard time" Günter Rexrodt, federal economics minister and former member of the Treuhand's managing board, had recently endured in meetings with workers at Eisenhüttenstadt. The UK ambassador reported his plans to rally support for the UK position from other member states, citing the Danish government. Broomfield also disclosed that he had conversed with domestic opponents of the subsidies to EKO. Broomfield's contacts included the western German steelmakers

32 The National Archives (London), Proposed Telecon PM—German Chancellor Today: Ekostahl, December 13, 1993, PREM 19/4167.

33 The National Archives (London), Telefax from Broomfield, UKRep Brussels Telno Steel Restructuring: Ekostahl, November 19, 1993, PREM 19/4167. Although he discusses the EKO purchase at some length in his memoirs, Ludewig leaves unmentioned his exchange with Broomfield (and any other foreign representatives). See Ludewig, *Unternehmen Vereinigung*, 162–165.

Thyssen and Krupp.³⁴ The latter German steelmaker had first offered to purchase the works in Eisenhüttenstadt in June 1990, a fact the chairman of the board of newly privatized EKO Stahl, Karl Döring, shared with Krupp's West German competitor Hoesch.³⁵ Krupp officially formally submitted offers to acquire substantial portions of the former GDR flagship steel producer after the Treuhand issued its first tender in December 1991. After negotiations failed with Krupp at the end of October 1992, the Treuhand enlisted a UK consultancy to draft a restructuring concept to modernize East Germany's best-known steel facility. Unnamed officials of both western German companies disliked the proposal so intensely that they had on multiple occasions directed complaints about the Italian steel group's purchase of the eastern German EKO to competition authorities in Brussels. German diplomats posted there noted with dismay that these western German companies had voiced their opposition to the EKO deal in London and Paris by taking up their case up with UK minister for industry Tim Sainsbury and French industry minister Gérard Longuet.³⁶

Germany's foreign challenges vis-à-vis EKO Stahl did not end with the British—or with other members of the EU for that matter—but extended to Austria, Poland, and Russia. Ludewig faced pressure from Polish embassy officials to present a convincing restructuring plan for the plant situated on the two countries' border. The chairman of the board of EKO Stahl, Döring, attempted to widen the circle of foreign influence

34 Both Krupp and Thyssen (along with Hoesch, Klöckner, Mannesmann, and Peine-Salzgitter) were extensively involved in cooperative projects with EKO Stahl (and other GDR steel producers) at the end of the 1980s. For an overview, see thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, Kooperation zwischen der bundesdeutschen Stahlindustrie und DDR-Unternehmen (undated, likely early 1990), Bestand Hoe/12200.

35 thyssenkrupp Konzernarchiv (Duisburg), Hoesch-Archiv, Telefax from Döring to Flohr, June 22, 1990, Bestand Hoe/1532.

36 Brandenburgisches Landeshauptarchiv (Potsdam), telefax from the Brussels Office of the German Foreign Office, December 17, 1993, MW 3 1700, Nr. 663. The president of the national steel association and CDU member of the Bundestag, Ruprecht Vondran, ardently supported the western German companies' position in Brussels. West German steelmakers had developed substantial ties to EKO Stahl's socialist predecessor during the 1970s and 1980s.

still further by emphasizing that EKO's trade ties to Russia were the most voluminous of any company in eastern Germany. A former deputy industry minister in the GDR and member of the Central Committee of East Germany's Socialist Unity Party (SED), Döring had briefly served as deputy director of the Treuhand's supervisory board in 1990. Döring also noted that an Austrian bidder, steel and industrial plant manufacturer Voest-Alpine, remained interested in developing plans he had forged with the Austrian company during his time as a socialist deputy minister.³⁷

The German subsidy plan had many opponents, abroad and at home. Within the United Kingdom, British Steel was among the most vocal critics of the deal. Chairman Brian Moffat directed his case against new EU subsidies for the eastern German steelmaker to the UK prime minister. Moffat argued that the proposed hot rolling strip mill at EKO Stahl would imperil his recently privatized company. The German wish to direct significant state aid to a private partner, in this case the Italian steelmaking company Riva, should not disguise the subsidy of nearly GBP 450 million. As Moffat argued, this German precedent would immediately threaten hard-won policies to discipline inefficient Italian and Spanish producers. Worse, the gift to EKO Stahl might establish a basis to direct fresh rounds of assistance to steelworks in western Germany. Moffat rightly cited the eagerness of western German state governments in Bremen in the far north and the Saarland near the French border. Deferring to German wishes might even encourage American producers to follow suit or move

37 Attempts by Polish and Russian diplomats to influence federal policy toward EKO require investigation in the archives of those countries. For how their concerns were heard by EKO's managing director, Karl Döring, and in the federal chancellor's office in Bonn, see Brandenburgisches Landeshauptarchiv (Potsdam), Schreiben von Döring an Ludewig, September 28, 1993, Rep. 1700 MW 3 Z, Nr. 661. Döring had directed the Kombinat since 1985 and was well acquainted with steel producers in West Germany and the Soviet Union. Döring changed his title to technical director in August 1994. For his account, see Karl Döring, *EKO. Stahl für die DDR – Stahl für die Welt* (Berlin: edition berolina, 2015), esp. 216–240. More reliable descriptions of his involvement are contained in Raab, *Steuerung*, 178, 181, 184 and Seibel, *Verwaltete Illusionen. Die Privatisierung der DDR-Wirtschaft durch die Treuhandanstalt und ihre Nachfolger 1990–2000* (Frankfurt am Main: Campus Verlag, 2005), 264–277.

to impose North American tariffs in response to EU decisions to prop up inefficient producers. One thing was certain: “Unless this proposal is successfully challenged,” as Moffat observed, “Germany will emerge with more hot strip mill capacity and more hot strip mills than before the Commission’s restructuring initiative was launched.” Rather than cave on subsidies to the EU’s richest member, Moffat suggested, Major should persuade Kohl to “consider measures to alleviate unemployment in the Eastern Länder which do not injure or hurt European partners.”³⁸

The Anglo-German clash over restructuring aid to EKO Stahl came on the eve of a bilateral summit held between the two leaders in Bonn in November 1993. In sharp contrast to the cut and thrust of the Margaret Thatcher and Nicholas Ridley era, when harsh words had been aired in public, this round of Anglo-German skirmishing featured dialogue between the leaders of both countries and their ministers for foreign affairs, defense, and trade. Key exchanges involved the chancellor and the prime minister. Kohl explained to Major the depth and scale of massive economic disruptions in eastern Germany. While the German leader acknowledged the region’s severe “structural problems,” Kohl nonetheless insisted that “privatization had been a success.” For him, another set of numbers loomed large: “Ten thousand companies in the Eastern Länder,” Kohl observed, “had been privatized over the past three years.” Yes, the cost of “transforming” the East was heavy, with unemployment—notwithstanding extensive make-work programs—particularly high. The impact of social turmoil in eastern Germany on national politics remained limited, however. Notably, Kohl voiced optimism that the economy “would come right by the time he faced electors.” As it happened, Kohl’s coalition narrowly won federal victory, his last, in October 1994.³⁹

38 The National Archives (London), letter from Brian Moffat to John Major, November 23, 1993, PREM 19/4167.

39 The National Archives (London), Prime Minister’s Restricted Meeting with Chancellor Kohl 25 November: The Economy, the European Union, and Other Subjects (author: Roderic Lyne), November 25, 1993, PREM 19/4167.

Near the end of his time with Major, Kohl raised the problem of steel and state aid to EKO Stahl. The chancellor insisted that the new plant would not add to the European Community's overcapacity. State aid was necessary to enable "industrial restructuring in the new Länder."

The UK prime minister began his case against EKO subsidies by noting that his government had not been alone in raising objections at the Industry Council meeting. A report submitted by the UK's permanent representative to the EU in Brussels, John Kerr, supported Major's contention. Denmark's Trøjborg and France's Longuet had made common cause with Sainsbury against the German proposal. In Trøjborg's assessment, EKO Stahl represented an especially difficult case because the proposed allowance would compete with "nonaided capacity" recently supplied to Denmark. Luxembourg's representative, Robert Goebbels, also granted muted support to the British position, noting that the council needed to send "proper signals" to "the outside world" about capacity reductions. Goebbels emphasized that cases like EKO Stahl might jeopardize the Community's negotiating position in then-ongoing attempts to reach a multilateral steel agreement with the United States in the upcoming Uruguay round of General Agreement on Tariffs and Trade (GATT) talks.⁴⁰ Echoing Goebbels's sentiment, the commissioner for industrial affairs, Martin Bangemann, a former West German economics minister, spoke of precedents: in his estimation, "if the [Industry] Council chose to send negative signals (i.e., failed to conclude an agreement according to guidelines set out by him and Van Miert), there was a danger of a catastrophic market collapse." Italy's industry minister, Paolo Savona, sought instead to draw attention to social endangerment. Noting the high unemployment

40 The National Archives (London), Industrial Council: November 18, 1993, from UKRep Brussels (Kerr) to FCO, PREM 19/4167. A parliamentary overview of government actors' concerns in Luxembourg is Archives de la Chambre des Députés du Grand-Duché de Luxembourg, Question parlementaire 24 du 26.10.1994 de M. Lucien Lux concernant la restructuration de l'ARBED, publié dans le Compte rendu des séances publiques 3/1994-95, 152-158. For a broad-stroke introduction to the relationship between the GATT Uruguay Round and European economic integration, see Warloutzet, *Governing Europe in a Globalizing World*, 179-180, 197-199, 209.

in the southern Italian region of Taranto, Savona drew parallels between his country's legendary North-South divide and eastern and western Germany. Savona argued that the economy in Taranto and other southern Italian regions had long been "state run like the former East Germany." Case-by-case monitoring—not the "mechanical formula" Commissioners Van Miert and Bangemann were proposing to apply to questions of aid, capacity, and exceptions—was in the estimation of the Italian industry minister the best way forward for western Europe's troubled steel industry.⁴¹

To break the deadlock in Brussels, Major welcomed bilateral consultations involving the head of DTI and his German counterpart, Rexrodt. Major also made clear that, for Britain, the way forward was especially difficult given that his and the previous UK government (Margaret Thatcher's) "had allowed much of the British steel industry to close, including the large plants at Ravenscraig and Corby." During the 1980s, employment in Britain's steel industry fell from two hundred thousand to under forty thousand. Kohl, for his part, insisted that "Ekostahl was the only such plant in the new Länder" and that without the bailout "it would die. There would be nothing left." As Major's private secretary noted, the German chancellor got across that "the matter was very important to him." With Major increasingly viewing matters as German decisionmakers saw fit, Kohl then deftly left it to his diplomatic aide, Joachim Bitterlich, to note the fact that the British Steel Corporation had drawn subsidies in the past, to which Roderic Lyne replied that "no subsidies had been provided in recent years, or when BSC was privatized in 1988." Bitterlich and Lyne agreed to disagree on subsidies by shifting the blame for the current round of gridlock "to the Italians," a reference not to Riva but to an Italian state

41 The ILVA case proved more difficult for the Commission to resolve than EKO Stahl. The National Archives (London), Industrial Council: November 18, 1993, from UKRep Brussels (Kerr) to FCO, PREM 19/4167. A cursory overview of EC policy-making regarding steel in 1993 and 1994 that neglects to explain why the Commission allowed the subsidies to go ahead is Keith Middelmas, *Orchestrating Europe: The Informal Politics of the European Union, 1973–1995* (New York: HarperCollins, 1995), 572–575, 761.

steel concern, ILVA, that was being pressured to close furnaces in a bid to meet EC production ceiling targets.⁴²

Both the German and UK governments aimed to resolve steel aid cases not in bilateral exchanges but rather through the Industry Council. In directing a personal appeal to Major, Kohl was bending this principle to accommodate his country's goal to refurbish eastern German industry. Recent history suggested Major was unlikely to accede to the German wish. This made Major's decision, reached shortly after his Bonn meeting with Kohl, to draft the following note all the more remarkable: "Dear Helmut, I have been giving some further thought to how we might help with your difficulties over EKO Stahl. We will be putting to the Commission tomorrow further ideas for reconciling the proposals with the Community's agreed objectives. We very much share your wish to reach an agreement which recognizes your special difficulties, as we did with respect to the shipyards in the former East Germany."⁴³

Major's assent allowed his government to lift its reserve at the Industry Council—the critical impediment to approving state aid to six European steel companies, including to the proposed Italian purchaser of EKO Stahl. The UK government agreed to an aid package for EKO Stahl approved by the EU Council of Industry Ministers at the end of December 1993. The new deal permitted an extension of subsidies in eastern Germany, Spain, and Italy. Approval of the EKO restructuring package prompted a formal discussion in the European affairs committee of the Danish parliament.⁴⁴ British Steel's Moffat, for his part, led an effort to

42 The National Archives (London), report for Nick Welch, Department of Trade and Industry, from Roderic Lyne. Subject: Prime Minister's Restricted Meeting with Chancellor Kohl 25 November: Steel, November 25, 1993, PREM 19/4167. Riva had previously taken over a steel plant in Hennigsdorf northwest of Berlin. On the privatization of British Steel, consult David Parker, *The Official History of Privatization. Vol. II Popular Capitalism, 1987–1997* (New York: Routledge, 2012), 69–97.

43 The National Archives (London), Message to Chancellor Kohl, undated (November 1993), PREM 19/4167.

44 Archives of the Danish Parliament (Folketing), Copenhagen, Rads røde (industri), Document 493, January 13, 1994. The topic, "Restructuring of the European Steel Industry—EKO-Stahl," was discussed at a December 20 meeting of the European affairs

challenge the legality of the decision in the European Court of Justice in Luxembourg.⁴⁵

The European dimensions of EKO Stahl's complicated restructuring bid did not end there. In May 1994, the Treuhand-designed restructuring plan featuring government subsidies unraveled in Milan after Emilio Riva withdrew his company from the agreement. Domestic hostility from the management and union representatives likely played a major role in his decision.⁴⁶ For the Treuhand, Riva's decision meant the privatization authority would have to again seek out a partner to revamp steelmaking in the Oder Valley. The German receivership's troubles extended still further. In June 1994, citing the Treuhand's willingness to cover losses and provide investment guarantees, the European Commission in Brussels initiated formal proceedings against the German federal government. Competition experts in Brussels were frustrated by the fact that the DM 10 million in federal subsidies were flowing to EKO Stahl every month *after* Riva had exited the scene in May. Worse, the Commission attempted to put pressure on Bonn officials by inviting other "member

committee of the Danish parliament. The formal protocols of this meeting remain classified. The above-cited declassified report from the Danish Ministry of Industry nonetheless indicates that the Danish government, for reasons as yet unclear, lifted its reservations the following day, on December 21, 1993.

⁴⁵ Paul Craig, *EU Administrative Law*, 3rd ed. (New York: Oxford University Press, 2018), 634–636. For Belgian support of the UK challenge before the Court of Justice, see Conseil Régional Wallon, Séance du 17 Novembre 1994, Session 1994–1995, no. 2 (1994–1995), 62. While often an ally of the Commission, the European Court of Justice (and a second European-level tribunal, the Court of First Instance for private parties, i. e., not member-state governments) occasionally faulted the Commission for the insufficient economic reasoning in its competition decisions. The paucity of archival sources on the inner deliberations of both courts is widely discussed among scholars of the EC/EU. See, for an introduction, Cini and McGovern, *Competition Policy in the European Union*, esp. 29–40, 55–59, 61–62.

⁴⁶ For the domestic turmoil unleashed by this decision, see esp. Deutscher Bundestag – 12. Wahlperiode – 227. Sitzung, Bonn, May 18, 1994, 19630–19643. The Italian steel group had earlier purchased from the Treuhand the Stahl- und Walzwerk Brandenburg GmbH and the Hennigsdorfer Stahl GmbH. The intricate negotiations involving public authorities in Bonn, Brussels, and Rome remains unresearched.

states and interested parties” to submit comments on the decision.⁴⁷ In essence, the Commission argued that the Treuhand and the federal development bank, the Kreditanstalt für Wiederaufbau, had granted loans to Riva on exceedingly favorable terms.⁴⁸ Now that the Italians were out of the picture, the competition authorities in Brussels cited the German government’s guarantees as a reason to question plans for EKO. In mid-July 1994, the Dutch minister of economic affairs, J. E. Andriessen, was reporting to members of his country’s parliament Van Miert’s intention to investigate several state-aided German steel companies, including EKO and a Saxon steelwork in Freital.⁴⁹

To break this multinational impasse, a wider range of intermediaries and politicians, including Kohl himself, sought to negotiate a new deal to sell a majority stake of EKO Stahl to a private investor. Efforts to persuade western German companies ended in failure, with the director of Thyssen’s managing board, Heinz Kriwet, wryly noting that “he had a problem inserting patriotism in his balance sheet.”⁵⁰ Drawing on the legwork of its longest-serving formal representative abroad, Henri Monod, the Treuhand turned to Cockerill-Sambre, a steelmaker majority owned (78 per cent) by the government of the Belgian region of Wallonia.⁵¹

47 Press release: “Commission Initiates Proceedings in Respect of Aid to EKO Stahl GmbH,” European Commission, July 6, 1994, https://ec.europa.eu/commission/presscorner/detail/en/IP_94_619. The uproar over “operating aid” was short-lived: competition authorities within the Commission quietly closed the procedure in March 1995. See “Sectoral Aid: Steel,” *Competition Policy Newsletter* 1, no. 4 (Spring 1995), 50. A concise guide to how competing firms and governments used EU notification requirements to their own advantage is contained in Cini and McGowan, *Competition Policy in the European Union*, 162–176, 197–198.

48 *24th Report on Competition Policy 1994* (Brussels: European Commission, 1995), 502.

49 Official Record of the Dutch Parliament (Tweede Kamer), *Vergaderjaar 1993–1994*, 21 501–512. https://repository.overheid.nl/frbr/sgd/19931994/0000004997/1/pdf/SGD_19931994_0002365.pdf

50 “Vom Gegner zum Retter: Nach dem Ausstieg der Italiener in Ostdeutschland sind nun westdeutsche Investoren gefragt,” *Die Zeit*, May 20, 1994, <https://www.zeit.de/1994/21/vom-gegner-zum-retter>.

51 The state’s preponderant share ensured that the parliament and government of Wallonia were centrally involved in the multinational negotiations that ultimately led to Cockerill-Sambre’s acquisition. A useful starting point in assessing the regional

Rapid progress in negotiations with Cockerill-Sambre returned the German government to Brussels in the early autumn of 1994. An early obstacle was the scale of aid; as state officials in Brandenburg observed, Cockerill-Sambre's higher expectations of subsidy meant the federal government's chance of obtaining a deal without some sort of countertrade (*Gegengeschäfte*) was "virtually zero."⁵² The level of subsidy could not be so high as to draw the ire of competition authorities in Brussels, or those European governments opposed to steel subsidies, or the group of member states willing to loosen controls on aid schemes to steel, shipbuilding, and other industries. Federal officials in Bonn acknowledged concerns about new waves of subsidies but focused most of their attention on the specific demands of the Danes, the Dutch, and the Commission. Andriessen's replacement as Dutch economics minister, Hans Wijers, complained of competition distortions, disadvantages imposed on (purportedly subsidy-free) Dutch steelmaker Hoogovens, and the "strangeness" of pending moves to allow EKO to grow in spite of ongoing efforts to diminish capacities across the EU. But then, claiming that the reputation of the Council of Ministers was on the line, Wijers publicly signaled his readiness to compromise.⁵³ In early October 1994, Rexrodt agreed to Belgian commissioner Van Miert's demand that the planned subsidy to Cockerill be paired

government's attempts to shape the costly purchase and assert influence over both the chair and managing director of Cockerill-Sambre, Jean Gandois and Philippe Delaunois, as well as large member-state governments in Paris and London, is the minutes of the plenary meetings of the Wallonia regional council. See Conseil Régional Wallon, Séance du 17 Novembre 1994, Session 1994–1995, no. 2 (1994–1995), 58–64. An introduction to the company's perspective on the acquisition is Robert Halleux, *Cockerill: deux siècles de technologies* (Aller-Liège: Editions du Perron, 2002), 213–215.

52 Brandenburgisches Landeshauptarchiv (Potsdam), Bearb. Schwartau, Betr. Gespräche des Ministerpräsidenten in Brüssel am 22.09.94 zugleich Minister Hirche in Paris, September 21, 1994, Rep. 1700 MW 3 Z, Nr. 647.

53 See his comment that the pending compromise made the EKO situation "worrisome but not desperate" in "Wijers kan instemmen met Redding duitse Ekostahl," *Het Financieele Dagblad*, September 29, 1994. Wijers subsequently turned his sights on limiting steel imports from east-central European countries.

down from DM 1.2 billion to DM 910,000.⁵⁴ The German government also agreed to closures at a strip mill in Hennigsdorf, just outside Berlin, and a steel plate producer in Burg (near Magdeburg) in Saxony-Anhalt.⁵⁵

Initial obstacles were relatively easily overcome. Competition authorities within the European Commission had approved the proposed sale in exchange for capacity reductions at two other sites in Germany and a reduction in the amount of aid to the eleven-thousand-employee-strong Cockerill-Sambre. The Commission then formally recommended that the Industry Council grant its unanimous consent to the new steel deal for EKO Stahl's remaining three thousand employees. This final hurdle, unanimity in the Industry Council, appeared within reach on November 8 but was postponed after the French government expressed its wish to link its approval for new EKO subsidies to a reconsideration of support for French shipyards.⁵⁶ Here the German government received assistance from the Commission. Van Miert claimed that the problems of aid to Europe's shipbuilders was no longer a matter requiring agreement only

54 Brandenburgisches Landeshauptarchiv (Potsdam), Schreiben von E. Michels, Verbindungsbüro Brandenburg in Brüssel, an Erler, BBE-Bonn, October 10, 1994, Rep. 1700 MW 3 Z, Nr. 661. German negotiations with the Commission, whose concern was the internal market as a whole (and thus extended to producers outside the EU), warrant much closer investigation. Interviews with unnamed Commission officials from the directorates charged with responsibility for industrial policy and competition (DG III and DG IV) are cited in Jeffrey J. Anderson, *German Unification and the Union of Europe: The Domestic Politics of Integration Policy* (New York: Cambridge University Press, 1999), 127–132. The memoirs of Karel Van Miert are an unreliable guide to competition policy toward eastern Germany: *Markt, Macht, Wettbewerb*, 243–291. Van Miert served as competition commissioner from 1993 to 1999. He worked as advisor to Goldman Sachs after leaving the European Commission.

55 Commission decision of December 21, 1994, concerning aid to be granted by Germany to the steel company EKO Stahl GmbH, Eisenhüttenstadt, *Official Journal of the European Union*, no. L 386/18, December 31, 1994. See also Wolf-Rüdiger Knoll, "Die Treuhandanstalt (THA) und die Akteure der sozioökonomischen Transformation in Brandenburg. Regionale Privatisierungspraxis zwischen 1900 und 2000" (PhD diss., Universität Potsdam, 2021), esp. 309–314.

56 Central Archives of the European Council and of the Council of the European Union (Brussels), *Projet de Procès-Verbal de la 1705ème session du Conseil (Industrie)*, November 18, 1993. See also Seibel, *Verwaltete Illusionen*, 285–286.

within the EU but would ultimately have to be decided by the OECD in Paris, where a tentative agreement reached in mid-July 1994 seemed poised to cover all aid measures granted to shipbuilding industries. The Commission in Brussels, in other words, would no longer issue the final word on EU shipbuilding directives. More immediately, this move enabled the commissioner to refer the complicating matter of shipbuilding aid to the Foreign Affairs Council, where majorities, not unanimity, sufficed to make decisions.⁵⁷

Flanked by an intense round of Franco-German consultations at the end of November 1994, the Commission's move probably deflected late-hour Parisian resistance to the German-Belgian steel deal. As a year earlier with the Riva deal, the British, not the French government, emerged as the most difficult partner for German authorities. Last-minute rounds of high-level meetings between ministers of both countries failed to produce a workable Anglo-German compromise. Once again, the highest elected leaders of the two countries found themselves discussing operating losses and restructuring plans in eastern Germany's steel industry.

The opening move in this second round came from Kohl. In a personal note to his UK counterpart, the German leader first sounded a note of optimism, conveying news of "a new possibility of EKO Stahl being taken over by the Belgian steel company Cockerill-Sambre." Anticipating British objections, Kohl attempted to link the new offer to the previous one approved by Major by insisting that the deal negotiated with Cockerill-Sambre was "almost identical" to the one worked out with Riva. The amount of assistance was "of the same magnitude" and involved "drastic cuts in the EKO Stahl workforce."⁵⁸ Returning to a point emphasized in the previous round by Bitterlich, Kohl noted that western

57 Van Miert does not discuss these maneuvers in his memoirs. While Van Miert acknowledges Danish and French resistance to the EKO sale, he left unmentioned British objections. Misleadingly, Van Miert claims to have made clear to all parties that any deal "would involve no horse trading." Van Miert, *Markt, Macht, Wettbewerb*, 257–258.

58 The National Archives (London), Message from Chancellor Kohl to Prime Minister Major (translation), November 3, 1994, PREM 19/4686/1.

Europe had for many years profited from subsidies; why should eastern Germany be denied levels of public financing that firms in Community countries had long enjoyed? The European Commission, the Kohl noted, had already provided its approval. The UK government posed the last hurdle. Kohl hoped that the UK government would “back the privatization support arrangement” at the meeting of industry ministers in early November 1994.

British objections proved more difficult to overcome. Largely for domestic reasons, as Major explained in his response to Kohl, the matter of steel aids to eastern Germany remained for the UK government a complicated one:

The British Government has been criticized sharply in Parliament and by the British steel industry for the Industry Council's decision last December to allow exceptional aid for EKO Stahl. The United Kingdom's decision not to subsidize “uneconomic” plants had led to the 1992 closure of the Ravenscraig steelworks; industry was aggrieved that “unfair advantages” were being granted to competitors. Despite this criticism, we have defended the decision taken last December. As you know, we appreciate the special problems which the Eastern Laender face. We cannot go beyond the position which we took in December, and we shall want to ensure that there is effective monitoring of an aid package (I understand that there are concerns that the conditions agreed for different plans last December are not being implemented strictly). We shall also continue to pursue the objective of a competitive, private sector European steel industry, with an end to an inefficient subsidized capacity. I am sure that you will share this objective. However, I can assure you that, at the Industry Council on 8 November, our Minister, Tim Eggar, will continue to stand by our part of the bargain struck last December. If the terms of the proposal are equivalent to those of last year, we shall be able to accept them.⁵⁹

59 The National Archives (London), message from the Prime Minister to Chancellor Kohl, November 7, 1994, PREM 19/4686/1. A concise Anglo-German comparison of rapid deindustrialization is contained in Lutz Raphael, *Jenseits von Kohle und Stahl. Eine Gesellschaftsgeschichte Westeuropas nach dem Boom* (Berlin: Suhrkamp, 2019), 420–428.

One issue dividing the two governments was the terms of the Cockerill-Sambre sale. Notwithstanding German claims to the contrary, the deal reflected a different balance between subsidy and capacity, with the new purchaser, Cockerill-Sambre, to receive an increased amount of state aid, a reduction in the proportion of financial risk being taken by the new purchaser, price reductions on the purchase of outstanding shares, and, importantly, a Treuhand loan guarantee. This last factor made agreement between the governments still more elusive. And yet, the British once again supplied assent to German steel plans for the Oder Valley.

The British government's decision to signal willingness to accommodate German wishes was surprising, given strong opposition from the British steel industry, Deputy Prime Minister Michael Heseltine, and the chief secretary of the Treasury, Jonathan Aitkin.⁶⁰ Major's government faced blistering criticism from the press, the opposition, and his own party. The *Daily Telegraph* was among those to offer sympathetic coverage of Brian Moffat's testimony to the House of Commons' Trade and Industry Committee. The British Steel chairman and chief executive admonished the government for not providing the same measure of support to his company as it had to British Airways in its battle with Air France over access to Orly Airport outside Paris. Moffat's paired his plea with a threat: newly privatized British Steel would give priority to investment outside the EU unless subsidies were scrapped.⁶¹ Moffat also promised to continue his bid to overturn recent Industry Council decisions favoring two European steelmakers, the Italian ILVA and Spain's Corporación Siderúrgica Integral, as well as to resist efforts to promote restructuring at what was then Brandenburg's largest employer. Tim Eggar, DTI minister for industry and energy, sought to reassure members of Parliament (MPs) of his government's desire to cut capacity, promising to "take a tough line" in the next meeting of EU industry leaders. Rather than limiting blame to Eggar, MPs sought to pin responsibility for European subsidies on the

60 The National Archives (London), letter from Michael Heseltine to Jonathan Aitken, December 3, 1994, PREM 19/4685/1, vol. 1, 91.

61 "Eggar Refuses to Back Steel Challenge," *Daily Telegraph*, November 3, 1994, 24.

government as a whole. As Labor MP Derek Fatchett, the member from Leeds Central, provocatively asserted in a Commons debate, “We have a strong steel industry, but a weak government.”⁶² Among the Tory rank and file, this assessment found support; the second round of final negotiations took place in an atmosphere reminiscent of the Ridley affair. The Conservative Party conference in Bournemouth witnessed the Euroskeptic Norman Lamont attacking the European Monetary Union, with a group of participants shouting “Sieg Heil!” in response to his remarks.⁶³

Resistance at home to German demands contrasted sharply with the UK government’s willingness to forge compromises with authorities in Bonn. What ultimately brought about this rapprochement between the two governments? At a December 1, 1994, meeting between German economics minister Rexrodt, DTI president Heseltine, and UK energy minister Eggar, the latter suggested the two sides “examine the possibilities around the Treuhand guarantee as a possible means of solving [their] difficulties here.” Rexrodt proved unwilling to demand concessions from the private-sector banks involved in the guarantee. Renegotiation of the loan guarantees provided by the Treuhand would require the approval of all six supervisory boards in the bank consortium to support the transaction, a late-hour measure Rexrodt claimed would be “extremely difficult.”⁶⁴ Reluctant to demand changes from German commercial lenders, Rexrodt proved much more willing to apply pressure to the UK government. Insisting the EKO Stahl deals between Riva and Cockerill-Sambre were essentially identical, Rexrodt issued a veiled threat to Heseltine and Eggar. “Germany did not want to make linkages,” the German minister insisted, but he and his colleagues were aware of the problems the UK government

62 “Italian Steel Industry. HC Deb 09 May 1994 vol 243 cc75–99,” UK Parliament, <https://api.parliament.uk/historic-hansard/commons/1994/may/09/italian-steel-industry>.

63 On the sway of anti-European attitudes within the Conservative Party, see Stephen George, *An Awkward Partner: Britain in the European Community*, 3rd ed. (New York: Oxford University Press, 1998), esp. 209–231.

64 The National Archives (London), President’s Meeting with Dr. Rexrodt, December 1, 1994, PREM 19/4686/1, vol. 1.

were facing within the Commission “over the Northern Ireland support package.”⁶⁵ Rexrodt was threatening to block aid to promote industrial development in Northern Ireland, where the UK government was seeking to bring to an end many years of paramilitary violence and high unemployment.⁶⁶ Correspondence between John Major’s private secretary and Major’s department heads reveals that the British leader’s chief priority for the upcoming EC summit in Essen was an assistance package of more than GBP 60 million to enable a Taiwanese synthetic fabric manufacturer to build a new plant near Belfast, an initiative the UK government hoped would underpin the fledgling Northern Irish peace process.⁶⁷

Rexrodt had not issued an idle bluff. Correspondence between the Foreign and Commonwealth officials in London and the UK permanent representative to the EU, John Kerr, affirmed that the German delegation to COREPER had instructions to block UK assistance to Northern Ireland if there was no sign of British agreement on EKO Stahl. Following the dramatic behind-the-scenes German move in COREPER, the UK government dispatched the British ambassador in Bonn to meet again with Johannes Ludewig. Broomfield’s message was simple: his country was willing to support the second aid package for eastern German steel.

On the eve of the European Council summit in Essen, attended by all twelve heads of state and the outgoing president of the European Commission, Jacques Delors, the German government had once again

65 The National Archives (London), President’s Meeting with Dr. Rexrodt, December 1, 1994, PREM 19/4686/1, vol. 1.

66 Rexrodt’s threat was leaked to the press: “Rexrodt droht in London für EKO,” *Frankfurter Allgemeine Zeitung*, November 7, 1994. In other interviews Rexrodt hinted at problems resolved by his talks with Heseltine in London but neglected to mention how the last-minute agreement had been reached. See “Cockerill gehört nicht zu jenen, die kalte Füße kriegen,” *Märkische Zeitung*, December 9, 1994.

67 This company was left unnamed in the large five-year aid package of 300 million ECU (GBP 240 million) for “support in the areas of urban and rural regeneration, employment, cross-border development, social inclusion, and investment promotion” agreed upon at the European Council Meeting on 9 and 10 December 1994 in Essen, Presidency Conclusions,” European Council, https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00300-1.en4.htm.

prevailed.⁶⁸ On December 21, 1994, the Commission formally authorized state aid up to DM 900 million, as well as further loans by the bank consortium behind the deal. Both the Commission and the UK government had bent to accommodate German wishes. Energy minister Eggar was left with the task of climbing down from demands that something be done for British steel.

Long-standing advocates of stringent competition policy within Germany and the EU ended up lobbying hard for governments across Europe to subsidize an essentially new plant in an ailing industry with a socialist-era past. Domestic politics brought about the change of heart within Germany. To go forward, approval within the EU was a necessity. Federal officials seeking to revamp German industries in the ex-GDR faced determined resistance from other member-state governments. And yet, the German federal government succeeded in attaining a major tranche of state aid for Brandenburg's steel industry not only from the Commission but also from the United Kingdom. In late 1994—as a year earlier, when a deal involving an Italian purchaser identified by the Treuhand appeared on the horizon—the UK government acceded to federal requests issued directly by Chancellor Helmut Kohl to provide state aid to steel in eastern Germany.

In 2023, the EKO plant in Eisenhüttenstadt belonged to the Arcelor-Mittal group headquartered in Luxembourg. Typically, scholars of eastern German restructuring cite the presence of a functioning steel plant in the Oder Valley to underscore the federal government's "success" in creating industrial cores.⁶⁹ This perspective invites assessment of the full costs associated with the German government's triumph in the EC/EU.

68 Assent No 32/94 given by the council, acting unanimously pursuant to the first paragraph of Article 95 of the treaty establishing the European Coal and Steel Community, on the privatization and restructuring plan for EKO Stahl GmbH, Eisenhüttenstadt, Official Journal of the European Union, C 360, December 17, 1994, 12. The package of cases approved by the Council involved the restructuring of six companies in four Member States.

69 For recent examples, see Michel Deshaies, "La ré-industrialisation d'un territoire désindustrialisé: L'exemple des nouveaux Länder (Allemagne)," *Revue géographique de l'Est* 57, no. 1–2 (October 2017), <http://journals.openedition.org/rge/6295>, and Rainer Karlsch, "Industrielle Kerne in Deutschland," in *Wirtschaftsräume und*

What led the UK government to grant concessions, first to direct billions in subsidies to East German shipyards in mid-1992 and then to steel, not once but twice, in late 1993 and in late 1994? UK assent came only a few weeks before the expiration of a special derogation allowing for regional state aid for steel production in the new eastern states. This fact, coupled with vocal domestic opposition, ought to have bolstered the United Kingdom's opposition to a second major restructuring program for Brandenburg's largest employer in so many years.

The Anglo-German compromise formalized in Brussels was pitched to British Steel and the British press as a reiteration of the EC Industry Council decision reached a year earlier. This was misleading: the terms were different. Also left unstated in press accounts was what the United Kingdom had attained for its cooperation. Behind the scenes, granting the German government permission to prop up the deal for Cockerill-Sambre to maintain twenty-three hundred jobs yielded the United Kingdom substantial benefits.

