CHAPTER 3

The Involvement of the State in the German Economy

ZSÓFIA NASZÁDOS

The Birth of the Unified German Nation State and Its Economic System

As is well known, modern Germany had a significantly different path of development than its Western neighbors both politically and economically. The first detailed studies and plans to comprehensively improve the economy of the considerably fragmented German-speaking areas, which were divided into a number of principalities and duchies, and help them catch up with contemporary centralized states (Great Britain and France) were completed in the 1840s and 1850s. Scientific discourse evolving around this topic was strongly related to nationalist movements, which emerged at the time and sought to create a unified German (nation) state. Several different paths and aims were widely known, and they resulted in a series of political and military conflicts.[1]

Until the creation of the unified German Empire in 1871, several states at different levels of development competed and coexisted with each other while Prussia gradually became dominant. Cooperation among states had already started in 1834, when the German Customs Union (*Zoll-*

[1] Those dedicated to a *smaller Germany* imagined the nation-state as the unification of the Northern and Western principalities with the leadership of Prussia, while the Habsburg Empire would be excluded. As opposed to this, a *greater Germany* favored by Austria would include the multiethnic Habsburg Empire.

As a result of the firm policy of Otto von Bismarck, in the end, the first version was realized. Following the short Austro-Prussian war in 1866, which brought about an overwhelming Prussian victory, the German Confederation that had been in existence since 1815 ceased, and it was replaced by the North German Confederation which was the "anteroom" of the united German Empire, which was declared in 1871 after the Franco-Prussian War and also included Alsace-Lorraine.

verein), which included the northern and western states of the German Confederation, was established (Mátyás 2003). However, only in the last third of the century onwards can we talk of a modern German economic system that can be investigated in a systematic way.

Economists and politicians of the era came to the conclusion that the principles of the classical Anglo-Saxon economy should not necessarily be the model for the young German state's economic policy. While its productive capacity lagged behind, the country had to compete with other states in a more advanced phase of capitalist development. The contemporary German economy was characterized by the coexistence of a premodern system of semi-feudal large landownership, the world of the Prussian Junkers, and a few more developed "capitalistic islands." Representatives of early German economics, among them Friedrich List, who developed serious theoretical work, believed that in such circumstances, realizing Adam Smith's night-watchman state—that is, leaving the players of the economy at the mercy of the invisible hand of the market and dismantling the outer customs borders—would result in the suicidal retreat of Germany in the global competition over commerce, manufacturing, and colonization, which was becoming stiffer and stiffer (Fukuyama 1997).

In works such as the notable "The National System of Political Economy" published in 1841, List explains that the individualist approach (enterprises following their self-interest) does not necessarily create common good; rather, the state has to shepherd the market players to achieve the above (Mátyás 2003). The Bismarck era's economic policy is based on this early model of the *developmental state*. It was successful because it built on the targeted development of industry; the subordination of industrial production to national interest (pre-eminently increasing the capacity of the army); and it also generously subsidized scientific research. German economic thought and economic policy intended to give the state a significant role as the managing authority and—in some areas—also as owner. According to the concept supported by the governance of the Empire, instead of joining the increasingly fierce competition over colonies, Germany was to become the global leader in industries utilizing state-of-the-art scientific inventions: for example the chemical, electronics, machine, and heavy machinery industries.

Research and development, which was heavily emphasized, was mainly related to a few corporations led by iconic business people (e.g., Werner Siemens, Alfred Krupp, Wilhelm Cuno and Emil Kirdorf). Cartelization and the development of oligopoly structures could be viewed as one of the major characteristics of the era, and—especially after the Panic of 1873—they were regarded as beacons of stability against the "swings" of the market. Even corporate law was modified to provide greater protection to private investors via various state guarantees.

Increasing investment also provided an incentive for the development of the modern German banking system, since the improvement of new industries was characterized by an intense hunger for capital. Before the birth of the unified nation state, lending was mainly restricted to some shipping and mainland commercial centers (Hamburg, Frankfurt), but the financial institutions operating there could not and were not willing to participate in lending to and financing the emerging industries, which were risky for a number reasons (Ziegler 2000).

In the 1870s, however, new financial centers were also created as the hubs of economic activity (Cologne, Berlin) shifted, because capital markets were underdeveloped, and the purchase and sale of stocks and state bonds was performed via banks. In the very beginning of the 1870s, many privately owned large banks specializing in financing large scale investments were established; Commerz- und Disconto Bank and Deutsche Bank, established at the same time, were the first, and then came Dresdner Bank in 1872. The foundations of the banking system, which to date, had been operating in a three-pillar structure, were fixed at the time. Besides privately owned large banks, numerous savings banks (Sparkasse) operating under the ownership of federal states and federal state banks (Landesbank) also came into existence to serve smaller depositors. Additionally, a few so-called credit unions operated under state ownership (Genossenschaftsbank, Volksbank) (Ziegler 2000).

