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**Securitization of exports? The creation and development of state-backed trade credit insurance in the interwar period**

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- Work in progress, do not quote this paper -

“In its foreign policy in particular, Germany must be open for the principle of free trade and commit its policy to this creed. These principles are obstructed most vigorously by foreign states, but we cannot allow that the origin of these obstructions shows in Germany.”


“[The First World War] disrupted the beginning development. The export credit insurance systems of the present are something genuinely new. […] The war turned export credit insurance into an instrument of trade policy.”


„State intervention must naturally change in many important respects the conditions under which the private entrepreneur carries on his business. […] [The] prospect of further government encroachment in economic life has ceased, however, to be a bogy for the capitalist elements of society, which are most active in the advocacy of State subsidies, guarantees, etc. The political developments since the end of the War have opened new ways by which the private entrepreneur can dominate the State and make it serve his aims, not only under dictatorial forms of government, but in a more subtle form in the democratic state. […] We feel […] justified in stating that, […] government intervention has grown into an organic necessity, if international trade is to be conducted on a safe basis and on a wide scale.“

Elia M. Shenkman: Insurance against Credit Risks in International Trade. London 1935, p. 344-345

I Introduction

The modern German system of state-backed trade credit insurance (commonly called HERMES system) and state guarantees was created in 1925/1926 as a new incentive for enterprises to promote exports by insuring them against the excessive risks of non-payment and providing re-insurance by the state. Similar to Britain, which had introduced a system of trade credit insurance of its own immediately after the First World War, enterprises from the exporting industries and export trade
companies did not react entirely positive to the new system, although there was a general consensus that the First World War and its aftermath had brought about new risks and dangers for international trade that required adequate security measures. Against this backdrop, we address the questions how German enterprises evaluated the risks of foreign trade, what expectations towards the foreign trade policy and the promotion of exports were formulated in the dialogue between enterprises, trade associations, and state, and what historical experience and scenarios underlay these guiding expectations. At its introduction, the system of state-backed trade credit insurance was legitimized as a means to stimulate employment, yet became a persistent feature of the institutional framework for exports in the following decades. We assume that enterprises internalized a new view on international trade that gave an unprecedented importance to security and successfully communicated their preferences concerning the system of trade credit insurance in their negotiations with state agencies.

Credit risks in international trade are almost as old as international trade itself, but insurance against these specific risks is a relatively young institution. In the first wave of globalization from the mid-nineteenth century until the outbreak of World War I, international trade flourished despite a turn from free trade to protectionism in most industrial countries in the 1870s, and despite the general absence of insurance instruments against non-payment by importers. The idea of trade credit insurance by private companies was put forth as early as the 1820s, yet none of the early export credit insurance schemes proved economically viable.¹ Until the late 19th century, credit insurance for domestic transactions, and even more so for international trade, proved too difficult and risky and hardly profitable enough for insurance companies to consider them. The first successful credit insurance company was probably the Ocean Accident & Guarantee Corporation, founded in London in 1871. Before World War I, merchants and exporting firms mostly relied on proven methods to mitigate financial risks in international trade: information, networks of trust, financial reserves, and, to an increasing degree, law.²

As shown by the quotes at the top, contemporary actors and observers in the 1920s and 1930s felt that the First World War had not only restructured world trade and the international division of labour from before the war, but also changed fundamentally the role of the state for private export business. Whereas policies of free trade and protectionism framed the actions of international companies, the new instrument of export credit insurance touched upon the relationship between private business and state intervention. Although trade credit insurance was the subject of economic

research in the interwar period\(^3\), there is little historical research on the motivation and strategies of state agencies and private business participating in the trade credit insurance schemes.\(^4\) In this paper, we approach that topic from the perspective of security. Security is understood in a broad sense as the absence of imminent danger and the perceived ability of economic actors to anticipate, calculate, and counter risks. More precisely, we focus on the evaluation of risks for export business and the creation of preventive and protective measures and attempt to identify a new understanding of security underlying the convergence of interests between state and private business after the First World War. Whereas the traditional understanding of security was limited to military and political security, the paper draws inspiration from an expanded and constructivist concept of security developed in Security Studies that stresses the performative character of security and highlights the creation of security problems in given situations.\(^5\) “Securitization”\(^6\) as conceptualized by the Copenhagen School means the political act of declaring a certain situation, group, or other entity a threat to security, enabling and legitimizing extraordinary measures that circumvent the usual political process. We do not follow the Copenhagen School’s concept to the letter, since it was designed to explain observations in the politics of liberal Western democracies in the later 20\(^{th}\) century, focusing on state actors, and therefore is not directly applicable to different historical situations. However, the constructivist and performative concept of security opens up an interesting approach to study the relationship between state and economic actors. Caused by the growing range and complexity of international economic transactions and the shocks of the First World War and the Great Depression, the relation between national political and military security on the one hand and international economic security on the other was reformulated in a way that led to a dissolution of the separation between the two. After the First World War, economic policy had finally become a source of insecurity itself.\(^7\)

It has become a commonplace in the history of economic globalization that the First World War changed the flows, structure, and rules of international trade irrevocably. and that the surge of


\(^{4}\) Haufler, Virginia: Dangerous Commerce. Insurance and the management of International Risk. Ithaca (NY) 1997 focuses on the political creation of an international insurance regime.