Finance, not industry, figured large in UK demands: the plight of domestic steel was invoked primarily to secure advantages for the City of London. Heseltine emphasized how much British steel companies had already suffered in order to obtain from his German counterpart an as-

Lebenschancen. Wahrnehmung und Steuerung von sozialökonomischem Wandel in Deutschland 1945–1990 (Göttingen: De Gruyter Oldenbourg, 2017), 159–166. The restructuring of industrial cores extended to Deutsche Waggonbau, SKET (Schwermaschinenbau-Kombinat Ernst Thälmann), Mansfelder Land, and brown-coal enterprises in Saxony. On the partial strategic reorientation this policy shift necessitated within the Treuhand, consult Marcus Böick, *Die Treuhand. Idee – Praxis – Erfahrung 1990–1994* (Göttingen: Wallstein, 2018), 493–504. With reference to the establishment of industrial cores, labor unions remain an underresearched area. For concise recent introductions, see Christian Rau, “Ein ‘gewerkschaftsfreier Raum’? Gewerkschaftsstrukturen und -kulturen in Ostdeutschland in den frühen 1990er Jahren,” in *Transformation als soziale Praxis. Mitteleuropa seit den 1970er Jahren*, ed. Dierk Hoffmann and Ulf Brunnbauer (Berlin: Metropol, 2020), 80–107, and Eric Weiss, *Gewerkschaftsarbeit im Vereinigungsprozess. Die Industriegewerkschaft Chemie-Papier-Keramik in der Transformationszeit 1990–1994* (Berlin: bebra, 2018), esp. 63–67 and especially Detlev Brunner, *Einheit und Transformation. Deutschland in den 1990er Jahren* (Stuttgart: Kohlhammer, 2022), 37–54.

insurance to shelve the Data Protection Directive, the precursor to the 2018 General Data Protection Regulation.⁷⁰ Then at an advanced draft stage, both DTI officials and the Confederation of British Industry argued in late 1994 that this directive, by extending Community-wide data-protection rules to information stored on paper, would impose heavy burdens on UK mortgage and life insurance providers. Germany appeared to be in a position to grant concessions owing to the fact that the Bonn government held the EC presidency until the end of December 1994. At the December 8, 1994, meeting of the Internal Market Council meeting chaired by Rexrodt, the German economics minister quietly shelved the measure.

What else did the British government obtain *quid pro quo*? To answer this question, one needs to look back to the period when Germans were on the defensive, after Rexrodt had faced a hostile workforce in Eisenhüttenstadt and the failure of technical talks in Brussels in mid-November 1994. After meeting with Rexrodt on a Friday evening in Bonn, the British ambassador to Germany, Nigel Broomfield, wrote to DTI president Heseltine to recommend how the UK government might extract advantages at the upcoming European Council meeting in Essen beyond the data-protection directive. Broomfield's chief recommendation was to encourage the German federal government to name a British bank "as global coordinator or at minimum as Government advisor in the privatization of Deutsche Telekom."⁷¹ Broomfield was not alone in this suggestion. The principal private secretary in the Treasury, Nicholas MacPherson, had penned a note to Major's private secretary to advance a similar proposal. Were the United Kingdom to bend on a new EKO Stahl package, the price must be a role for British financial services in the Deutsche Telekom privatization.

70 Advanced by the EU commissioner for the internal market, Italian diplomat Raniero Vanni d'Archifafi, this directive was enacted the following year. See "Directive 95/46/EC of the European Parliament and of the Council of October 24, 1995, on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data," EUR-Lex, <http://data.europa.eu/eli/dir/1995/46/oj>.

71 The National Archives (London), telefax from Broomfield to Heseltine, November 20, 1994, PREM 19/4686/1, vol. 1. Deutsche Telekom's monopoly on telecommunications and voice was formally abolished on January 1, 1998.

Referring to the other issues on Kohl's desk, MacPherson noted "[Kohl] is about to take a decision on bids from UK banks for a lead role in the Deutsche Telekom sale. There are two major appointments: global coordination for the sale and adviser to the Government. Both are important in themselves, but also in putting UK-based banks in a good position for other European privatizations." Citing the approval of the chancellor of the exchequer, MacPherson helpfully recommended that Major point out to the German leader that the competitive choice he had to make was in effect between a European (i.e., UK) and a US bank.⁷²

As it happened, the spoils of the sale of Europe's largest telecommunications provider accrued not to the "European" Britons but rather to America's best-known investment bank. The massive "equity offering" shepherded by Goldman on behalf of the German federal government transpired in 1996. Ludewig, for his part, employed the deal to underscore German openness to American investors; from his new position in the Federal Ministry of Economics, Kohl's fixer for eastern Germany's economy asked Jeffrey Garten, the undersecretary for international trade in the United States Department of Commerce, whether such an empowerment of a German financial intermediary would be imaginable in the United States.⁷³

Tracing how Goldman Sachs acquired this position as "the joint global coordinator" on the Deutsche Telekom privatization is beyond the scope of this inquiry. We do know from Goldman Sachs's website that the deal was "the capstone of years of intense effort by the firm to build its investment banking franchise in Germany," a position attained in opposi-

72 The National Archives (London), letter from Nicholas MacPherson to Roderic Lyne, November 7, 1994, PREM 19/4686/1, vol. 1.

73 Ludewig also insisted Garten acknowledge the German government's contribution to market liberalization, citing the federal government's support of Uruguay Round of trade talks and its efforts to prod the European Commission to embrace unspecified reforms. Garten's main interest lay in acquiring greater access to the German energy market on behalf of several companies, including General Electric and Westinghouse. See Bundesarchiv, Gespräch StS Dr. Ludewig mit Undersecretary Jeffrey Garten, US-Handelsministerium, am 27.04.1995, April 28, 1995, B 102/787375.

tion to the biggest German banks and greatly facilitated by its role as “the leading advisor to the Treuhandanstalt, the agency established to privatize significant sectors of the East German economy since the beginning of the 1990s.”⁷⁴

In shipbuilding, steel, microelectronics, and still other industrial cores, including the Treuhand-initiated sale of eastern Germany’s most important producer of rolling stock to American private equity firm Advent International in mid-December 1994 (this case is discussed in the next chapter), English-speaking foreigners played critical roles.

Restructuring state-owned assets in the ex-GDR consistently reflected foreign concerns. International influences over sales and state-subsidized reorganizations extended beyond the well-known privatizations during the first half of the 1990s, with the promise of private investment beckoning Anglo-American-inspired solutions years after the Treuhand’s dissolution. In 1998, Otto Gellert, the second-in-command at the Treuhand’s main successor, the Federal Agency for Special Matters Related to Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben, BvS), was negotiating the sale of the remaining 40 percent of EKO still held by the federal government. Concerned about Cockerill-Sambre’s new owner, a French steel company named Usinor-Sacilor, and the Belgian state of Wallonia’s financial stability, Gellert, a former member of both the Treuhand’s supervisory board and EKO Stahl’s board of directors, moved to sell the minority share to a West German firm, Salzgitter.⁷⁵ He did so by instructing company officials to turn over highly sensitive files about the German operation to Morgan Grenfell.⁷⁶ With Gellert’s mandate, the Lon-

74 <https://www.goldmansachs.com/our-firm/history/moments/1996-deutsche-telEKOm-privatization.html> (last accessed on August 8, 2022). For a similar assessment based on interviews with Goldman insiders, see Paul Jowett and Françoise Jowett, *Private Equity: The German Experience* (New York: Palgrave Macmillan, 2011), 249.

75 Bundesarchiv, Sachstand EKO Stahl/Eisenhüttenstadt, December 1, 1998, B 136/47637.

76 The investment bank was in turn acting on behalf of the government of Wallonia. The head of EKO remained Döring, who appeared to enjoy good relations with union leaders. Brandenburgisches Landeshauptarchiv (Potsdam), Schreiben von

don-based investment bank assessed companies to purchase the German government's remaining shares. Foreign candidates included British Steel, the Italian Riva group, and Voest-Alpine, an Austrian steel company that ventured into microchip production during the early 1980s.

The willingness of German public officials to reorganize industrial enterprises was predicated on an oft-repeated promise: to bring about full private ownership in the near future. For public decisionmakers, a chief concern in reordering eastern German industry was how best to leverage subsidies to entice especially suitable investors.⁷⁷ Shaping priorities once an investor had been persuaded to assume at least partial ownership emerged as the key hidden challenge in restructuring industries, old and new. As in the case of EKO Stahl, public bureaucrats overseeing restructuring efforts in industries as diverse as optics and shipbuilding always had to keep at least one eye on the long-term financial stability of their "private-sector partner." Time and again, the overlapping requirements of industrial reordering drew public officials deeply into the operations of markets. In high technology, where European cooperation was limited, the most important institutional venues for decisionmaking were federal and especially state governments.

Rainer Barcikowski, Leiter des Zweigbüros IG Metall, Düsseldorf, an Otto A. Gellert, April 28, 1998, Rep. 1700, Nr. 786.

⁷⁷ Even critics of restructuring generally shared this viewpoint. See, for instance, the questions raised by SPD opposition members in Thuringia's state parliament. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Rede des Thüringer Ministers für Wirtschaft und Verkehr zur Mündlichen Abfrage des Abg. Lippmann (SPD), Unternehmen Thesys in der Sitzung des Thüringer Landtages am 30.09./01.10.1993, 6-82-7001, Thüringer Finanzministerium, Nr. 347.

Public Enterprise and Eastern German Microelectronics—before and after 1989

During the 1990s, both federal and state government officials struggled mightily to develop industrial prospects for Germany's East while formally entrusting responsibility to reliable outsiders. The second part of this chapter considers the contradictory impulses of restructuring with reference to solid-state electronics, a promising branch of industry that appeared to require less guidance and support from governments than shipbuilding or steel.

In mid-1995, an Austrian microelectronics company, Austria Mikro Systeme (AMS), acquired a 51 percent stake in Thesys, a semiconductor firm located on the outskirts of Erfurt, the state capital of Thuringia. Both companies developed and manufactured customized circuits. Together, AMS and Thesys sought to become Europe's leading producer of application-specific microchips. Thuringia's state government retained possession of 49 percent of Thesys's stock. This ensured that the production of solid-state electronics remained a business strongly influenced by government decisions long after the first steps toward privatization.

The incomplete transition of semiconducting in Central Europe from state-run project to privately owned industry had begun a generation earlier. Thesys's roots may be traced to the 1978 establishment of an East German state conglomerate devoted to microelectronics production, the VEB Kombinat Mikroelektronik. This conglomerate's parent company was located in Erfurt, where GDR authorities opened a lavishly expensive plant named ESO (Erfurt-Süd-Ost) III in 1989.⁷⁸

In Erfurt, the GDR's socialist-era microelectronics program involved extensive copying of foreign components. The socialist nation's inability to license technologies forced SED officials to import illegal parts

78 The microelectronics conglomerate consisted of twenty-two plants in total. For estimates of total GDR-era investment in microelectronics, see Olaf Henke, "Globalisierung, Mikroelektronik und das Scheitern der DDR-Wirtschaft," *Deutschland Archiv* 3 (2002): 426.

and even facilities. Industrial theft proved remarkably costly. Extensive foreign currency expenditure on microelectronics contributed to the GDR's high level of indebtedness, perhaps even the socialist nation's demise.⁷⁹

Surveying East German microelectronics developments during the years before and after 1989—often referenced to explain the socialist nation's technological backwardness, spiraling debt, and myriad drawbacks of centrally planned economies—invites discussions beyond questions of success or failure. Yes, the GDR lagged years behind countries like Japan and South Korea in technological development. The reasons for East German backwardness were, however, both political and economic. During the 1980s, producing microchips in the GDR meant overcoming an American-led technology embargo directed against socialist countries. East Germany's response to barriers enforced by US authorities consisted of extensive circumvention and subterfuge. Imports of American, Japanese (Toshiba played a major role until 1987), and West German electronic components via third (often neutral) countries (above all Switzerland and Austria) played a central role in the GDR's manufacture of microchips.⁸⁰

Austria's biggest state-run company also had to overcome major American obstacles in establishing a domestic semiconductor industry. AMS began as a joint venture between a small Northern California com-

79 Such assessments are common to the English-language accounts. See Dolores L. Augustine, *Red Prometheus: Engineering and Dictatorship in East Germany, 1945–1990* (Cambridge, MA: MIT Press, 2007), 307–311; Raymond G. Stokes, *Constructing Socialism: Technology and Change in East Germany, 1945–1990* (Baltimore: Johns Hopkins University Press, 2000), 177–194.

80 These transactions were effected by Alexander Schalck-Golodkowski's network of Commercial Coordination Area (KoKo) companies with extensive ties to the East German Ministry for State Security (Stasi). Intertechna and an Intrac subsidiary based in the Swiss city of Lugano were among these companies. Bundesarchiv, Schreiben von A. Schalck an Günther Mittag, June 20, 1988, DL 226/1144. Electronics imports constituted the largest KoKo capital outlays at the end of the 1980s. Insiders report that as much as a third of all imports from the West were related to microelectronics. See Gerhardt Ronneberger, *Deckname "Saale." High-Tech-Schmuggler unter Schalck-Golodkowski* (Berlin: Dietz, 1999), 133.

pany, American Microsystems, and Austria's Voest-Alpine. In May 1981, the two parties signed an agreement to establish a joint venture company in Austria's Styria near Graz. Soaring energy costs during the 1970s and a dramatic oversupply in steel markets in 1980 had encouraged Voest-Alpine chair Heribert Apfalter to expand business lines beyond the government-owned steelmaker's strengths. Apfalter's creative responses to the steel crisis gripping his state-run company included the construction of turnkey plant construction for third countries, notably Libya, new export agreements with countries in east-central Europe, especially the GDR, and costly forays into oil speculation and microelectronics.⁸¹

Austrian state-run industrialists quickly found their plans to manufacture microchips in Styria enmeshed in a wider struggle with American trade authorities. US defense officials were eager to curtail Austrian commerce with socialist eastern Europe, especially in integrated circuits. In 1981, the Ronald Reagan administration moved swiftly to reactivate 1950s-era trade embargos against the Soviet Union that had lapsed during the era of detente: this ensured that US-led control over integrated circuit production became enmeshed in a range of topics dividing the American and Austrian governments. Bones of contention included recent Austrian loans to Soviet banks, metals technology exports to socialist countries, and planned Soviet gas imports. By mid-December 1982, Assistant Secretary of Defense Richard Perle and Undersecretary of Defense for Policy Fred Iklé aired in the *New York Times* their government's objections to Austria's trade relations with socialist countries.⁸²

81 Österreichisches Staatsarchiv, Archiv der Republik (Vienna), Antrag an den Aufsichtsrat der Voest-Alpine AG, Unterlage zu Punkt 9 der Tagesordnung der 2. ordentlichen Sitzung des Aufsichtsrates am 7. Juli 1981, ÖIAG-Bestand, Nr. 15. The outcome of Voest-Alpine's speculation in commodity markets via the Intertrading consultancy is discussed in Chapter 2. Austria's close ties to Libya—the country's leader, Colonel Muammar Qaddafi, paid a four-day visit to Austria—prompted extensive criticism in the United States. See, for one example, "Qaddafi Sees US Embargo Aiding His European Ties," *Washington Post*, March 12, 1982, A23.

82 "U.S. Says Austria Let Soviets Have Sensitive Goods," *New York Times*, December 14, 1982, A12. Austrian dailies, including *Die Presse* and *Kronenzeitung*, covered this story extensively.

As a neutral power and thus only a de facto, not de jure, member of the American-led Coordinating Committee for Multilateral Export Controls, Austria, like neighboring Switzerland, had long served as a conduit of technology to Soviet Bloc nations. By the early 1980s, Austrians' efforts to establish their own microchip industry by incorporating US expertise were running afoul of American objectives to prevail in a global arms race with the Soviet Union. Permitting technology transfers to the satisfaction of leading US officials required talks held in Washington in December 1982 involving State Secretary Ferdinand Lacina and State and Defense Department officials. They laid the groundwork for a subsequent White House meeting between Chancellor Bruno Kreisky and President Reagan in February 1983.⁸³ Thereafter, Reagan administration officials lifted security restrictions imposed on microelectronic components bound for the Alpine nation, clearing the way for Kreisky's successor, Fred Sinowatz, to open the new electronics plant in Styria in late October 1983. Attendees of the plant's opening included the new US ambassador to Austria, Helene von Damm, Voest-Alpine director general Heribert Apfalter, and American Microsystems board chair Glen E. Penisten.⁸⁴

Political agreement at the highest levels between the two countries enabled the Austro-Californian joint venture to secure coveted US export licenses. It also eliminated the specter of Voest-Alpine representatives facing criminal prosecution in US courts.⁸⁵ With the political hurdles cleared, the Austrians brought in American experts to design and pro-

83 Lacina subsequently became minister for nationalized industry and then finance minister. See Jan Stankovsky and Hendrik Roodbeen, "Export Controls outside COCOM," in *After the Revolutions: East-West Trade and Technology Transfer in the 1990s*, ed. Gary K. Bertsch et al. (Boulder, CO: Westview Press, 1991), 71–91.

84 voestalpine Archiv (Linz), "Zukunfts-Technologie: AMI-Werk bei Graz," *Blick* 12 (1983): 9–10. Siemens, Toshiba, and other industry leaders forged dozens of joint ventures in Austria during the first half of the 1980s. The Austrian-born US ambassador von Damm, a former White House personnel chief, had served as Ronald Reagan's secretary while he was governor of California.

85 West Germans and Austrians had been charged in recent US district court indictments as "fugitives." See "Californian, 61, Convicted in Computer Export Deal," *Washington Post*, October 28, 1981, A3.

duce the first application-specific integration circuits. Merging American technological capabilities into Voest-Alpine's state-run decisionmaking hierarchies proved difficult. Heavy losses during the joint venture's first years prompted a decision to substitute American with Austrian management. In 1986, state-owned Voest-Alpine assumed full ownership of the enterprise, rechristening it Austria Mikro Systeme International.⁸⁶ For the next twelve years, Horst Gebert directed the company. Profitability arrived three years later, in 1989. Until then, financial support, from the state government of Styria and the state-run Voest-Alpine, played a significant role in offsetting the small chip company's losses. The early 1990s brought the long-awaited turnaround; at the end of December 1992, Voest-Alpine's managers registered the erstwhile joint venture as a stock company. The next year, the Austrian custom circuits maker became the first former Austrian state enterprise to be listed on an international stock exchange.⁸⁷

In eastern Germany, microelectronics development underwent dramatic ruptures after 1989. Only months after the opening of the new microelectronic facility in Erfurt, managers and employees faced shattering job losses.⁸⁸ In a country where unemployment had been formally abolished, what had long been one of the largest employers in the Erfurt region was reduced to a shadow of its former self. Women, more than half of the

86 voestalpine Archiv (Linz), "Name geändert, Erfolgstrichtung bleibt," *Blick* 10 (1987): 16.

87 Seventy-four percent of AMS was stock market listed in July 1993. Government intervention and supervision was the defining element of semiconductor development in many countries, including the United States. For an assessment of the importance of government and venture capital in technology developments, see Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (New York: Public Affairs, 2015), 93–119.

88 The six most important conglomerates in the East German microelectronics program were Carl Zeiss Jena, Robotron Dresden, Mikroelektronik Erfurt, Elektronische Bauelemente Teltow, Nachrichtenelektronik Berlin, and Automatisierungsanlagen Berlin. Olaf Klenke, *Kampfauftrag Mikrochip. Rationalisierung und sozialer Konflikt in der DDR* (Hamburg: VSA Verlag, 2008), 27, 32. On the scale of GDR-era investments, see Gerhard Barkleit, *Mikroelektronik in der DDR. SED, Staatsapparat und Staatssicherheit im Wettstreit der Systeme* (Dresden: Hannah Arendt Institute, 2000), 27–32.

electronics workforce in socialist times, were among the first to lose their livelihoods. The remaining local managers of newly privatized companies, almost all men, became entirely dependent on the Berlin-based Treuhand for cash infusions. Struggling to stem the collapse of markets at home and abroad, the massive burden of firm debts, seemingly incalculable environmental cleanup burdens, and also technological backwardness, the Treuhand turned to outside experts. Swiss entrepreneur Nicholas G. Hayek, the inventor of the Swatch watch, was among the first to craft future plans for the Erfurt facility on behalf of the Treuhand receivership.

Notwithstanding the engagement of Hayek and others, microelectronics in eastern Germany—in sharp contrast to developments in Austria's Styria—endured rapid deindustrialization. Complicating attempts to salvage a surviving remnant of East German chipmaking was the fact that the production facilities of the GDR-era microelectronics conglomerate were spread across what became, after October 3, 1990, three new federal states: Brandenburg, Saxony, and Thuringia. Facilities in Erfurt, among the GDR's newest, appeared to offer the most realistic prospects for market development. There, the existence of the brand-new wafer fabric facility complemented the existence of first-rate human capital. One of the immediate challenges facing state administrators was keeping contemporary data experts in the region. In early 1990, AMS was among those firms recruiting GDR technicians from Dresden and Erfurt to relocate to Styria. To this end, AMS set up a temporary design center in Dresden, a move that gave the Austrian company an initial assessment of future eastern German microelectronics potential.

The key decisionmakers over Erfurt's future were not in AMS's Austria or Hayek's Switzerland but rather in the West German capital of Bonn and the Treuhand's headquarters in Berlin. For much of 1990 and 1991, the federal government's estimation of microelectronics' future in eastern Germany wavered between an urge to staunch losses and a desire to secure industrial futures. Losses greater than revenues led the Treuhand's independent management committee (the *Leitungsausschuss*, which consisted of management consultants) to advocate for the closure of microelectronics production in all three federal states. Facing mount-

ing pressure from many different corners, including newly established state governments eager to salvage GDR-era chip production, the Treuhand's leadership nonetheless attempted to craft a restructuring deal on behalf of the three federal states of Brandenburg, Thuringia, and Saxony. Led by board member Wolfgang Klinz, this undertaking ended in failure, with interests among the three state governments in question proving unbridgeable.

During the second half of 1991, the minister presidents of Saxony and Thuringia—but not Brandenburg—publicly committed themselves to preserving electronics production. Kurt Biedenkopf and Bernhard Vogel's decision flagged state governments' willingness to take the reins. Their ability to revamp eastern German industry rested on the federal government's readiness to pick up the tab. Before turning over ownership to state governments, the Treuhand expended at least DM 2 billion on eastern German electronics. The state divestiture assumed responsibility for enterprise debt, loss compensation, land leases, and essential resources for reconstruction.⁸⁹

The Treuhand also provided Thuringia's state government with a private-sector investor: LSI Logic, a California-headquartered designer and manufacturer of custom semiconductors. The terms of the Treuhand's deal, like those of so many agreements forged during those heady months, were highly favorable to LSI. In exchange for the licensure of some its less profitable circuits, the US company agreed to transfer equipment to eastern Germany from a plant the company had recently closed in the south of England. (LSI was directed by a British-born entrepreneur and largely funded by Japanese investors.) The Treuhand remained on the hook for additional license fees. LSI also enjoyed the option to purchase 51 percent of the holding company; if the California firm chose not to do so within five years, German public officials would have to reassume its 19.9 percent share. The contract's ancillary agreement invited third par-

89 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Betr.: Übernahme der MTG durch das Land, gez. Worms, February 20, 1992, 6-82-7001, Thüringer Finanzministerium, Nr. 347.

ties to purchase shares in the holding, but limited their participation to 49 percent, thus assuring LSI Logic's interests assumed preeminence. The agreement between the Treuhand and LSI also excluded from ownership any of LSI Logic's direct competitors. As officials of the German Federal Ministry of Economics acknowledged, this clause pitted the Dresden and Erfurt facilities against one another.⁹⁰

Public commitment to subsidizing industrial production in Germany's East generated domestic frictions, and not only between state governments in Dresden and Erfurt. Easiest to document are spats involving the federal and state leaders. In June 1992, federal officials decreed that half of all costs beyond liquidation must fall to state governments. This move prompted a testy response from Saxony minister president Kurt Biedenkopf. A longtime rival of Chancellor Kohl's, Biedenkopf claimed that the Federal Ministry of Finance's decision endangered plans he had recently forged to establish an independent chip center in Dresden.⁹¹ Biedenkopf's response came from one of Kohl's state secretaries. Anton Pfeiffer sought to deflect Biedenkopf's criticism by suggesting the minister president

90 Bundesarchiv, Betr.: Engagement der LSI-Logic Corp. bei MTG Dresden/Erfurt; hier: Vorgesehene Kontakte von BM Möllemann in den USA, September 13, 1991, B 102/410886.

91 Biedenkopf shared a copy of his letter to the federal chancellor with his counterparts in Brandenburg and Thuringia. Brandenburgisches Landeshauptarchiv (Potsdam), Schreiben von Biedenkopf an Kohl, July 17, 1992, Rep. 1100, Nr. 551. In March 1993, the state of Brandenburg approved the establishment of Halbleiter Electronic Frankfurt an der Oder GmbH (HEG) and a joint venture between HEG and Synergy Semiconductor Corporation. At the end of 1993, HEG changed its name to System Microelectronic Innovation (SMI) GmbH. The state government held a majority (51 percent) of SMI's stock; the joint venture continued to receive support from the federal and state governments until SMI filed for bankruptcy in April 1997. The European Commission's investigation of aid provided by Brandenburg's state government led to European Court of Justice action against the German federal government in 2004. See Judgement of the Court (Sixth Chamber) of 29 April 2004. Federal Republic of Germany v Commission of the European Communities. Action for Annulment State Aid, Decision 2000/567/EC, Aid Implemented by the Federal Republic of Germany for System Microelectronic Innovation GmbH, Frankfurt an der Oder (Brandenburg), Article 88(2) EC, Rights of the Defence, Compatibility with the common market, Article 87(1) EC, Recovery of unlawful aid, Recovery from undertakings other than the initial beneficiary, Case C-277/00.

forge a compromise. Pfeiffer also informed Biedenkopf that Kohl would be pleased if the Saxony minister president and federal minister of finance Theo Waigel could quickly reach an agreement so as to ensure the American investors—the two US companies in question, LSI Logic and VLSI Technology, another Silicon Valley company slated to invest in Dresden, were not named—could be granted the assurances they required to proceed with their plans to establish profitable enterprises.⁹²

State-level moves to salvage electronics enjoyed Kohl's support but were not universally welcomed. Key officials in Waigel's Finance Ministry remained skeptical about public investment in eastern Germany's computer industry. Minutes of the Treuhand supervisory board meetings reveal misgivings among Finance Ministry officials about the two state governments'—and the Treuhand's—course modification. Among those harboring misgivings was Horst Köhler, secretary of state in the Federal Ministry of Finance (and subsequent head of the International Monetary Fund and then president of Germany). Highlighting long-term differences in the costs of continuation versus liquidation, Köhler quizzed Treuhand leaders about restructuring schemes before reluctantly granting his approval to plans to subsidize jobs in “future-oriented workplaces” to the tune of DM 250,000 per position. In his decision to offer Birgit Breuel and her board of directors his ministry's go-ahead, Köhler highlighted two key factors: the willingness of state government to absorb associated costs and “commitments by American companies.”⁹³

By early 1992, the most important decisionmakers had signaled their willingness to expand government involvement in restructuring select enterprises in eastern Germany. Political pressure, not merely a fear of lagging behind American and Japanese computer electronics, had prompted a change in attitudes among public officials toward semiconductor subsidies. A letter from representatives of microelectronic works councils to Kohl underscored what was most immediately at stake in Dresden and

92 Bundesarchiv, Schreiben von Anton Pfeiffer an Biedenkopf, July 31, 1992, B 136/47648.

93 Bundesarchiv, Betr.: Treuhandanstalt, here: Präsidium und Plenum des Verwaltungsrates am 17. März 1992, B 136/47648.

Erfurt: just over a thousand jobs, with promises to create four thousand new ones. Works councils' officials pleaded with the federal government to grant its immediate assent to plans submitted by two American companies, VLSI Technology and LSI Logic.⁹⁴

Like with the development of microelectronics in Austria a decade earlier, albeit under drastically different economic conditions, the first steps toward private-sector ownership in Styria and Thuringia hinged upon hopes instilled in American expertise and patient government capital. In Erfurt, a new company, Thesys, was incorporated in October 1992, and 80.2 percent of its obligations were formally placed in a public-sector bank, thus ensuring that the vast majority of Thesys's equity belonged to the state of Thuringia. The remaining 19.8 percent of Thesys's stock was entrusted to LSI Logic. Thesys's first president and chief operating officer was Claudio Loddo. The Sardinian-born Loddo shared management responsibilities with his eastern German chief financial officer, Hans-Jürgen Straub. The "multicultural" pair of Loddo and Straub enjoyed favorable press coverage and awards, including a *Forbes* magazine prize for management excellence in Germany's new states.⁹⁵ Straub was invited to join the prestigious "Federal Chancellor's round in the new federal states," a decision that brought the new Erfurt enterprise to the regular attention of important decisionmakers in the German capital.

After difficult years in 1993 and 1994, Thesys's revenues nearly doubled in 1995. Profitability remained elusive. A 1994 licensing agreement to develop a new generation of application-specific integrated circuits and standard products with United Microelectronics Corporation held promise, but the move to import Taiwanese process technology to meet growing demand in communication markets failed to push Thesys into the black.⁹⁶ Joint venture expansion into the Baltic states, Belarus, and

94 Bundesarchiv, communication to Herrn Bundeskanzler Kohl, undated, gez. von AN-Vertreter AR MTG, Gesamtbetriebsräte, Betriebsräte, B 136/47648.

95 "Fixe Rechner," *Forbes*, November 1993, 40.

96 The move may well have generated frictions with LSI Logic. Jeffrey Berger, "Austria Mikro Agrees to Buy 51% of Thesys," *Electronic News*, July 10, 1995.

especially Ukraine, based on ties the socialist-era microelectronics conglomerate had cultivated during the 1970s and 1980s, produced hopeful signs but lackluster results.⁹⁷ More reliable were transfers from the Treuhand. In its role as restructuring financier, the Treuhand ensured considerable sums flowed to Thesys (DM 60 million in October 1992 and an additional DM 55 million DM in July 1993) after Thuringia's state government's assumption of majority ownership.⁹⁸ Still more importantly, the Berlin receivership supplied Thuringia's state government with non-operational real estate at cut-rate prices, a move that enabled the state's economics minister, Franz Schuster, to nurture plans in spite of "extreme losses in 1993 and 1994."⁹⁹

In microelectronics, as in many other industries in eastern Germany, federal largesse contrasted sharply with the marked reluctance of private investors to supply capital. To the frustration of Schuster, Loddo, and Straub, LSI Logic's willingness to invest proved circumspect. In February 1994, following a gathering involving Vogel, the state's ministers for finance and economics, and LSI Logic officials, the head of the state's investment promotion agency and a member of Thesys's supervisory board, Stefan Feuerstein, recorded that LSI Logic no longer wished to acquire more Thesys stock from the state's government.¹⁰⁰ Citing a lack of progress

97 The Kiev institute Mikroprigor had been a partner of the Erfurt operation since 1972. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Beschlussvorlage ARV 04/93 für den Aufsichtsrat der Thesys Verwaltungsgesellschaft mbH, May 12, 1993, 6-82-7001, Thüringer Finanzministerium, Nr. 266.

98 Payment of these and smaller sums was nonetheless a source of conflict between the state's Finance Ministry and the Treuhand. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Betr.: Zuarbeit zu möglichen Bundesengagement, August 26, 1994, 6-82-7001, Thüringer Finanzministerium, Nr. 270.

99 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Protokollnotiz. Gespräch zur Weiterentwicklung der Thesys am 07.02.1995 unter Leitung des Herrn Minister Schuster, February 7, 1995, 6-82-7001 – Thüringer Finanzministerium, Nr. 271. The Treuhand had agreed to cover losses until the end of 1994.

100 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Besprechung zu Thesys Gesellschaft für Mikroelektronik mbH, Erfurt und Thesys Verwaltungs GmbH, Erfurt, am 19.02.1994 in Suhl, February 24, 1994, 6-82-7001, Thüringer Finanzministerium, Nr. 262. On the establishment of investment promotion in Thüringen, see Franz Schuster, *Thüringens Weg in die soziale Marktwirtschaft. Privatisierung, Sanierung,*

in eastern European markets, LSI Logic vice president and Germany chief David E. Sanders was declining to infuse an additional DM 53 million in Thesys in early 1994. A follow-up interview with Germany's best-known weekly magazine, *Der Spiegel*, left little doubt about his negative assessment of Thesys's future.¹⁰¹ Noting that Thesys's debts were larger than had previously been acknowledged, Sanders's decision sent Loddo and especially Straub scrambling for options. By the autumn of 1994, Straub was taking the firm's massive liquidity problems not to Sanders but rather to the company's majority shareholder, the state's Ministry of Finance. Hat in hand, Straub confided to officials there that Thesys would soon require an additional DM 60 million. For this reason, Straub reported that he had begun to sound out potential investors, naming BMW, Daimler, and Siemens. To keep the company afloat, Straub asked for regular exchanges with state finance officials. Straub's request led Finance Ministry officials to note that such meetings had previously only been granted to the most important restructuring project in Thuringia, the state-owned optic works known as Jenoptik (successor to the GDR's most prestigious conglomerate, Carl Zeiss Jena).¹⁰²

LSI Logic's minority stewardship, like American Microsystems engagement in Styria, proved short-lived and ineffectual. In Thuringia as in Austria's Styria, Northern Californian investors gave way to Ger-

Aufbau (Cologne: Böhlau, 2015), 187–194. On the establishment of investment promotion agencies across postsocialist Europe, see Hilary Appel and Mitchell A. Orenstein, *From Triumph to Crisis: Neoliberal Economic Reform in Postcommunist Countries* (New York: Cambridge University Press, 2018), 118–122.

101 "Eine Art Glaubenskrieg," *Der Spiegel* 28, July 11, 1994.

102 For Jenoptik, the federal government pledged DM 3.6 billion; DM 2.74 billion came from the Treuhand. Federal guarantees for Thesys were tiny by comparison: DM 185 million (DM 125 million from the Treuhand). *Deutscher Bundestag. Jahrestgutachten 1993/1994 des Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung*. 12. Wahlperiode. 12/6170 November 15, 1993, 90–91. The definitive guide to this restructuring case is Louis Pahlow and André Steiner, *Die Carl-Zeiss-Stiftung in Wiedervereinigung und Globalisierung, 1989–2004* (Göttingen: Wallstein, 2017), esp. 150–159, 173–195, 239–256. In English, see also Torsten Wulf and Harald Hungenberg, *Transition Strategies: Cases from the East German Industry* (New York: Palgrave Macmillan: New York, 2002), 35–54.

man-speaking substitutes after two short years. The minimum objective, job preservation, had been achieved. But this owed more to Treuhand transfers than to American entrepreneurship.

In early 1995, Thuringia's state government bought back LSI's shares. Remarkably, the state's Finance Ministry did so without securing an outside valuation. Even armed with Straub's insider information, state authorities remained unable to assess whether Thesys's products met the quality expectations of its clients. The majority shareholder only knew for certain that Thesys's customers, including American-owned automobile maker Opel, worried that the Erfurt circuit maker might not be around long enough to ensure a reliable supply of custom chips. State government and Thesys officials, much like the Treuhand before them, found themselves under pressure to quickly identify a suitable private investor. After negotiations with Siemens stalled, state officials rekindled long-dormant discussions with Austria's AMS. Conversations accelerated following a demand from minister president Bernhard Vogel in mid-January 1995 that the company's directors quickly enlist a new investor to tap into structural adjustment funds his government had recently secured from the European Union.¹⁰³ Thereafter, developments unfolded quickly. Memoranda of understanding signed by Vogel and his finance minister, Andreas Trautvetter, spelled out shareholders' commitments. They began with Thuringia's minority ownership (48.75 percent) and extended to a pledge to exhaust all opportunities to secure business development funds from the German federal government and the EU.