The predominance of state ownership (imperial or constituent territories) was visible in two main areas: in public service sectors—with the purpose of serving the needs of civilians and private investors in possibly the most effective and most predictable way; and in specific corporations utilizing natural resources and exploiting the country's mineral deposits.

The overwhelming majority of all large firms constructing and operating railroads and public roads and those related to mining and agriculture were state-owned in the period between 1871 and 1914. In 1906, a total of thirty-nine mines, among them all the coal mines, five salt mines, three quarries, and, in the Ruhr, twelve ironworks, operated under state-ownership (Henderson 1975). These corporations served the needs of the German economy. Furthermore, they had such a remarkable export capacity that by 1890, Germany became the second largest exporter of coal after Great Britain. Another sign of the success of Bismarckian state capitalism is that from 1871 onwards, the German Empire increased its national product by 21.6 percent every decade (the same indicator was 12.5 percent for Great Britain), and between 1879 and 1921 the gross annual income of German companies grew from 79 million marks to 712 million marks (Henderson 1975). The economic and subsequent military-political power of the country had become oppressive for rival Great Powers, and thus the European balance of power was reconfigured in new ways, which contributed to the outbreak of World War I.

The Consequences of World War I and the Economic Policy of the Third Reich

World War I brought about even more centralized industrial production and tighter state control in Germany. More than two hundred special war corporations, so-called *Kriegsgesellschaften,* were established, and in some industries—for example in aluminum production—a state monopoly was maintained. The huge devastation resulting from the lost war, combined with the consequences of the Versailles Peace Treaty (e.g., the payment of reparations, the annexation of a crucial area of industrial production, i.e., Alsace-Lorraine, to France) produced a dire recession in the country. As a result of strengthening socialist movements, the idea of a social economy (*Gemeinwirtschaft*) became popular towards the end of the war. It represented a kind of compromise between a market economy and a planned economy. This form of economy did actually work at the regional level in a few places though its success was not, however, long lasting (Peterson 2005).

From 1919 onwards, following the formation of the Weimar Republic, the consolidation of state-owned enterprises was finalized relatively quickly, while at the same time, the state urged the establishment of those private enterprises that had some benefit for society as a whole. This was because the obligation to pay reparations burdened only state-owned enterprises. After the shock caused by the Great Depression, which began in 1929, another wave of nationalization began: masses of enterprises were organized into groups where the state tried to effect consolidation as the majority owner. This process, however, did not prove permanent.

After their full takeover of power in 1933, the Nazi administration aimed to create a stable welfare state with a series of state investments (e.g., the construction industry and road construction), and it achieved significant success. Contrary to official propaganda and the NSDAP program, not only did the Nazi regime not commence expansive nationalization, but in the second half of the 1930s, a previously unseen wave of privatization began even in those areas where the dominance of state-ownership had been fundamental earlier. In 1934–35, the German state sold its block of shares in Deutsche Reichsbahn (the German Imperial Railway) for 224 million Reichsmarks, which secured strategic control over the Reichsbahn (Bel 2003). A major wave of privatization began in mining, the steel industry, shipbuilding, and in shipping as well. The proportion of state-owned shares in the second largest steel industry trust, the Vereinigte Stahlwerke AG, fell from 52 percent in 1932 to 25 percent in 1934. In 1936, private investors gained majority ownership of two major shipping and shipbuilding companies (namely, Deutsche Schiff- und Maschinenbau AG and Hamburg-Südamerika Dampfschiffarts Gesellschaft) and the four largest banks (Bel 2003).

There was a complex web of reasons motivating this massive privatization. To finance monumental investments, the state needed resources, which could be best raised this way. Additionally, Hitler's purpose was to create a loyal economic elite and gain the sympathy of the factory-owning stratum, which had been against the NSDAP earlier. Selling state-owned share blocks proved to be a good means for Hitler to achieve these goals. Several sources prove that Hitler did not regard nationalization to be a necessary condition for securing total control over the economy; rather, the peculiar repressive oligarchic structure he created was perfect for this.[2]

Going Different Ways after World War II: The Public Sector in the Economy of the FRG.

In the period following the collapse of the Third Reich and World War II, the western part of Germany (liberated by the western Allied powers) and the eastern part integrated into the Soviet sphere of influence went in radically different directions. In the German Democratic Republic (GDR), established in 1949, the complete nationalization of the means of production started simultaneously with the dismantling of important large industrial concerns and the movement of their remaining exploitable productive

[2] Some statements of Hitler regarding his views on this remained. "Why should I use halfway measures such as nationalization, when much more effective means are at hand? We don't nationalize corporations or banks, but people." My own translation. As quoted in Bel (2003, 17).

capacities to the Soviet Union in exchange for war reparations; and, finally, with the formation of the socialist planned economy.[3]

In the Federal Republic of Germany (FRG) that was formed contemporaneously, the direction of economic development was influenced by the following: the requirements of the Allied Control Council; the conditions of Marshall Plan aid; and also the obligation to consolidate and operate those factories and groups of factories "inherited" from the National Socialist era, which then came under the control of the West German state.