\(^{6}\) Therefore, the meaning of “securitization” used here is quite different from the homonymous financial term (denoting the creation of securities from company assets).

protectionism in the interwar period put an end to the first wave of globalization.\footnote{Cf., e.g., Findlay, Ronald/O’Rourke, Kevin: Power and Plenty. Trade, War, and the World Economy in the Second Millenium. Princeton/Oxford 2009, p. 471: „The Great War led to an immediate disintegration of international commodity markets, a change in the domestic and international political environments, and a worldwide reallocation of economic activity that would make it difficult, even in the comparatively prosperous 1920s, to restore the prewar status quo ante. When the system was hit by a second major shock, the Great Depression, the result was wholesale protectionism, and a renewed disintegration of international commodity markets.”; Jones, Geoffrey: Globalization, in: Jones, Geoffrey/ Zeitlin, Jonathan (eds): The Oxford Handbook of Business History. Oxford 2008, p. 141-168; Torp, Cornelius: Weltwirtschaft vor dem Weltkrieg. Die erste Welle ökonomischer Globalisierung vor 1914, in: Historische Zeitschrift 279 (2004), S. 561-609; James, Harold: The End of Globalization. Lessons from the Great Depression. Cambridge (Mass.)/London 2001.} As a direct consequence of the war, export markets were lost and had to be regained. Germany faced a number of interconnected economic and financial problems in the first half of the 1920s: the Treaty of Versailles stipulated unilateral most-favoured terms for German trade and preferential conditions for certain geographic areas until January 10, 1925, effectively denying Germany a sovereign foreign trade policy until then; the reparation demands required substantial earnings from foreign trade that were hardly achievable, and a sum for reparations was not fixed until the Dawes agreement in 1924; the currency was in turmoil until 1923/1924, although rampant inflation for a while favoured exports; German industry was regarded as not internationally competitive due to high wages; liquid capital and foreign exchange were scarce. When the discriminating stipulations of the Treaty of Versailles ended in January 1925, the German government took protectionist measures by reinstating the Bülow tariffs of 1902, and explored measures that would stimulate exports. The government hoped that additional exports would increase employment, utilize surplus productive capacities, and earn foreign currency. However, foreign trade still faced major obstacles: former export markets in Western Europe were protected by high tariff barriers, overseas markets and investments had been lost and the German presence substituted by mainly British and US competition. Markets in Eastern and South-Eastern Europe, as well as overseas, seemed to hold potential, but were perceived as very risky in terms of the ability to pay, business morals, institutional stability, threat of political upheaval, and sometimes natural disasters.\footnote{Cf. Gross, Stephen G.: Export Empire. German Soft Power in Southeastern Europe 1890-1945, p. 62-65.} Yet they held the promise of reliable deliveries after the disruptions of the First World War, and German enterprises could draw on their experience from before the war.\footnote{Gross, Export Empire, p. 330.}

The political and macro-economic aspects of the interwar period are better known than the day-to-day struggles of businesses navigating through these insecure times. By studying the creation and development of export credit insurance, we hope to achieve a better understanding of the frames of business decisions in times when the relative security and certainty of former years had vanished and actors had to learn to cope with a new set of rules and conditions. Export credit insurance ties together a number of actors from state agencies, politics, enterprises, and trade associations. Of special interest is the question if and how private enterprises were able “securitize” exports in the
sense of gaining the attention of a political audience for the implementation of insurance schemes. We assume that the reference to security, or rather the insecure state of international trade, served as a means to achieve a convergence of interests between state and private enterprise. Although all actors involved agreed that German export trade was in need of stimulation, the assessment of risks brought forth during the negotiations and the consequent proposals for risk-governing insurance show that the dividing line did not run between state and private enterprise, but between different sectors of the German economy according to their position in the export chain and their respective areas of operation. The empirical part of the paper is divided in two sections: in the first, we discuss the negotiations during the construction of German state-backed trade credit insurance. In the second, the actual usage of trade credit insurance and practices of risk assessment are discussed taking as a primary example an investment of German steel and engineering firm Gutehoffnungshütte (GHH) in Colombia in the late 1920s and 1930s.