An amalgam of public subsidy and stock market valuation underpinned AMS's majority-share acquisition of Thesys. In July 1993, AMS had become the first company within the state-run Austrian Industries Holding to be listed on a stock exchange. The following eighteen months witnessed a 150 percent increase in the stock's value. This feat prompted personal congratulations from billionaire John F. Rockefeller. In Novem-

103 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Bernhard Vogel an Dirk Pfeil, January 18, 1995, 6-82-7001, Thüringer Finanzministerium, Nr. 262.

ber 1994, AMS managing director Horst Gebert was invited to New York to receive the good wishes of the Rockefeller Investment Fund.¹⁰⁴ Engagements by US fund investors enabled AMS to acquire not only a majority stake in Thesys but also Sames (South African Micro-electronics Systems) in Pretoria, South Africa, at that time the only semiconductor manufacturer in the Southern Hemisphere. The other 49 percent of Sames, a company specialized in chips for keyless entry, gate controls, and alarms, remained in the hands of a state holding.¹⁰⁵

In total, AMS paid USD 50 million for the two former state enterprises, Sames and Thesys. A year after the sale, Gebert expressed pleasure with his eastern German acquisition. His reason: if AMS had not acted when it did, Thesys would have quickly grown into a serious competitor. By purchasing the Erfurt operation, Gebert's AMS had eliminated a major future risk while providing the new "vertical global" holding with capacities he valued at USD 300 million, that is, six times the actual purchase price.¹⁰⁶

What motivated both Gebert and the state government of Thuringia were the future prospects of the integrated circuits market, an economic sector valued at that time at USD 150 billion. For Vogel, AMS represented a model for Thesys's future development. That summer, Thuringia's minister president voiced his desire to witness Thesys's joining the Austrian parent company on a major international stock market by the end of the 1990s.¹⁰⁷ This desire likely explains why Vogel's state government had, during the final stage of negotiations, acceded to demands from AMS that the Erfurt government slice Thesys's price in half. The Austrians had convinced political authorities in Erfurt to increase Thesys's share capital

104 Andreas Lampf, "Silicon Valley. Wird die Chipfirma AMS ein Takeover-Kandidat?" *Geld* 2 (1998): 73.

105 "Österreicher bringen täglich einen neuen Chip," *Handelsblatt*, May 6, 1996.

106 Gabriele Kolar, "AMS sieht bei Töchtern Verluste, Wachstum in AG" *Reuters*, July 15, 1996.

107 His comments were not lost on media outlets. See, for example, "Erfurter Chiphersteller soll an die Börse," *Handelsblatt*, July 5, 1995.

rather than to sell government shares in Thesys directly to AMS.¹⁰⁸ This move was taken without notifying the Treuhand's successor, the Federal Agency for Special Matters Related to Unification. Still, federal officials were generally pleased with Thesys's new owners. The federal minister for special tasks and head of the Federal Chancellery, Friedrich Bohl, publicly celebrated the partial sale of the Thesys facility to Austria's AMS.¹⁰⁹ The 1990 recipient of the Austrian Second Republic's highest honor, the Order of Honor for Services to the Republic of Austria, Bohl paid an official visit to the Erfurt facility in February 1996.

Mediation and Microelectronics: State Enterprise's Swiss-German Enabler

The key figure in effecting the majority sale of the erstwhile Treuhand enterprise to the Austrian state-run steel spin-off was not Loddo or Straub, or Vogel, or special federal minister Bohl. Rather, a little-known investment advisor who had come to Thesys via the Treuhand played a crucial role in bringing AMS to Erfurt: a consultant named Hermann Mössner.

Indirect acknowledgment of Mössner's extraordinary involvement in AMS's partial acquisition came during Friedrich Bohl's visit to the Erfurt microchip plant. In his February 1996 remarks to employees, Bohl praised Mössner's engagement on behalf of Thesys, claiming his efforts had been "far beyond the normal call of duty, as well as voluntary."¹¹⁰ Bohl's observation was precisely half true. As Mössner was forced to explain to state finance minister Andreas Trautvetter later that year, his efforts to secure

108 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Herrn Minister auf dem Dienstweg zur Information vorgelegt, June 5, 1995, 6-82-7001, Thüringer Finanzministerium, Nr. 259.

109 Bundesarchiv, Referat 441, Memorandum from RRin Dr. Muttelsee-Schön, July 6, 1995, B 136/47648.

110 Bundesarchiv, Referat 441, Memorandum from RRin Dr. Muttelsee-Schön, February 16, 1996, B 136/47648.

AMS' engagement had begun with a "verbal" mandate from Thuringia's minister for economy and infrastructure, Franz Schuster, to seek new investors for Thesys. In Mössner's estimation, his success in bringing AMS to Erfurt justified his invoice in the amount of DM 200,000.¹¹¹

A verbal mandate to secure a major international investor for Thesys, followed by a six-figure bill for services rendered, raised eyebrows in Thuringia's Finance Ministry. Precisely why Schuster, the state's economics minister from 1994 to 2003, empowered Mössner verbally, rather than in writing, remains open to speculation. State Finance Ministry officials clearly felt that Schuster had overstepped his bounds: the mandate fell to them, and not Schuster's Economics Ministry. The decision to cut corners was probably not just Schuster's. Saxony's success in attracting the Munich-based Siemens to build a sophisticated electronics plant north of Dresden likely motivated Vogel to allow Schuster to issue Mössner his verbal mandate. At that time, yet another California company, Advanced Micro Devices, was poised to join Siemens in Dresden in a move many felt would lay the foundation for a high-tech cluster.¹¹² This neighboring state's ability to secure DM 1.2 billion in federal research funds, with the approval of the European Commission, fueled uncertainty in Thuringia's Economics Ministry about the region's future as a microelectronics center vis-à-vis the growing allure of nearby Silicon Saxony.¹¹³

111 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Mössner an Trautvetter, November 18, 1996, 6-82-7001, Thüringer Finanzministerium, Nr. 374.

112 AMD and Siemens were already close partners. Margaret Heckel, "Ideale Ergänzung," *Wirtschaftswoche* 36, September 2, 1994. Politicians and journalists alike stoked competition between the two states. See, for example, "Glotz: Bund benachteiligt Thüringer Chipindustrie," *Thüringer Allgemeine*, February 24, 1994. The Dresden facility was AMD's first outside the United States; on the Saxon state investment promotion agency's US outreach in California, see Katja Wolfram, *Die Region in der globalen Wirtschaft. Ein Analysekonzept für Ansiedlungsprojekt der Wirtschaftsförderung* (Marburg: Tectum, 2016), 171–173.

113 The Dresden plant cost DM 2.7 billion; it stirred extensive interest in Germany and abroad. A second American partner, Motorola, joined the Dresden consortium. The key federal official in bringing it about was Jürgen Rüttgers. Examples of foreign media coverage of Saxony's coup include "Is Eastern Germany Really Bouncing Back?" *The Economist*, August 6, 1994.

Mössner's professional qualifications appeared to make him well suited to address the state government's concerns about Thesys's future. A former board member of West German electronics concern AEG, Mössner possessed contacts with major international electronics companies of interest within Germany and abroad. Mössner's consulting work on behalf of eastern German microelectronics dated back to 1990. At that time, he supplied advice to the Treuhand holding company charged with crafting a plan to reshape microelectronics in Dresden, Erfurt, and Frankfurt an der Oder. After this Treuhand-led initiative fell apart, Mössner pivoted to Thesys in 1992. He served as a paid consultant to the American–East German venture until September 1994. When the state's relationship with LSI Logic soured, Mössner jumpstarted the state's investment promotion, shuttling between his home outside Zurich and various destinations in western Europe. The most important of these locations was Bonn, where Mössner held a crucial round of talks with AMS representatives in early 1995.¹¹⁴

In yet another remarkable decision approved by state economics minister Schuster, Mössner was named head of Thesys's advisory board in June 1995. Mössner's appointment took place before AMS secured its position as majority stockholder in Thesys. Not the capital-savvy management of the parent company in Untermemstedt but rather Thuringia's economics minister had vaulted the Swiss-based consultant into this position. Schuster's decision occurred against the expressed wishes of the state's Finance Ministry.¹¹⁵

Mössner's detailed invoice to Trautvetter for services rendered offers clues as to how the investment mediator had lured the Austrian steel spin-off to Erfurt. Both before and after his first discussions with AMS representatives, Mössner took part in meetings at the Office of the Federal

114 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ausscheiden der Aufsichtsrats Mössner, Gebert und Prof. Dr. Lorenz, May 4, 1998, 6-82-7001, Thüringer Finanzministerium, Nr. 370.

115 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Schuster an Trautvetter, February 21, 1995, 6-82-7001, Thüringer Finanzministerium, Nr. 262.

Chancellor, the Federal Ministry of Economics, the Federal Cartel Office, and the Federal Ministry for Research, Education, and Technology, as well as with members of the German parliament (Bundestag).¹¹⁶ During his days of consultation in Bonn, Mössner obtained pledges to subsidize eastern German microelectronic development on a grand scale. The July 1995 deal contains provisions allowing the state of Thuringia's investment promotion agency to secure title to forty hectares of land surrounding the chipmaking site. Entrusting Thesys's future to AMS appears to have met with approval in Bonn. Bohl's high-profile visit to Thesys underscored its approval of the state's development plans. Behind Bohl's visit, too, was Mössner. While state minister president Vogel signed his invitation, the decision to bring Bohl to Erfurt had begun with an impromptu inquiry from Hermann Mössner in November 1995.¹¹⁷

State subsidy of microelectronics, in contrast to shipbuilding or steel, appeared to have been a reasonably safe investment. Dramatic increases in sales to firms active in consumer markets, including communications (digitalization of voice and data via networks), automobile (replacement of mechanical functions with integrated circuits), and other industrial markets, seemed poised to drive future growth. And yet, adverse market conditions in 1995 and especially 1996 brought to the fore major differences between the two companies' major stockholders. During the twelve months following its eastern German and South African acquisitions, AMS's stock shed half its value.¹¹⁸ This led the Anglo-German investment bank Morgan-Grenfell to reduce its share of AMS's stock from 17 to 9 percent. Rather than forecast profits, Thesys generated DM 25 million in

116 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Brief von Hermann Mössner an den Finanzminister Andreas Trautvetter, October 30, 1995, 6-82-7001, Thüringer Finanzministerium, Nr. 347.

117 Bundesarchiv, Schreiben von Bohl an Mössner, November 15, 1995, B 136/47648.

118 "AMS-Töchter belasten das Konzernergebnis," *Die Presse*, August 21, 1996. "AMS-Gruppe im Minus," *Kurier*, August 21, 1996. "Einbruch bei Mikrochips noch nicht am Tiefpunkt," *Salzburger Nachrichten*, August 21, 1996. "Halbleiterkonzern AMS rutscht in rote Zahlen," *Der Standard*, August 21, 1996. "AMS: Zum ersten Mal rote Zahlen," *Wirtschaftsblatt*, August 21, 1996.

losses during its first year under AMS's wing, a fact that soured relations between the majority (AMS) and minority (Thuringia's state government) stockholders.

Significant declines in semiconductor markets laid bare unforeseen problems in the Austrian-led alliance. In the assessments of market analysts, the precise degree of control exercised by the parent company in Austria over its newest acquisitions took on greater relevance in fragile markets. The Austrian parent company appeared to have been initially satisfied with loose sales, marketing, and technical cooperation, but during the second half of 1996, the holding's leadership in Unterpremstätten shifted from coordination to control. State Ministry of Finance officials regarded the majority stockholder's moves to promote greater integration within the holding as a threat. The state government's main source of information about the parent company's plans to exert greater control over operations and future directions in Erfurt was the head of Thesys's board of directors, Hermann Mössner.¹¹⁹

Together with the long-standing managing director of the Erfurt operation, Hans-Jürgen Straub, Mössner repeatedly demonstrated fealty to top state government officials in Erfurt, especially Schuster. Thesys's majority stockholder in Unterpremstätten received only secondary consideration. Rather than support the new corporate holding in which he now exercised a central role as head of Thesys's management, Mössner quietly reopened back channels to leading state government department heads in the finance and economics ministries.¹²⁰ Armed with insider reports supplied by Mössner and Straub, Thuringia's Finance Ministry officials responded to AMS's efforts to determine Thesys's future direction with

119 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Thesys—Vorbereitung des Gesprächs mit Herrn Mössner am 07.05.1996, gez. Fricke, May 3, 1996, 6-82-7001, Thüringer Finanzministerium, Nr. 370.

120 Citing his "delicate" situation, even Mössner acknowledged that, as head of the company's supervisory board, his loyalties ought to rest with Thesys's majority stakeholder, AMS. Landesarchiv Thüringen—Hauptstaatsarchiv Weimar, Thesys: Vorbereitung des Gesprächs mit Herrn Mössner am 07.05.1996, gez. Fricke, May 3, 1996, 6-82-7001, Thüringer Finanzministerium, Nr. 370.

their own control wishes. Government officials in Erfurt demanded they receive advanced notice of AMS's semiannual results, as well as quarterly access to the holding's order books.¹²¹

The clearest sign AMS and Thesys were headed in different directions occurred when the parent company's directors announced plans to construct a major new facility in Unterpremstätten in mid-1997. Production was slated to open roughly two year later. This move led Thuringia's economics minister to counter with ambitious plans of his own. To craft Thesys's future direction, Schuster established an interministerial coordination group bearing the name Flexible Fab2. The state's economic minister then tapped Mössner, head of Thesys's supervisory board, to head it. At the first meeting in July 1997, Straub submitted a breathtaking preproduction cost estimate: "upward of 1 billion DM." In defense of this expenditure, Thesys's director claimed the new facility would create 450 new positions.¹²²

The government in Erfurt required major outside funders to bring about this massive new investment. Initial fund-raising efforts focused not on AMS or other firms active in semiconductor markets but rather on federal ministries in Bonn. Almost immediately, the new order of priorities cast a shadow over Thesys's relationship with AMS. In June 1997, Mössner, Straub, and leading state officials paid lip service to the sale of its 48.7 percent stake in Thesys, while in the same breath stressing the need to avoid "excessive haste" so as not to neglect the "future development" of the company.¹²³ Citing doubts about AMS's marketing strategy, Mössner emphasized the need for Thesys to keep its options open. This entailed,

121 To this end, Trautvetter offered to dispatch Straub to Unterpremstätten. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Trautvetter an Gebert, May 12, 1997, 6-82-7001, Thüringer Finanzministerium, Nr. 339.

122 In other words, each new position would cost over DM 2 million to create. Straub also claimed that three thousand indirect positions would be established by the investment. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk, Projekt flexible fab, gez. Mergel, August 1, 1997, 6-82-7001, Thüringer Finanzministerium, Nr. 339.

123 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar. Zur Information Thesys, June 9, 1997, gez. Mergel, 6-82-7001, Thüringer Finanzministerium, Nr. 347.

first and foremost, laying the groundwork in federal circles. Mössner stressed the need to secure a declaration “from Bonn” by no later than May 1998, that is, several months before federal elections that autumn. Private capital from “another partner” would also be required.¹²⁴

The need for private funding to match government subsidies prompted Mössner to propose that he focus his expert outreach on Lucent Technologies, an American company that had recently refused an offer from Brandenburg’s state government to invest in microelectronics in Brandenburg’s Oder Valley. Here the Switzerland-based consultant appears to have overstepped his bounds. One of Schuster’s department heads countered that a new federal entity in Berlin, the Industrial Investment Council for the New German Länder, should be tapped to reach out to potential new investors on behalf of Thuringia’s state government.¹²⁵ Established in late 1996, the Industrial Investment Council boasted personalities quite familiar with microelectronic restructuring efforts in Erfurt. These included the council’s deputy director and former head of the state’s investment promotion agency, Stefan Feuerstein, as well as former Thesys director Claudio Loddo. (The Industrial Investment Council’s origins are discussed in the subsequent chapter.)

In dispute was Mössner’s future mandate. Differences were on full display at a second meeting of the interministerial working group that July, when Mössner stated, on the basis of various discussions he claimed to have recently carried out “at the highest level of state government,” that the state of Thuringia aimed to move forward swiftly with the Fab initiative on its own—that is, without AMS or another private investor. Mössner’s assertion provoked vocal dissent “from all state representatives” in the group. State Finance Ministry officials then seconded the call for the Industrial Investment Council’s Loddo and Feuerstein, not Mössner, to

124 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Mössner an Schuster, June 9, 1997, 6-82-3001, Thüringer Wirtschaftsministerium, Nr. 3320.

125 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar. Besprechung zum Thema flexible fab am 08.07.1997 im TMWI, Mergel, July 10, 1997, 6-82-7001, Thüringer Finanzministerium, Nr. 339.

contact Lucent.¹²⁶ Objecting to their proposal, Mössner attempted to have this recommendation—to empower the Industrial Investment Council, rather than Mössner himself, to identify and contact the most suitable new investor—stricken from the official minutes. Mössner’s reason: a tacit agreement the Swiss-based consultant had reached with Schuster to lead the search for new investors in July 1997. Less than a month later, civil servants in Schuster’s ministry formally denied Mössner’s request.¹²⁷

Still, Mössner remained head of Thesys’s board of directors until May 1998. His involvement in microelectronics development in Thuringia lasted even longer. In December 1998, the electronics consultant was venting his frustration with what he described as Erfurt’s divided house, directing increasingly emotional appeals to Schuster, Trautvetter, and even Vogel. In one especially cryptic appeal, Mössner requested that the minister president personally intervene to sever the “Gordian knot.”¹²⁸ Among the issues dividing state officials and the Switzerland-based consultant was payment for Mössner’s labors during the period 1996 to May 1998. Probably aware his extraordinary run in Erfurt had drawn to an end, Mössner proposed a settlement of DM 180,000.¹²⁹

Precisely how the delicate matter of Mössner’s payment was resolved is unknown. Thesys’s future, more importantly, remained uncertain. A subsidiary nurturing highly ambitious plans for the future while producing notable losses, Thesys remained too weak to survive as an independent company but too important to the region’s political leaders to embrace the supporting role assigned to it by majority owners in neighboring Austria.

126 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk, Projekt flexible fab, gez. Mergel, August 1, 1997, 6-82-7001, Thüringer Finanzministerium, Nr. 339.

127 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Mössner an Erhardt, August 7, 1997, 6-82-3001 – Thüringer Wirtschaftsministerium, Nr. 3320.

128 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Mössner an Ministerpräsident Bernhard Vogel, December 3, 1998, 6-82-7001, Thüringer Finanzministerium, Nr. 370.

129 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Mössner an Andreas Trautvetter, December 3, 1998, 6-82-7001, Thüringer Finanzministerium, Nr. 370.

The overarching aim formulated in Schuster's interministerial group—to secure another round of lavish federal subsidies in a renewed attempt to vault Thesys to the top ranks of electronics production in Europe—ran contrary to AMS's plans. Mössner's proposal seems audacious when contrasted with AMS's more tailored, and probably more realistic, plans for the Erfurt operation. In his mid-1998 letter to investors, the holding's new chief executive officer, Hans Jörg Kaltenbrunner, telegraphed his intention to tighten control over operations in both Erfurt and Pretoria. In South Africa, AMS had already reduced its holding, citing underutilized production facilities at the eastern German facility as a source of concern. Austrian ambitions centered on a new state-of-the-art facility in Styria, funded with public subsidies comparable to those Siemens had obtained to complete a facility for microprocessors in Villach in the Austrian state of Carinthia.¹³⁰

With the two firms at odds, Thuringia's state government seemed to be charting a course entirely different from the one laid by the Austrian parent. A break between Thesys's two major stakeholders seemed likely in 1998, but a close study of exchanges between the firm's leaders and leading state officials in Erfurt that year shows it was not inevitable. In early September 1998, Kaltenbrunner put forward a proposition to draw the eastern German state government still deeper into microelectronics production, albeit not in Erfurt, but rather in Austria itself. To placate minority stockowners in Erfurt and raise funds for an Austrian-led future in semiconductor production, Kaltenbrunner suggested Thuringia's government reaffirm its commitment to the future of the entire AMS group. Kaltenbrunner's proposal consisted of two main parts. The first was a stock swap: the state government's 48.75 percent equity in Thesys as a noncash contribution to AMS. In return, Kaltenbrunner offered Thuringia's Finance Ministry a 4.5 percent ownership stake in the AMS

130 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Aktionsärsbrief. 1. Halbjahr. 1998. Austria Mikro Systeme International AG, 6-82-3001, Thüringer Wirtschaftsministerium, Nr. 3320.

holding. The second: the Austrian chief executive officer offered the state finance minister a seat on the supervisory board of the holding company. Additional sweeteners included pledges to deepen managerial contacts, regular staff exchanges between Erfurt and Unterpremstätten, and fresh technology transfers to Erfurt.

Thuringia's finance minister Trautvetter rejected Kaltenbrunner's offer in a video conference held on December 10, 1998. Notably, Trautvetter's justification had little to do with business. Kaltenbrunner's proposal, the state finance minister explained, was politically infeasible. Instead of taking shares in a venture capital company based in another country, the state of Thuringia found itself adopting another unusual move: buying Thesys's shares from AMS. In March 1999, Thuringia's government repurchased its stocks at the price of DM 40 million. This returned Thesys to the status of a state enterprise, with 99.4 percent of its shares held by state government.

In April 1999, a parliamentary committee on budget and finance summoned Trautvetter to explain his government's decision to take Thesys back into public custody. Trautvetter chose not to reveal the proposed stock swap offered by AMS's Kaltenbrunner. Instead, the finance minister conjured up the image of the plant's closure and subsequent job losses to justify the buyback decision. But even Trautvetter's own remarks to state parliamentarians cast doubt on this dire forecast. Trautvetter acknowledged that the construction of the new plant in Unterpremstätten would have brought Thesys to 100 percent capacity for at least five years. Thereafter, however, AMS would have been forced to shut down operations in Erfurt. Precisely how and why this would have occurred remains unexplained. Even if his pessimism was warranted, five full years of profitable operations would have at minimum maintained employment. And a half decade of good times could have even been used to develop new products and prospects. Trautvetter clearly felt uncomfortable defending the principle of state ownership, beginning his remarks with the observation that "numerous examples have demonstrated that the state is not necessarily the best entrepreneur." Somewhat more to the point, the state finance minister asserted that Thesys had been acquired from the Treu-

hand not to “generate as much profit as possible” but rather to preserve jobs and ensure a future for microelectronics in the troubled industrial region around the state capital.¹³¹ Trautvetter’s dilemma, pursuing economic competitiveness in a dynamic industry while at the same time constraining budgets and conserving jobs, encouraged him and other state government leaders to seek outside expertise.

Thesys’s return to full public ownership was brief. Still, three months of state ownership proved long enough to awaken interest among both multinational competition authorities and investment intermediaries. In early 1999, Schuster, Trautvetter, and Vogel entrusted the task of locating a suitable investor to the Industrial Investment Council and professional services consultancy KPMG. With the help of the latter, the state concluded a contract with a Belgian holding named Elex in June 1999. The state’s sale was rapid, but not fast enough to avoid formal scrutiny from competition authorities in Brussels.¹³² As the 1990s drew to a close, the European Commission had summoned the state’s finance minister to Brussels to explain why his government had chosen to assume full ownership of a company in an industry with spectacular private-sector growth prospects. In early December 1999, Trautvetter dispatched one of his closest deputies to the offices of the Directorate General for Competition (known until the end of the 1990s as DG IV and today as DG Comp or Competition) in Brussels to answer pointed questions and profile the history of Thesys’s privatization across the course of the soon-to-expire

131 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ergebnisprotokoll des Haushalts- und Finanzausschusses, 86. Sitzung am 15. April 1999, 6-82-3001, Thüringer Wirtschaftsministerium, Nr. 5632.

132 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Bericht über den Erwerb und die Veräußerung von Geschäftsanteilen nach § 102 LHO, June 30, 1999, 6-82-7001, Thüringer Finanzministerium, Nr. 366. On KPMG’s work on behalf of the Treuhand, see Marcus Böick, “Die Entdeckung der DDR im Frühjahr 1990: Wer zu spät kommt, den bestraft das Leben,” in *Vertrauen als Auftrag. Von der Deutsch-Amerikanischen Treuhand-Gesellschaft zur KPMG AG*, ed. Dieter Ziegler et al. (Munich: Piper, 2015), 217–233.

decade.¹³³ Whether the Commission's competition experts felt the state of Thuringia had exceeded its authority in granting subsidies—first to LSI Logic, then to AMS, and finally to Elex—awaits investigation.

Conclusion

Responsibility for industrial cores formally rested with the five state governments of eastern Germany and united Berlin. That said, restructuring via subsidized sales to private investors overseen by state governments always demanded substantial federal expenditures. This kept the government in Bonn centrally involved in eastern Germany's industrial future throughout the 1990s. In ailing industries like shipbuilding and steel, securing approval for "investment packages" featuring new buyers generated international frictions. While meeting the formal requirements of the European Commission presented few hurdles, reaching binding agreements with member-state governments about sales incentives involved extensive multinational negotiation. The twists and turns of EKO Stahl's partial privatization, in particular, garnered interest in the European Commission, Parliament, and Court of Justice. Still more important to the subsidized purchase of Brandenburg's largest steel mill by Franco-Belgian steelmaker Cockerill-Sambre were binational exchanges in advance of monthly meetings of the EU's Industry Council. Here the machinery of Brussels and rivalry among EU member states left their mark on industrial planning in eastern Germany.

A deviation from the general course of rapid privatization—namely, heavily subsidized sales in the name of restructuring eastern German enterprises—captured attention among the most important elected officials and ministers of EU member-state governments. Reordering enterprises

133 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Gespräch mit Kommission in Brüssel, December 2, 1999, gez. RD Mergel, 6-82-7001, Thüringer Finanzministerium, Nr. 392. The highest level of EU administration, the director general reported to the commissioner responsible for competition.

required permission formally granted by the EU. In the Industry Council, the national interests of individual member-state governments often topped the agenda. In the case of EKO Stahl, the laborious process of obtaining unanimous approval in Brussels enabled the British government to extract concessions from German federal authorities. Prolonging the lives of specific enterprises via loans approved by the Industry Council ensured that the fate of manufacturing in Brandenburg's Oder Valley became bound up with concerns far removed from eastern Germany's industry. These included the peace process in Northern Ireland and the European Union's policy toward protecting personal data and privacy, as well as the German federal government's sale of Deutsche Telekom.

German public officials—from the deep-pocketed Treuhand to Thuringia's modestly endowed state government—interacted extensively with foreign advisers, lenders, and investors. Those most easily recognizable as foreigners were not always the most influential. Multinational tech gurus flashing Northern Californian connections and stolid competition bureaucrats in Brussels assumed prominent roles alongside anglophone investment bank experts. Zurich-based consultant Hermann Mössner's mediation before, during, and after the sale of Thesys to Austria's AMS illustrates how external interlocutors sharing a culture, language, and another important common denominator—Treuhand credentials—shaped the trajectory of eastern Germany's semiconductor industry in equally profound ways. Tapped by Thuringia's state economics minister to both identify suitable investors and head Thesys's supervisory board, Mössner molded his "verbal" mandate to accommodate Thuringia's (and the federal government's) ambitious restructuring plans for computing technologies. As drivers of rapid privatization and shapers of the slower-moving process of 1990s-era industrial restructuring, the formative influences of foreigners were manifold.

Both Mössner's engagement in Erfurt and the extensive involvement of better-known Anglo-American financial consultants in the Berlin-based Treuhand invite one to contemplate how outside experts altered state- and federal-level investment initiatives after the formal dissolution of the privatization holding at the end of 1994. When state officials parted

ways with Mössner in 1998, they placed responsibility for identifying a suitable technology investor to build an expensive new “FlexFab” in familiar hands. The former head of the state’s investment promotion agency, Stefan Feuerstein, and former Thesys director Claudio Loddo stepped forward to direct Thesys after Mössner’s exit. During the mid-1990s, Feuerstein and Loddo had moved from Thuringia’s state government and Thesys to a new business-recruitment organization based in Berlin, the Industrial Investment Council of the New German Länder.

The origins and direction of this last exclusively eastern German regional investment entity, the Industrial Investment Council of the New German Länder, warrant exploration. In the next chapter, I explain how the Federal Ministry of Economics and state governments in Germany’s East launched an agency to obtain foreign capital as part of a larger endeavor to redress eastern Germany’s severe deindustrialization. Responding to heightened competition for foreign investment emanating from both east-central and western Europe, notably Britain, Ireland, the Netherlands, and Sweden, public officials drew on precedents established by new state governments across the former GDR (and DM 50 million seized from East Germany’s political parties). In defining the Industrial Investment Council’s agenda, federal and state officials leveraged Treuhand-era approaches to mass privatization, especially the agency’s heavily reliance on Anglo-American investment banks and financial consultants.

5. Directing Foreign Investments after Mass Privatization: Socialist Shadows and American Solutions

This chapter explains how the Treuhand years—the nearly half decade in which German public officials worked closely with Anglo-American divestment experts to sell, salvage, or dispose of East German industries—forged precedents for Germany as a whole and not merely the territory of the former German Democratic Republic (GDR).¹ Unlike the previous four chapters, this one focuses not on influential outsiders—foreign advisers, investors, lenders, and arbiters of national subsidies approved by the European Union—but rather on German state and federal officials charged with obtaining foreign investment. The Treuhand's approaches to state divestment in eastern Germany informed how a broad range of public administrators defined their responsibilities as stewards of the Federal Republic's economy in the second half of the 1990s—and beyond. Alongside the pursuit of institutional and political objectives best understood in domestic contexts, economic policymaking in unifying Germany consistently reflected three factors during the mid- to late 1990s. These were the influence of Anglo-American financial intermediaries, the specter of intra-European competition, and the legacies of state socialism.

1 The definitive work on cotransformation—that is, the process whereby mass privatization in east-central Europe altered social relations and economies in western and southern Europe—has been produced by historian Philipp Ther. With reference to labor market reforms via eastern to all of Germany, see his argument in *Europe since 1989: A History*, trans. Charlotte Hughes-Kreutzmüller (Princeton, NJ: Princeton University Press, 2018), 259–287. See also his *Das andere Ende der Geschichte. Über die Grosse Transformation* (Berlin: Suhrkamp, 2019), esp. 73–96.

The chapter consists of two parts. Part I examines the policy repercussions of the sale of eastern Germany's most important rail car manufacturer to an American private equity firm. It recounts interactions between the minister president and economics minister of the state of Saxony-Anhalt and the Berlin-based rail company Deutsche Waggonbau's new American owner. Their shared objective was to embed Advent's approach to raising international capital in Germany's economic future, a point of interest to many public officials at that time. Part II, the longer section, explores the creation of two business recruitment agencies. These were the Industrial Investment Council of the New German Länder and the Office of the Federal Commissioner for Foreign Investment in Germany. The mid-December 1996 establishment of the Industrial Investment Council occurred against the wishes of western German state governments. It reflected a desire among federal officials to address profound concerns about market competitiveness across Germany and not merely in the five "new" eastern states of the enlarged Federal Republic and the eastern half of Berlin. Part II explains the long-term significance of the Treuhand's foreign outreach to federal-state investment-promotion schemes enacted during the mid-1990s. As in the previous section, the viewpoints of federal ministerial officials, as well as their state-level counterparts in both eastern and western Germany, assume central importance. Alongside parliamentarians based in Bonn and western European competitors, influential financial outsiders with North American credentials make important cameo appearances, asserting themselves at key moments in debates never entirely domestic in nature.

Understanding the origins of state and especially federal efforts to strengthen the hand of foreign investors requires one to trace how specific approaches to mass privatization adopted in eastern Germany informed investment policies across the entire Federal Republic during the mid-1990s.² The severe headwinds public divestment officials encountered in

2 These reforms took place against the backdrop of West German governmental responses to the global oil shocks, deep recessions, and mass unemployment of the

their attempts to reinvigorate the severely deindustrialized economy of eastern Germany deepened concerns about the unifying nation's "social market" economy, a model marked by domestic consensus and compromise. From the early 1990s to the early 2000s, anxious rounds of vexed public discussions informed demands to embrace wide-reaching investment reforms. In this context the United States and, to a lesser extent, Britain, Ireland, the Netherlands, and Sweden, emerged as role models, specifically with regard to these countries' successes in tapping into novel forms of capital to cultivate new spheres of industry.

Public discussions about how government officials might buttress the Federal Republic's industrial prowess following the oil crises of the 1970s and the decade from the early 1990s to the early 2000s are known in Germany as *Standort* (business location) debates. *Standort* discussions during the mid-1990s featured the assessment that the enlarged German Federal Republic had fallen behind several western European rivals in transcontinental scrambles to obtain access to foreign investments.³ Alongside better-known proposals to alter labor markets and retract pension and unemployment benefits, the Hartz reforms, the urge to mimic the practices of foreign capital providers marked domestic discussions

1970s, when growing doubts about public officials' ability to meet future economic challenges yielded calls during the 1980s for liberalizing market reforms in West Germany based on British examples. For a concise introduction, see the three essays by Hans Günter Hockerts, Frank Bösch, and Karl Lauschke in Norbert Frei and Dietmar Süß, eds., *Privatisierung. Idee und Praxis seit den 1970er Jahren* (Göttingen: Wallstein, 2012). The best guide to the macroeconomic impact of UK privatizations is Massimo Florio, *The Great Divestiture: Evaluating the Welfare Impact of the British Privatizations, 1979–1997* (Cambridge, MA: MIT Press, 2004).

3 For an introduction to the heated public discussions of Germany's post-Wall prowess as a "location for business," see especially Wencke Meteling, "Nationale Standortsemantiken seit den 1970er Jahren," in *Die Neue Wirklichkeit. Semantische Neuvermessungen und Politik seit den 1970er-Jahren* ed. Ariane Leendertz et al. (Frankfurt am Main: Campus, 2016), esp. 228–236 and, by the same author, "Internationale Konkurrenz als nationale Bedrohung. Zur politischen Maxime der 'Standortsicherung' in den neunziger Jahren," in *Konkurrenz in der Geschichte. Praktiken – Wert – Institutionalisierung*, ed. Ralph Jessen (Frankfurt am Main: Campus, 2014), esp. 295–298, 307–310.

of how best to boost Germany's future prospects in high-growth sectors where competitors had secured key advantages.⁴

This chapter embeds two understudied dimensions of the German *Standort* debates—the implementation of risk capital and national investment promotion—in a wider analysis of a scholarly concept known as financialization. In 1990s Germany, the gradual shift from industrial to financial capitalism implemented in many countries encountered both opportunities and limits.⁵ Understanding the specific inroads of transnational finance in state and federal public administration during the 1990s requires close empirical attention to contemporary influences, interests, and tensions, including those of socialist-era origin.

American Solutions: Advent International

Two weeks before posing to unscrew the Treuhand's sign from the receiver's headquarters, Birgit Breuel announced the privatization authority's final major sale. In mid-December 1994, representatives of Advent

4 The rise of shareholder value as the measure of corporate performance called into question the corporatist model of the old Federal Republic, which featured robust, overlapping networks between German banks, major industrial firms, and union representatives. For an introduction to capital-labor relations within what is often described as the corporatist structures of *Modell Deutschland*, see, especially, Ralf Ahrens et al., eds., *Die "Deutschland AG." Historische Annäherung an den bundesdeutschen Kapitalismus* (Essen: Klartext, 2013). A reliable historical guide to the relationship between eastern Germany's severe deindustrialization and welfare state reform is Gerhard Ritter, *Der Preis der deutschen Einheit. Die Wiedervereinigung und die Krise des Sozialstaats*, 2nd ed. (Munich: C.H. Beck, 2007), esp. 351–373. On the party politics behind the Hartz reforms, see Edgar Wolfrum, *Rot-Grün an der Macht: Deutschland 1998–2005* (Munich: C.H. Beck, 2013), 528–583.

5 For a recent introduction to the depth, scope, and boundaries of financialization, see Brett Christophers, *Rentier Capitalism: Who Owns the Economy, and Who Pays for It?* (New York: Verso, 2020). See also his article titled "The Limits to Financialization," *Dialogues in Human Geography* 5, no. 2 (2015): 183–200. For a concise English-language introduction to German debates about industrial competitiveness during the 1990s and early 2000s, see Orfeo Fioretos, *Creative Reconstructions: Multilateralism and European Varieties of Capitalism after 1950* (Ithaca: Cornell University Press, 2011), esp. 157–171.

International expressed their intention to acquire Deutsche Waggonbau, the most important producer of rolling stock in the former GDR. Advent International was (and is) a financial intermediary that channeled capital for fixed periods on behalf of behind-the-scenes entities. Often described as “institutional investors,” publicity-shy partners uninvolved as direct investors included pension funds, university endowments, and wealthy families alongside more conventional providers of capital such as banks, insurance companies, and brokerage firms. Risk capitalists like Advent International regarded individual businesses as elements in portfolios of bundled investments and not mainly as integrated social and technical units in their own right. Private equity extended the reach of institutional investors to small and medium-sized enterprises. As discussed in the introduction, exasperation with the country’s domestic banks to address the needs of Germany’s deindustrialized East led the federal chancellor, Helmut Kohl, to personally endorse financial intermediaries with American pedigrees in early 1994.