Although the FRG—based on a social market economy—produced economic development resulting in previously unseen prosperity, groups that had earlier constituted the engine of the German economy played a smaller role. This happened partially due to changes in global economic circumstances and the overhaul of the ownership structure of the above groups of factories. In the Federal Republic, one of the strictest competition laws of Europe during the period came into force in 1958 (which is still in effect today with minor modifications). The law forbade every form of cartelization.[4] The newly framed economic system favored the establishment and development of SMBs (Mittelstand), which became the engine of the FRG economy, especially in the fields of services, light industry, and agriculture. This did not mean, however, that decentralization became predominant in every field immediately.

Under strict state supervision, the reorganization of large enterprises showed considerable concentration, especially in the first half of the 1950s. Six of the older imperial large-scale enterprises deemed suitable for consolidation were reorganized in the form of joint-stock companies in the FRG, and they equated to two-thirds of the country's entire industrial property. The state (even with a gradually decreasing share) was a majority owner in

[3] The study does not aim to analyze the economic system of the German Democratic Republic, because as a socialist country, a comparative analysis of the role of the state and state-owned enterprises there would require a different framework of interpretation.

[4] The creation of this law has several roots. At the Potsdam Conference, leaders of the Allied Powers had already established that the main course of action in consolidation after the war would be the decentralization and division of the mammoth groups, which played key roles in the operation of the German war economy and secured the economic operability of the Third Reich. Accordingly, the British-American-French military control accepted the statute of decartelization in 1947 which, among others, was also the basis of the 1958 the law. The law, its amendments, and modifications are available at http://www.gesetze-im-internet.de/gwb/BJNR252110998.html#BJNR252110998BJNG000103360.

these until the 1980s. These six companies were the following: Salzgitter AG[5] (earlier Hermann Göring Imperial Works), Vereinigte Industrieunternehmungen (VIAG), Vereinigte Elektrizitäts und Bergwerks AG (VEBA), Volkswagenwerke, Saarbergwerke, and Lufthansa (Toninelli 2000).

The proportion and form of state ownership varied according to sectors, and it was different among states, the federal government, and local governments. In the case of air navigation for example, the state owned 100 percent of Lufthansa, while some inland airports were operated by state-owned companies (Toninelli 2000). The central state had 100 percent ownership of four out of nine electricity groups, and in another four it had over 50 percent ownership, and in one, it held a 30 percent stake (namely Rheinisch-Westfalisches Elektrizitätswerk or RWE AG). Nevertheless, starting in the 1960s, a slow privatization process began in the electricity sector. Besides RWE AG, the two largest partially state-owned enterprises, VIAG-Bayernwerk and VEBA-Preusswerkelektra, were also gradually privatized (Toninelli 2000).

Coal mining and enterprises related to the Saar and Ruhr regions had a radically different path. These suffered heavily from the global transformation of the energy market (namely, the rapid surge of nuclear power). Contrary to decentralization, the federal government tried to consolidate firms individually sustaining losses and depleting coal mines under an umbrella enterprise (Ruhrkohle AG), of which it owned 25 percent of shares (Wengenroth 2000). Dependency on the state and its influence, however, remained strong even in companies with the most privately owned member shares, because the group continued suffering losses despite centralization, and therefore needed continuous state subsidies. Between 1949 and 1967, six out of seven billion marks invested in coal mining came in the form of budgetary state subsidies (Wengenroth 2000).

The financial sector was the third area (besides public services and heavy industries) in which state ownership and influence was important, since the modern form of the system of federal member state banks (Landesbanks) was constructed at that time. It formed the most important segment of enterprises owned regionally and by federal member states. The main purpose of Landesbanks was to credit the SMBs, the Mittelstand, which had an exceptional role in economic growth. Even though the principles of neutrality in competition and views of the state as a regulatory body rather than owner were priorities in the economic policy of the

[5] AG: *Aktiengesellschaft*, that is, a share company.

FRG, in case of the Landesbanks, these principles were disregarded. For example, when needed in the case of losses, the federal government was always ready to generously subsidize these unique "hybrid" banks, which stood on the border between the state and private economy.