Negotiating details of the Deutsche Waggonbau sale to the American private equity firm fell to the Treuhand’s main successor, the Federal Agency for Special Matters Relating to Unification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben). Completing the transaction required officials of the Federal Agency for Special Matters Relating to Unification to include in the sale several “nonessential plots of land,” commitments to “investment grants,” and, not least, promises to absorb future losses.⁶

6 Hans-Hinrich Schroeder-Hohenwarth et al., eds., *“Schnell privatisieren, entschlossen sanieren, behutsam stilllegen.” Ein Rückblick auf 13 Jahre Arbeit der Treuhandanstalt und der Bundesanstalt für vereinigungsbedingte Sonderaufgaben* (Berlin: Wegweiser Verlag, 2003), 58–59. For an English-language account based on a 2007 interview with one of the senior Advent employees involved in the transaction, see Paul Jowett and Francoise Jowett, *Private Equity: The German Experience* (New York: Palgrave Macmillan, 2011), 252–257. The Treuhand enlisted US consultancy McKinsey to propose how Deutsche Waggonbau’s restructuring might best be carried out. Unlike the Treuhand, the Federal Agency for Special Matters Relating to Unification was denied the opportunity to finance deficits by selling bonds fully backed by the federal government at home and abroad.

As this section shows, the deal with Advent International became the basis for a collaboration between Advent and Saxony-Anhalt's minister president and economics minister to apply Advent's approach to raising international capital to businesses throughout Germany. Important actors in this story included Advent chief executive officer Peter Brooke, Advent chief representative in Germany, Chris Neizert, minister president of Saxony-Anhalt, Reinhard Höppner, and his minister for economics and technology, Klaus Schucht.

Like Höppner a Social Democrat, the West German Schucht had served as a Treuhand board member from May 1991 to December 1994. Schucht's Treuhand responsibilities had encompassed energy, chemicals, potash mining, and minerals. Records created by state and federal officials confirm that negotiations touched only briefly on the future of Deutsche Waggonbau's production facilities and proposed job losses in Saxony-Anhalt and the neighboring state of Saxony.⁷ Considered together with diplomatic dispatches, they reveal that Brooke seized the occasion of Höppner's and Schucht's visit to address a concern close to both his heart and the interests of many policymakers, including the German chancellor: how venture capital might be harnessed to accelerate German industrial growth.

In early July 1995, Advent International obtained Deutsche Waggonbau's ten eastern German facilities via two wholly owned subsidiaries, DWA Carriage Holdings and DWA Carriage Holdings II.⁸ The next week, Höppner and Schucht began a ten-day business trip to the United States.

7 According to an initial estimate compiled for a German parliamentary committee, Advent's acquisition cost the Federal Agency for Special Matters Relating to Unification at least DM 900 million. See Landesarchiv Sachsen-Anhalt (Magdeburg), Bericht an die Arbeitsgruppe Aufbau Ost des Haushaltsausschusses des Deutschen Bundestages, September 21, 1995, L 25, Nr. 284.

8 The weeks before the conclusion of the contract witnessed clashes between Advent's Neizert and the Federal Agency for Special Matters Relating to Unification over EU subsidies for regional improvements. See Bundesarchiv, Protokoll, Deutsche Waggonbau (DWA), Vertragsunterzeichnung am 22.06.1995, B 412/31942.

Höppner and Schucht, along with several other German officials and state business leaders, held meetings in Boston with Advent's Brooke. Read closely, the venture capitalists' conversations with Höppner and Schucht provide more a tribute to the centrality of government than market innovation. Their exchanges also reflect the strong enthusiasm for American-inspired financial approaches among Social Democratic leaders hailing from both eastern and western Germany.

Advent's founder, an early American leader in investments via private channels, and the head of Saxony-Anhalt's state government boasted quite different biographies. A mathematician, Social Democrat, and former vice president of the East German parliament (Volkskammer), Höppner had become minister president five months prior to Breuel's announcement of the German rail company's sale. Politically, the two men appeared to be miles apart. In July 1995, Höppner presided over a minority government consisting of the Social Democratic Party (SPD) and the Greens with tacit support from the successor party of East Germany's Socialist Unity Party (SED). A first of its kind among eastern German states, this Magdeburg Model (named after Saxony-Anhalt's capital city) represented a striking alternative to the long-serving federal coalition of Christian Democrats and Liberals. For many observers, Höppner's indirect reliance on East German deputies with SED biographies appeared to mark how German Social Democrats might return to power at the federal level, or at least in other eastern German state governments.⁹

The novel political constellation in Magdeburg ensured that Höppner's reaction to Advent's intended purchase garnered substantial media attention. In his initial public comments on the Treuhand's sale to Advent, Höppner echoed criticisms voiced by Saxony's minister president, Kurt Biedenkopf, and Hasso Düvel, the Saxon district manager of IG Metall,

9 In this respect, Höppner's minority government, a rarity in German politics, was regarded—wrongly, as it happened—as a harbinger of Germany's political future. The PDS acquired nearly 20 percent of the vote in a state election marked by low voter turnout (just over 50 percent). Sven Thomas, *Regierungspraxis von Minderheitsregierungen. Das Beispiel des "Magdeburger Modells"* (Wiesbaden: Deutsche Universitäts-Verlag, 2003).

the dominant German metalworkers' union. Höppner's particular concerns revolved around production facilities in Ammendorf, a district in the city of Halle, as well as a refrigerated wagon plant in Dessau.¹⁰ Citing a Treuhand restructuring plan submitted by American consultancy McKinsey, Höppner sought in a national radio interview to emphasize that, notwithstanding at least two pending closures, Deutsche Waggonbau would remain intact as an "eastern German" enterprise. In other words, the passenger coach manufacturer's subsidiaries would not be split off into individual firms that might be more easily sold or dissolved.¹¹

Höppner's tempered remarks on the Treuhand-brokered deal reflected his wish to avoid open clashes with authorities in Bonn. Höppner left unmentioned the fact that McKinsey's assessment excluded Dessau from Deutsche Waggonbau's future.¹² Notwithstanding significant political differences, eastern German state governments, irrespective of political leanings, had strong vested interests in maintaining the best possible relations with the federal government. As Höppner appreciated, absent federal support the modern facility in Ammendorf faced exceptionally bleak prospects.¹³ Critical to the rail company's ability to pay bills

10 For an especially revealing example, see Landesarchiv Sachsen-Anhalt (Magdeburg), Interview mit Reinhard Höppner zum Treuhandbeschluss über die Zukunft des Werkes Dessau der Deutschen Waggonbau AG, December 16, 1994, L 25, Nr. 284. About a quarter of Saxony-Anhalt's nearly three million inhabitants resided in the three cities of Dessau, Halle, and the state capital of Magdeburg.

11 Deutschlandradio, Dokumentation und Archive (Berlin), "Schließung des Werks ist eine Katastrophe – Beschluß fiel zur Unzeit" – Nach der Entscheidung des Treuhand-Verwaltungsrates Gespräch mit Reinhard Höppner, SPD, Ministerpräsident von Sachsen-Anhalt, December 16, 1994, Produktionsnummer X367814.

12 Bundesarchiv, Further Development of the Business Concept of Deutsche Waggonbau AG, Final Report, January 19, 1995, B 412/31968. See also Protokoll der Besprechung mit der Unternehmensberatung McKinsey am 10.01.1995, B 412/31968.

13 In 1994 alone the federal government offered guarantees of DM 550 million to Deutsche Waggonbau's sales to Russian enterprises, with the lion's share (DM 394 million) earmarked for Ammendorf. See Landesarchiv Sachsen-Anhalt (Magdeburg), Schreiben von Johannes Ludewig an Ministerpräsident Christoph Bergner, February 4, 1994, L 1, Nr. 646. Trade between the GDR/eastern Germany and enterprises in the Soviet Union dwindled from DM 20 billion to DM 5 billion from 1990 to 1994; without Hermes's loan guarantees this volume would have dropped still further.

in deutschmarks, while accepting payments for long-distance carriages in strongly devalued currencies such as the Russian ruble, were export loan guarantees. Known as Hermes-Kredite, assurances backed by the federal government helped to compensate for significant currency risks; at that time, about half of Deutsche Waggonbau's exports went to the Russian-dominated Commonwealth of Independent States.

A key figure in bridging differences between Höppner and the federal government in Bonn was former Treuhand board member Klaus Schucht. In February 1995, Höppner appointed the West German Schucht to the position of minister of economics and technology in Saxony-Anhalt. A member of the SPD since the late 1960s, the West German transplant had played a central role in enticing big-ticket foreign investors to Saxony-Anhalt during his years at the state holding. Schucht's—and Goldman Sachs's—efforts helped to ensure that Saxony-Anhalt boasted twice the average level of foreign investment in eastern Germany—that is, as measured by pledged investments as spelled out in contractual agreements. By this metric, foreign investments in Saxony-Anhalt stood at nearly 20 percent, or double the average of all five eastern German states.

Schucht and Höppner structured their first official US visit to further expand foreign involvement in Saxony-Anhalt's economic future. Besides Advent, Höppner's delegation visited the headquarters of the Dow Chemical Company in Midland, Michigan (a highly important investor in Saxony-Anhalt's chemical industry during the second half of the 1990s), and energy (and subsequent accounting fraud) giant Enron in Houston, Texas. Rather than delegate responsibility for business promotion to his state's business-recruitment agency, Schucht assumed direct personal responsibility for the acquisition of large-scale foreign investments.

The first step on Höppner and Schucht's 1995 US tour was the Boston offices of Advent International. A lengthy diplomatic cable from the German embassy's Boston commercial attaché provides details on exchanges between Höppner and Schucht on the one hand and Advent founder Brooke and chief representative Neizert on the other. Striking in the record is what was left undiscussed or merely glossed over. The visitors barely touched on the future of Deutsche Waggonbau's facilities in

Saxony-Anhalt. The dispatch records no mention of the pending closure of the railway production facility in Dessau, a plant with 830 employees located in the city with the state's highest official unemployment rate (at the end of 1994, 16 percent). One reads merely that Advent guaranteed the future of the Ammendorf facility, a sophisticated production site completed during the GDR's last years and refurbished with Treuhand support.¹⁴ Also absent are details about the rail car manufacturer's future as a unified business. Many observers presumed Advent would enlist Siemens to boost Deutsche Waggonbau's competencies as a "systems supplier"—that is, to integrate the company's extensive rail expertise with the production of state-of-the-art electrical equipment.¹⁵

Brooke's pitch revolved around his firm's ability to raise funds from third parties outside the bounds of the formal banking system. To recount how Brooke and his colleagues succeeded in this endeavor required the American private equity specialist to canvass his country's recent history. Brooke traced venture capital's advance in the United States over the previous three decades, linking American developments, especially in New

14 Torsten Wulf and Harald Hungenberg, *Transition Strategies: Cases from the East German Industry* (New York: Palgrave Macmillan, 2002), 58.

15 The eastern German rail company headquartered in Berlin and the Munich-based electronics concern were already cooperating, leading journalists to speculate that Siemens might acquire minority ownership of the rail holding. See "Amerikanischer Fonds übernimmt die Deutsche Waggonbau," *Frankfurter Allgemeine Zeitung* 291, December 15, 1994, 17; "Der Verkauf der DWA an Advent ist entschieden," *Frankfurter Allgemeine Zeitung* 293, December 17, 1994, 17. Advent's founder Brooke and Siemens shared a history of their own, a fact that further supported this contention. In 1983, Advent's predecessor, TA Associates, and Siemens had established one of West Germany's earliest private equity funds. Brooke chaired the West German company, known as TVM Technoventures, until the late 1990s. Together with a third partner, the Matuschka Group, TA Associates and Siemens had recruited West German financial commitments to foreign, especially American, high-tech enterprises from 1983 onward. Investors included pharmaceutical giant Bayer, Germany's largest commercial bank, Deutsche Bank, and industrial conglomerate Mannesmann. Brooke conceded in his memoirs that it took a decade for this fund to succeed, owing to the firm's inability to put together the right senior management. Meir Barel, an Israeli, managed the enterprise. Peter Brooke, *A Vision for Venture Capital: Realizing the Promise of Global Venture Capital and Private Equity* (Boston: New Ventures Press, 2009), 61–64, 67, 105.

England, with what he regarded as the chief obstacles facing Germans in the mid-1990s. As in the United States several decades earlier, “excessive emphasis on security considerations among banks, insurance companies, and large companies” stood out as the most significant investment hindrances to risk capital. Brooke’s contention—that German financiers valued security too much and risk too little—was unlikely to provoke rebukes from Schucht and Höppner. Standing in the way of Germany’s opportunity to emulate the success of American high-tech enterprises like Microsoft, Compaq, and Digital Equipment Corporation were “restrictive regulations on banks, insurance companies, and pension funds.” Here Brooke offered his German guests an interesting insight: government laws and oversight mattered much more than management cultures or even tax rates.¹⁶ Citing the examples of Massachusetts’s high- and biotech corridor just outside Boston and Northern California’s Silicon Valley, Brooke opined that new industries were thriving on America’s coasts because of active government support for equity pools and not merely because of low taxes.

For Brooke, fast-tracking economic growth in Germany boiled down to developing sources of capital. Brooke’s claim that venture capitalist captured high returns while funding innovation invites scrutiny. The Boston venture capitalist noted the upsides of removing the guardrails from financial involvement in certain sectors of American industry while maintaining silence about the hazards of placing control over firms in the hands of experts with limited manufacturing experience.

Rather than fostering the illusion that high- and biotech companies succeeded without state guidance, the Advent founder stressed, in en-

16 Politisches Archiv des Auswärtigen Amtes (Berlin), Zwischenarchiv. Fernschreiben. USA-Reise MP Dr. Höppner und Minister für Wirtschaft und Technologie Dr. Schucht, Sachsen-Anhalt, B 52 (ZA), Zwischenarchiv, 174088. The actual origins of risk capital in New England date back still further, to whaling ventures and especially the Boston-based American Research and Development Corporation under the leadership of Harvard professor, military consultant, and French émigré Georges Doriot. See Tom Nicholas, *VC: An American History* (Cambridge, MA: Harvard University Press, 2019), 40–143.

abling new forms of investment, the importance of propinquity between risk takers on the one hand and public officials on the other. Risk capital, in other words, required active government, above all, not its absence. Here Brooke referenced the fact that, until the end of the 1970s, federal law barred US pension funds from nonbank investments. In response to the country's growth crisis following that decade's massive oil price shocks, the federal government in Washington, DC, had eliminated strict financial prohibitions. Lobbied hard by venture capitalists, it also lowered federal capital gains taxes. By 1995, federal "corporate governance" of finance had enabled Brooke's Advent, a firm with only sixty employees, and "partner companies" (including TVM Technoventures) to amass more than USD 3 billion in funds.

Brooke struck chords familiar to European policymakers in his exchanges with Höppner and Schucht. VIP tours of the United States had long featured exchanges between European leaders and financial innovators touting the benefits of dispersed ownership. A decade earlier, Thomas Perkins, founder of Kleiner Perkins, had extolled the virtues of his firm's approaches to François Mitterrand during the French president's visit to Silicon Valley.¹⁷ No stranger to western Europe, Brooke had also been attempting to garner the attention of influential Europeans since the early 1970s. And as the multiyear tug-of-war over the implementation of German banks' billion-deutschmark pledge in 1993 and early 1994 discussed in the introduction reveals, federal and state officials did not require lessons in recent US history to acquire their own interest in risk capital.

At home as abroad, the ideas expressed by American financiers warrant scrutiny insofar as they gained traction within government. In other words, what mattered were the assessments and especially the actions of high-ranking public officials following their one-on-one exchanges with

17 Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (New York: Public Affairs, 2015), 63. See also her *The Value of Everything: Making and Taking in the Global Economy* (London: Allen Lane, 2018) esp. 144–146, 154, 159–160.

venture capitalists, not merely attempts by American financiers to place a thumb on the scale of ongoing efforts to redesign governments' supervision of finance.

Bereft of details about the future of Deutsche Waggonbau or future investment opportunities in Saxony-Anhalt, Brooke's suggestions about how to revamp German industry via changes to the country's financial system prompted enthusiasm among his German counterparts. The German embassy's Boston commercial attaché issued the earliest ringing endorsement.¹⁸ Höppner and Schucht offered still more significant affirmations. Soon after the pair's return to the state capital of Magdeburg, Höppner's personal secretary noted that Schucht, along with his three most important department heads, had traveled to Advent International's Frankfurt am Main office. The purpose of their trip: to draft a "thesis paper for the next monthly conference meeting of Germany's sixteen minister presidents in late July 1995."¹⁹

While Schucht and his staff compiled details in Advent's Frankfurt offices, Saxony-Anhalt's minister president issued his own direct plea to the chancellor in Bonn. To lend his state government's support to an evolving German embrace of risk capital, Höppner penned a brief note to Helmut Kohl. The young minister president informed Kohl of his request to Germany's state governments to initiate a "working group" to consider how state and federal authorities might best attract private equity to boost industrial prospects, especially among technology firms.²⁰ A month earlier, at a June 1995 gathering of state government heads, Höppner and Germany's other fifteen minister presidents had discussed the merits of "risk capital." Höppner claimed that these efforts were now far enough

18 Politisches Archiv des Auswärtigen Amtes (Berlin), Zwischenarchiv. Fernschreiben. USA-Reise MP Dr. Höppner und Minister für Wirtschaft und Technologie Dr. Schucht, Sachsen-Anhalt, B 52 (ZA) – Zwischenarchiv, 174088.

19 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisse der Besprechungen in den USA, July 20, 1995, L 1, Nr. 460.

20 The state government of Baden-Württemberg pushed for the establishment of this state-level working group. See Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Höppner an Kohl, July 26, 1995, 6-82-3001, Nr. 2477.

along to discuss formally at their next scheduled meeting with the federal chancellor in early December 1995.

Creating post-Treuhand opportunities for American-inspired finance required state chancelleries and federal ministries to advocate on their behalf. At the October 1995 monthly gathering of state economics ministers, Schucht lent his support to venture capital's bid to revamp eastern German industry. In his account of his and Höppner's "recent visit to one of the most important venture capital firms in the US," Schucht related to his state-level counterparts what was at stake. At this important gathering of government experts, Schucht offered a rationale for sweeping changes taken almost verbatim from his conversation with Advent's Brooke three months earlier. "Collecting venture capital is not mainly a problem of tax breaks for private investors," Schucht offered. Citing recent US history, the former Treuhand board member explained, "In 1964, in order to develop research and innovation on a broad scale, the American government had adopted changes to credit and banking supervision and granted more opportunities to invest private capital in venture capital companies, which of course were not gilt-edged [*mündelsicher*]." The effect of this far-sighted decision at "the company he had visited" [KA: Advent International] was profound: the private equity company derived 80 percent of its funds from institutional investors. Once again mouthing Brooke's exact words, Saxony-Anhalt's economics minister claimed that Brooke's limited partnership enterprise had achieved a yield of 18.5 percent, in contrast to the 4.5 percent then obtainable via gilt-edged government securities.²¹

21 Following Schucht's report, the ministers unanimously approved the establishment of an ad hoc working group. Perhaps seeking to avoid controversy, state officials initially assigned this working group an especially mundane name: "technology park." Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ergebnisbericht der Wirtschaftsministerkonferenz am 19./20. Oktober 1995 in Hannover, October 25, 1995, 6-82-3001, Nr. 5447. A still more important changes in government oversight was the relaxing of rules pertaining to the Employee Retirement Income Security Act of 1974. Made in the late 1970s, this alteration enabled pension fund managers to invest in high-risk venture capital. See Paul A. Gompers and Josh Lerner, *The Venture Capital Cycle*, 2nd ed. (Cambridge, MA: MIT Press, 2004), 37.

How realistic were Schucht's (and Brooke's) claims? The pair ignored the more reasonable point of comparison between private capital and public equities. American business historians have since demonstrated that attaining payoffs on this scale via risk capital has been proven impossible in the United States.²² The strength of Brooke's appeal to his ministerial counterparts lay in another set of numbers. The staggering sums made available at the time via risk capital explain why Schucht and his colleagues were seeking to take full measure of the extraordinary growth of institutional investors. American funds expanded from USD 504 billion in 1980 to USD 1.5 trillion a decade later to a whopping USD 6.4 trillion in 1997.²³ Given the reluctance of western German banks to provide much smaller amounts of critically needed capital to recently privatized eastern German companies, these staggeringly large financial streams understandably turned the heads of German public officials.

Without mentioning Brooke by name or providing details about his follow-up conversations with Advent's representatives in Frankfurt am Main, the former key figure at the Treuhand in charge of eastern Germany's chemical and energy industries urged his colleagues to recommend a thorough redesign of German banking oversight to greenlight riskier investments.²⁴ His plea did not fall on deaf ears. In October 1995, the thesis paper hashed out by Schucht and Advent representatives in Frankfurt am Main came to bear the imprint of Germany's sixteen state economics ministers: a study group stepped forward to draft a full report based on Schucht's proposal. This group's ambitious objective was to complete its work before an upcoming December 1995 meeting with Chancellor Kohl. Based on the outcome of that gathering, state economics ministers

22 Nicholas, *VC: An American History*, 201–232, 308.

23 Hartmut Berghoff, "Varieties of Financialization? Evidence from German Industry in the 1990s," *Business History Review* 90 (spring 2016): 85.

24 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ergebnisbericht der Wirtschaftsministerkonferenz am 19./20. Oktober 1995 in Hannover, October 25, 1995, 6-82-3001, Nr. 5447. The largest site of foreign investment in the ex-GDR was the chemical industry triangle made up of Bitterfeld, Halle, and Merseburg.

proposed to submit a “well-argued foundational paper” by no later than May 1996.²⁵

As it happened, the ad hoc working group inspired by Schucht’s testimony and his interactions with Advent representatives in Boston and Frankfurt am Main was forced to produce results even faster than the ambitious schedule put forward in October. Taking their own cues from Kohl’s personal endorsement of risk capital in February 1994, several federal ministers had developed their own interest in fleshing out venture capital’s prospects in Germany. To this end, federal officials had launched an interministerial working group devoted to altering how the federal government regulated finance. Formally entrusted to the Federal Ministry of Economics, this expert body had put forward an initial round of suggestions to “improve risk capital resources” in mid-1994.²⁶ Johannes Ludewig, state secretary in the Federal Ministry of Economics and former state secretary to Kohl, headed this federal study group.²⁷ Kohl’s “special representative” for eastern Germany, Ludewig, headed a study group involving high-ranking officials from the Federal Ministries of Finance, Economics, and Justice as well as the Federal Chancellery. Its existence may be traced to the frustrations endured by top public officials in securing adequate sources of capital for the remaining eastern German Treuhand companies in 1993 and 1994.

The pronounced reluctance of many domestic bankers to fully address the needs of eastern Germany had led Ludewig and his colleagues to establish the cross-ministerial federal study group to draft its own pro-

25 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ergebnisbericht der Wirtschaftsministerkonferenz am 19./20. Oktober 1995 in Hannover, October 25, 1995, 6-82-3001, Nr. 5447.

26 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Ergebnisbericht der Wirtschaftsministerkonferenz am 19./20. Oktober 1995 in Hannover, October 25, 1995, 6-82-3001, Nr. 5447.

27 For a brief description of Ludewig’s critical role with reference to a broad range of topics affecting eastern Germany, see Roland Czada, “Die Treuhandanstalt im Umfeld von Politik und Verbänden,” in *Treuhandanstalt. Das Unmögliche wagen*, ed. Wolfram Fischer et al. (Berlin: Akademie Verlag, 1993), esp. 157–159.

posals to elicit greater venture capital commitments.²⁸ Thereafter, however federal efforts to reform finance moved comparatively slowly. The new federal study group spent the second half of 1994 and the first half of 1995 drafting suggestions via the enlistment of Treuhand-era financial contacts. Those eager to accelerate reform cited competition from a newly emerged institutional competitor in London (the Alternative Investment Market, a subindex of the London Stock Exchange, was launched in June 1995).

Federal interest in institutional reform of finance prompted state economics ministers to rush to compile their own interim report in advance of their December 1995 meeting with Chancellor Kohl. With notable alacrity, state leaders transformed the Schucht-inspired thesis paper into a “semiformal” list of proposed incentives in less than three weeks.²⁹ Completed in early November 1995, their interim document set out the case for comprehensive financial reform. Specifically, they called for “tax equalization” of risk capital with ostensibly tax-privileged forms of investment such as real estate, real estate funds, shares in ships and aircraft, and media production companies. Private capital, according to their draft document, should flow toward enterprising small companies willing to assume risks rather than into safe assets with comparatively limited growth prospects. In practice, this meant German companies would be treated essentially as interchangeable mobile assets, rather than as physical facilities with specific technical and managerial competencies. This bundling of companies resembled the Treuhand’s attempts to entice greater involvement from the country’s domestic banks in the context of the contentious implementation of Solidary Pact I in 1993 and 1994. Individual sections provided more technical details on plans to unlock “passive” investments. They included write-offs to cover depreciation,

28 “Folgen des Strukturwandels im Osten unterschätzt,” *Frankfurter Allgemeine Zeitung* 182, August 8, 1994, 9.

29 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Thesenpaper der Arbeitsgruppe Risikokapital, Verbesserung der Risikokapitalausstattung für innovative Existenzgründungen und Technologieunternehmen, November 9, 1995, 6-82-3001, Nr. 2477.

carry-forwards of losses, and tax exemptions on proceeds from sales and capital investments. The somewhat arcane language partially obscured the overarching aim: to redesign government oversight of Germany's financial sector to replicate US models, which strongly encouraged actors on capital markets to separate control from ownership.

An outgrowth of the debates surrounding the role of entrepreneurial finance during the last eighteen months of Treuhand-led privatization in Germany's East, altering the federal government's regulation of capital exercised considerable appeal among state and federal German public officials charged with responsibility for generating economic growth, innovation, and entrepreneurship. The December 1995 meeting with Kohl marked the point of convergence between the two expert groups' plans, state and federal, but not the culmination of efforts to significantly rewrite German banking laws. A major redesign of the federal taxation code to the betterment of financial intermediaries was not Kohl's government's achievement or even the public investment success of enterprising state government officials like Schucht; rather, it was the legacy of Kohl's successor, Social Democrat Gerhard Schröder. Like Höppner, albeit without the support of the Party of Democratic Socialism (Partei des Demokratischen Sozialismus, PDS), Schröder assembled a first-of-its-kind federal coalition consisting of Social Democrats and the Greens in late 1998.

Although their plans remained unrealized during the mid-1990s, both the Schucht-inspired interim report and the federal counterpart compiled by Ludewig illustrate that core agreement among federal and state authorities about the urgency of sweeping financial reform had fallen into place by late 1995. The proving ground for new ideas about how to regulate finance was Germany's East. Treuhand-era connections in the form of the Advent sale, as well as Höppner's, Schucht's, and Ludewig's advocacy, laid the groundwork for how federal and state authorities assessed American-designed financial models in their bid to reindustrialize eastern Germany.

Equity financing gained its strongest footholds in the country's recently privatized East. In Thuringia, the decision of Minister President Bernhard Vogel and his economics minister Franz Schuster to host a ma-

major conference on the merits of risk capital for small-to medium-sized eastern German enterprises in late January 1996 attested to the fact that equity financing was gaining powerful—and highly visible—public sector adherents. Sponsorship from Thuringia’s state government, as well as its Bavarian and Saxon state counterparts and the European Commission, underscored the depth of state and EU support for risk capital initiatives.³⁰ The closing address offered by Johannes Ludewig underscored the consensus extended to the federal government in Bonn.

Forging a new pact between government, finance, and industry entailed the quiet solicitation of domestic and international support informed by eastern German precedents. Changing federal tax laws to accommodate risk capital demanded changes in mind-set among an impressively wide circle of policymaking experts, including Schucht but extending well beyond those with Treuhand biographies to western German Social Democrats with limited ties to eastern Germany.³¹ Among German experts from Germany’s West, American precedents also assumed prominence in arguments to modify federal laws in 1996. In May of that year, the economics minister and chair of the standing conference of state economics ministers (Wirtschaftsministerkonferenz), Social Democrat Peter Fischer, boasted that he and his colleagues, including Schucht, had put forward ideas that constituted a “cultural revolution” in German finances. “For more than a decade and a half everyone has been looking to America,” Fischer noted, “but nothing has changed in the approach of Germany’s financial sector.” As Fischer explained to his colleagues and federal economics minister Günter Rexrodt, Germany’s large commercial banks represented the chief impediment to far-reaching change. Their “profound shortcomings,” Fischer insisted, accounted for why the Federal Republic had fallen behind key competitors in sustaining growth, espe-

30 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, 6-82-3001, Nr. 5444.

31 On the balance of transnational forces and the emergence of new experts within the SPD, see Stephanie L. Mudge, *Leftism Reinvented: Western Parties from Socialism to Neoliberalism* (Cambridge, MA: Harvard University Press, 2018), esp. 358–364.

cially in sectors of future industrial promise. Fischer's solution: alter German tax laws to abolish "discrimination" against investment funds and thus prevent migration of German and European technology concerns to US capital markets.³²

By early 1997, among economic policymakers demands to change how government officials regulated foreign capital inflows were no longer a partisan issue. If anything, Social Democrats had jumped to the front of the line of experts and politicians demanding sweeping reforms in a bid to enable entrepreneurs with ideas, but little or no capital, to realize their full potential. As Fischer's remarks made clear, in advocating sweeping reform, Social Democratic experts from western Germany readily invoked American role models. This helps to explain why Bodo Hombach (the economic policy spokesperson for the SPD faction in North Rhine–Westphalia, and later head of the Federal Chancellery under Gerhard Schröder) highlighted what Hombach regarded as the successes of capital-starved go-getters from the US West Coast to justify his support for North Rhine–Westphalia's DM 40 million contribution to a venture capital fund established by state economics minister Wolfgang Clement.³³

A major overhaul of federal tax policy remained unrealized until after the Social Democrats prevailed in a federal parliamentary election with 41 percent of the vote in late September 1998.³⁴ In the meantime, several western German state governments, notably Bavaria, Lower Saxony, and North Rhine–Westphalia, together with the federal government's devel-

32 Rexrodt was appointed federal minister of economics in January 1993. Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, May 23, 1996, 6-82-3001, Nr. 2481.

33 The fund's objective was to pool investments of DM 1 billion in value. See Martin Noé, "Länder wollen Firmen mit Risikokapital fördern," *Handelsblatt*, February 5, 1997. For the influence of Hombach, a key figure in German attempts to recast German social democracy in the 1990s, on the SPD, especially North Rhine–Westphalia's long serving minister president Johannes Rau and Schröder, see Wolfram, *Rot-Grün an der Macht*, 35, 145–154.

34 For only the second time in the history of the Federal Republic, the German Social Democrats won the most votes of any party. They ended Kohl's sixteen-year chancellorship by adopting methods used in Bill Clinton's and Tony Blair's campaigns. For a brief description, see Wolfram, *Rot-Grün an der Macht*, 26–35, 39.

opment bank, the Kreditanstalt für Wiederaufbau, established programs to foster risk capital investments. In May 1997, Rexrodt opened an equity capital exchange for eastern German companies in Berlin.³⁵ That same month, Lower Saxony's minister president (and future chancellor) Gerhard Schröder undertook an eleven-day fact-finding tour of San Francisco, Seattle, Detroit, and New York (Washington, DC, the US political capital, was absent from his list). An important common denominator between Rexrodt's Investment Fund East and Schröder's lengthy US visit was the benchmark established by American venture capital. In comparison to countries like the United States or Great Britain, Germany was, in Rexrodt's words, "almost a developing country."³⁶ Schröder echoed Rexrodt's sentiment. Like Rexrodt, the Lower Saxony minister president stressed the central importance of venture capital funds in providing not only financial resources but also management expertise. Yes, Schröder acknowledged such "downsides" (*Schattenseiten*) of the American economic model as its weak social system and income inequality. At the same time, he insisted Germans, especially skeptics on the political left, take note of the country's remarkable successes in cultivating flourishing new economic sectors and good jobs.³⁷

The example of risk capital demonstrates that altering regulation of finance enjoyed considerable support among German public authorities across the mid-1990s. While broadsides against federal economic policy in eastern Germany remained a prominent feature of the Social Democratic opposition's attempt to regain federal power and considerable in-fighting among state officials generated frictions over how to elicit

35 The Federal Ministry for Education, Research, and Technology was also actively involved in promoting risk capital funds, Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, Press-Info. Rüttgers: Riesennachfrage, Beteiligungsprogramm für kleine Technologieunternehmen aufgestockt, December 11, 1997, 6-82-3001, Nr. 5446.

36 "Rexrodt vermisst eine Risikokapital-Kultur," *Handelsblatt*, May 8, 1997.

37 "Neue Technologien offensive nutzen," *Frankfurter Allgemeine Zeitung*, May 11, 1997. On venture capital funding of internet companies (and the subsequent extreme stock market run-up prior to venture capital firms collapsing in public exchanges), see Nicholas, *VC: An American History*, 268–303.

foreign investments, the second half of 1997 and first half of 1998 also witnessed agreement among German state and federal governments and different political parties about the need to secure a larger share of international investments.

This chapter's second section traces the origins of economic policy in a related area of foreign investment solicitation known as international business recruitment. It explains how cross-party consensus among German investment experts to reenlist Anglo-American financial professionals to capture increasingly mobile foreign capital emerged from the Treuhand's international investment outreach efforts on behalf of eastern Germans. Broad agreement among government experts and representatives of different political parties about how to reengage Anglo-American financial experts in the quest to obtain a larger portion of foreign direct investment flowing to western Europe was partially obscured by jostling among federal ministries on the one hand and frictions between federal and state officials on the other.

The Industrial Investment Council of the New German Länder

The precedent of the Industrial Investment Council—a for-profit entity molded by suggestions from American financial intermediaries boasting Treuhand credentials and funded by assets seized from socialist East Germany's political parties—informed how members of Germany's powerful lower house of parliament, the Bundestag, advanced an initiative called Invest in Germany in late 1997 and early 1998. In May 1998, an eponymous Bundestag resolution yielded the nucleus of the first pan-German investment agency. A decade later, the Industrial Investment Council and the Office of the Federal Commissioner merged to form a limited liability corporation named after the Invest in Germany initiative.³⁸

38 The Industrial Investment Council soldiered on until the end of 2008. The business development agency was renamed Germany Trade and Invest in January 2009, and

Establishing the Industrial Investment Council required the Office of the Federal Chancellor and the Federal Ministry of Economics to navigate overlapping competencies in Bonn. It also demanded that Johannes Ludewig, the chancellor's man for eastern Germany's economy in the years immediately after the Treuhand's dissolution, and his formal superior, Günter Rexrodt, secure agreement from sixteen state governments. Establishing a new investment entity based on the Treuhand example required Ludewig and Rexrodt to smooth ruffled feathers among German state authorities, especially from the country's West.

Previously a member of Kohl's inner circle involved in such complex negotiations as the European Commission-sanctioned sale of a majority stake in EKO Stahl to Belgium's Cockerill-Sambre, after moving to a new position at the Federal Ministry of Economics in 1994 Ludewig carried out important legwork involved in establishing the Industrial Investment Council. At the instruction of Kohl, Ludewig sought to rectify what the long-serving Conservative-Liberal governing coalition regarded as the chief difficulty besetting eastern Germany's economy during the mid-1990s: a dramatic shortfall of private investment induced by the pending disappearance of Treuhand-supported investments.

Another key figure in the emergence of the Industrial Investment Council was Goldman Sachs's representative Paul Achleitner. Forged in the course of eastern German mass privatization, Goldman Sachs's client-confidential relationships shaped government approaches to investment promotion in the months immediately after the Treuhand's formal dissolution. A sign of Achleitner's reenlistment in German investment policy arrived during an October 1995 meeting involving secretaries of state from the five eastern German states and united Berlin. Ludewig presided

its mandate extended to special efforts to promote economic development in eastern Germany and united Berlin. Amtsgericht Charlottenburg. Industrial Investment Council (IIC) New German Länder GmbH, HRB 61191. See a study commissioned by the Federal Audit Office (Bundesrechnungshof) on foreign investment promotion in Germany: Ulrich Batts and Jens Kersten, *Standortmarketing im Bundesstaat* (Berlin: Duncker and Humboldt, 2008), esp. 26–30. The Federal Audit Office's *Prüfungsakten* have been destroyed. The shorter *Prüfungsmittelungen* remain classified.

over this gathering. At stake was a federal bid to revamp foreign solicitation via a special investment initiative for eastern Germany.

What did Ludewig have in mind? Officials from Brandenburg's Ministry of Economics recorded that Ludewig had secured approval to invite a representative of "Goldman and Sachs" [*sic*] to discuss "possible improvements to attract foreign industrial investors."³⁹ Ludewig's proposed "brain trust" took place the next month. Federal Agency for Special Matters Relating to Unification president Heinrich Hornef attended this formative gathering, together with, among others, investment bank representatives from the United Kingdom and the United States.⁴⁰

Chair of the gathering, Ludewig set the tone by inviting Hornef to report on the Treuhand's experience in attracting foreign investors. Slightly misleadingly, the former Treuhand finance chief acknowledged that the Treuhand had only become active in this field in 1991, as "initially enough interested parties had contacted us of their own accord." This was only partially correct. In fact, the Treuhand in Berlin and central governments in Bonn and East Berlin had incorporated foreign outreach into how they had sought to merge the two German economies immediately after the opening of the border in divided Berlin. Foreigners, for their part, had pushed for these measures while developing concurrent strategies of their own based mainly on domestic considerations. As described in the previous four chapters, they often came up short in multisided efforts to establish an institutional counterweight to the myriad cultural, economic, and political advantages enjoyed by West German competitors. To offer here only one example, well-placed foreigners such as Peter Lilley, trade

39 Brandenburgisches Landeshauptarchiv (Potsdam), Vermerk Betr.: Gespräch StS Dr. Ludewig mit den Wirtschaftsstaatssekretären der neuen Länder am 11. Oktober 1995 in Berlin, October 13, 1995, Rep. 1700 MW 2 Z, Nr. 1532.

40 A dispassionate account of the mid-November 1995 proceedings comes from the archives of Germany's chief development bank, the Kreditanstalt für Wiederaufbau. See Archiv der Kreditanstalt für Wiederaufbau (Berlin), Vermerk, Gespräch über Möglichkeiten zur Verbesserung der Investorenwerbung für die neuen Länder am 14. November 1995 in Berlin, here: Zusammenfassung der Ergebnisse, November 23, 1995, KfW-5250.

and industry secretary (head of the UK Ministry of Economics), requested that the German federal government establish a central clearing house to enable outsiders to obtain information on “the latest state of play on legislation and the activities of the Treuhandanstalt.”⁴¹ As discussed in Chapter 3, Lilley had issued this call at a high-profile meeting at Bellevue Palace in September 1990. Somewhat more to the point, Hornef observed that the Treuhand had appointed representatives and set up offices abroad (in 1991 and 1992). But then, in the same breath, Hornef stressed that “these had only been moderately successful.” This was not far from the truth. More importantly, in his *ex post facto* assessment Hornef also provided a straightforward appraisal of where foreigners’ influence had really mattered. According to Breuel’s *de facto* successor, the real innovations in business recruitment had unfolded in Berlin and not in New York, Tokyo, London, or European commercial and political capitals where formal representatives had been active on the receivership’s behalf. Hornef saved his highest praise for Breuel’s Investor Services directorate, which, in his assessment, had undertaken “successful, systematic” labors. Much of their work, Hornef explained, had been made possible by knowledgeable outsiders. “Industry profiles had been defined,” Hornef stressed, “and companies such as Goldman Sachs and McKinsey had been involved in marketing them.”⁴² In his wrap-up Hornef observed that Treuhand-era investment files—bones of contention between the Treuhand and the Federal Ministry of Economics’s Berlin annex two years earlier—remained on-site and accessible. As Hornef viewed the matter, the logical next step was to reenlist anglophone financial experts with firsthand experience to craft analyses of specific branches of industry and extend investment invitations to potential foreign owners.

41 Modern Records Centre, University of Warwick, Notes of the Plenary Session of Anglo-German Discussions, Berlin, September 24, 1990, MSS.200/C/2003/Box 363.

42 Archiv der Kreditanstalt für Wiederaufbau (Berlin), Vermerk, Gespräch über Möglichkeiten zur Verbesserung der Investorenwerbung für die neuen Länder am 14. November 1995 in Berlin, here: Zusammenfassung der Ergebnisse, November 23, 1995, KfW-5250.

Hornef received a sympathetic hearing from eastern German government representatives. Thuringia's state secretary Werner Schuwirth took up the former Treuhand finance chief's suggestions to argue that representatives of a future investment authority would regard themselves as company employees and not as public officials. Schuwirth added that the new business-recruitment entity should be organized as a limited liability company; it should not, he stressed, be attached to a specific ministry. The Goldman Sachs representative at the November 1995 gathering voiced his approval of Schuwirth's and Hornef's ideas. Achleitner also underscored that future employees of the Industrial Investment Council must fully assume the "information deficit" of potential investors. Achleitner left what this might entail open-ended, offering no specifics on next steps. One reads only that enlisting multipliers, especially international consulting firms and major firms already present in the "new federal states," represented in his view the best way to overcome the "image problems of Germany as a whole."⁴³ Notwithstanding what the Austrian-born American investment bank representative described as "the country's current economic difficulties," eastern Germany's most recent history under the Treuhand's tutelage provided key insights into how best to erase misconceptions among outsiders. To meet increasingly rigorous international competition for out-of-country investments, German officials needed to learn from the recent successes of eastern Germany's privatization to ascertain "whether services for investors, as previously supplied by the Treuhand, are still offered to the necessary extent today."⁴⁴ In other words, the means to boost coveted foreign capital inflows was a return

43 Archiv der Kreditanstalt für Wiederaufbau (Berlin), Vermerk, Gespräch über Möglichkeiten zur Verbesserung der Investorenwerbung für die neuen Länder am 14. November 1995 in Berlin, here: Zusammenfassung der Ergebnisse, November 23, 1995, KfW-5250.

44 Archiv der Kreditanstalt für Wiederaufbau (Berlin), Vermerk, Gespräch über Möglichkeiten zur Verbesserung der Investorenwerbung für die neuen Länder am 14. November 1995 in Berlin, here: Zusammenfassung der Ergebnisse, November 23, 1995, KfW-5250.

to the Treuhand's reliance on Anglo-American investment experts like Achleitner.⁴⁵

Hornef claimed not to see a role for his organization in a new round of investment-bank-shaped foreign investment solicitation. This assertion was also misleading. In yet another example of interministerial wrangling, the Federal Ministry of Finance had recently denied calls from officials of the Federal Ministry of Economics to allow Hornef's agency the opportunity to reengage with overseas investment-promotion experts. Lending his divestment agency's support to a parallel initiative championed by the Federal Ministry of Economics was apparently another matter altogether. Like Breuel's Treuhand's belated establishment of an Investor Services directorate, by the end of 1995 Hornef's Federal Agency for Special Matters Relating to Unification had acceded to top federal authorities' wishes to enlist investment banks and consultants in old/new initiatives to promote foreign investments across eastern Germany, albeit under the banner of an independent, for-profit entity, no longer subordinate to the federal government in the form of a ministry or a subministry like the Treuhand or Hornef's Federal Agency for Special Matters Relating to Unification.

In December 1995 and January 1996, face-to-face meetings involving Chancellor Kohl, the minister presidents from eastern Germany—Höppner, his four eastern German ministerial colleagues from Brandenburg, Mecklenburg–West Pomerania, Saxony and Thuringia, and the mayor of united Berlin—yielded a resolution in principle to create a new joint limited liability company to entice large industrial foreign investors to eastern Germany.⁴⁶ More than a year would pass until the Industrial Investment Council opened its doors. Funding proved an early bottleneck. Berlin's mayor, Eberhard Diepgen, helped to craft a solution. Diepgen ensured

45 Archiv der Kreditanstalt für Wiederaufbau (Berlin), Vermerk, Gespräch über Möglichkeiten zur Verbesserung der Investorenwerbung für die neuen Länder am 14. November 1995 in Berlin, here: Zusammenfassung der Ergebnisse, November 23, 1995, KfW-5250.

46 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, May 23, 1996, 6-82-3001, Nr. 2481.

the foundation set up to distribute the assets of East Germany's political parties and mass organizations supported the initiative, including a decision to place the new entity's office in (East) Berlin.⁴⁷ Together with the neighboring state of Brandenburg, Diepgen then shelved plans to enlist Eversheds, a British law firm, to represent Berlin and Brandenburg's state development corporation and local chambers of commerce and industry in Britain and Ireland.⁴⁸

In eastern Germany, some resistance to the formation of the new investment authority came from state parliaments, notably Mecklenburg–West Pomerania's. Saxony's minister president raised louder objections. In a letter to Kohl at the end of February 1996, Kurt Biedenkopf linked a running critique of several Treuhand restructuring efforts in Saxony to the establishment of the Industrial Investment Council. The upshot of Biedenkopf's message: Saxony needed federal funds to correct Treuhand errors, not to enhance foreign outreach on behalf of the former GDR.⁴⁹

Both formal and informal in-person consultations involving Kohl and eastern Germany's minister presidents, including Saxony's, kept the new initiative to channel private foreign capital eastward inching for-

47 This required Diepgen to reverse the foundation's decision against the Industrial Investment Council on February 26, 1996. See Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Notiz zum Sachstand, April 19, 1996, 6-82-3001, Nr. 2483. Like the Treuhand, this "foundation" had been established by the GDR government in early 1990; thereafter, allocations occurred via the Treuhand and then its main successor, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS).

48 See Brandenburgisches Landeshauptarchiv (Potsdam), Skizzenhaftes Konzept für die Aussenwirtschaftspolitik, September 23, 1996, Rep. 1700 MW 3 Z, Nr. 2048. Brandenburg's state secretary Peter Kohnert identified—as it happened, correctly—the Industrial Investment Council as the nucleus for the future expansion of federal activities in international business recruitment. Kohnert, an important aide to economics minister Burkhard Dreher, also noted the Federal Ministry of Economics's plans to enlist three consultancies—Kienbaum, Price Waterhouse, and Roland Berger—to flesh out the entity's structure. This included a recommendation for the new entity's first chief.

49 Biedenkopf's misgivings delayed the formation of the new agency until the end of 1996 but fell well short of stopping it altogether. See Brandenburgisches Landeshauptarchiv (Potsdam), Schreiben von Biedenkopf an Kohl, February 29, 1996, Rep. 1700 MW 2 Z, Nr. 1531.

ward. Overcoming rigorous objections from western German state governments proved more time consuming. Beyond gripes about the pace of Treuhand-led restructuring, western German state economics ministers complained loudly of favoritism.

Peter Fischer, a state-level successor to Birgit Breuel, led the charge against the Industrial Investment Council. While Lower Saxony's minister for economics, technology, and transport conceded efforts were still required to boost industry in eastern Germany, in a formal letter to his federal counterpart he voiced dismay at Rexrodt's and Ludewig's moves to launch yet another initiative to the exclusive benefit of eastern Germans, securing merely the go-ahead of eastern German state officials rather than approval from all sixteen state governments. Fischer postulated that the federal government's approach to investment attraction risked conveying the impression that "Germany as a business location [Wirtschaftsstandort] remains divided in two." Adding insult to injury, in a thinly veiled reference to the Treuhand years, Fischer not only claimed that this latest federal government initiative reenforced painful national divisions but also took a swipe at the Bonn government's impartiality. The Social Democratic economics minister claimed that plans to form an investment promotion agency exclusively for the East signaled to potential non-German investors that the federal government sought "to exert direct influence on the investment decisions of foreign companies."⁵⁰

Willing to question the federal government's commitments to national unity and open markets, Fischer nonetheless extended a small olive branch. Breuel's successor in Lower Saxony conceded his willingness to approve additional funds for individual state development agencies in eastern Germany or even a "joint institution" funded exclusively by the eastern state governments. What he claimed to reject outright was a federally funded development agency for the exclusive benefit of Ger-

50 Fischer recorded his assessment that "in [his] opinion this project would have required thorough discussion at the standing conference of economics ministers." See Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Peter Fischer an Günter Rexrodt, February 29, 1996, 6-82-3001, Nr. 2483.

many's East. Here Fischer threw down the gauntlet. Should the federal government prove unwilling to "abandon this project," Lower Saxony's economics minister demanded the new organization assume a narrower scope (general publicity rather than in-person discussions with individual investors) and face termination at the end of December 1998 (as it happened, the Industrial Investment Council lasted a full decade longer). Even more remarkably, Fischer requested that Rexrodt maintain strict silence about the federal government's actual role in setting up an eastern German business-recruitment firm.⁵¹

Mounting dissatisfaction among western German public officials toward eastern German earmarks does not entirely suffice to account for Fischer's vigorous objections and brazen request. Staggeringly large federal transfers to eastern Germany's "new" states made his characterization of the initiative as "massive" appear disingenuous; the actual scale of the proposed commitment, DM 50 million, or a federal contribution of DM 12 million per year, certainly belied Fischer's assertion. Lower Saxony's economics minister was also aware that the actual origins of earmarked funds, including assets seized from firms once included in the GDR's Commercial Coordination (KoKo) trade network, were quintessentially East, not West, German. Profound economic and social difficulties faced by eastern Germans, compounded by the pending conclusion of investments shouldered by the Treuhand and its successors, notably the Federal Agency for Special Matters Relating to Unification, were also familiar to western German officials. In light of these facts, it appears highly unlikely that Fischer believed that a new federally funded initiative, formally endorsed by Kohl, five eastern German minister presidents, and Diepgen, would be discarded on account of his sharply worded letter to Rexrodt.⁵²

51 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Schreiben von Peter Fischer an Günter Rexrodt, February 29, 1996, 6-82-3001, Nr. 2483.

52 See Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Wirtschaftsministerkonferenz am 7./8. Dezember 1994 in Karlsruhe, Gespräch mit dem Präsidenten des BDI, 6-82-3001, Nr. 2470.

Fischer's acerbic note indicates that western German state governments were losing ground to federal authorities in struggles over how best to attract international investors. As was the case with attempts to tap into venture capital's potential to induce economic growth, a key dimension of the dispute among federal and several western German state officials over foreign investment promotion was not so much conflicting visions as parallel plans. In 1994, three large western German states—North Rhine–Westphalia, Baden–Württemberg, and Bavaria—had launched “German Centers” (*Deutsche Häuser*) in Seoul, Shanghai, and Singapore. Smaller state governments were unenthusiastic about them. Most eastern German colleagues were unwilling to place responsibility for foreign investment in the hands of state government officials in Düsseldorf, Stuttgart, and Munich, where commitments to eastern Germany were weak, if not downright hostile. While Saxony's state government aligned with several western German counterparts to demand a greater federal emphasis on small and medium-sized enterprises, the economics minister of the eastern German state of Brandenburg took the opposite tack. In January 1996, Burkhard Dreher tied his eastern German state's approval for the Industrial Investment Council to a request to block federal assistance for the German Centers.⁵³

Federal support for the Industrial Investment Council dimmed prospects for greater public assistance to competing state-level initiatives like the German Centers. In the crowded field of foreign investment promotion, this latest initiative for Germany's East threatened to postpone the opening of new offices for the German Chamber of Industry and Commerce (*Deutsche Industrie- und Handelskammer*) in the Emirates and the Balkans.⁵⁴ The creeping advance of federal ministerial authority in the form of special measures for eastern Germany provoked consternation among those western German state officials eager to shift invest-

53 Brandenburgisches Landeshauptarchiv (Potsdam), M über Sts, zur Unterrichtung, January 30, 1996, Rep. 1700 MW 3 Z, Nr. 2048.

54 Parlamentsarchiv des Deutschen Bundestages (Berlin), Schreiben von Franz Schoser an Friedhelm Ost, February 2, 1998, Ordner BT-Drucksache 13/8047.

ment attraction initiatives to growth regions in East Asia, the Gulf, and especially North America, where the Federal Ministry of Economics had recently committed itself to financing a network of “Business Location Germany” annexes within the representations of the German Chamber of Industry and Commerce.⁵⁵

Western state governments’ unwillingness to accept the formation of the Industrial Investment Council reflected a desire to thwart the advance of federal authority over foreign business recruitment. The recalcitrance of Fischer and his colleagues also reflected a desire to limit, insofar as possible, additional financial commitments to Germany’s East. This last factor yielded shrill criticisms of the scale of financial transfers to severely deindustrialized eastern Germany.

At the May 1996 gathering of sixteen state economics ministers, attended also by Ludewig, Rexrodt, and other federal officials, Fischer seized upon the critical assessments of fellow western German ministerial colleagues to reiterate their collective displeasure with the scale of public transfers to eastern Germany. Citing remarks offered by Baden-Württemberg state secretary Rainer Brechtken, Fischer insisted that what needed to be grasped was not eastern Germany’s economic woes but rather the deleterious state of western German industry. The precarious state of the economy in western, not eastern, Germany mattered most. Brechtken spoke of deindustrialization in southwestern Germany during the past five to six years (in other words, the years since the formal incorporation of the territory of the former GDR) which “could not be allowed to deteriorate any further.” The reason: western Germans would for the foreseeable future be called upon to transfer more than DM 150 billion per year to eastern Germany.⁵⁶ Rather than concentrating limited public resources in the country’s strongest economic regions, the federal government was

55 The first such office opened in Chicago in 1994. See Bundesarchiv, Sprachzettel US-Investitionen in den neuen Bundesländern und Maßnahmen zur Investorenwerbung, April 15, 1996, B 102/787376.

56 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

lurching forward with yet another special initiative for the beleaguered East without considering the repercussions for the nation's economic heartland. Taking up points raised by North Rhine–Westphalian economics minister Wolfgang Clement, Fischer also insisted that a dearth of international capital flows was not exclusively an eastern German problem. Clement characterized foreign investment activity in western Germany as “extraordinarily poor,” albeit marginally better than in the East.⁵⁷ Christiane Krajewski, Fischer's colleague from the westernmost state of the Saarland, took up a provocative suggestion raised both by Fischer and Rainer Brüderle, Rhineland Palatinate's economics minister. Krajewski had asked whether it would not be advisable for the federal government to strengthen the effectiveness of existing institutions by working behind the scenes as an advisor to the five states' existing economic development agencies. Brüderle, Clement, and Krajewski insisted that a new investment-promotion agency backed by the federal government could only disadvantage the “old” federal states. Clement doubted whether its three-year term limit would be observed; in any event, its creation meant the already difficult tasks facing existing state business-recruitment agencies would become that much harder. Taking Brüderle's and Clement's objections a step further, Krajewski asserted that this latest decision to “flash the company sign” known as the “Federal Republic of Germany” abroad, albeit on behalf of only one part of country, was an unequivocal violation of the Bonn government's “neutrality obligation” (*Neutralitätspflicht*).⁵⁸

These and other highly critical comments from top western German officials prompted indignant responses from Ludewig and eastern German leaders. Ludewig stressed that when it came to eastern Germany's industrial reconstruction, the federal government was anything but neutral.

57 Clement also added his doubts that the Industrial Investment Council's mandate would expire, as scheduled, at the end of 1998 (as it happened, the agency's first three-year period expired at the end of 1999, not 1998). Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

58 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

Rather, the Kohl administration was “120 percent” in eastern Germany’s corner. Coupling the proposal to set up the Industrial Investment Council’s foreign outreach to the nearly five-year era of Treuhand-led mass privatization, Ludewig asserted that “on this second stage of the journey the federal government would remain fully engaged.”⁵⁹

In a nod to Brechtken’s and Clement’s objections, Ludewig vowed to limit the federal government’s direct involvement with the new limited liability corporation to two years. (As it happened, Ludewig’s successors broke this pledge.) On all other points, Ludewig insisted, the proponents of the Industrial Investment Council would not yield ground. In a remark typical of the tense exchanges, Brandenburg’s Dreher responded to his western German colleagues’ hyperbole with sarcasm. Dreher, formally a municipal development expert in the western German city of Dortmund, poured scorn on the notion that that the new states were determined to “bring down” (*niederringen*) Bavaria, Baden-Württemberg, or North Rhine–Westphalia.” For him, eastern Germany’s much-diminished industrial prowess, constituting a mere 6 percent of the national total, underscored how far his western German counterparts had strayed from reality.⁶⁰

The most rigorous defense—not merely of the Industrial Investment Council initiative but also of the continued necessity of extraordinary federal action on behalf of eastern Germany’s economy—came from Saxony-Anhalt’s Klaus Schucht. While conceding it would be “nonsense” to establish a new institution if functioning institutions already existed, Schucht stressed the need to raise the visibility of the new federal states abroad, “especially in Japan and the USA.” Joining his Saxon colleague Kajo Schommer, Schucht thanked the federal government for all Bonn authorities had provided to the East to date, including its special advocacy. Turning directly to his western German state colleagues, Schucht

59 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

60 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

set out the unsettling facts of eastern Germany's profound deindustrialization. More than half of eastern Germans had lost their jobs during the previous five years. In some regions, unemployment stood between 26 and 36 percent. The psychological upheaval was comparable to what West Germans had endured after 1945. East Germans not only lacked jobs but also, Schucht added, possessed almost no capital. In Saxony-Anhalt, the second largest of the new federal states, no company existed with more than fifteen hundred employees. No company in the entire state was owned by anyone from Saxony-Anhalt.⁶¹ Dire as the economics challenges were, the challenges facing Germans, East and West, could not simply be reduced to money. At least as important as economic development was mutual recognition. On this point, Schucht concluded, the May 1996 policy discussion of the Industrial Investment Council initiative revealed how far away the country's sixteen economics ministers stood from this oft-invoked goal.⁶²

Foreign Investment Promotion and Germany's Post-Treuhand *Standort* Debate

Abiding misgivings among western German state officials about federal motives in Germany's East slowed the establishment of the Industrial Investment Council until mid-December 1996. East/West and federal/state tensions should not obscure the fact that moves to set up the Industrial Investment Council reflected a shared assessment among many German public officials that the Federal Republic had fallen behind key European competitors in soliciting outside investment.⁶³ Britain, France, Ireland, the Netherlands, and Sweden counted among those EU rivals regarded

61 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

62 Landesarchiv Thüringen – Hauptstaatsarchiv Weimar, Vermerk über die Wirtschaftsministerkonferenz am 2./3. Mai 1996 in Wernigerode, 6-82-3001, Nr. 2481.

63 Press accounts zeroed in on the lengthy negotiations but also recommended the Industrial Investment Council as a model for western Germany. For instance, see

as savvy at acquiring overseas investments. Less often acknowledged among those business-recruiting nations purportedly surging ahead of Germany were competitors from east-central European nations vying to join a soon-to-be dramatically enlarged European Union.⁶⁴

Rivalry with several western European nations prompted state and federal experts to advance still another federal initiative to solicit foreign investments. Pivotal in yielding a second proposal directly after the Industrial Investment Council's contentious establishment were deep concerns about the future prospects of western Germany's historically strong export-driven economy. The misgivings expressed by Brechtken, Fischer,

"Ausland soll in Ostdeutschland investieren. Türöffner," *Handelsblatt* 244, December 17, 1996.

64 On the establishment of foreign direct investment agencies in Bulgaria (1995), Croatia (1996), the Czech Republic (1992), Estonia (1994), Hungary (1993), Latvia (1993), Lithuania (1995), Poland (1992), Romania (1997), Slovakia (2000), and Slovenia (1995), see Nina Bandelj, *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe* (Princeton, NJ: Princeton University Press, 2008), 66–74. The European Union formally announced the decision to launch an accession process with twelve countries in east-central Europe in 1998. A decade later, foreign economic penetration in many countries across this vast region topped the OECD. Foreign companies produced more than 40 percent of the economic output in the Czech Republic, Estonia, Hungary, and Slovakia, with Poland not far behind at 32 percent. See Vera Šćepanović, "National Interests and Foreign Direct Investment in East-Central Europe after 1989," in *Nationalism and the Economy: Explorations into a Neglected Relationship*, eds. Stefan Berger and Thomas Fetzer, 209–236 (Budapest: Central European University Press, 2019), 209. The region's FDI blitz from the late 1990s onward has produced important guides to investment promotion in east-central Europe (albeit without attention to eastern Germany). Recent publications include Hilary Appel and Mitchell A. Orenstein, *From Triumph to Crisis: Neoliberalism Economic Reform in Postcommunist Countries* (New York: Cambridge University Press, 2018), esp. 116–141; Paweł Capik, *Foreign Investment Promotion: Governance and Implementation in Central-Eastern European Regions* (New York: Palgrave Macmillan, 2019); Balázs Szent-Iványi, ed., *Foreign Direct Investment in Central and Eastern Europe: Post-crisis Perspectives* (New York: Palgrave Macmillan, 2017). EU funding enabled the establishment of foreign investment promotion agencies based on western European, especially Irish, models. For CzechInvest, see Jan Drahoukoupil, *Globalization and the State in Central and Eastern Europe: The Politics of Foreign Direct Investment* (New York: Routledge, 2010), esp. 6–32, 114–121. As a source, not destination, of foreign capital to postsocialist countries—that is, as an outward foreign direct investor—Germany (essentially western Germany) is addressed in these studies.

and several others hinted at increasingly contentious debates among policymakers about market competitiveness.

Whereas the myriad difficulties raised by the merger of two very different German economies after 1989 initially obscured concerns about the overall health of the (West) German economy, by the mid-1990s apprehensions about Germany's future industrial prospects had returned full force. By then, anxieties about national competitiveness centered on ballooning federal budget deficits, high incidental wage costs, and unemployment in eastern and, increasingly, western Germany as well. These concerns cast long shadows over public life in Germany until the mid-2000s.

This second, more intense round of *Standort* debates strengthened the hand of civil servants and parliamentarians demanding far-reaching reforms in the name of greater market innovation. Alongside access to risk capital, proposals to acquire foreign direct investment (FDI)—typically measured as business transactions extracted from government contributions—figured prominently in prescriptions designed to boost the future prospects of the German *Standort*.

During the second half of 1997 and the first months of 1998, Germany's perceived inadequacies in acquiring FDI prompted a measure known as the Invest in Germany initiative.⁶⁵ Hashed out in the Bundestag's Committee on Economic Affairs and then, in May 1998, put to a vote after a three-hour open session of the full Bundestag, the proposal sought to enhance the ability of the federal government to capture the attention, and especially the resources, of large foreign investors. Formally submitted by Conservative and Liberal deputies in the Bundestag, the proposed endeavor sought to raise the federal government's profile in attracting foreign capital. Notably, it was sufficiently vaguely worded

65 *Monatsbericht der Deutschen Bundesbank, Monatsbericht September 2006* (Frankfurt am Main: Bundesbank, 2006), 47. Also cited in Hartmut Berghoff, "Die 1990er Jahre als Epochenschwelle? Der Umbau der Deutschland AG zwischen Traditionsbruch und Kontinuitätswahrung," *Historische Zeitschrift* 308, no. 2 (2019): 365. The rate of outward FDI—that is, German investments in other countries—increased by more than 350 percent during this period.

to draw support from not only the governing coalition but also members of the Social Democratic opposition. Born of a political consensus, the Invest in Germany initiative first and foremost drew upon the recent precedent of the Industrial Investment Council. It also came to embody the Treuhand's experience in soliciting investments on behalf of eastern German companies.

The following section traces precisely how this cross-party consensus emerged. In their initial bid to develop a "smart concept" for an "Invest in Germany Offensive," Conservative Party deputy Gunnar Uldall and a second member of parliament from the Free Democratic Party (Freie Demokratische Partei, FDP), Paul Friedhoff, asked rhetorically whether an "Invest in Germany Council" needed to be established, or whether existing organizations were prepared to shoulder new responsibilities.⁶⁶ Uldall and Friedhoff were referring to the possibility of allowing the recently established Industrial Investment Council to shoulder national responsibilities. Siegmur Mosdorf, a Social Democratic deputy in the Bundestag, was among the first to signal his party's willingness to support an expansion of the new agency's mandate to western Germany.⁶⁷ Mosdorf's suggestion elicited little enthusiasm from federal economics minister Günter Rexrodt. Chastened by recent clashes with state-level counterparts and eager to underscore the federal government's special focus on Germany's East, Rexrodt proposed instead an alternative to a pan-German Industrial Investment Council based on the Treuhand's short-lived network of unpaid honorary representatives assigned to nine western European commercial and political capitals.

In Rexrodt's view, unified Germany required not an independent foreign development agency like Ireland's, Sweden's, or the United Kingdom's, but rather an independent "*Standort* representative" (*Standort-*

66 Antrag des Abgeordneten Gunnar Uldall und der Fraktion der CDU/CSU sowie des Abgeordneten Paul K. Friedhoff und der Fraktion der F.D.P., June 27, 1997, BT-Drucksache 13/8047.

67 Peter Reinhardt, "Standort Deutschland GmbH soll Investorenwerbung bündeln," *Handelsblatt* 194, October 9, 1997, 4.

repräsentant) based in Berlin. Assisted by a small, handpicked staff of three to four individuals operating outside the bounds of his ministry, this high-profile individual could, Rexrodt explained, approach deep-pocketed foreign investors on a one-to-one basis. Insofar as ministerial support was required, Rexrodt suggested the *Standort* representative could draw upon the expertise of those state and federal actors already active in the field of foreign investment promotion, including embassy and trade officials stationed abroad, the sixteen state minister presidents and economics ministers, and, not least, each state's independent development authority. The Federal Ministry of Economics's own Foreign Investor's Center in Berlin, established in 1991 shortly before the Treuhand's own Investor Services directorate, could also provide additional support to the *Standort* representative on an as-needed basis.⁶⁸

In his proposed reliance on a single, well-connected mediator situated between foreign investors on the one hand and a medley of federal, state, and local authorities on the other, Rexrodt's proposal strongly resembled the Treuhand's Janus-faced approach to foreign investment solicitation. The latter showcased well-placed notables, among them the agency's nine "roving ambassadors" in major European cities and small, independent offices in New York and Tokyo. Closer to home, still more important intermediaries—investment bankers and management consultants—drafted tenders, steered negotiations, and put together assistance packages for new owners.

Rexrodt's suggestion to appoint a *Standort* representative according to the mold of the Treuhand's foreign outreach elicited skepticism, muted expressions of support, and an alternative in the Bundestag's Committee on Economic Affairs. Minutes of that body's early February 1998 gathering reveal that the economic policy speaker of the Green Party's Bundestag faction, Margareta Wolf, voiced the loudest skepticism. In a thinly veiled dig at the bland Rexrodt, Wolf suggested that Rexrodt's "personal

68 Parlamentsarchiv des Deutschen Bundestages (Berlin), Standortmarketing für Deutschland. Bundesministerium für Wirtschaft (BMWi), January 28, 1998, Ordner BT-Drucksache, 13/8047.

charisma,” and not that of a well-known notable entrusted with investment promotion, was of the utmost importance to Germany’s future as a location for business. Rexrodt’s concept, she insisted, amounted to little more than another layer of bureaucracy. In sum, Rexrodt’s proposed alterations to German business-recruitment practices struck Wolf as “extremely unhelpful.”⁶⁹

Siegmar Mosdorf, a Social Democratic member of the Bundestag committee, joined Wolf in pouring scorn on the idea that appointing a “dazzling personality” would solve deeper-seated problems. Enlisting a notable to engage potential foreign investors in lieu of the minister himself was in his view a mistake. Solicitation of foreign investors was too important to outsource to well-intentioned notables. During the past ten years, Mosdorf observed, American and Japanese business leaders had invested prodigious sums in Europe but not in Germany. The reason: “Germany has actually never fought hard for foreign investors.” Mosdorf rightly noted that, unlike Britain or Sweden, Germany lacked a “powerful agency to attract foreign investors.” The absence of a first-rate investment promotion entity had proven a costly, if seldom acknowledged, mistake. Noting with approval the aggressive marketing efforts of individual American states, Mosdorf claimed that the United States had managed to create “about a million jobs through foreign direct investment.” While acknowledging that the Industrial Investment Council had undertaken important work “in attracting investors for East Germany as a priority area,” Mosdorf insisted that “in Germany as a whole, a powerful unit that would push hard to attract investors remained strikingly absent.”⁷⁰

69 Parlamentsarchiv des Deutschen Bundestages (Berlin), Kurzprotokoll der 74. Sitzung des Ausschusses für Wirtschaft (9. Ausschuss), February 4, 1998, Ordner BT-Drucksache, 13/8047.

70 Parlamentsarchiv des Deutschen Bundestages (Berlin), Kurzprotokoll der 74. Sitzung des Ausschusses für Wirtschaft (9. Ausschuss), February 4, 1998, Ordner BT-Drucksache, 13/8047. For an interesting comparative exploration of center-left parties’ enthusiasm for financial capitalism in the United States, France, Italy, and Germany, see John H. Cioffi and Martin Höpner, “The Political Paradox of Finance Capitalism: Interests, Preferences, and Center-Left Party Politics in Corporate Governance Reform,” *Politics and Society* 34, no. 4 (December 2006): 463–502.

Mosdorf exaggerated Germany's FDI weaknesses: the actual rate of inward FDI to Germany doubled between 1990 and 2001. Rather than adjudicating his (and others') assertions, this section attempts to understand precisely how widespread misgivings about the future of Germany's economy shaped investment policy in the Bundestag in early 1998. Withering criticism from Wolf and skepticism from Mosdorf, along with tepid pledges of support from fellow Free Democrats Otto Graf Lambsdorff and Jürgen Türk, did not spell the end of the Invest in Germany initiative. On the contrary, only a week after the first review of Rexrodt's ideas, the Bundestag's experts fast-tracked the new foreign investment offensive for all of Germany.

At the follow-up meeting of the economic affairs committee, a revised and amended version of Uldall's resolution yielded markedly upbeat assessments from Wolf, Mosdorf, and several others. The change in tone among the parliamentary investment experts was striking. Describing the new draft initiative as "important," Green Party deputy Wolf asked to be included on the petition as a coapplicant. Mosdorf, too, offered his endorsement. Confidently (and correctly), Mosdorf noted that the SPD parliamentary group in the Bundestag would support the revised proposal. Mosdorf expressed particular satisfaction that Rexrodt's *Standort* representative—a figure he caustically dismissed as a "breakfast director"—had been replaced by an independent "central agency" overseen by the Federal Ministry of Economics. Within the committee, votes in favor came from the parliamentary group of the Christian Democratic Union (CDU)/Christian Social Union (CSU), as well as Rexrodt's party, the FDP. The SPD was also on board. Wolf, too, added her vote. The PDS and a second member of the Green Party abstained. In a final demonstration of cross-party agreement, Uldall and Friedhoff appointed Green Party deputy Wolf as rapporteur (*Berichterstatterin*).⁷¹

71 Parlamentsarchiv des Deutschen Bundestages (Berlin), Kurzprotokoll der 76. Sitzung des Ausschusses für Wirtschaft (9. Ausschuss), February 11, 1998, Ordner BT-Drucksache, 13/8047.

Party political clashes did not bring the Invest in Germany initiative to a halt. In fact, they proved unimportant in shaping policy reform. What brought about the change of heart? Consensus within the Bundestag's economic affairs committee reflected a behind-the-scenes compromise between Uldall and Mosdorf. The files reveal that Uldall quietly accepted an offer from Mosdorf to amend the draft proposal.⁷² The centerpiece of Mosdorf's revision and the basis for agreement within the group of parliamentary experts was the example set by the newly established, essentially untested Industrial Investment Council.

In a six-page "project draft" included in the files of the Bundestag's economics committee, Mosdorf stressed that, in order to operate effectively in the "globalization process," Germany as a whole, not just the country's East, required "precisely such an instrument" as the Industrial Investment Council.⁷³ Mosdorf's advocacy of the Industrial Investment Council had little to do with the brand-new agency's efficacy or, for that matter, the needs of eastern Germany. The real driver was a multinational development shortchanged by federal authorities: the rise of FDI. An Industrial Investment Council for the country as a whole was necessary to ensure Germany obtained greater access to prodigious cross-national flows of increasingly mobile capital, including risk capital. Citing Organization for Economic Co-operation and Development (OECD) statistics, Mosdorf explained the volume of foreign direct investment worldwide stood at a staggering USD 6 trillion in 1997. With no end to the upward trend in sight—Mosdorf explained that, in 1996, the OECD recorded a USD 500 billion increase—the time to extend measures recently embraced for eastern Germany had clearly arrived.⁷⁴ In observations reminiscent of

72 See Conservative deputy Christian Ruck's remarks: Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21714.

73 Parlamentsarchiv des Deutschen Bundestages (Berlin), Ausschuss für Wirtschaft. Ausschussdrucksache 652/13. Projektskizze Standort Deutschland Investment GmbH, February 11, 1998, Ordner BT-Drucksache, 13/8047.