Accelerating Privatization: The Kohl Era (1982–98)

Except for subsidies for the industrial centers of the Rhine region, which burned significant budgetary resources, in the economy of the FRG as a whole, it could be said that no such proportion of the excessive growth of state-ownership and state subsidies began that would markedly distort the competitiveness of the country, as in the example of Great Britain, where the above caused great tension by the 1970s. As for the desirable structure of the economy, there was a relatively stable consensus among successive governments and individual parties themselves with minor differences in emphasis. In this consensus, instead of having ideological foundations, both the right and the left had a rather practical approach to the proportion of state ownership and intervention. It could be briefly summed up by saying that the state remained present in certain fields either as a majority or sole owner. Such fields were primarily transport, public services, and the regional banking sector, which was related to federal member states. In the rest of the sectors of the economy, however, mixed forms of ownership were favored. (See the previous section.)

From the beginning of the 1980s onwards, the global transformation of the energy market and acute problems with competitiveness did not leave the FRG untouched. Therefore, reform and restructuring became inevitable.

In 1982, the coalition of Social Democrats and Liberals was succeeded by Helmut Kohl's Christian Democrat and Liberal coalition, and the new Chancellor made "returning to [a] real social market economy" his main aim. Besides introducing a series of reforms "traditionally" used to increase competitiveness (raising the retirement age, more flexible labor market regulation, etc.), the government initiated a serious wave of privatization. The goal was not to upset the status quo between the state and the private sector in the Thatcheresque way, but rather to boost modernization and structural change primarily in the centers of the coal and steel industry and a number of other fields of heavy industry. Another vital aspect was that the federal government generated substantial revenue for the budget by selling its share blocks. While the first wave of privatization

(1983–89) in the Kohl Era cannot be regarded as "shock therapy," it still caused numerous labor code conflicts with unions that were traditionally powerful in Germany. Such conflicts were caused by situations in which employment conditions were drastically transformed in companies that fell into the hands of private owners (Leaman 2009).

Between 1983 and 1989, as a first step two main groups (VEBA AG, VIAG) were partly or fully privatized, though state-owned shares for these groups had been partly sold by Germany earlier in the 1960s and 1970s. The proportion of share ownership by the state in VEBA AG, which specialized in supplying electricity and coal mining, dropped from 43.8 percent to 30 percent in 1984, and in 1985, it further decreased to 25.5 percent in another wave of privatization (Leaman, 2009). In the case of the holding company VIAG, which also brought together mining and energy firms, the changes were even more dramatic: state ownership first plummeted from 87.4 percent to 47.4 percent in 1986, followed by its full privatization in 1988. The remains of both companies, which had long histories, merged into the E-ON group later on (Leaman 2009).

At the end of the decade, the waves of privatization and restructuring also reached some fields of transport and the telecom industry. In 1988, Volkswagen was fully placed in the hands of private investors when the state sold its share block of 16 percent ownership. Next, in the same year, the ownership structure of Lufthansa was also transformed. In the case of the latter, state ownership fell from 65 percent to 51.6 percent, which could be seen as a bold move since the airline was regarded as a national champion in the FRG, and it was thought to be important that the state preserve its portion of ownership to secure strategic control. In 1989, the German Federal Post Office was broken up, and its shares were put on the market. Owned by KfW Bank (which, in turn, was partially owned by the state), three new joint-stock companies were set up: Deutsche Post AG, Postbank AG, and Deutsche Telekom AG (http://www.privatization-barometer.com/database.php)

One peculiarity of the privatization process was that enterprises issued large volumes of so-called residential shares (Volksaktien) so as to make owners of the broader middle class. This, however, did not prove to be a popular form of investment, because the population was extremely suspicious of stock exchange transactions because they were regarded as too risky.

The volume of privatization did not decrease from the 1990s to the 2000s, and thus, the German state gave up all its shares in enterprises which became partially privately owned in the 1980s (e.g., Lufthansa, Deutsche Post AG, and Postbank AG) (http://www.privatizationbarometer.com/database.php)

From Imperial Symbol to Listed Group Undertaking: The Transformation of Deutsche Post

Throughout its 150-year-long existence, changes in the operation of Deutsche Post—the symbol of modern German telecommunications—provide us with a good example of how technological development, consumer behavior and demand, and changes in the market can force large enterprises (enterprises that once started out as state monopolies) to adapt.

In the second half of the nineteenth century, Reichspost (Imperial Mail) became one of the main symbols of national sovereignty and control, when in 1876 the telegraph service and the system of post offices were placed under unified state control, and even a separate ministry was established for this purpose. This significantly sped up communications and the news, which promoted swift economic development. Reichspost operated as an independent state-owned enterprise, and after World War II in 1950, it was reorganized under the name Deutsche Bundespost. Still state-owned, it expanded its range of services with savings-banking and tour operations to meet new demands. Its first step towards participating in global business life was its gradual fusion with the package service DHL, which was established in 1969. Since the 1970s, DHL has been present in the global market: Europe and the United States were followed by China, Singapore, and Latin America.