74 FDI flows as measured by the United Nations Conference on Trade and Development (UNCTAD) noted exponential growth across the period from 1970 to 2000; UNCTAD's tally of world FDI flows was, however, notably lower than Mosdorf's.

Schucht's advocacy of risk capital in late 1995, Mosdorf insisted that Germany was receiving far too small a share of an astonishingly vast and growing global FDI pie. Citing a study supplied by consultancy Roland Berger, the Social Democrat claimed that "on the list of the largest target countries for foreign direct investment, Germany stood in thirteenth place."⁷⁵ The Social Democrat asserted that fresh capital, new skills and technologies, and also quality employment beckoned for those willing to embrace greater foreign ownership across all of Germany, and not merely the East.

For Mosdorf, enthusiastic support for foreign investment stemmed not only from vast and growing volumes of foreign direct investment but also from the perceived imperatives of international competition. In this battle for Germany's industrial future, standards were set elsewhere, not in the Federal Republic. External validators of Mosdorf's interpretation included international agencies, such as the OECD, and consulting experts. Behind them stood the specter of western European rivals Britain and the Netherlands and recently accessioned EU partners—Austria, Sweden, and Finland—all nation-states with cultural and historical backgrounds similar to West Germany's.

By professionalizing its international business recruitment, Mosdorf contended, Germans could succeed in projecting strong positions vis-à-vis western European competitors into the future. In another nod to technocrats, while acknowledging that "hard benchmarking criteria" and "framework conditions," including infrastructure, labor costs, taxes, and bureaucracy, shaped how potential investors regarded Germany as compared to its EU competitors, Mosdorf insisted that the more profes-

UNCTAD recorded FDI at USD 1.4 trillion in 2000. UNCTAD, *World Investment Report* (Washington, DC: UNCTAD, 2002), 14–19.

75 Parlamentsarchiv des Deutschen Bundestages (Berlin), Projektskizze Standort Deutschland Investment GmbH, February 11, 1998, Ausschuss für Wirtschaft und Technologie. Ausschussdrucksache 87/14. The importance of international ranking on policies toward foreign investment warrants closer archival investigation. For a starting point, consult Sam Schueth, "Winning the Rankings Game: The Republic of Georgia, USAID, and the Doing Business Project," in *Ranking the World: Grading States as a Tool of Global Governance*, ed. Alexander Cooley and Jack Snyder (New York: Cambridge University Press, 2015), esp. 151–157.

sional investment-promotion activities of foreign rivals, notably Austria, the Netherlands, and Sweden, in rebranding their countries played an important role in explaining how Germany had fallen behind European rivals in the race to obtain FDI.

Attracting both large foreign manufacturing companies and innovative start-ups meant redoubling efforts based on the recommendations of American experts. What all of Germany, not merely the troubled East, required was a marketing company structured as a “public-private partnership.” This company’s “sponsors” would consist of federal and state governments, municipalities, and the German Chamber of Industry and Commerce. Fortunately for Germans, a domestic model for this new “Standort Deutschland GmbH” already existed: the Industrial Investment Council of the New German Länder.⁷⁶

Alongside predictable, largely symbolic doses of party politics, a three-hour open debate of the Mosdorf-amended resolution yielded cross-party pledges of support. SPD and Green deputies, along with members of the governing CDU and FDP coalition, agreed on the need to embrace attempts to boost the country’s attractiveness to outsiders, including how German authorities signaled their eagerness to solicit capital abroad.

The timing of this new cross-party consensus to advance finance-driven growth is especially striking. The Bundestag debate took place on May 8, 1998, that is, four and a half months prior to general elections that brought the SPD and Greens to power in a first-of-its-kind federal coalition. Two other, more recent events shaped that day’s parliamentary debate, the first being the merger of German and American automobile manufacturers Daimler-Benz and Chrysler. The previous day the heads of both companies had announced the new firm’s corporate headquarters would be located in Stuttgart, not Detroit. In the first of several tips of the hat to American capitalist leadership, in his opening remarks Ullall cited this decision as proof that the German *Standort* was “once again

76 Parlamentsarchiv des Deutschen Bundestages (Berlin), Projektskizze Standort Deutschland Investment GmbH, February 11, 1998, Ausschuss für Wirtschaft und Technologie. Ausschussdrucksache 87/14.

first class." Enthusiasm for American ownership meshed with a second, disconcerting development: state elections held in Saxony-Anhalt in late April 1998 had yielded gains for the right-wing German People's Union (Deutsche Volksunion, DVU). Alongside concerns about a second Höppner government silently "tolerated" by the PDS, the DVU's ability to garner nearly 13 percent of the vote (and a quarter of all ballots cast by voters under the age of twenty-five) in Saxony-Anhalt's third state election focused minds in the Bundestag on May 8, 1998.

Attempts to score advantages against political rivals were a prominent, if unimportant, feature of the Bundestag's consideration of the revised resolution. Acknowledging that Germany was indeed late to embrace economic reforms well underway in several western European countries, CDU/CSU deputy Uldall brushed aside concerns about German tardiness with reference to two developments. According to Uldall, the reluctance to embrace far-reaching reforms stemmed from the intransigence of the opposition and the exigencies of national unification. Surmising that "the only reproach [of the Conservative-Liberal coalition government] worth discussing was that we had started too late with our structural adjustment measures," Uldall asked his listeners "to bear in mind that we had quite different problems to solve in Germany at the beginning of the 1990s." The overriding challenge faced by the federal government, Uldall proclaimed, "was reunification."⁷⁷

Uldall's assertion of national priorities only partially obscured a notable admission: Germany had fallen behind western European rivals in market reforms, including in attempts to secure foreign capital. Unlike Mosdorf, Uldall paid scant attention to Germany's industrial and commercial rivals. Instead, the co-initiator of the Bundestag draft resolution

77 See Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21696. Conservative deputy Wolfgang Schäuble, the architect of Germany's unification treaties and considered at that time a likely successor to Chancellor Helmut Kohl, added to Uldall's remarks his cogent approval: "That's exactly how it is!" Uldall also touted the benefits of the federal government's "fifty-point program" for economic revival. It abolished the tax trade on capital and net-worth tax and reduced nonwage labor costs via reduction in contributions to pensions.

presented the challenge facing German public officials in May 1998 as a communications problem and, thus, not a governmental failure to address international trends. Not the country's economic success but rather Germans' ability to tout their country's future prospects required an update. According to Uldall, "If you want to be economically successful, you have to have two things: a good product and a good sales department. Our good product is *Standort* Germany."⁷⁸ Welcoming foreign capital, the Conservative deputy implied, only required more determined efforts to market the "product," that is, Germany as a country, to international investors.⁷⁹

In Uldall's assessment what Germany most lacked was a strong sales department. Precisely what form this entity should assume remained unclear. Mosdorf, for his part, concurred about the need to improve competitive conditions but felt Uldall's and Rexrodt's vague design left unexamined the reason investment-promotion reform was so imperative: the quickening pace of global economic integration as measured by FDI.

Alongside his jobs at the federal government's implementation of reform during the past ten years, Mosdorf supplied key data points in support of Uldall's argument. At the heart of the Social Democrat's remarks was a narrative about the wider significance of Germany's alleged inability to keep pace with key European rivals' access to vast and growing cross-border flows of capital. According to Mosdorf, during the years 1985 to 1995 no less than USD 500 billion in foreign direct investments had accrued to the United States. Britain, for its part, had obtained USD 200 billion. China and France were not far behind. Germany, now fourteenth, lagged behind these nations and still others.⁸⁰

78 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21697.

79 On this point Uldall's presentation echoed a widely cited guide to investment promotion: Louis T. Wells and Alvin G. Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment*, 2nd ed. (Washington, DC: World Bank, 2000), 28.

80 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21699. For a more nuanced discussion of inward and outward German FDI, see Berghoff, "Die 1990er Jahre als Epochenwende?" 372.

Mosdorf argued that Germany's apparent loss of competitiveness as measured by the critical determinant of international business recruitment demanded institutional change. The Federal Republic's inability to embrace a broad range of market reforms—including how the country as a whole, and not just its individual states or the region of eastern Germany, presented itself to potential investors from elsewhere—hobbled not just efforts to acquire cross-border capital. Falling behind rivals in the race to acquire FDI had wider, more disturbing implications. Echoing arguments put forward at the time by investment banks and international development agencies, Mosdorf contended that Germany's inability to obtain a larger slice of FDI offered a window onto Germany's longer-term future economic prospects.

Staggeringly large volumes of capital focused the minds of Uldall, Mosdorf, and many others in Germany's most important legislative body. The grunt work consisted of meeting the unspecified needs of cross-border investors. Here Germany had for too long been asleep at the wheel. Mosdorf maintained, "We have the situation today that the German government has not in any meaningful way attended to the needs of foreign investors in recent years." What Mosdorf meant by this assertion about the recent past remained unclear. An image Mosdorf related in the Bundestag debate does, however, convey a sense of whence he expected future-oriented solutions to arise: "Many people are confused: they see on television how minister presidents, economics ministers, and even the chancellor are constantly packing up planes with company directors, flying with them somewhere, saying: 'Look, you can invest here! We should go the other way. We should send an empty Airbus to the USA and bring investors here, and systematically look after foreign investors in Germany.'"⁸¹

Mosdorf's equation of national economic success with the legitimization of powerful US investors unmasked the assumed neutrality of capi-

81 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21699.

tal. Placing a special premium on the appraisals of well-placed American experts also encouraged Mosdorf to view events at best tangentially related to the subject of investment promotion from the viewpoint of North American opinionmakers. Nowhere was this clearer than in Mosdorf's remarks on the success of the hard-right DVU in the late April 1998 state election in Saxony-Anhalt. "Anyone who votes in Germany today for radical right-wingers," Mosdorf proclaimed, "is placing a massive burden on Germany as a business location, especially in view of globalization." The Social Democrats' foreign-investment expert related that "American newspapers" described the 13 percent for the DVU not only as a heavy defeat for Helmut Kohl but also as evidence of the dangers posed by German right-wing radicals.⁸² For Germany's "business card," nothing, Mosdorf solemnly asserted, could be worse. In remarks that received applause from all deputies, the Social Democrat insisted that he and his colleagues bore a special educational responsibility (*Aufklärungsbeitrag*) "to tell the people: if you vote right-wing radical today, you are not improving your situation. You are in fact making it worse."⁸³

Mosdorf was not alone in highlighting the significance of American assessments of Germany and its economy. Touting the government's progress in reforming labor laws, Uldall, for his part, cited a recent survey of

82 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21698. Negative invocations of American financial actors among still more prominent Social Democrats, notably the party chair's description of American investment firms as "locusts," are better known. Franz Müntefering, "Freiheit und Verantwortung: Das neue Grundsatzprogramm der SPD" (speech delivered on November 22, 2004) in *Programmheft I: Tradition und Fortschritt*, ed. Sozialdemokratische Partei Deutschlands (SPD) (Berlin: SPD, 2005), 18.

83 While most parliamentarians applauded Mosdorf high-minded observation, a Conservative deputy, Hans-Peter Repnik, a former parliamentary secretary in the Federal Ministry of Economics, seized Mosdorf's remark as an opportunity to draw the Bundestag's deputies' attention to what he regarded as a bigger danger from the political Left. Noting that Höppner's previous government had relied upon the "tolerance" of the PDS, Repnik noted, in a thinly veiled reference to the upcoming federal elections in late September, "It would be even worse if the SPD were to make pacts with communists! That would be even worse!" Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21699.

the “ten largest American companies in Germany.” The result: American endorsements showed that the German federal government had brought about significant recent progress. That explained why American companies had recently agreed to “secure or create some 45,000 jobs.”⁸⁴ Green Party representatives, too, also turned to America for market validation, albeit via the EU capital of Brussels. As Margareta Wolf observed, no less than Jacques Santer, President of the European Commission, had been prodding the Kohl government “for years” to develop pan-European “risk capital” funds to increase the “flow” of equity capital to German and other EU companies. In Wolf’s estimation, beckoning “international investors” away from risk capital funds listed on the US Nasdaq stock exchange was among the most neglected aspects of Germany’s inadequate efforts to entice foreign investment.⁸⁵

The Invest in Germany initiative passed with the votes of the CDU and its Bavarian sister party, the Christian Social Union, together with the junior government partner, the FDP. True to Mosdorf’s word, his SPD also lent its support. Notwithstanding Wolf’s personal endorsement, the Greens abstained. The PDS voted against.

The most prominent speaker to question the usefulness of the Invest in Germany proposal was Christa Luft. The former East German economics minister and PDS deputy asked rhetorically whether the new measure would produce “the decisive breakthrough.” Scornful of the compromise with Mosdorf’s SPD, Luft embraced instead class demagoguery, observing, “I think that we really don’t need any more expensive job creation measures of this kind for managers.”⁸⁶ In the first of several references to Treuhand-era developments in the ex-GDR, Luft contended that the previous years had shown that business locations (*Standorte*) could

84 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21695.

85 Wolf noted that her state government had recently set up such a risk capital fund. Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21701.

86 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21707.

be destroyed by unbridled market forces: here eastern Germany offered especially vivid examples.⁸⁷

Embittered by market developments in eastern Germany since losing office in the first (and last) free election in the GDR, Luft stopped short of questioning the intrinsic value of foreign investment. If anything, like her fellow parliamentarians the reform socialist cited the presence of foreign investors as evidence of economic openness. Turning back to the Treuhand years, Luft asserted that German public authorities had undertaken too little to involve outsiders in restructuring eastern Germany's economy. No economic nationalist, Luft regarded eastern Germany's postsocialist history as proof of the pressing need for all Germans to be more open to foreign investors in the years to come. Here Luft seized the opportunity to reiterate criticisms of economic developments in Germany's East during the first half of the 1990s. Luft observed that foreigners had only succeeded in obtaining a 10 percent stake in the Treuhand's eastern German companies. Concluding with a last swipe at the federal government's role in revamping eastern Germany's deeply troubled economy, Luft asserted "I believe this figure speaks for itself."⁸⁸

In fact, this percentage, like many numerical proofs quoted that day in the Bundestag, was heavily slanted for political advantage. Had Luft delved deeper into the actual course of foreign investments during the Treuhand years, the East German economic expert would have been in a much better position to analyze the privatization's authority commitment to internationalization. Paradoxically, Luft's assessment of Treuhand-led outreach to foreigners was overly optimistic. Even using the Treuhand's questionable accounting methods, the Treuhand's sales to foreigners were closer to 6 percent than 10 percent. Luft also claimed that in the privatization of public property in the East, foreign investors had been regarded as "unwelcome competition and thus had difficulties gaining a

87 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21707.

88 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21707.

foothold.”⁸⁹ Here the PDS deputy was on firmer ground. As in many other countries, notwithstanding growing interest in foreign direct investment and lip service to open markets, keeping key industries and property in national (i.e., western German) hands had strongly motivated many German policymakers, to say nothing of bankers, industrialists, and labor representatives.

Absorbed by the tumult of eastern Germany’s recent past, Luft failed to offer a compelling interpretation of where federal (and state) policymakers actually stood in soliciting outside investments after the Treuhand. With his insider’s perspective as a Treuhand board member and from his subsequent perch as Germany’s federal minister of economics, Rexrodt was closely aware of the myriad responsibilities public officials had entrusted to financial insiders in the economic redesign of eastern Germany’s economy. While acknowledging Luft’s skepticism about the “breakthrough” character of the Invest in Germany initiative, Rexrodt correctly observed that the new, albeit modest, initiative had united a broad coalition to reform foreign investment just four and a half months prior to a major federal election. Demonstrating his ability to channel the Bundestag’s approval in the direction he and his ministerial colleagues deemed most suitable, Rexrodt expressed in Germany’s parliament his hope that the Bundestag would now find ways to finance the budget of the soon-to-be named *Standort* representative, and his small staff.⁹⁰

From the beginning, questions of finance hobbled the development of both the Industrial Investment Council and Rexrodt’s new *Standort* representative. Given the disproportionate economic strength of western Germany in the enlarged country, the resources of what became known as the Office of the Federal Commissioner for Foreign Investment in Germany paled in comparison to those earmarked for the Industrial Investment Council. Although the latter organization’s mandate ended at the

89 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21707.

90 Stenographischer Bericht des Deutschen Bundestages, 236. Sitzung, May 8, 1998, Plenarprotokoll 13/236, 21710-11.

borders of the former East Germany, the Industrial Investment Council boasted three times the level of funding granted the Office of the Federal Commissioner. As part of his bid to circumvent funding problems and, perhaps also, to keep alive his idea of a *Standort* representative, Rexrodt appointed former Deutsche Bank chair Hilmar Kopper as Germany's investment commissioner in June 1998. Kopper agreed to perform his duties on an honorary basis; the Bundestag, for its part, enabled the Federal Ministry of Economics to create a budget line to cover Kopper's expenses and pay for his handpicked staff.⁹¹

Designed to generate international prospects in what policymakers viewed as Europe's increasingly competitive FDI markets, both the Office of the Federal Commissioner and the slightly older Industrial Investment Council reflected extensive tugs-of-war between German public officials. Nowhere were these struggles clearer than in battles over budgets. In establishing both Kopper's new office and the only slightly older Industrial Investment Council, Rexrodt's ministry was forced to go to extraordinary lengths to fund operations. Outwardly focused on prospects, the Industrial Investment Council relied not on budget lines approved by the Bundestag and projected several years into the future but rather on funds amassed during East Germany's socialist past and then smuggled abroad during the GDR's last months. A special Treuhand directorate recovered these assets and turned them over to the federal government. Bonn authorities, in turn, placed them in the hands of yet another Treuhand successor organization known as the Independent Commission for the Verification of the Assets of the Parties and Mass Organizations of the GDR (Unabhängige Kommission zur Überprüfung des Vermögens der Parteien und Massenorganisationen der DDR).

From the Industrial Investment Council's inception until its merger with the Office of the Federal Commissioner at the end of 2008, the Industrial Investment Council derived its funding from assets captured

91 Parlamentsarchiv des Deutschen Bundestages (Berlin), Schreiben von Rexrodt an Friedhelm Ost, July 9, 1998, Ausschuss für Wirtschaft und Technologie, Ausschussdrucksache 87/14, 1.02.058.012.

from the parties and mass organizations of the ex-GDR. Treuhand representatives moved early to seize the once dominant Socialist Unity Party, referring to wide-ranging operations to confiscate the SED's successor party's assets in Switzerland as "D-Day."⁹² In this sense, post-Treuhand investment politics rested upon East German-era initiatives spearheaded by Alexander Schalck-Golodkowski's Commercial Coordination (Kommerzielle Koordinierung, KoKo) and bankrolled by West German loan mediators such as Zurich-based Holger Bahl.

On paper, ownership of the Industrial Investment Council was shared by the federal government (70 percent) and the governments of the five eastern German states and united Berlin (30 percent). In fact, the Industrial Investment Council's assets flowed wholly from the Independent Commission for the Verification of the Assets of the Parties and Mass Organizations of the GDR. In this sense, the eastern German agency was entirely a federal creation. Socialist-era funds enabled the Industrial Investment Council to create a staff of thirty-three, albeit temporarily employed, and to augment their efforts with a larger number of "senior advisors" from industry, mostly former board members of German companies, on a "one-euro basis." The entire supervisory board of the Industrial Investment Council, with one lone American exception, was German.

The Industrial Investment Council's funding and staff ensured German concerns, above all those of federal officials, received close attention. Responsibility for the Industrial Investment Council's day-to-day operations fell to Stefan Feuerstein, former head of the state of Thuringia's investment-promotion agency. Feuerstein's codirector, Hans Christoph von Rohr, represented the organization at the highest political levels. Both had been extensively involved in eastern German restructuring: whereas Feuerstein had cultivated microelectronics prospects in Thuringia, von Rohr had spearheaded federal efforts to salvage remnants of

92 *Tages-Anzeiger* 165, July 19, 1991. The Swiss paper noted that assets belonging to East German block parties, notably the CDU and FDP, were by way of contrast left unmolested.

Mecklenburg–West Pomerania’s beleaguered shipbuilding industries at the behest of Hornef’s Federal Agency for Special Matters Relating to Unification. By the end of the 1990s, the Industrial Investment Council had established satellite offices in London and New York. One-person representations in Washington, DC, Detroit, Michigan, and Silicon Valley followed thereafter.

Both the December 1996 formation of the Industrial Investment Council and the establishment of the Office of the Federal Commissioner in May 1998 strengthened the hand of those public figures seeking to enhance the role of the federal government in investment promotion. Among those individuals eager to assert new investment priorities, few were as influential as Siegmur Mosdorf. Following his party’s resounding electoral victory in late September 1998, Mosdorf moved from the Bundestag to the Federal Ministry of Economics. There, Mosdorf assumed the title of parliamentary state secretary.⁹³ From this new position Mosdorf reported to his former colleagues on what he described as the Industrial Investment Council’s accomplishments.

In November 1999, Mosdorf identified three general ways that the Industrial Investment Council had contributed to Germany’s international acquisition activities. In a nod to persisting differences, Mosdorf observed that the Industrial Investment Council “bundled together” the “special location interests” of eastern German states to act on behalf of the region “as a whole.” More to the point, Mosdorf underscored the federal government’s direct involvement in the Industrial Investment Council—which he rightly described as a “novelty” in the federal system of business promotion. The Federal Ministry of Economics’s stake in the new endeavor, one reads, enabled state development agencies to work closely with German diplomatic and foreign trade representatives abroad. Reading between the lines, Mosdorf was stressing the need for greater pro-

93 Siegmur Mosdorf, “Globalisierung der Wirtschaft. Spaltung der Gesellschaft? Ein dritter Weg in das dritte Jahrtausend,” cited in Wolfram, *Rot-Grün an der Macht: Deutschland 1998–2005* (Munich: C.H. Beck, 2013), 143.

fessionalism among eastern Germany's six for-profit state development agencies. Mosdorf's third point made this purported benefit of the Industrial Investment Council explicit. The new state secretary reported that the entity's staff and growing networks drew in outside experts, namely, outside consultants and "one-euro" honorary representatives, with special competencies and experience. Decisionmakers from foreign companies increasingly interacted with competent negotiating partners, Mosdorf observed, and not merely with state officials unfamiliar with larger global trends. With branch offices in London, New York, and San Francisco, the Industrial Investment Council operated in key respects like an "investment bank" or "specialized management consultancy."⁹⁴

Somewhat more tangibly, Mosdorf reported to the Bundestag's experts that the Industrial Investment Council had secured thirty foreign investments during its first three years. The largest number had gone to Berlin, with twelve, followed by Saxony, Saxony-Anhalt, and Thuringia with four each. Brandenburg and Mecklenburg–West Pomerania brought up the rear with three apiece. The bias toward Germany's future political capital passed without comment. Instead, the new state secretary lauded the entity's success in obtaining just under DM 4 billion in investments, or slightly over five thousand direct positions; half of the engagements had come from the United States.⁹⁵ Mosdorf left undiscussed how these acquisitions had materialized. Press accounts reveal the agency's pitch centered on the fact that three-quarters of Germans living in the "new" federal states were no longer covered by collective wage agreements, a development that put labor costs per hour there below those of Britain, Canada, and France.⁹⁶

94 Parlamentsarchiv des Deutschen Bundestages (Berlin), Bericht über die Aktivitäten auf Bundesebene zur Gewinnung zusätzlicher Auslandsinvestitionen in Deutschland, November 17, 1999, Ausschuss für Wirtschaft und Technologie, Sitzung vom 1. Dezember 1999, Ausschussdrucksache 87/14, 1.02.058.010.

95 "Amerikanische Investoren für Ostdeutschland besonders wichtig," *Frankfurter Allgemeine Zeitung* 38, February 14, 2001, 18.

96 Hans Christoph von Rohr, "Jede Mark an staatliche Behilfe im Osten ist gut angelegtes Geld," *Handelsblatt* 13, January 18, 2002, 10. See also Hans Christoph von

Hard-driving advocacy on the part of those eager to expand the role of the federal government in investment solicitation should not obscure the fact that the Industrial Investment Council's most important stakeholders were neither federal officials nor, for that matter, potential foreign investors. In principle if not in practice, the majority "owners" of the Industrial Investment Council were the five state governments of eastern Germany and Berlin. At the time of Mosdorf's report, the supervisory board featured eastern Germany's and Berlin's economics ministers. These six individuals were joined by Ludewig's successor, Rolf Schwanitz, minister of state to federal chancellor Gerhard Schröder, and the Industrial Investment Council's top two managers, Feuerstein and von Rohr. Schwanitz's task, like Ludewig's before him, was to keep eastern German state governments on the side of federal authorities.

The ongoing task of securing support among the Industrial Investment Council's stakeholders fell to Schwanitz. In regular meetings involving Schwanitz and the eastern German cabinet chiefs, such as one held in the new federal chancellor's office in Berlin in May 2000, eastern German authorities presented unvarnished assessments of "their" business-recruitment agency.⁹⁷ At this fiftieth business meeting, those most enthusiastic about the Industrial Investment Council hailed from Berlin and Saxony-Anhalt.⁹⁸ The most critical voices hailed from Mecklenburg-West Pomerania, with Thuringia, Saxony, and Brandenburg falling in between. Periodic assessments supplied to Schwanitz by Saxony-Anhalt's head of chancellery, Niels Jonas, grant limited insights into the evolu-

Rohr, "Ostdeutschland als Speerspitze der Flexibilisierung," *Frankfurter Allgemeine Zeitung* 210, September 10, 2002, 12; "Investoren-Werbung für neue Länder," *Handelsblatt* 18, January 25, 2002, 5.

97 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisprotokoll der 50. Arbeitsbesprechung des Staatsministers beim Bundeskanzler mit den Chefs der Staatskanzleien der neuen Länder und dem Chef der Senatskanzlei des Landes Berlin am 10. Mai 2000 in Berlin, Bundeskanzleramt, May 12, 2000, L 1, Nr. 1099.

98 Landesarchiv Sachsen-Anhalt (Magdeburg), IIC braucht grünes Licht, Pressemitteilung von Sabine Kaspereit, Nr. 644, July 19, 2000, L 1, Nr. 1099. Kaspereit was the deputy chair of the SPD parliamentary faction in the lower house of the German parliament, the Bundestag.

ing positions of state economics and finance heads across eastern Germany, such as in the weeks immediately before and after the May 2000 business gathering.⁹⁹ At that meeting Jürgen Gnauck, chief of Bernhard Vogel's state chancellery in the Thuringian capital of Erfurt, voiced notably tepid support for the Industrial Investment Council, opining that the federal government's bid to extend the new agency's lifespan "should not be undertaken at any price."¹⁰⁰ Rainer Speer, head of Brandenburg's chancellery in Potsdam, took up Gnauck's point to ask whether Berlin authorities were ready to expand the federal government's financial commitment beyond 30 percent of the agency's proposed budget. Saxony's Thomas de Maizière, then Biedenkopf chancellery chief and, after 2005, federal chancellor Angela Merkel's, zeroed in on the source of the Industrial Investment Council's finances. De Maizière observed that all of the investment-promotion agency's funding—not merely the 30 percent earmark noted by Speer—was actually controlled by federal authorities. Socialist-era party assets, the bread and butter of eastern German investment promotion at the end of the 1990s, remained firmly under federal disposition. To gain a clearer sense of the resources potentially available to his and other eastern German state governments via this so-called independent commission, de Maizière requested that Schwanitz produce a current cash balance of "party assets." The notes indicate that the Social Democratic federal minister reluctantly agreed to take up de Maizière's query with top federal Finance Ministry officials.¹⁰¹

99 Landesarchiv Sachsen-Anhalt (Magdeburg), Vermerk zur Fortführung der Industrial Investment Council, August 23, 2000, L 1, Nr. 1099. Press accounts corroborate this finding. See Barbara Gillmann, "Bund will Werbeagentur für ganz Deutschland," *Handelsblatt* 10, January 14, 2000, 5, and "Investoren-Werbung für Osten ungeklärt," *Handelsblatt* 78, April 19, 2000, 5.

100 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisprotokoll der 50. Arbeitsbesprechung des Staatsministers beim Bundeskanzler mit den Chefs der Staatskanzleien der neuen Länder und dem Chef der Senatskanzlei des Landes Berlin am 10. Mai 2000 in Berlin, Bundeskanzleramt, May 12, 2000, L 1, Nr. 1099.

101 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisprotokoll der 50. Arbeitsbesprechung des Staatsministers beim Bundeskanzler mit den Chefs der Staatskanzleien der neuen Länder und dem Chef der Senatskanzlei des Landes Berlin am 10. Mai 2000 in Berlin, Bundeskanzleramt, May 12, 2000, L 1, Nr. 1099.

Hand-wringing among eastern German officials over the precise division of modest financial burdens—the agency’s total annual budget fell short of DM 12 million—should not obscure the fact that, with the sole exception of Mecklenburg–West Pomerania, all had passed cabinet resolutions to extend the Industrial Investment Council at the time of the May 2000 gathering, albeit on the condition that the federal government agree to increase its financial contribution. Only Otto Ebnet, Harald Ringsdorff’s economics minister in Mecklenburg–West Pomerania, announced his state’s recent cabinet decision to rule out an extension of the Industrial Investment Council. As Ebnet put it in May 2000, “The background of this decision was that Mecklenburg–West Pomerania had not benefited from the Industrial Investment Council in any way.” Ebnet brazenly added that there was “no pressure to make decisions within a reasonable period of time.” With reference to the investment entity’s future, Ebnet offered that uncertainty provided the Industrial Investment Council’s leadership “the opportunity to finally do something good for Mecklenburg–West Pomerania.”¹⁰²

State party politics, not Mecklenburg–West Pomerania’s annual contribution of less than DM 370,000, accounted for his objections to the Industrial Investment Council. In Mecklenburg–West Pomerania’s capital of Schwerin, Germany’s first state-level Red-Red government had assumed power after state elections in September 1998. Unlike in Höppner’s Saxony-Anhalt, former socialists held ministerial posts. This political constellation encouraged the state’s Conservative opposition to subject government activities to extra layers of scrutiny.

The Red-Red coalition government consisting of Social Democrats and representatives from the successor party of East Germany’s ruling Socialist Unity Party provoked a steady drumbeat of criticism from mem-

102 Landesarchiv Sachsen-Anhalt (Magdeburg), Ergebnisprotokoll der 50. Arbeitsbesprechung des Staatsministers beim Bundeskanzler mit den Chefs der Staatskanzleien der neuen Länder und dem Chef der Senatskanzlei des Landes Berlin am 10. Mai 2000 in Berlin, Bundeskanzleramt, May 12, 2000, L 1, Nr. 1099.

bers of the state parliament's Conservative opposition. Here the Industrial Investment Council emerged as a target. CDU parliamentarian Ulrich Born noted—as it happened, correctly—that two of the state's three investments were a far cry from the agency's (and Ebnet's) stated objective: to identify major foreign investors for harbor complexes on the state's Baltic coast, biotech start-ups, and innovative medical technology companies. Facts on the ground told a different story about the Industrial Investment Council's actual successes. Two were call centers. And the third acquisition, American company Citrico's purchase of a pectin plant in the town of Malchin, provoked a long-running dispute among business recruiters. As it happened, Mecklenburg–West Pomerania's small state investment promotion agency laid its own claim to the Californian firm's DM 90 million investment.¹⁰³

Investigations subsequently undertaken by Mecklenburg–West Pomerania's state's audit office (*Landesrechnungshof*) lent substance to Born's criticisms, if not a clear verdict on which development agency was actually responsible for the Citrico acquisition. Citing multiple failures to turn over requested documentation, state auditors concluded in 2002 that Ebnet's Ministry of Economics had proven incapable of exercising oversight over the Industrial Investment Council. Consultants toiling on behalf of the Industrial Investment Council, not the state's Economics Ministry, had turned over to state auditors current project profiles and handcrafted "success statistics." Citing the ministry's lack of control and, more critically, the investment promotion agency's inability to demonstrate the corporation's economic benefit for the state, Mecklenburg–

103 Plenarprotokoll des Landtages Mecklenburg-Vorpommern, 4. Wahlperiode, 17. Sitzung, June 26, 2003, 4/17, 797. See also Plenarprotokoll des Landtages Mecklenburg-Vorpommern, 4. Wahlperiode, 21. Sitzung, October 8, 2003, 4/21, 1101. Antwort der Landesregierung auf die Kleine Anfrage des Abgeordneten Lorenz Caffier, Fraktion der CDU, Drucksache 3/1267, May 30, 2000, LT-Drucksache, 3/1320. Completed in 2002—that is, after securing more than DM 50 million in federal subsidies formally approved by the European Commission—the new plant in Malchin declared bankruptcy in 2004. In 2005, Cargill, another American firm, acquired the-then new facility to produce gelling agents for the food industry.

West Pomerania's state government retracted its contribution to the business recruitment agency's funding in 2006.¹⁰⁴

In Schwerin, as in the new federal capital of Berlin, periodic renewals of the Industrial Investment Council's mandate became enmeshed in politics and budget battles, as well as longer-standing squabbles between state and federal governments over competencies. And yet, despite considerable grumbling and even the withdrawal of eastern Germany's northernmost state government, the Industrial Investment Council was renewed three times. Federal designs to merge eastern Germany's last investment-promotion agency into the Office of the Federal Commissioner kept the Industrial Investment Council alive despite lackluster results and dissatisfaction among eastern German state governments until the end of 2008.

Conclusion

In their July 1995 meeting with Advent founder Peter Brooke, Höppner and Schucht touched only briefly on plans to restructure Deutsche Waggonbau's production facilities. The overriding focus of discussions in Boston and follow-up sessions at Advent's offices in Frankfurt am Main was how to redesign the ways the German federal government elicited private investment. To this end Höppner, Schucht, and representatives of Advent International considered far-reaching proposals to reframe relations between finance, industry, and government across Germany. In the autumn of 1995, Schucht injected these suggestions into the ongoing deliberations of a special expert working group headed by economics ministers from Germany's sixteen federal states.

By the end of 1995, Schucht's (and Brooke's) intervention lent support to ongoing efforts to transform public oversight of finance. State and federal initiatives remained, however, largely unrealized until 2000. In the

104 Jahresbericht 2002 über die Prüfung der Haushalts- und Wirtschaftsführung und der Haushaltsrechnung 2000 sowie der Vermögensübersicht 2000 des Landestages Mecklenburg-Vorpommern, LT-Drucksache, 3/2914.

meantime, more modest investment initiatives tailored to attract foreign investors—the establishment of a new development agency for eastern Germany and then, eighteen months later, for Germany as a whole—assumed form under the guidance of public officials and with input from Treuhand-era financial advisors.

Part II of this chapter describes how Chancellor Kohl's point person for eastern Germany's economy, Johannes Ludewig, moved to set up a new limited liability corporation to entice foreign capital to eastern Germany. In parallel with Höppner's and Schucht's solicitation of Advent International, Ludewig and his colleagues called upon Treuhand-era investment banking and management consulting contacts to define eastern Germany's last promotion agency, the Industrial Investment Council. Cross-party consensus, heavy lobbying on the part of the Federal Ministry of Economics, and the widely shared assessment that Germany had fallen far behind eastern and especially western European competitors in a race to acquire vast sums of foreign investment strengthened the hand of those seeking to embed the Industrial Investment Council in a second entity, the Office of the Federal Commissioner for Foreign Investment in Germany.

While the Treuhand's specific approach to state divestment via Anglo-American intermediaries lent impetus to German public efforts to embrace financial capitalism after the receivership's dissolution, paradigmatic changes in how German authorities sought to define relations between industry, finance, and governments emerged not in the years immediately after the Treuhand's dissolution but rather a half decade later. The July 2000 Tax Reduction Act (*Steuersenkungsgesetz*) marked a significant alteration in how German public officials regulated economic and financial activity. Presented as a measure to signal an especially attractive business environment to outsiders, the new regulatory framework briefly allowed companies to sell blocks of shares and even entire subsidiaries entirely tax free.¹⁰⁵

105 Eliminating the capital gain tax for firm divesting themselves of shares held in other companies led to dramatic increases in foreign and institutional shareholding in Germany's main stock index, then known as the DAX 30. Berghoff, "Varieties of

Undertaken to encourage companies to advance mergers and restructurings in the name of boosting productivity and competitiveness, a press account in the best-known German weekly noted that the passage of this incentives legislation prompted a late-night inquiry from Goldman Sachs's New York office to confirm that German corporations would no longer have to pay taxes on the profits that they generate when selling blocks of shares or entire subsidiaries.¹⁰⁶ In fact, the involvement of Goldman representatives in German investment solicitation before and after the Treuhand meant the American investment bank was aware of the new law's particulars well before its passage. To ensure that still others in New York financial circles received the message of Germany's new appeal to mobile capital, the director of the Industrial Investment Council addressed New York's Metropolitan Club in November 2000. There von Rohr emphasized that "the changes currently underway in Germany are not purely window dressing." What we are witnessing" he insisted to his financier audience, "represents a revolution, a true breakthrough."¹⁰⁷

This was in fact neither a breakthrough nor a revolution, however. The embrace of tax cuts and a new financial regulatory framework was bound up with a larger undertaking to shape perceptions about German competitiveness stretching across several decades. This effort to change both how transnational capitalists viewed Germany's economy and how Germans defined their own future economic priorities rested upon years of lobbying and legwork. During the mid-1990s, plans to adopt American-inspired financial approaches defined the agendas of legislative bodies

Financialization," 94–95. Behind this move was a desire to accelerate the break-up of close relations between West German banks and companies; the tax windfall for large banks prompted a rare alliance of critics from the CDU and the PDS.

106 Wilfried Herz, "Das größte Geschenk aller Zeiten," *Die Zeit* 37, September 8, 2005, 34. The measure established dramatically new openings for corporate control. See, for a brief introduction in English, Sigurt Vitols, "Changes in Germany's Bank-Based Financial System: Implications for Corporate Governance," *Corporate Governance: An International Review* 13, no. 3 (2005): 386–396.

107 "The Restructuring of Germany Inc.," *Focal Point: Eastern Germany* 3, no. 12 (December 2000), 1.

and ministerial meetings. Federal and state officials, as well as politicians from all parties represented in the Bundestag, joined the multinational quest to shape Germany's future as an industrial leader via the enlistment of transnational finance. Their deliberations encompassed consultations with outside experts, including Goldman's Achleitner (the Swiss-educated Austrian served as chair of the board of the Deutsche Bank from 2012 to 2022) and Advent International's Brooke. Personal encounters such as theirs shaped how public officials responded to the immense market challenges facing eastern Germans during the early 1990s—and western Germans during that decade's second half.

Relations forged between policymakers during the Treuhand years and renewed in institutions like the Industrial Investment Council laid the groundwork for liberalizing reforms impacting German society as a whole and not merely the severely battered economy of the postsocialist East. The involvement of American financial intermediators in German public decisionmaking immediately during and after the Treuhand years underscores the fact that the Federal Republic's investment policies reflected an interplay of international competition and national introspection. In fashioning responses to the *Standort* crisis increasingly shaped by a distinctly American *fin-de-millénaire* logic of variable portfolios, party politics paled in significance to intra-European economic rivalries as the 1990s drew to a close.

Clashes involving public authorities revolved around not so much the direction of market-friendly reforms but rather responsibility for their implementation. Here eastern Germany emerged as an important proving ground. Revamping foreign investment enjoyed broad cross-party support: East/West and party-political clashes should not obscure this fact. In the mid- to late 1990s, the allure of vast pools of foreign capital amassed by American intermediaries and heightened competition among western European competitors in securing access to these assets had encouraged an impressive range of domestic elites, including Social Democratic minister presidents, state economics ministers, and members of the Bundestag, to embrace reforms shaped by international contacts forged during the tumultuous era of state divestment in Germany's East.

The Treuhand's specific approaches to mass privatization and select restructuring accelerated the trend toward engaging well-placed Anglo-American financial go-betweens. In the intense transnational scramble to signal openness to mobile capital on the eve of the dot-com stock market crashes of the early 2000s, no country's financial actors figured more prominently in German public initiatives to promote economic growth than America's. For this reason, Anglo-American actors' influence on German investment policymaking during the years following the dramatic opening and rapid decline of eastern Germany's ailing socialist economy warrants close examination in how scholars define empirically—not merely conceptually—the term known as financialization.

Foreign Engagements in Eastern Germany: A Conclusion

To signal competitiveness in markets where outsiders flagged favoritism and to address capital shortages, the state divesture known as the Treuhandanstalt (Treuhand) coordinated far-reaching initiatives with non-Germans. The foreign entanglements of what briefly qualified as the world's largest public holding and biggest public employer—more accurately, a new federal subministry granted less than a half decade to sell, restructure, or liquidate an entire economy—invite critical appraisal. What is the bottom line on non-Germans' involvement in the divestment of a former socialist country?

The previous chapters have examined international dimensions of throughgoing denationalization in the former German Democratic Republic (GDR). Three European countries—Austria, Britain, and Switzerland—received chapter-length treatment. Additional European nations active in Treuhand-led privatization and restructuring, particularly Denmark and France, also figured in the narrative. Supranational institutions, especially those of the European Community (EC: after November 1993, the European Union [EU]), acquired importance in Chapters 3 and 4. As the geographic range expanded beyond enlarged Germany's closest neighbors, the temporal focus remained narrow. The first three chapters zoomed in on the months after the opening of the inner-German border. Chapters 4 and 5 brought the story forward to the end of the 1990s. They granted attention to international mediators boasting American expertise in software, risk capital, and investment banking. The final chapter returned the spatial focus, begun in the introduction, to Germany.

These chapters show that the relationship between German officials and outsiders is a critical factor in how the East German economy was remade after 1989. State and federal officials mounted efforts to engage foreigners in eastern Germany during the tumultuous years of postsocialist reconstruction. This book's chapters reconstructed the negotiations this entailed among political actors and private investors, as well as national and supranational political entities. From this analysis, four main areas emerge in which outsiders were involved in unmaking eastern German socialism. As border-crossing financial mediators, experts in industrial restructuring active in multiple countries and supranational institutions, investors in Treuhand companies, and financiers of the state divestment authority, foreigners left imprints on state-economy relations across Germany, not just in the denationalized East.

Initiatives to enlist non-Germans in the main instrument for the privatization and restructuring of eastern Germany's economy—the Treuhand—represent more than a sideshow to the ostensibly central drama of political and economic union forged by domestic actors. To the extent they have paid attention to the foreign dimensions of eastern Germany's incorporation into the enlarged Federal Republic and formal accession to the European Community, researchers have evaluated the Treuhand holding's attempts to secure mobile capital by counting successful investments in firms. I take these successful engagements seriously as a basis for understanding the history of mass German privatization. At the same time, I refuse to isolate foreign investments in individual companies from closely related areas of border-crossing engagement. Instead, I demonstrate how individual Treuhand acquisitions involving non-Germans were fused with international finance and politics.

The most widely cited figures about the Treuhand's foreign solicitation—counting individual investments—deflect attention from public officials' embrace of foreigners in eastern Germany's economy more generally. According to its own statistics, Birgit Breuel's receivership transferred ownership in 858 Treuhand companies to non-Germans. Foreigners acquired stakes in 6 percent of the nearly fourteen thousand companies privatized by the public receivership. This tally includes majority-share

purchases, as well as transactions effected by western German subsidiaries of foreign companies; acquisitions via the latter method are typically excluded from most economists' definition of foreign direct investment (FDI). Two additional ways to measure foreign involvement are investment and employment pledges. According to these criteria, foreign investment in Treuhand firms rose to nearly 10 percent.

No matter how one counts individual investments in Treuhand companies, the German privatization authority fell short of the goals espoused by Breuel and her colleagues. Including foreign purchases completed by the Treuhand's main successor, the Federal Agency for Special Matters Relating to Unification, fails to boost the Treuhand's figures. On the contrary, stretching the time horizon even a few years undermines the Treuhand's assessment of its business recruitment successes. Many investments involving foreigners, including those initiated by subsidiaries based in western Germany, were short-lived. Extending the temporal frame beyond the Treuhand often casts doubt on the long-term efficacy of the Treuhand's own investments in foreign outreach, as Austria Mikro Systeme's acquisition of Erfurt microchip manufacturer Thesys or Advent's transient ownership of rail manufacturer Deutsche Waggonbau illustrate.

Rather than proclaiming the Treuhand's outreach unsuccessful, the preceding chapters have highlighted interplays between different types of foreign engagement. During the era of eastern German state divestment, the overlapping requirements of industrial reordering drew public officials into the operations of both markets and politics, at home and abroad. The mass privatization of state industrial assets via the empowerment of financial actors began in the former GDR but did not stop there. While foreign purchases of Treuhand companies proved exceptions to the rule of property transfers from East to West Germans, the influence of foreigners on how Germans approached both sales and industrial restructuring in Germany mattered in other directly related areas. Non-Germans approved national subsidies, supplied access to tens of billions of deutschmarks in credit, and exploited networks similar to those available to western German investors, including but not limited to socialist-era ties. Through their manifold involvement in the Treuhand's activities,

well-connected financiers, especially those with American ties, secured footholds in policy and legislative initiatives in the old federal states and the country as a whole.

This book has traced ways in which extraordinary measures to elicit foreign capital, expertise, and up-to-date technologies became part of the federal government's response to eastern Germany's rapid and profound deindustrialization. From there, finance-savvy foreign investors emerged as part of a national response to perceived declines in German market competitiveness.

As the May 1998 parliamentary consideration of the Invest in Germany initiative, discussed in the previous chapter, illustrates, the metric of foreign direct investment has long been mobilized to level criticism at the Treuhand receivership and the federal government as a whole. The contribution of Christa Luft of the Party of Democratic Socialism to the Bundestag debate about investment promotion was to cast doubt on the sincerity of the Treuhand's efforts to court foreign investors. Her Social Democratic counterpart and political opponent, Siegmur Mosdorf, echoed the assessment of the last socialist East German economic minister. Mosdorf insinuated that the Conservative-Liberal government led by Helmut Kohl had never really tried to solicit foreign direct investment. Enamored of the possibilities offered by the then rapid internationalization of capital, Mosdorf and other Social Democrats, together with support from all parties in the Bundestag save Luft's Party of Democratic Socialism and the Greens, advanced measures to rebrand Germany as a country that welcomed major foreign investors, especially multinational firms headquartered in the United States.¹

Insofar as we avoid the pitfall of refighting yesterday's political battles, exploring German federal and state governments' initiatives to attract

1 The state-led institutionalization of FDI is a prominent theme in another important multicountry study of foreign direct investment across eastern Europe. See Nina Bandelj, *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe* (Princeton, NJ: Princeton University Press, 2008), esp. 70–74.

FDI provide a means to attain fresh insights into the inner dynamics of Germany's post-Wall economy. Yes, the federal government proved reluctant to engage non-Germans in the inner workings of the short-lived Treuhand divestment authority. While politically motivated, Mosdorf's and Luft's claims were not wide of the mark. In the vast reordering of eastern Germany's economy, the Treuhand's specific efforts to cultivate foreign purchasers emerged as belated efforts to mollify critics at home and abroad. They also sought to address the paucity of investment capital in Germany's East. Federal, state, and EU authorities (never merely the Treuhand) carved out limited roles for foreign investors in cartelized markets, notably construction and energy. Still, almost all of the "family silver" ended up in western German hands, not least because union representatives and journalists, among others, frequently voiced misgivings about foreign ownership. Rare exceptions to the general rule of asset transfer from eastern to western Germans, the relatively few foreign purchases of Treuhand enterprises appears to underscore the marginality of non-Germans in the—to depart from Austrian economist Joseph Schumpeter—uncreative destruction of eastern Germany's economy.²

By taking seriously foreign engagements, not merely FDI, this book demonstrates interconnections between developments in eastern Germany and other parts of western Europe, including but never limited to western Germany. Economists typically define FDI as private capital decoupled from public financial obligations. This makes little sense in the case of state-led divestments in postsocialist societies.³ A too-narrow approach to foreign engagements based on the metric of FDI threatens to

2 Joseph Schumpeter, *Die Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmervergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus*, 9th ed. (Berlin: Duncker and Humblot, 1997).

3 Macroeconomic approaches to FDI in the scholarship devoted to transition/transformation studies decouple private capital ("external investments") and public finance (often described as "financial obligations"). This literature is too vast to cite in its entirety here. For a recent definition, see Jonathan Law, "Foreign Direct Investment," in *A Dictionary of Finance and Banking*, 6th ed. (New York: Oxford University Press, 2018), 6:198.

obscure how foreign actors contributed not only to the redesign of eastern German markets during the first half of the 1990s but also alterations of western Germany's "social market" economy as east-central Europe's privatizing decade drew to a close and the race to "accede" to the European Union began in earnest.⁴ Greater competition across European regions for international capital accelerated under the influence of neighbors' reforms and rankings issued by supranational financial organizations. Increasingly visible after the EU launched the formal accession process with twelve countries in eastern Europe in late March 1998, the multinational scramble to adopt investment-friendly policy reforms also boasted domestic antecedents.

Both Treuhand-era attempts to pitch assets to foreign investors via status-heavy intermediaries and the GDR's substantial foreign trade ties laid foundations for cross-party initiatives to advance risk capital as well as national investment promotion.⁵ The Treuhand approach to transfer former state assets to private owners via investment bank mediation, not merely the act of making enterprises available to foreign purchasers, catalyzed FDI initiatives directed at thwarting early advantages purportedly enjoyed by liberalizing rivals in western Europe, notably in Britain, Ireland, the Netherlands, and Sweden.

4 The three Baltic states of Estonia, Latvia, and Lithuania, together with the Czech Republic, Hungary, Poland, Slovakia, and Slovenia joined the European Union in 2004. Romania's and Bulgaria's accession took place three years later. On the scramble to modify economies to attract FDI in the run-up to EU entry, see esp. Hillary Appel and Mitchell A. Orenstein, *From Triumph to Crisis: Neoliberal Economic Reform in Postcommunist Countries* (New York: Cambridge University Press, 2018), 116–141.

5 The World Bank's Foreign Investment Advisory Service funded several early attempts to measure the efficacy of investment promotion. An early influential attempt to use interviews and statistics to compare countries' efforts (with a clear bias toward initiatives originating or based in Washington, DC) is Louis T. Wells and Alvin G. Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment*, 2nd ed. (Washington, DC: World Bank, 2000), esp. 4–7, 10–16, 85, 91–102, 129–132, 140–143. Gauging productivity became the central question in an important follow-up study of fifty-eight investment authorities: Jacques Morisset and Kelly Andrews-Johnson, *The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment* (Washington, DC: World Bank, 2004), esp. 9–17, 32–43, 54–55.

This book's last chapter demonstrates that the federal government's empowerment of international finance via the Treuhand had consequences for Germany as a whole and not merely the eastern half of the enlarged country. Decisions to expand the reach of American-led private equity and involve Anglo-American investment bankers in old/new investment-promotion initiatives hinged upon support from German parliamentarians, state minister presidents and their economics ministers, and top federal officials from several different ministries. Mass state divestment led by the Treuhand forged crucial new ties between public officials and international finance that had consequences for the entire country.

The previous five chapters have shown that foreign investments in eastern Germany's economy assumed diverse forms beyond stakes in individual firms entrusted to the short-lived state receivership known as the Treuhand. These include advice giving, borrowing, sales, and permission to offer subsidies approved by the supranational institutions of the European Union and its respective member-state governments. Considering these intersecting aspects of foreign engagement together provides a means to reconsider post-Wall economic developments beyond the questions of success or failure.

This book has shown how foreigners' involvement in eastern Germany's deindustrializing economy extended beyond individual investments. The Treuhand's interactions with foreigners lead one to ask what constituted private investment, that is, to what degree the state-led activity commonly referred to as "privatization"—a complex realm of interaction often reduced to potential and realized individual investors—can be reasonably disaggregated from public finance and foreign affairs. The story presented in this book illustrates that the quest to acquire external investment overlapped with the shifting aims of advice givers with substantial foreign ties working on behalf of the Treuhand in eastern Germany, the nations and institutions that constituted the European Community, and lenders active on multiple continents. In sum, the Treuhand's multisided initiatives to exploit the internationalization of capital encourage one to assess the specific conditions of economic relations in unifying Germany

against the backdrop of profound state-market alterations that scholars have in recent years termed financialization.⁶

An amorphous concept often described as the late-twentieth-century shift from industrial to financial capitalism inspired by deregulatory changes first embraced in the United States, financialization requires firmer empirical grounding in cross-border settings. Tracing the ways foreigners inserted their interests in the radical opening of eastern Germany's economy offers intriguing perspectives on shifting boundaries between states and markets, within and beyond the enlarged Federal Republic. By examining interplays of foreign and domestic concerns in the rapid divestment of Germany's East, this research embeds the increasingly popular conception of financialization in two categories—cross-border mediation and the multinational politics of industrial reconstruction—and within a more broadly familiar narrative of how German authorities, not merely the Treuhand, sought to obtain FDI.

Purchases of Treuhand firms, in part or whole, represent only one form of external investment. Transfer of individual companies from the state holding to foreign owners should not be abstracted from other ways in which foreigners were invested—and invested themselves—in the redesign of Germany's post-Wall economy. Sales of individual enterprises, Treuhand or so-called green field sites, intersected with both public finances and socialist pasts. Although the conversion of state-owned assets into for-profit companies owned mostly by western Germans grabbed most of the headlines, both the Federal Ministry of Finance and the Treu-

6 Economic geographer Brett Christophers has observed that if globalization is the buzzword of the 1990s and neoliberalism that of the 2000s then financialization qualifies as the favorite academic conceptualization of the 2010s. See his self-described call-to-caution essay titled "The Limits to Financialization," *Dialogues in Human Geography* 5, no. 2 (2015), 184. On the pressing need to keep the study of financialization squarely focused on case studies, see Ewald Engelen, "The Case for Financialization," *Competition and Change* 12, no. 2 (June 2008): 111–119. A concise recent introduction to this active and diverse multidisciplinary field is Christoph Deutschmann's essay "Entrepreneurship, Finance, and Social Stratification: The Socio-economic Background of Financialization," in *The Routledge International Handbook of Financialization*, ed. Philip Mader et al. (New York: Routledge, 2020), 31–42.

hand forged close working relations with investment bankers in order to secure loans for the agency's sprawling operations. The mass disposal of property and industry in Germany's East prompted both major state indebtedness and, as a consequence, reorientations toward transnationalized capital and international rankings of market reforms. For these reasons, this book explores how cojoined elements of state divestment—advice giving, lending, purchases, and subsidies formally approved by the European Commission—developed as assemblages without assuming formal interactional structures.⁷ How precisely the sum of these parts intersected in the specific historic context of post-Wall eastern Germany's industrial remaking will require more detailed investigations of encounters involving Germans and foreigners.

This much, however, is already clear: both the past and the future of eastern German enterprises, as well as the so-called enterprise agencies established to promote the sale of state assets, were often bound up with supranational considerations. Collaborations with foreigners informed German public policy before, during, and after the era of mass privatization. The most visible realm of intra-European cooperation and competition was (and is) the European Union. Obtaining permissions from EU member-state governments for both restructuring projects and, in a larger sense, the project of German national unity within the EU required federal authorities to devote careful attention to the shifting aims of western European partners/competitors. Nor was the influence of outsiders limited to EU governments and institutions. The eagerness of state and federal officials to adopt proposals shaped by American financial advisors underscores the relevance of international contacts forged during the era of eastern German mass privatization in the deepening of internal market structures within an expanding European Union. This intersection of Anglo-American-led financialization and the strengthening powers

7 This line of inquiry is inspired by Anna Lowenhaupt Tsing, *The Mushroom at the End of the World: On the Possibility of Life in Capitalist Ruins* (Princeton, NJ: Princeton University Press, 2015).

of European institutions in the context of eastern Germany's—and then east-central Europe's—incorporation demands closer investigation.

What's important to grasp about the Treuhand's attempts to solicit foreign purchases is not so much the relative success or failure of the divestiture agency as measured by aggregate sales or, for that matter, the long-term fate of restructuring initiatives in such industries as micro-electronics in Thuringia, shipbuilding in Mecklenburg–West Pomerania, or steelmaking on the German-Polish border. Domestic perspectives on salvaging ruined industrial landscapes across eastern Germany, while significant, are insufficient to grasp the essentials of market encounters during the brief, intense period of mass privatization in the ex-GDR.

Arguably the most striking form of foreign engagement in unifying Germany was advice giving. Wherever German public officials went about divestment in eastern Germany during the early 1990s, consultants, many with intellectual and material ties to Britain and America, were close at hand.⁸ Well-placed foreigners were privy to the most consequential decisions reached by the federal government in Bonn or the Treuhand in Berlin. While top managers secured favorable terms for German borrowing operations abroad, representatives of international consulting firms staffed privatization task forces spread across fifteen districts of the formerly Communist nation. In the Treuhand's Berlin headquarters, an independent management committee (Leitungsausschuss) consisting of some one hundred financial experts from such elite management consulting companies as McKinsey, KPMG, Boston Consulting Group, Arthur D. Little, and Roland Berger was charged with creating balance sheets and subsequently with weighing up investment offers. Purchasing companies during the Treuhand era entailed soliciting and assessing bids, as auctions in unifying Germany were rare. International consultancies shaped

8 On the relative economic—but not political—insignificance of foreign direct investment in highly developed countries during the 1990s, see Jan Eckel, "Politik der Globalisierung. Clinton, Blair, Schröder und die Neuerfindung der Welt in den 1990er und 2000er Jahren," *Vierteljahrshefte für Zeitgeschichte* 68, no. 2 (June 2020): 451–480, esp. 463–467.

Treuhand efforts to promote sector-specific auctions. In November 1991, the Treuhand's management board moved to establish a Central Tenders Office (Ausschreibungsbüro) within the Investor Services directorate to elicit bids "worldwide." By the end of 1992, the majority of firms with fewer than 250 employees were supposed to be listed in tenders. To ensure that potential investors from abroad had a chance to submit bids, the Treuhand coupled the engagement of international consultancies and investment banks with its own solicitation of outside management offers through management buy-ins.

By drafting bid solicitations, providing advice concerning firms slated for restructuring, serving as temporary employees within the federal holding company's management, and advising companies evaluating the purchase of Treuhand enterprises, financial consultants molded state divestment. The impressive volume and speed of Treuhand divestiture in eastern Germany should not detract attention from the fact that the short-lived bureaucracy-business hybrid was a major purchaser of hundreds of millions of deutschmarks' worth of advice and hundreds of billions of deutschmarks' worth of credit, much of it obtained from a cosmopolitan financial elite. By inserting themselves into the federal government's efforts to compensate for profound scarcities of capital, particularly in those instances where Germany's large domestic banks proved unwilling to engage on a scale judged commensurate with the challenges facing eastern Germany's economy, foreign investment bank representatives cultivated close relationships with Treuhand board members.

Peeking into the offices where the East was purportedly saved, stolen, or merely salvaged reveals the obscured hands of consultants. Management advisory and financial firms analyzed market conditions, identified administrative shortcomings, or suggested purchasers. Besides attracting investment capital, the engagement of outsiders helped the Treuhand challenge narratives of protectionism and bureaucratic overreach that had been granted wide circulation in foreign and domestic press outlets. Generously remunerated investment advocates tied together state-led attempts to unify Germany with the creation of new markets by "engineering" financial instruments enabling institutional investors, such as

pension funds and insurance companies, to invest in “assets” underwritten by the German federal government.

The degree of financial consultancies’ involvement is striking: the Treuhand routinely spent more money on contractors wearing the insignia of internationality than on its own employees. The Treuhand consistently spent more on consultants (DM 460 million in 1992) than its own staff (DM 360 million).⁹ The actual sum was higher, as fees to contractors responsible for those East German firms run by the Stasi—under the Stasi’s Commercial Coordination (Kommerzielle Koordinierung), hereafter KoKo—were later shouldered by the Federal Ministry of Finance in Bonn directly and not through its Berlin-based intermediary, the Treuhand.¹⁰ Sales of KoKo businesses were specifically intended to draw in foreigners, an irony given that such sales owed their existence to the willingness of officials abroad to turn a blind eye to the companies’ origins. For instance, the Treuhand entrusted the sale of twenty-six Stasi high-tech firms to a foreigner, a Swiss employee on loan from the Schweizerische Bankgesellschaft (a predecessor of today’s UBS).¹¹ The young Swiss banker thought it no coincidence that he had been chosen for the sale, surmising

9 Deutscher Bundestag, ed., *Treuhandanstalt, Bericht des 2. Untersuchungsausschusses des 12. Deutschen Bundestages* (Bonn: Bonner Universitäts-Buchdruckerei, 1994), 447–449. The Federal Ministry of Finance denied this (highly politicized) parliamentary inquiry a full accounting of the fees charged by external contractors.

10 The actual volume of trade between East Germany and other nations is obscured by the fact that the Stasi’s KoKo firms—at least 160 in total—were not included in official trade statistics. Formally part of the Ministry for Foreign Trade, the KoKo was in fact administered by Günter Mittag and Alexander Schalck-Golodkowski, the latter enjoying a remarkable degree of autonomy in his decisionmaking owing to his status as a high-ranking Stasi official (*Offizier im besonderen Einsatz*). Recent publications on the KoKo’s ties to Switzerland are Andreas Förster, *Eidgenossen contra Genossen* (Berlin: Christoph Links Verlag, 2016) and Ricardo Tarli, *Operationsgebiet Schweiz. Die dunklen Geschäfte der Stasi* (Zurich: Orell Füssli, 2015). For unclear reasons, Tarli neglects to refer to unpublished sources.

11 “Traumjob für zwei Schweizer Jungmanager. Die Bankgesellschaft leiht Jungmanager an die Treuhandanstalt aus,” *Cash* 38 (September 20, 1991). I trace the origins of these firms in Keith R. Allen, *Interrogation Nation: Spies and Refugees in Cold War Germany* (London: Rowman & Littlefield, 2017), 138–141.

(erroneously) that “We Swiss are uncontaminated [*unbelastet*]. We had nothing to do with Germany’s Nazi/Stasi pasts.”¹²

As this remark suggests, the scope of foreign involvement in eastern Germany extended beyond American and British consultants. The chapters of this book have paired exploration of the Treuhand’s international marketing with foreign responses to the amalgamation of East Germany’s economy with larger and more powerful West Germany. According to the Treuhand’s statistics, the most important foreign investing nations in Treuhand companies were Switzerland (139), the United Kingdom (124), and Austria (100). Each investment case exhibited distinct characteristics. Insofar as I examine individual acquisitions, I do so in order to discern patterns of interaction between German authorities and foreign officials, investors, and advisers.

Understanding how 858 foreign purchasers from many different nations prevailed—and others did not—requires one to examine investments not so much from the vantage points of German public officials as from the perspectives of those foreign officials, potential investors, and intermediaries enlisted to bring together non-German purchasers and German sellers. Especially in 1990 and the first half of 1991, the most important individuals behind successful foreign investments were not Germans staffing the Treuhand’s Investor Services directorate or those handpicked “roving ambassadors” appointed by the Treuhand and serving in European countries and the Treuhand’s office in New York and Tokyo but rather foreign trade experts with contacts acquired in commerce between the two German states, East and West, during the 1970s and 1980s.

Investment promotion undertaken before the federal government’s widely publicized change of course in mid-1991, when foreign acquisitions of Treuhand properties already stood at 4 percent, warrants particular scrutiny. Attempts to signal attractiveness to foreigners did not begin with

12 “Die ehemalige DDR ist eine Mega-Herausforderung,” *Tages-Anzeiger* 189, August 17, 1991.

Breuel's outreach, or even the Treuhand, but rather extended back into the era of German division and state socialism. Particularly during the first eighteen months of state divestment, the inner-German trade between East and West Germany often prefigured post-Wall foreign investments.

The Treuhand and the Swiss

The findings of this book suggest that the framework of the nation-state alone is insufficient to grasp the inner workings of divestment within and beyond unifying Germany. Understanding foreign engagements requires one to pair the infrastructure established by host countries with consideration of the interests and histories of investing nations. Language, culture, and geographical proximity lent the Swiss advantages over almost all foreign rivals, save the Austrians. These factors help to explain why Swiss investments were spread evenly across the Treuhand's nearly five-year history, with Switzerland almost always occupying first or second place in monthly tallies of foreign investors produced by the German privatization authority. Unlike those of France, Swiss acquisitions were often realized by smaller firms with fewer visible ties to political and administrative elites at home and in unifying Germany.

Although statistics generated by federal entities reveal significant investment activity among Germany's smaller neighbors—the Netherlands (96), Denmark (26), Austria (100), and especially Switzerland (139)—this is the first study to pair an exploration of the Treuhand's international marketing efforts with the engagement of those nations most active in eastern Germany's retracting economy.¹³ In eastern Germany, Swiss in-

13 An early study by a former Treuhand consultant (and in 2021 head of Heidelberg-Cement Group) drew on twenty-eight interviews and press accounts to explain French and British investments. See Dominik von Achten, "Die Treuhandanstalt und der Markt in den neuen Bundesländern: Erfolge und Probleme französischer und britischer Unternehmen bei der Erschließung des ostdeutschen Marktes" (PhD diss., Universität Frankfurt, 1997).

vestors accounted for 16 percent of all firms purchased by foreigners; by 1995 Swiss entities had committed themselves to more than three hundred investments, Treuhand related and otherwise.¹⁴

An important early investor in the new federal states, Switzerland was among the last foreign representatives to join the Treuhand's ranks abroad. The Swiss representative Fritz Leutwiler, former director of the Swiss National Bank, was appointed in June 1992 but only assumed his duties at the end of the summer.¹⁵ A financial heavyweight who had also previously served as president of the Bank of International Settlements, a club of central banks, Fritz Leutwiler rarely engaged in cultivating individual investors during his eighteen-month tenure as Treuhand representative. Instead, he and the Treuhand entrusted this task to a private organization known as the Handelskammer Deutschland-Schweiz.

In Switzerland, rivalry within the small world of business associations stoked competition among investment interlocutors. The country was unique among Germany's major European trading partners in having not one but two private chambers of commerce engaged in promoting business ties with West Germany, the Handelskammer and the Vereinigung Schweizerischer Unternehmer in Deutschland (Association of Swiss Companies in Germany), based in Basel. Chapter 2 shows how the Handelskammer harnessed socialist-era ties in the GDR with its outstanding connections to top West German politicians and industrialists and plans forged by one of Switzerland's largest private banking houses, Vontobel. The private bank's subsequent relationships with public-sector authorities in Germany drew upon the Handelskammer's legwork, which in turn arose from sources that Swiss-based East German investment strategists had cultivated in German-German relations during the 1980s. Extensive cooperation between the postwar German states, with Switzerland serv-

14 Schweizerisches Wirtschaftsarchiv, Basel, 50. Jahresbericht der Vereinigung Schweizerischer Unternehmen in Deutschland (VSUD), B.Verb. J 218.

15 Felix Bühlmann et al., *Les élites économiques suisses au XXe siècle* (Neuchâtel: Éditions Alphil, 2016), 124–129.

ing as a conduit, thus laid much of the groundwork for Swiss engagement in eastern Germany's privatization in 1990 and 1991.¹⁶

Chapter 2 illustrates that Swiss engagements were neither especially foreign (they drew heavily upon ties between German-speaking neighbors), nor direct (mediators from the Handelskammer and other interlocutors exercised important roles), nor even conventional investments (the most important aspects of Swiss involvement in the Treuhand related to the sale of Treuhand securities, not industrial properties). Foreign direct investment was in fact none of the above: inner-German networks of Cold War-era vintage granted the Handelskammer privileged positions. Together, Vontobel and the Handelskammer used these footholds to expand the country's positions in refinance, consultancy, and investment banking.

Austrian Engagements and the Treuhand

One might expect Austria to have exhibited a pattern of investments broadly similar to Switzerland's. Like the Swiss, the Austrians had access to what economists often subsume under the hazy term "market knowledge" via the country's many important ties to both postwar German states. In fact, firms from the Danube Republic, in contrast to those from Switzerland and France, were initially hesitant to engage with the Treuhand. As I explain in Chapter 2, the Austrian pattern of Treuhand investments, first slow, then fast, resulted from the Austrian Republic's unsuccessful efforts to generate business for its own state industrial sector. So-called natural advantages—a common language and long-standing

16 In October 1991, the Treuhand's Breuel selected the Handelskammer as its official Swiss representation, ignoring the recommendation submitted by a further, and very influential, Swiss foreign trade association, the Schweizerischer Handels- und Industrie-Verein (today *economiesuisse*). At the end of 1993, the Handelskammer expanded its purview to Austria. The Handelskammer also directly assumed Leutwiler's mandate after the central banker resigned his position. See, for a summary, Bundesarchiv, Brief von Vehse und Bargmann an Theuer, May 9, 1994, B 412/12114.

cultural ties—mattered, to be sure. But in order to fully capitalize on these advantages, economic diplomats had to first untangle Austria's substantial commercial and industrial ties to the GDR.

Tracing Austrian foreign investment patterns in eastern Germany—not merely successful investments—underscores that the exchange of economic ideas and practices traveled in multiple directions, never merely bilaterally, or from West to East and back again, in boomerang fashion, but rather on parallel tracks and in concentric circles. Austria's overriding priority in the face of changes sweeping east-central Europe in 1989 was its own domestic industries, not those of its socialist neighbors. Austria's specific approach to the conversion of state monopolies, especially industrial concerns, prefigured the country's approaches to evolving opportunities across east-central and eastern Europe. To reduce the debts and losses of their own state enterprises, Austria's political leaders and nationalized industries advanced a piecemeal program of engineering joint ventures abroad and partial privatizations at home. In other words, Austrians tended to view trade with east-central and eastern European partners through the prism of domestic requirements, not the other way around.

Top Austrian officials, industrialists, and financiers went to considerable lengths to generate new business in the still socialist GDR, as well as in other countries then increasingly described as “reform oriented,” especially Czechoslovakia and Hungary. During the late 1980s, Austria's top business and political leaders were advocating export-led growth to socialist countries as part of an undertaking to restructure Austrian, not East German, state conglomerates and partially divested state utilities. And then, in January 1990, a newly rebranded Austrian Industries holding stepped forward to swiftly exploit low-wage, highly skilled labor in new markets across east-central Europe. The aim of Austrian state company directors: to thwart American and Japanese rivals poised to exploit evolving market advantages and flood Austrian Industries' core markets in western Europe.

Austrian investment strategies appear at first glance contradictory: join western Europe's privatizing mainstream by exploiting decades-long

ties to socialist Europe. They seem less so once one grasps Austrian domestic priorities in early 1990. The chief objective at that time was to pave the way for bond issues and stock market flotations of public-sector enterprises at home. Putting down roots in East Germany, Hungary, Poland, and the Soviet Union ahead of multinational rivals appeared to make business sense but was overtaken by fast-moving political and economic changes. As efforts to prepare the Austrian Industries state holding for privatization by share sales inched forward, significant commercial agreements forged between Austrian state-owned companies and GDR ministries, industries, and agricultural concerns morphed into unforeseen financial liabilities in the months immediately after the Berlin Wall's opening.

Small in macroeconomic terms, trade with socialist East Germany nonetheless cast meaningful shadows over both Austrian and Swiss investments in the months immediately following the opening of the border between the German states and two halves of Berlin. Rather than pivoting like the Swiss to border-crossing mediators, Austrian leaders initially expanded, and then stubbornly held onto, hard-earned footholds in the GDR. The reason: Austrian plans for East Germany's industrial sectors of metallurgy, petrochemicals, and steel informed decisions to revamp state industries in the Danube Republic. The Swiss, by contrast, with fewer state-level East German contacts, devoted considerable attention to another goal: enlisting Austrian and West German intermediaries residing in Switzerland to act as go-betweens on behalf of Swiss financiers and enterprises.

A surge in Austria's Treuhand acquisitions in eastern Germany occurred after the Alpine country's economic diplomats found ways to convert demands flowing from the country's socialist-era bonds to the GDR into de facto concessions from the German federal government in Bonn. Here formal diplomacy—not, as in Switzerland, insider assessments of the potential value of eastern German assets acquired in socialist times—shaped investment outcomes. The compromise reached between economic and foreign affairs officials in Bonn and Vienna ensured that the fate of bilateral agreements between Austrian and GDR industries

shaped the trajectory of Austrian Treuhand investments: first slow, then brisk. Austrian investors gained momentum from mid-1992 onward. In 1993 and 1994, Austrian companies invested at a faster rate than all foreign rivals in eastern Germany. German public infrastructure expenditure and also the federal government's willingness to share information about Treuhand tenders—an impromptu measure facilitated by the shared common language—help to advance Austrian purchases.