Legislation reacted to the changing market environment in two steps. The first postal reform bill initiated by the Kohl government provided for the division of Deutsche Bundespost into three parts. Thus, besides Postdienst—the pillar providing traditional postal services—Deutsche Post Postbank and Deutsche Post Telekom were created. This way, the management of the different fields of activity became independent on both the professional and the business side of their respective divisions. Major policy and strategic decisions were brought about by the directory composed of the executives of the three companies. Parallel to these developments, the three companies' client contracts were transformed into private contracts.

The second postal reform law in 1995 laid down the foundations for the privatization of the three enterprises by transforming them into share companies: Deutsche Post AG, Deutsche Postbank AG, Deutsche Telekom AG. The law provided for a five-year transitional period, during which the shares had to remain in the ownership of the state. As a result of the first public offering of equity shares in November 2000, 29 percent of Deutsche Post shares went into private ownership, and 6 percent of private shareholders were employees of the enterprise. Fusion with DHL was completed in 2002; in the first step, 75 percent, and then the remaining 25 percent of its shares were bought up by Lufthansa Cargo. Cross ownership among the three enterprises was created at that time, as Deutsche Post DHL Group held 52 percent of Deutsche Postbank AG shares. Later, in 2009, Deutsche Post DHL Group sold this share block to Deutsche Bank, and thus it ceased to be an investor in the financial sector. According to data for 2015, the Federation has a remaining 21 percent indirect ownership in Deutsche Post DHL Group through KfW Bank. (https://www.dpdhl.com/en/about-us/history.html)

The other members of the group also remained crucial operators in the German economy. Deutsche Telekom, whose development was very similar to that of Deutsche Post, is a significant enterprise in the global telecom sector. After Eastern and Central Europe, it aimed to win new markets in the Far East, especially in China. The German state owns 31.7 percent of Deutsche Post shares either directly or indirectly. The remainder of it is owned by institutional and private investors (https://www.telekom.com/de/investor-relations/unternehmen/aktionaersstruktur) Even though the German state is not a majority shareholder in any of the three enterprises anymore, the influence and lobbying power of these in German (economic) diplomacy is probably the second largest after automotive enterprises. Deutsche Postbank, whose majority of shares was purchased by Deutsche Bank in 2009, has become a critical market operator in the German banking structure, and in 2003, it had the highest number of clients in Germany. Instead of becoming a global operator like its two siblings, it is still a local one, and as a subsidiary of Deutsche Bank, it remains primarily active in the insurance and private banking businesses. (Adapted from "The history of Deutsche Post DHL Group: 500 Years of Postal History from the Founding of the Modern Postal System to the Establishment of the World's Leading Logistics Group." https://www.dpdhl.com/en/about-us/history.html)

Changing the ownership structure of savings banks and banks owned by federal states, and partially or fully privatizing them was already on the agenda in the Kohl Era. But, in the end, the Chancellor himself dismissed these possibilities (Zopp 1999). The following two challenges to this plan were discussed at that time: state support for the Landesbanks, which went against the neutrality of competition; and, in times of crisis, increasing their capital, which devoured significant budgetary resources.

The risks of privatization were, however, deemed to be bigger than the potential benefits (increasing market competition for financial institutions; the improvement of services; and liberation from the burden of state financing). One challenge was transforming the contracts of depositors into private contracts without causing potentially years-long disputes, which might have ended up as costly litigations in the case of both private persons and businesses. Another important argument against privatization was that the shares offered might be bought up by a few well-capitalized big banks, which would gain a quasi-monopoly (Zopp 1999). However, this would have broken competition and anti-trust laws which were pivotal in the economic policy of the FRG.

The strongest reason, however, was probably that the banks owned by federal states had an especially important role in the economic growth of postwar West Germany. Lending to small and medium-sized enterprises, which had the most important role in the economy of the FRG, was almost exclusively done via Landesbanks. Additionally, the stability and predictability provided by Landesbanks was of utmost importance to their clients (Zopp 1999). Therefore, it was feared that some sectors that periodically performed weakly or ones that would likely fall into recession would have extremely limited growth opportunities if the operation of this unique group of banks was radically transformed. It also needs to be mentioned that the Landesbanks and the savings banks were strongly intertwined with politics—especially at the regional and federal state levels. Those who insisted on privatization were often accused of wanting to be beneficiaries of a possible privatization. In summary, it could be said that the privatization of Landesbanks would have signaled such a serious disregard for both the economic and the political status quo that the political elite was not willing to carry it out.

The Way to a Market Economy: The Challenges of Privatization and Economic Transition in the GDR

The introduction of a socialist planned economy essentially changed the development path of East German federal states, which belonged to the Soviet sphere of influence after the end of World War II. Gradually, the

German Democratic Republic separated from the western part of the country, and its economic and commercial relationships with the FRG were demolished.

The Soviet Union confiscated most of the remaining productive capacities as part of war reparations, dismantling and removing them from the territory of the GDR, which significantly thwarted economic recovery. At the same time, the process of total nationalization in the economy started under Soviet inspection, similarly to other states within the Eastern Bloc. Consequently, the country severely lagged behind its western neighbor regarding economic growth, innovation, and the optimal redistribution of the wealth produced there. It is important to note here that no considerable attempt at a "mixed economy" could be realized in the GDR—unlike in Hungary, for instance—due to the more radically oppressive nature of dictatorship, so there were no "capitalist islands" or subsistence agriculture.

In an economy built exclusively on state ownership and on central planning governed by the "Politbüro," the relationships between economic actors had very different features than their counterparts in the FRG system of "democratic corporatism" and social partnership. Instead of free cooperation between enterprises and employees, their trade unions, and the system of negotiations and agreements based on equal rank, in the GDR, a hierarchical relationship formed in which the system of production and the operation of enterprises were defined by political dictates (Koch 1998).

Consequently, the main challenges of the unification of the two countries included, on the one hand, privatization that terminated exclusive state ownership, and, on the other, the creation of optimal conditions for a social market economy. The difficulties of the economic transition and the burden of reaching economic cohesion for the eastern German federal states remained the primary challenges for Germany until the end of the 1990s. This also involved a decline in the country's economic performance. One of the first steps of economic unification was the establishment of the German Economic, Social and Monetary Union in 1990, and then the so-called Treuhandanstalt. The task of the latter authority was directing and monitoring the process of privatization. According to the principle of privatization, previously nationalized properties and companies "owned by the people" ("*Volkseigene Betriebe*") had to be returned to their original owners if possible. Between 1990 and 1994, approximately 13,000 companies were returned to private owners, the process of which influenced about four million employees.

Basically, three types of companies could be distinguished during the economic transition of the former East German market. The first category included enterprises that were founded as pioneers right after the transition, mostly with significant financial support from the FRG or the European Community. Firms belonging to the second type tended to be small and medium-sized companies producing goods for the local market. Many of these were purchased by Western concerns because they had difficulties weathering the challenges of the transition. Finally, the third category contained firms operating in a specific "niche" sector, which enabled them to maintain their market positions (Tribe 1992). The number of companies radically increased between 1991 and 1995, growing from 178,000 to 353,000 in the industrial and service sector alone (Koch 1998).

The economic transition and especially privatization were, of course, accompanied by major difficulties and abuses regarding competitiveness, social issues, and productivity, which shed an unfavorable light on the managers of the process and the employees of Treuhandanstalt as well. In course of setting the agenda for the economic transition, the decision was made that a one-to-one rate of exchange between the Eastern and Western German Mark would be guaranteed, and a radical devaluation of the currency should be avoided. There were primarily political reasons for the decision: a substantial devaluation of the currency would have definitely meant a social crisis, mass dissatisfaction, and increasing unemployment in the short run, which could have easily turned citizens of the former GDR against reunification. Certainly, the productivity and development of the eastern federal states were far below the FRG's standards, and the over-valued currency seriously hindered the start of development.

The program for Building Up Eastern Germany (*Aufbau Ost*) remained in focus in German domestic politics, and it is not over yet as the transfers between the federal states and the reduction of inequalities among regions regarding development are still important objectives. According to the original plans, the system of cohesion transfers was to be maintained as long as the per capita GDP in the eastern federal states reached at least 70% of the Western average. The accomplishment of this was estimated to happen by the turn of the millennium. However, the fund established for this purpose (*Fonds Deutsche Einheit*) was already replaced in 1995 by different, more general monetary resources (*Solidarpakt*) aimed at the reduction of regional inequalities in every region.

The Structure of the German Economy in the New Millennium

Germany became a country fighting increasing economic challenges in the middle of the 1990s, and, as a result, was labeled the "Sick man of Europe" by journalists at the time. The reunification of the country entailed significant costs paid for by the former West German federal states, and reform of the welfare state was becoming increasingly urgent. There was pragmatism and foresight in many fields, which—through the use of continuous, gradual and flexible privatization from the 1960s onwards—prevented overgrowth and deficits in the state sector. For a long time, however, this attitude did not apply to the areas of social services and welfare expenditure. This considerably endangered the competitiveness of the country, its leading role within Europe, and the productivity of the corporate sector.