Leading the way with fifteen Austrian Treuhand acquisitions was the Maculan Holding, a construction concern listed on the Vienna Stock Exchange in September 1990 with major shareholdings among “institutional investors” in the United Kingdom. Its success is one among several reasons this book evaluates closely the role of financial capital in specific eastern German investments, a topic I took up with reference to UK investments after 1989 in Chapter 3.

Britain (and France) in Eastern German Privatizations

Unlike Austria and Switzerland, the United Kingdom boasted fewer ties to the GDR before the opening of inner-German borders in November 1989. Similar to their Austrian counterparts (and unlike the French), British companies proceeded into eastern Germany slowly. Rather than demanding concessions flowing from their membership in the European Community, UK government officials initially sought to impose via the European Commission new controls on the unifying Federal Republic. While their French counterparts pressed advantages stemming from West German ties and their deepening relationship within Europe, leading British officials used their access to Bonn decisionmakers to take aim at the German federal government's rapidly evolving plans for East Germany and the European Community. This blocked progress toward Treuhand investments but ratcheted up pressure on the privatization authority to include foreigners in Treuhand operations. Ultimately, this opening benefitted UK-based financial consultants, especially investment banks. It flowed

from groundwork laid by UK trade officials based in the country's embassies in Bonn and East Berlin.

Discord characterized Anglo-West German relations in 1990. UK officials sought to mobilize the European Community's commissioner for competition, Leon Brittan, to significantly delay the Federal Republic's evolving plans for the GDR's economy. In July 1990, British officials sought to empower the European Commission to scrutinize the transfer of the GDR's foreign trade contracts, including those with the Soviet Union, to the West German government.¹⁷ This bid and several others fell short of their objective. Rather than leveraging the outstanding economic relations Britain enjoyed with West Germany in the decade prior to German unification—the United Kingdom topped the list of foreign investors in West Germany during the years 1979 to 1988—the British government soured relations with the Federal Republic during West German leaders' moment of triumph. Foreign and Commonwealth Office plans to develop joint-venture training and pre-investment feasibility studies under the umbrella of a so-called Know How Fund in East Germany were shelved after a promising start. Deepening divisions within the Conservative Party over the course of events in Europe undercut initiatives by the Department of Trade and Industry and UK businesses with West German subsidiaries to nose forward into Germany's East ahead of foreign and especially western German competitors.

In France, by contrast, majority-owned, partially privatized state enterprises with exceptionally close ties to politics leapt to the front of the pack of foreign investors in eastern Germany in 1990, only to fall behind Switzerland, Britain, Austria, and the Netherlands in the following years. From mid-1991 onward, the federal government's—not merely the Treuhand's—empowerment of Anglo-American financial professionals nonetheless created substantial opportunities for UK investors.

Pressure from competition authorities in Bonn and Brussels, as

17 See Bundesarchiv, Telefax von Erler an Reichel, July 11, 1990, DC 20/18512.

well as markedly improved connections to the most important actors in the Bonn government after Margaret Thatcher's departure in November 1990, yielded a modest number of British investments and a prodigious enlistment of British consulting experts. Especially significant in improving the United Kingdom's fortunes was the federal government's outreach to Anglo-American finance, coupled with Bonn officials' decision to shoulder enormous construction programs to rebuild houses, upgrade roads, and improve access to waterways across eastern Germany. This particular constellation of politics and economics produced select opportunities for UK-based investors. As in Austria, construction was a central area of UK investment, albeit with the bulk of British investments coming later than Austrian, Swiss, and French counterparts.

Public utilities, businesses recently privatized in the United Kingdom with the guidance of financial entities but still state monopolies in unifying Germany, also proved a key arena of Anglo-German commercial interaction during the early 1990s. In eastern Germany, UK investors and advisors focused on the sectors of electricity, gas, and water. Generous subsidies, substantial tax advantages, and especially a massive transfer of public funds to build infrastructure induced investments on the part of recently privatized British companies in a decidedly buyers' market, with companies like Thames Water leading the pack. Moves such as that of British Gas to establish its own venture capital fund successfully exploited demands backed by the European Commission to advance third-party access to national energy grids, notably Germany's. This, in turn, played into the hands of UK public utilities, where telephone and gas, and then water and electricity, were opened up to the share placements of transnational financial experts. The decision of the German Federal Ministry of Economics to entrust eastern Germany's energy sector to Goldman Sachs aided an Anglo-American consortium of three companies in acquiring open-cast brown coal mining pits. The object was not so much to obtain title to eastern German coal fields as to secure a foothold in long-protected national power-generation markets. A major deal featuring this consortium received approval from Chancellor Kohl during the second half of 1993.

Benefits accrued to favored British investors, but even more to consultants, banks, and solicitors based in the United Kingdom brandishing international restructuring credentials. Acting on orders from the country's highest current and former politicians, Breuel and her staff deepened ties to America's and Britain's financial services industries.¹⁸ Financial architects, for their part, demanded the Treuhand guarantee a minimum return to draw in institutional investors such as pension funds and insurance companies. Such "liquidity aids" required the Treuhand to retain a stake in funds until assets were purchased and the funds in question disposed of. Package deals with venture capital and investment funds ensured generous returns for investors. The federal government assumed responsibility for softening the impact of shutdowns, providing generous unemployment benefits, and dealing with the media flak that accompanied its embrace of expensive outsiders. Through "private placements" with institutional investors, the Treuhand and its banking allies sought to appeal to a handful of large-scale investors, notably pension and mutual funds, while avoiding the "restrictive" guidelines the US Securities and Exchange Commission, the once muscular American regulatory body set up during the Great Depression, enforced on Wall Street at the time.

The proponents of solutions submitted by financial strategists within the Treuhand carried the day not primarily because of the persistence of Anglo-American speculative capitalists but because of instructions issued from the most powerful arms of the German federal government. In the autumn of 1990 Treuhand president Detlev Rohwedder ramped

18 In a June 1991 speech in the Bundestag, Kohl conceded that the labor market in the new federal states would grow still more difficult while concurrently expressing his view that the region would ultimately emerge as among the most attractive and modern in Europe. To this end, Kohl expressed his hope that "Germany's partners and friends in the world" would assume a greater role in the opportunities offered by "reconstruction" in the new federal states, an invitation to encourage greater investment registered by foreign embassies and passed on to their respective governments. For an example of how Kohl's remarks reached the British prime minister's office, see The National Archives, telegram from Bonn to Foreign and Commonwealth Office, June 7, 1991, PREM 19/3766.

up plans to borrow what was by German standards the staggering sum of DM 25 billion by the end of 1991.¹⁹ To ensure the Treuhand obtained favorable terms, in October 1990 the Federal Ministry of Finance took the extraordinary measure of granting the Treuhand, an agency less than one year old, the reputation status enjoyed by the federal government's development bank, the venerable Kreditanstalt für Wiederaufbau. This move was taken with two aims: to strengthen the Treuhand's position when approaching domestic and foreign banks and to buttress its international appeal (*Publizitätswirkung nach aussen—Ausland*). In other words, both the Federal Ministry of Finance and the Treuhand itself hoped the expanded mandate for bankers would exercise "a positive effect on the privatization of Treuhand firms."²⁰

The partially concealed impact of financial intermediaries on industrial policy in eastern Germany reached a peak during the state-led rapid-fire privatizations of 1991 and 1992, when Treuhand officials in branch offices spread across the ex-GDR decided the fate of dozens of firms each working day. Real estate sales and, even more, the Treuhand's ballooning debt requirements fueled interest among German public officials in foreign banking networks and their approaches to state divestment and industrial reconstruction. The federal government's investment and employment commitments in eastern Germany required the Treuhand to obtain the seal of approval of credit ratings agencies in New York and solicit the advice of fund managers based in London. On fund-raising "roadshows" abroad, Breuel and other senior Treuhand officials affirmed commitments to rapid closures at home and further sales to foreigners. In February 1993, the German Bundesbank followed the Treuhand's lead by selling its own short-term (commercial) paper to firms and wealthy individuals in Frankfurt am Main, a move welcomed by Goldman Sachs.²¹

19 Bundesarchiv, Schreiben von Köhler an Rohwedder, September 20, 1990, B 412/2542.

20 Bundesarchiv, Grundsätze für die Mittelaufnahme der Treuhandanstalt, October 30, 1990, B 412/2549.

21 "Small Beer: German Finance," *The Economist*, February 13, 1993.

Backed by the full faith and credit of the German treasury, the Treuhand's own security issuance was awarded the coveted triple-A status by ratings agencies Standard & Poor's and Moody's, gatekeepers of the international credit world.²² The Treuhand hoped that the AAA rating from these private American firms would bolster its efforts to market its own "assets" to investors, especially foreigners.²³

Even policy areas generally regarded as alternatives to rapid privatization, such as the decision to extend state ownership of chosen enterprises, came to bear the imprint of border-crossing financiers. Here the European Community/European Union emerged as an important policy- and deal-making nexus. Perceived violations of EC/EU competition rules and EC/EU treaties, prompted by an upward spiral of federal subsidies to sensitive economic sectors, encouraged the European Commission, the European Council, the European Parliament, and other EC/EU governments and parliaments to bolster their monitoring of Treuhand operations. At the heart of disputes was the desire of German public officials to grant loans, subsidies, and other concessions to potential investors committed to upgrading German plant and equipment. Successful foreign bidders included Norwegian shipbuilders and Belgian steelmakers supported by consortia of international bankers. The list of influencers extended to all

22 Bundesarchiv, Rede von Dr. Paul Hadrys, Direktor Finanzierung THA (U5F), bei Veranstaltungen zur Vorstellung der THA-Anleihe, undated (September 1992), B 412/20232. A notable guide to how quintessentially American companies came to judge foreign sovereign debt is Pierre Pénét, "Calculating and Governing Risk in Times of Crisis: The Role of Credit Ratings in Regulatory Reasoning and Legal Change" (PhD diss., Institut d'études politiques de Paris, 2014). Obtaining sovereign reports from these American ratings agencies has long frustrated social scientists. See Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007), 181–182.

23 Bundesarchiv, Vorlage für den Vorstand der Treuhandanstalt, Rating der THA als internationaler Kreditnehmer und Geschäftspartner (bonitätsmäßige Einstufung der THA durch die US-Agenturen Standard and Poor's and Moody's), July 11, 1991, B 412/2587. Among those to make the link explicit between Japanese purchases of Treuhand debt and potential foreign investors in Treuhand firms was Breuel's vice president Hero Brahms. See "Treuhand präsentiert sich in Tokio," *Börsen-Zeitung* 188, September 30, 1992.

twelve EC/EU member states, as well as financial institutions active across Europe and other continents. Chapter 4 took stock of these EU-enabled multinational influences on industrial policy in eastern Germany.

Western Europeans in Eastern German Privatization

Industrial restructuring in the ex-GDR supplied foreigners with fresh opportunities to shape industrial development within eastern Germany. Profound concerns about eastern Germany's bleak industrial future led federal and state officials to direct tens of billions of deutschmarks toward revamping strategic companies with socialist pasts. Surprisingly often, given the tiny percentage of non-German investors in eastern Germany, the new owners of enterprises—in chemicals, microelectronics, rail rolling stock, shipbuilding, and steel, among others—slated for restructuring were foreigners. As in Germany, financial actors and interests figured prominently in subsidy battles waged in several European capitals, but especially in Copenhagen and London.

In Germany, Treuhand-led privatization has long been presented as a series of essentially regional aftershocks following national political unity. Aside from the formal diplomacy in the run-up to formal political unification, transnational factors have received short shrift. Comparative accounts of denationalization generally look east- and southward to highlight the federal government's relative success in stabilizing eastern Germany's economy vis-à-vis struggling neighbors such as Czechoslovakia, Hungary, or Poland, albeit at a lower level of industrial output and at the price of high unemployment. But the fate of industry in eastern Germany was enmeshed above all with the interests of the EC/EU, and not with those of the former members of the Council for Mutual Economic Assistance (Comecon). For the first half of the 1990s, the aims of market actors in the twelve EC/EU member-state governments deserve closer attention in rectifying the historiographical neglect of transnational dimensions during eastern Germany's mass privatization.

Drawing on newly declassified archival material from multiple nations, the fourth chapter evaluates the influence of foreigners in the establishment of eastern Germany's so-called industrial cores. From chemicals to shipbuilding to steelmaking, several of the GDR's largest and most politically sensitive industrial enterprises ended up in foreign hands. Decisions concerning the fate of particular eastern German companies, specifically plans to direct prodigious subsidies to private-sector investors in efforts to salvage remnants of ex-socialist companies, triggered the interest of competition authorities in Brussels and parliamentarians in many different countries. In 1993 and 1994, restructuring shipbuilding, steel, and other troubled industrial sectors via government-backed loans drew in, alongside well-known domestic actors, the European Commission, the European Parliament, and also legislative bodies and top ministerial officials in other countries, notably Belgium, Britain, Denmark, France, Luxembourg, and the Netherlands. For shipbuilding and steel, the most important EU bodies were the lesser-known Industry and Foreign Affairs Councils. In the run-up to meetings of the Industry Council, multinational negotiators, including the highest elected representatives of several EU countries, ensured the plight of the biggest steel mill in eastern Germany intersected with subjects as seemingly far removed as closures and layoffs in Danish and French shipyards, nascent attempts to secure peace and promote reconciliation in Northern Ireland, European data protections, and investment-bank-led privatizations of Deutsche Telekom. Chapter 4 explains how Anglo-German clashes over restructuring plans affecting many EU countries were only resolved when the German government, based on a compromise forged by the European Commission and personal interventions by Prime Minister John Major and Chancellor Helmut Kohl, yielded behind-the-scenes favors to Britain on the eve of the Essen European Council meeting. These included economic aid for Northern Ireland and attempts, ultimately unsuccessful, to secure a major privatization deal for a UK investment bank.

A peek into the offices where the East was purportedly saved, stolen, or merely salvaged reveals not merely the influence of the much-maligned Treuhand or Germany's top politicians but also the hitherto

obscured hands of financial consultants. German public officials understood that mass state divestment rested upon extraordinary levels of temporary public-sector engagement.²⁴ Less often scrutinized is how foreign engagement promoted state-led denationalization. Mass privatization hypercharged international banking and capital markets. In Germany, enhanced competition among firms and stock market pressures also encouraged state and federal officials to grant further autonomy to specific Anglo-American-inspired financiers after the formal dissolution of the Treuhand public receivership.²⁵

Financial specialists were in demand because public decisionmakers believed them to possess qualities essential to eastern Germany's economic renewal, notably entrepreneurship, marketing expertise, and, most important, access to investment capital. The Treuhand felt confident enough of its relations with Goldman Sachs to allow a prominent London representative of Goldman Sachs to tell readers of the Treuhand's monthly newsletter how Goldman executives were seeking clients for East Germany's massive chemical industry and massaging relationships with the economics minister of Saxony-Anhalt.²⁶ In October 1990, the best-known American investment bank opened an office in Frankfurt am Main to exploit public-sector divestment. Goldman Sachs concluded twenty major sales on behalf of the receivership, arranging tenders and bringing mergers and acquisitions advisers into a commercial activity seldom undertaken in (West) Germany prior to 1989: selling entire businesses.

24 See, for instance, Brahm's speech held at a symposium of the Ludwig Erhard Foundation, on November 6, 1991, in the Gewandhaus in Leipzig. Hero Brahm, "Leistungsfreude und Privatinitiative als Antriebskräfte des Aufstiegs Ost," in *Vom Zentralplan zur Sozialen Marktwirtschaft. Erfahrungen der Deutschen beim Systemwechsel*, ed. Horst Friedrich Wünsche (Stuttgart: Gustav Fischer Verlag, 1992), 87.

25 A key part of how leading scholars define financialization is the growing autonomy of international finance from nation-states; precisely how financiers carve out this autonomy is often insufficiently described. See, for an introduction, Natasha Van der Zwan, "Making Sense of Financialization," *Socio-economic Review* 12 (2014): 99–129.

26 "Weltweite Suche nach Chemie-Investoren," interview with Dr. Paul Achleitner, Investment Bank Goldman Sachs, London, *Treuhand Informationen* 11 (February 1992): 4. See also "Kreative Privatisierung bleibt auch 1992 die beste Form der Sanierung," *Treuhand Informationen* 11 (February 1992): 13.

Competition for mobile capital during the tumultuous years of mass privatization in eastern Germany forged close personal relations among top German officials and bankers that outlasted the Treuhand receivership. The Treuhand's formal abolition at the end of 1994 did not spell the end of outsiders' influence over German public policy. On the contrary: Treuhand-era ties enabled investment bank professionals to remain effectively networked with top officials in state and federal government. As competition among European nation-states to obtain greater access to capital circuits accelerated during the second half of the 1990s, financial professionals from American- and British-based firms assumed prominent roles in shaping new expressions of the public resources known as risk capital and investment promotion.

In the multinational scramble to capture for Germany a larger slice of the then rapidly expanding share of FDI, German state and federal actors empowered Anglo-American experts with Treuhand-era credentials in government schemes to redesign German finance and industry and the public sector, or what was then increasingly described in German as "corporate governance." Public-private initiatives with Treuhand roots sought to tilt Germany's political economy toward impatient capital in the form of international private investors committed to divorcing ownership from control.

Investing foreigners in post-Wall eastern Germany altered the mix of politics and economics within the enlarged Federal Republic and not just in the country's new eastern territories. The way the federal government and Treuhand approached denationalization ensured that the political contests and material realities of Germans, East and West, reflected composites of foreign and domestic influences. Taken together, the five chapters of this book demonstrate that the study of state divestment within the EU's most populous and powerful economy should no longer be confined to national frameworks in which questions of success or failure have often commanded billings.

Future empirical research on financialization in the forms of cross-border mediation and the multinational politics of industrial reconstruction should attempt to lend nuance to public discussions of the reach

of international finance into the inner workings of Germany's post-Wall economy. This account has shown that significant shapers of Germany's economy and politics after 1989 included financial firms concurrently active in many different countries. Future historians must strike a better balance between the distinct national characteristics of Germany's post-socialist economy and wider patterns of finance-led reforms across both eastern and western Europe after (and before) 1989.

The Treuhand-led era of mass privatization in eastern Germany extended the influence of international financiers over public life in the enlarged Federal Republic and other countries. The German receivership's interactions with foreigners were more relational than strictly transactional. Market encounters between outsiders and Germans in acts of state-led public divestment are not easily reducible to costs and benefits, successes and failures, or such widely cited indices as FDI.

Precisely how postsocialist dissemination of foreign capital reframed the industrial economy of Germany as a whole via the ex-GDR warrants still closer empirical investigation. In this endeavor, future historians of multinational finance's actual reach during the privatizing 1990s are advised to consistently look backward in time and outward across national borders.

Appendix

Periodicals/Press Agencies

Agence France presse
Basler Zeitung
Beretning
Berlingske Tidende
Blick
Börsen-Zeitung
Bulletin of the European Communities
Bundesgesetzblatt für die Republik Österreich
Cash
CH-D Wirtschaft
Competition and Change
Competition Policy Newsletter
Daily Mail
Daily Telegraph
De Tijd
Der Bund
Der Spiegel
Der Standard
Der Tagesspiegel
Deutschland Archiv
Die Kammer. Organ der Kammer für Aussenhandel der DDR
Die Presse
Die Zeit
Electronic News
Financial Times
Focal Point: Eastern Germany
Forbes
Frankfurter Allgemeine Zeitung
Frankfurter Rundschau
Fyens Stiftstidende
Geld
General-Anzeiger

Hamburger Abendblatt
Handelsblatt
Het Financieele Dagblad
Historische Zeitschrift
Il Sole 24 Ore
Innovatio
International Herald Tribune
Irish Independent
Irish Times
Journal of Commerce
Jyllands-Posten
Kronenzeitung
Kurier
L'Echo de la Bourse
La Libre Belgique
Le courrier des pays de l'Est
Le Figaro
Le Monde
Le Nouvel Économiste
Les Echos
Luzerner Neueste Nachrichten
Märkische Zeitung
Morgenavisen Jyllands-Posten
Neue Zürcher Zeitung
Neues Deutschland
New York Times
NRC Handelsblad
Politiken
profil
Reuters
Salzburger Nachrichten
Solothurner Zeitung
St. Galler Tageblatt
Stuttgarter Zeitung
Süddeutsche Zeitung
Tages-Anzeiger
Tagesspiegel
The Daily Telegraph
The Economist
The Guardian
The Independent
The Spectator
The Sunday Business Post
The Times (London)
The Wall Street Journal
Thüringer Allgemeine
Time

Treuhand Informationen
Treuhandanstalt Informationen
Volkskrant
VWD – Neue Bundesländer
Wall Street Journal
Wall Street Journal Europe
Washington Post
Wirtschafts-Spiegel
Wirtschaftsblatt
Wirtschaftswoche

Archives Consulted

Archiv der Handelskammer Deutschland-Schweiz (Zurich)
Archiv der Kreditanstalt für Wiederaufbau (Berlin)
Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland (Basel)
Archiv für Christlich-Demokratische Politik (Sankt Augustin)
Archiv für Zeitgeschichte, ETH Zürich
Archives of the Danish Parliament (Folketing)
Markedsudvalget
Rads røde
Archives of the European Free Trade Association (Geneva)
Existing Agreements with the German Democratic Republic and the Forthcoming German Unification
Archives of the European Parliament (Luxembourg)
Archiv Grünes Gedächtnis in der Heinrich-Böll-Stiftung, Berlin
Bestand Wolfgang Ullmann
Konzepte zur Gründung einer Anstalt zur treuhändischerischen Verwaltung des Volkseigentums
Archiv der Handelskammer Deutschland Schweiz, Zurich
Dossier DDR
Archiv der Kreditanstalt für Wiederaufbau (Berlin)
Archiv für Zeitgeschichte, ETH Zürich
IB Vorort-Archiv
IB VSM-Archiv
Nachlass Fritz Leutwiler
Nachlass Paul R. Jolles
Archiv der Vereinigung Schweizerischer Unternehmen in Deutschland, Basel
Protokolle der Vorstandssitzungen
Zirkulare an Vorstandsmitglieder sowie Korrespondenz mit den ostdeutschen Landesregierungen und der Treuhandzentrale
Vorstands- und Ausschusszirkulare

- Brandenburgisches Landeshauptarchiv (Potsdam)
1100 Staatskanzlei
1700 Ministerium für Wirtschaft
- Bundesarchiv (Berlin/Koblenz)
B 102 Bundesministerium für Wirtschaft
B 126 Bundesministerium der Finanzen
B 136 Bundeskanzleramt
B 246 Bundeskartellamt
B 296 Deutsch-Britische Gesellschaft
B 330 Deutsche Bundesbank
B 412 Treuhandanstalt/Bundesanstalt für vereinigungsbedingte Sonderaufgaben
B 441 Unabhängige Kommission zur Überprüfung des Vermögens der Parteien und Massenorganisationen der DDR
DA 3 Volkskammer
DC 20 Ministerrat der DDR
DE 10 Büro für Industriekooperation beim Ministerium für Wirtschaft der DDR
DL 2 Ministerium für Aussenhandel und Innerdeutschen Handel
DL 200 Kammer für Aussenhandel der DDR
DL 210 Betriebe des Bereichs Kommerzielle Koordinierung
DL 226 Ministerium für Aussenhandel der DDR, Bestand Kommerzielle Koordinierung
DN 1 Ministerium der Finanzen
DY 30 Stiftung Archiv der Parteien und Massenorganisationen der DDR im Bundesarchiv
N 1585 Tagesbuchaufzeichnungen von THA-Vorstandsmitglied Klaus Schucht
N 1809 Nachlass Werner Ungerer
N 2541 Nachlass Hans Modrow
N 2605 Nachlass Gerhard Beil
- Central Archives of the European Council/Council of the European Union (Brussels)
Proces-Verbal de la 1705ème session du Conseil (Industrie)
- Centre des archives diplomatiques (Nantes)
105PO Ambassade de France à Bonn
86PO/1/1-168 Berlin (bureau à Berlin de l'ambassade de France près la RFA)
- Deutschlandradio. Dokumentation und Archiv (Berlin)
Gespräch mit Reinhard Höppner, SPD, Ministerpräsident von Sachsen-Anhalt, 16 Dezember 1994, Produktionsnummer X367814
- Historical Archives of the European Commission (Brussels)
E.3 – State aid – Industrial restructuring
SEC – Collection des Documents
- Historical Archives of the European Parliament (Luxembourg)
Reports of the Committee on Economic and Monetary Affairs and Industrial Policy
- Historical Archives of the European Union (Florence)
AV – Angel Viñas
CCE – Cour des comptes européenne
EN – Emile Noël
FL – François Lamoureux

- GA – Gordon Adam*
GR – Georges Rencki
JD – Jacques Delors
KM – Klaus Meyer
PE – Parlement européen
PL – Philip Lowe
PSP – Peter Sutherland
- Institut Jacques Delors (Paris)
- Landesarchiv Berlin
- B Rep. 002 – Der Regierende Bürgermeister von Berlin/Senatskanzlei*
B Rep. 008 – Senatsverwaltung für Arbeit und Sozialwesen
D Rep. 120-02 – Zentrale Ermittlungsstelle für Regierungs- und Vereinigungskriminalität
D Rep. 258-02 Staatsanwaltschaft II beim Landgericht Berlin
- Landesarchiv Mecklenburg-Vorpommern (Schwerin)
- 8.11-1 Staatskanzlei*
8.51-1 Wirtschaftsministerium
- Landesarchiv Sachsen-Anhalt (Magdeburg)
- L 1 – Staatskanzlei*
L 25 – Wirtschaftsministerium
- Landesarchiv Thüringen – Hauptstaatsarchiv Weimar
- 6-82-1001 – Thüringer Staatskanzlei*
6-82-3001 – Thüringer Wirtschaftsministerium
6-82-3002 – Thüringer Ministerium für Bau und Verkehr
6-82-7001 – Thüringer Finanzministerium
6-94-3501 – Gesellschaft zur Verwaltung von Liegenschaften mbH
7-00-0100 – Rat des Bezirkes
- Modern Records Centre, University of Warwick
- MSS-200 Confederation of British Industry*
- The National Archives, London
- Cabinet Papers (CAB)*
Foreign and Commonwealth Office (FCO)
Prime Minister's Office (PM)
Treasury (T)
- Österreichisches Staatsarchiv – Archiv der Republik (Vienna)
- Bundeskanzleramt (Wirtschaftliche Koordination (WIKO-Teilbestand))*
Ministerium für auswärtige Angelegenheiten (WPOL-Teilbestand)
Österreichische Industrieverwaltungs-AG (Austrian Industries AG) Archiv
- Parlamentsarchiv des Deutschen Bundestages (Berlin)
- Ordner BT-Drucksache 13/8047*
- Politisches Archiv des Auswärtigen Amtes (Berlin)
- Zwischenarchiv*
AV Neues Amt
- Rigsarkivet (Danish National Archives)
- 0015 Erhvervsministeriet: Journalsager (1990–1994)*
- Sächsisches Hauptstaatsarchiv Dresden
- 12891 Sächsische Staatskanzlei*

- 12989 *Sächsisches Staatsministerium des Innern*
 13036 *Sächsisches Staatsministerium für Wirtschaft und Arbeit*
- Schweizerisches Bundesarchiv (Bern)
E2200.1 Schweizerische Vertretung, Dresden*
E2200.55A Schweizerische Vertretung, Bonn*
E2200.56-04 Schweizerische Vertretung, Berlin Ost*
E7115A Bundesamt für Aussenwirtschaft (Bern)*
- Schweizerisches Wirtschaftsarchiv (Basel)
Geschäftsberichte der Vontobel-Gruppe
Jahresberichte der Vereinigung Schweizerischer Unternehmen in Deutschland
- Stadtarchiv Salzburg
SG: 350.110 – Dresden 1988–1990
- thyssenkrupp Konzernarchiv (Duisburg)
Hoesch-Archiv
Akten Rohwedder, Geschäftstätigkeit Hoesch in der DDR, 1979–1989
Hoesch AG Vorstand, 1989–1990
DDR-Aktivitäten, 1984–1990
DDR-Geschäft, 1989–1990
Schriftwechsel mit/über DDR, A–Z 1990

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Zwängen 1989–1994

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ISBN 978-3-96289-153-4
48,00 € (D) · 49,40 € (A)

Eine Vermessung der Treuhandanstalt

Welche Erwartungen und wirtschaftspolitischen Vorstellungen verknüpften sich mit der Gründung der Treuhandanstalt? Wie gestalteten sich Personalpolitik, Organisationsstruktur und Arbeitsweise? Andreas Malycha analysiert Aufbau und Entwicklung der viel diskutierten Institution. Er lotet ihre Rolle im politischen Kräftefeld sowie ihre Handlungsspielräume und Zwänge aus. Von besonderer Bedeutung ist dabei das Verhältnis der Treuhandzentrale zu den Bundesministerien in Bonn. Die Untersuchung reicht vom Herbst 1989 über die Phase der Umstrukturierung nach der Wirtschafts-, Währungs- und Sozialunion unter Detlev Karsten Rohwedder bis zum Ende der Amtszeit Birgit Breuels im Dezember 1994. Nie zuvor wurde die umstrittene Anstalt so eingehend in den Blick genommen.

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Max Trecker
**Neue Unternehmer
braucht das Land**
Die Genese des ostdeutschen
Mittelstands nach
der Wiedervereinigung

320 Seiten, Festeinband
ISBN 978-3-96289-154-1
30,00 € (D) · 30,90 € (A)

**Vom Kommunisten zum Unternehmer,
vom Kombinat zum eigenen Betrieb?**

Mit dem Beitritt der DDR in den Geltungsbereich des Grundgesetzes wurde auch das System der »sozialen Marktwirtschaft« übernommen. Doch woher sollten in einem vormals sozialistischen Land die Unternehmer kommen? Die Akzeptanz des neuen politischen und ökonomischen Systems hing entscheidend von seiner regionalen Verankerung ab. »Mittelstand« war das Zauberwort, das für die Stärke der westdeutschen Volkswirtschaft stand. Mit der Privatisierung der ostdeutschen Staatsbetriebe durch die Treuhandanstalt bot sich die einmalige Chance, das vermeintliche Erfolgsmodell in Rekordzeit auf Ostdeutschland zu übertragen. Es handelte sich um ein soziales Experiment par excellence, das Max Trecker an der Schnittstelle von Wirtschaft und Gesellschaft genau analysiert.

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Wolf-Rüdiger Knoll
**Die Treuhandanstalt
in Brandenburg**
Regionale Privatisierungspraxis
1990–2000

704 Seiten, 19 Abb., Festeinband
ISBN 978-3-96289-173-2
38,00 € (D) · 39,10 € (A)

Zwischen Abbruch und Aufbruch

Die Treuhandanstalt spielte eine Sonderrolle im wiedervereinigten Deutschland. Privatisierungen und Abwicklungen von Betrieben hatten erhebliche ökonomische und soziale Konsequenzen. Welche Handlungsspielräume hatten die Akteure vor Ort, und wie versuchten sie, auf die Arbeit der Treuhand Einfluss zu nehmen? Wolf-Rüdiger Knoll schildert am Beispiel Brandenburgs erstmals umfassend die Bedeutung der Treuhandanstalt für die Entwicklung der ostdeutschen Bundesländer. Anhand der Privatisierungsverläufe wichtiger Betriebe wie EKO Stahl in Eisenhüttenstadt oder der Braunkohleindustrie in der Lausitz analysiert er das Spannungsfeld unterschiedlicher Interessen in Politik, Wirtschaft und Gesellschaft. Stärker als bislang bekannt beeinflussten sich Treuhandanstalt und Landesregierung gegenseitig in ihren Entscheidungen.

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Dierk Hoffmann (Hg.)
Die umkämpfte Einheit
Die Treuhandanstalt und
die deutsche Gesellschaft

424 Seiten, Festeinband
ISBN 978-3-96289-174-9
25,00 € (D) · 25,70 € (A)

Neuvermessungen der Treuhandanstalt

Die Treuhandanstalt war eine überforderte Behörde, die von der Politik eine Vielzahl von Aufgaben zugewiesen bekam. Von Anfang an waren die Erwartungen der Öffentlichkeit hoch und die Arbeit der Treuhandanstalt umstritten. Ihr Handlungsspielraum wurde eingeengt durch die enorme wirtschaftliche und politische Dynamik und die rasch eintretenden Folgen der Privatisierung. Belegschaftsproteste, Deindustrialisierung, europäische Beihilfen, Alternativen zur Privatisierung, »Seilschaften« und Wirtschaftskriminalität sind Themen, die in diesem Sammelband beleuchtet werden. Alle Autor:innen haben am Projekt zur Geschichte der Treuhandanstalt am Institut für Zeitgeschichte München–Berlin mitgearbeitet und präsentieren hier Ergebnisse der neuesten Forschungen.

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Christian Rau
Die verhandelte »Wende«
Die Gewerkschaften,
die Treuhand und der Beginn
der Berliner Republik

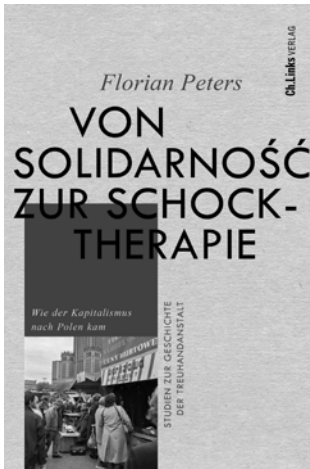
592 Seiten, Festeinband
ISBN 978-3-96289-168-8
38,00 € (D) · 39,10 € (A)

Partner oder Widersacher?

Das Verhältnis zwischen der Treuhand und den Gewerkschaften gehörte schon früh zu den umstrittenen Aspekten der ostdeutschen Transformation, ist jedoch bis heute kaum erforscht. Christian Rau untersucht erstmals auf breiter Quellenbasis, wie Gewerkschaften und Treuhand miteinander verhandelten. Er beleuchtet die Rolle ostdeutscher Betriebsräte, die oft Proteste initiierten, aber auch erstaunlich pragmatisch agierten. Er bringt nicht nur Licht in die Grautöne und Dynamiken des politischen Alltags der Transformation, sondern zeigt auch, wie nachhaltig die Verhandlungen zwischen Treuhand und Gewerkschaften die politische Kultur der Berliner Republik prägten. Sie ebneten den Weg zum Bündnis für Arbeit, dessen Scheitern zur »Agenda 2010« führte. Die Treuhand warf damit ihre Schatten bis in die Gegenwart.

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Florian Peters
**Von Solidarność
zur Schocktherapie**
Wie der Kapitalismus
nach Polen kam

544 Seiten, Festeinband
ISBN 978-3-96289-190-9
35,00 € (D) · 36,00 € (A)

Wie der Kapitalismus nach Polen kam

Die Berliner Mauer stand noch, als die Transformation in Polen schon in vollem Gange war. Wie kam es, dass ausgerechnet das Land der Solidarność-Bewegung zum Vorreiter einer marktradikalen Schocktherapie wurde, die fast überall im östlichen Europa Nachahmer fand? Florian Peters erzählt, wie private Kleinunternehmer inmitten der tristen 1980er-Jahre neue Märkte erschlossen, wie oppositionelle Gewerkschaftsaktivisten sich neue marktorientierte Selbstbilder aneigneten und wie kommunistische Funktionäre das Privateigentum für sich entdeckten. Zugleich erklärt er, warum die Privatisierung der staatseigenen Industrie östlich der Oder von langwierigen gesellschaftlichen Aushandlungsprozessen begleitet wurde.

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Eva Schäffler

Der Weg in die Marktwirtschaft
Tschechien und die Privatisierung
in den 1990er-Jahren

304 Seiten, Festeinband
ISBN 978-3-96289-191-6
30,00 € (D) · 30,90 € (A)

Die Privatisierung in Tschechien

Der Privatisierungsprozess, den die Tschechische Republik in den 1990er-Jahren durchlief, ist auch als »tschechischer Weg« bekannt. Eva Schäffler schildert diesen Weg jedoch jenseits bestehender Sonderwegs- und (Miss-)Erfolgsnarrative. Bereits vor der Samtenen Revolution gab es staatliche Wirtschaftsreformen sowie Reformszenarien. Die Autorin widmet sich zudem ungeplanten Entwicklungen und Konflikten, die sich bei der Restitution, der Privatisierung kleiner und der Privatisierung großer Betriebe ergaben. Mit den deutsch-tschechischen Joint Ventures Volkswagen und Škoda sowie Continental und Barum wird die internationale Dimension der tschechischen Privatisierung beleuchtet.

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