The central issue of economic policy debates was therefore not privatization, but rather the methods of accomplishing the reform of the welfare state. Eventually, the coalition of the Social Democrats and Greens led by Gerhard Schröder launched reforms by announcing the program *Agenda 2010*. It aimed to reestablish a pattern of growth through labor market liberalization and cuts to social expenditures.[6]

Naturally, in the meantime, privatization continued in many fields in accordance with the spirit of the age. By the millennium, the German state had practically given up its predominant ownership in every field of the economy. Furthermore, private investors appeared in such fields, where, for reasons of state interest or because of mercantile traditions, private investment had been avoided earlier. There were exceptions, of course, and one of them is rail transport: Deutsche Bahn AG is still exclusively state owned. Yet in 2015, the government established an expert committee to investigate whether partial privatization could further improve the efficiency of operations. No consensus has yet been reached regarding this question, thus privatization is not yet on the agenda. Even though the

[6] The most important part of the reform package, the so-called Hartz reforms, were carried out under the Schröder government between 2002 and 2003. The package was a series of actions carried out in four stages (Hartz I, II, III, and IV). It aimed to make the labor market more flexible. Part-time and alternative employment was encouraged in this framework, and unemployment benefits were lowered altogether by merging a number of former types of aid. However, the resources allocated for training and job placement were increased.

enterprise operates under state ownership, in 2001, three track sections (Düsseldorf, Bielefeld, Solingen) were operated jointly with private enterprises (https://www.deutschebahn.com/de/konzern/geschichte/sammlungen/unternehmenshistorisches_archiv-1187860)

The table below includes the most important German enterprises in which—based on data going up to 2007—the German state either directly or indirectly held shares.

Table 1
The twenty largest enterprises with partial state ownership (2015)

Enterprise	Proportion of ownership (%)
KfW Bankengruppe	80
Deutsche Telekom	31.7
Deutsche Post	21
Fraport AG	51.8
Volkswagen AG	11.8
Landesbank Berlin Holding AG	98.6
MVV Energie AG	66.2
IKB Deutsche Industriebank	37.9
RWE AG	16.09
Deutsche Energie-Agentur	76
Forschungszentrum Jülich	100
Flughafen München	26
Norddeutsche Landesbank Girozentrale	65.6
Helaba Landesbank Hessen-Thüringen Girozentrale	100
Salzgitter AG	26.5
Deutsche Bahn AG	100
GAG Immobilien AG	68.8
AG Bad Neuenahr	27
Bochum-Gelsenkirchener Strassenbahnen AG	3
Flughafen Köln/Bonn GmbH	30.9

Source: http://www.privatizationbarometer.com/database.php

Currently, 90 percent of the companies remaining in state ownership are local enterprises or local government enterprises, 8 percent of them are owned by federal states, and a mere 2 percent are owned by the federal government (OECD 2012). This ownership structure in itself implies that the areas of operation and the activities of the state-owned enterprises have changed. Large-scale industrial holding groups have been replaced by companies specifically serving local and regional needs. Forty-one percent of all state-owned enterprises operate in the fields of water and energy supply; 11.9 percent are related to inland transport operations; and virtually the same proportion, 11.8 percent, are state-owned enterprises providing social and health services. According to OECD data, in 2012, 15,127 enterprises were in some sort of public ownership, and this is 0.4 percent of all 3.6 million companies registered in Germany (OECD 2012). The federal government is a partial or full owner of 111 enterprises which are mostly linked to transportation, logistics and freight, and culture and science. Deutsche Bahn's 100 percent state ownership and Deutsche Telekom with 31.7 percent state ownership can be regarded as the two most significant and most serious consortiums with the most international lobbying power among those companies that are federally owned (OECD 2012).

It is important to emphasize that since the beginning of the 2000s, the greatest challenge has been posed by the operation and reform of federal state banks belonging to the regional pillar of the state sector. This challenge was further complicated by the economic crisis of 2008. Despite the fact that Landesbanks gained a reputation for conservatism and were the main financiers of small and medium-sized enterprises based on the experiences of the post-war decades, the number of anomalies had been increasing since the beginning of the new millennium. The crisis and the period leading up to it shed light on their serious weaknesses, and both individual federal member states and the federation as a whole had to confront conflicts because of them. Landesbanks had been receiving generous subsidies in various forms, and their management and owners were heavily intertwined with local political elites as well. Their profits were the result of subsidies rather than their competitiveness (*The Economist* 2014).

First, starting in 2001 and on a number of other occasions—because of concerns about the neutrality of competition—the European Committee criticized some of the Landesbanks' methods of raising capital and state guarantee programs aimed at preserving stability and remaining competitive with globally well performing big banks. In 2005 following one of the largest federal guarantee programs, many Landesbanks bought up a significant amount of toxic American securities from banks that crashed in 2008. Even though the German economy was not hit as hard by the crisis as its European neighbors (as a result of the above investments), the federal government had to allocate significant resources to save the Landesbanks. Crisis management cannot be viewed as a complete success in this field: five out of seven federal state banks were saved, and these five are still fighting for survival. A good example of this is HSH Nordbank, which is owned by the federal states of Hamburg and Schleswig-Holstein and could barely pass the ECB stress test (*The Economist*, 2014). Based on the above experiences, it is possible that the federal banking sector will be the next segment of the German economy in which the state will withdraw and enterprises will be restructured.

The focal point of political and scientific discourse from the 2000s onwards is no longer the comparison between the advantages and disadvantages of privatization and nationalization, but rather making the performance and transparence of state-owned enterprises more similar to those of market economy companies. The OECD among others has investigated how to make the competitiveness of state-owned enterprises and the quality of their services sustainable in the long term. Monitoring these enterprises, auditing their operations, and adjusting them to market standards could, in principle, improve the efficiency of the fight against corruption and the waste of state resources. Opponents of extensive state ownership mention this argument in favor of privatization.[7]

Germany, too, seeks to guarantee the effective and transparent operation of publicly- owned enterprises with a number of regulations, most of which came into effect after 2008. These regulations are collected in the *Public Corporate Governance Kodex*. The Federal Ministry of Finance is obliged to annually report on all state-owned enterprises whose direct or indirect state ownership is at least 25 percent and its nominal capital share is more than €50,000. Furthermore, the reports investigate whether these enterprises have complied with complex social, environmental, and sustainability rules explicated by the Code. A specific example would be the 2015 report, which focuses on equal opportunities for female executives. It details the number of female executives, their distribution in different sectors, and the steps taken to support promotion within their enterprises.[8]

[7] See, among others, OECD (2015) "Coherence for Development. State-owned Enterprises: Good Governance as a Facilitator for Development," available at https://www.oecd.org/pcd/State-owned%20enterprises_CfD_Ebook.pdf.

[8] See Beteiligungsberichte des Bundes 2015 Download: http://www.bundesfinanz ministerium.de/Content/DE/Standardartikel/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungspolitik/Beteiligungspolitik/Beteiligungsberichte/Beteiligungs.

Conclusions

Numerous fault lines cut through the history of the modern German economy, but the aptitude of the state for gaining economic property could not be viewed as a characteristic that could dominate eras. On the contrary, the influence of the state as owner was predominant in basically two areas: in public services and transportation (mostly for social reasons), and in the exploitation of natural resources, specifically in mining.

Although the continental and especially the German economic system is often labeled state centered in Anglo-American scholarship, it is important to note that there has not been a single era since the birth of the modern German state when the state aimed to guarantee its influence on the economy by amassing property, except for the GDR, which, however, was excluded from this study. Much more significant was the role of strict regulatory regimes, which were enacted as mercantile duties, commerce policies, and rigid rules of the stock exchange in the early Wilhelmine–Bismarckian era. Then came the payment of reparations related to the Peace Treaty of Versailles after World War II and the limitation of the operation of German conglomerations. After 1945, several characteristics of the West German economic regime were a result of the shock of World War II: the consequences felt by the new political elite; and the expectations of occupying powers. The cartel law, which sought to prevent the reorganization of group-holding monopolies (that used to be the economic basis of the nationalist war machine), might be regarded as especially relevant for the topic of this study.

The government of the Third Reich did not exercise total control of the economy through nationalization, but rather by a peculiar oligarchic system through which it intended, on the one hand, to bind the German economic elite loyal to the Reich in every possible way to itself, and on the other, to expel big businesses labeled as alien and against the Reich (mostly Jewish, naturally), and redeploy their resources to the above loyalists.

Due to the revival of strong Christian Democratic and revisionist Social Democratic traditions, massive nationalization was never really supported by the politics of the FRG after World War II. This would have been alien to the ordoliberal system regardless of the partisanship of the governing political elite. Several large industrial holdings and mining trusts came to be owned by the German federal state as part of the postwar consolidation in the 1950s. Privatization of these, however, was advocated in the 1960s: the first public offer of shares took place at this time.

Privatization gained impetus in the 1980s and 1990s, but it did not cause such a wavering of public trust and peace as in other European countries with more or less successful liberalization revolutions. The image change of the Social Democratic Party partially restructured the party, and its good relations with the unions deteriorated. The latter effect, however, was more likely a result of general labor market forces aimed at deregulation.

The economic crisis of 2008 did not greatly affect Germany, as it was and is relatively isolated from Anglo-American capital markets, and thus it did not result in a significant transformation of the relationship between the state and the private sectors. Federal state-owned banks are an exception to this, as many of them were pushed to the brink of bankruptcy as a consequence of the crisis, and they could survive only with substantial state subsidies. Because they still perform badly in stress tests, serious debates continue as to how their operation should be reformed.

On the whole, it could be ascertained that since important traditions of practical levels of market regulation were predominant earlier in the country, the discourse on the alleged failure of neoliberal capitalism never had a central role in Germany.

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