II The establishment of state-backed trade credit insurance in Germany, 1925/1926

What was the role of private actors and the state in the creation of export credit insurance, which despite economic rationales legitimizing it is commonly referred to as a political tool for steering foreign trade? The construction of the German state-backed trade credit insurance schemes was shaped by private enterprise from the beginning. The idea to use public money for the creation of an insurance fund becomes tangible for the first time during the German Bankers’ Congress in September 1925, when Hermann Hecht, co-owner of a major Berlin export firm, put it forth in a statement. Hecht, who also lectured at Berlin’s commercial school, was well-connected with insurance and politics, being a member of the supervisory board of Hermes credit insurance company (the most important specialized credit insurance company, a daughter of Münchener Rückversicherungsgesellschaft, today MunichRe), a member and former chairman of the association of German exporters, and member of the provisional Reichswirtschaftsrat (Reich economic council). Negotiations between Hecht, Emil Herzfelder, director of Hermes Credit Insurance Bank, and ministerial director Hans Schäffer of the Reich Ministry of Economic Affairs began at the same time. Hecht drafted a proposition for a credit insurance scheme that already contained many features of the government plan realized a few months later. Hecht argued that high wages in Germany, import substitution in former export markets, and protectionist measures

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13 Cf. letter from Hermann Hecht to MinDir Hans Schäffer, 01.10.1925, and attached proposal, Federal Archive Berlin (BAB), R 3101/19304.
had led to a sharp decline of exports, so that export promotion had become a necessity. He wrote that German merchants possessed the necessary knowledge about markets in the periphery and could outperform their foreign competitors, but lacked the necessary capital to cover the higher risks and compensate for greater difficulties to obtain payments. Hecht proposed a 10 million Reichsmark fund for a trade credit insurance scheme in which coverage of the insured risk was divided between government, insurance company, and exporters, and which would enable exporters to obtain bank credits by covering the bank’s potential loss fully. Hecht pointed out what he regarded as a crucial flaw in the British model, namely that political risks leading to default such as war, revolution, or riots were not covered. The German scheme, in contrast, had to provide full coverage of political risks if exports to high-risk countries were to be stimulated. Hecht expected that the first fund of 10 million Reichsmark would put in motion exports amounting to 100 million Reichsmark per year, and suggested to expand the sum if the first experiment proved successful.

Hecht’s first draft and further specifications were not completely acceptable to the Reich Ministry of Economic affairs\(^4\) mainly because the Reich would have to bear a too large share of the risk and receive no compensation, but the basic idea of an export credit insurance scheme was fully compatible with the Ministry’s line of thought and developed in further negotiations. Hermann Hecht, Emil Herzfelder of the Hermes credit insurance company, and Geheimrat Heimann of the Reichskreditgesellschaft explored the possibilities of insured credits further, and the Reich Ministry for Labour was asked to provide the first 10 million Reichsmark from its budget for productive unemployed relief.\(^5\) In December, the refined plan was discussed within an expanded circle, now also including members of the Foreign Office, Reich Ministry of Finance, Prussian Ministry of Trade, Reich Chancery, and trade associations representing industry, export trade, and the chambers of industry and commerce.\(^6\) The plan provided for the state covering part of the export trade risks only for “additional” exports that otherwise could not be transacted, and which created or secured employment, that is, only goods with a high share of “German” labour were to be considered. One third of the default risk would be borne respectively by the exporter, the insurer, and the Reich in the case of normal commercial risks, and two thirds by the Reich in the case of political risks. The Reich was to receive part of the insurance premium and increase the original 10 million RM fund from these revenues. Any liabilities that exceeded the fund were to be borne fully by the re-insurers of the credit insurance companies. A central trade credit insurance office for the processing of applications and staffed by insurance clerks and government officials was to be set up in the headquarters of Hermes credit insurance company in Berlin. Representatives of export trade and

\(^4\) Cf. annotation of MinDir Hans Schäffer to a letter addressed at him by Geheimrat Haeimann, Reichskreditgesellschaft, 06.10.1925, BAB R 3101/19304.


industry were provided for only in an advisory role for fear of competition and exploitation of insider knowledge. For each insured transaction, exporters had to file an application, and the office was to investigate the creditworthiness of importers and the risk thoroughly on the basis of information not older than two or three months.

During this meeting, the first fundamental criticism of the scheme was formulated by representatives of the Hamburg export trade. The established merchant houses and export firms of the Hanseatic cities had had a strained relationship with the Reich Ministry of Economic Affairs since the beginning of the Weimar Republic, when ideas of Gemeinwirtschaft (public economy) and state intervention developed in the context of the war economy of the First World War were regarded as a model for the organization of the post-war economy by Moellendorf and other leading politicians. Foreign exchange controls introduced during the war had been kept and were renewed in 1919, and in 1923 the Hanseatic traders complained of bureaucratic obstructions and, what was worse, that the system of foreign trade control created incentives for immoral business practices.\footnote{Cf. James, Reichswirtschaftsministerium, p. 526-527.}

Given this experience, Hanseatic merchants at first regarded the export credit insurance scheme as an attempt to reinstate a comprehensive control of all foreign trade by way of a mandatory insurance.\footnote{Rudolf H. Petersen, representing Hamburg’s chamber of commerce, and Wagner of the Association of German Exporters were the most ardent critics, cf. Besprechung am 19.12.1925 über die Einrichtung einer Exportkreditversicherung, BAB R 3101/19304.} But even if the state was not aiming at further controls, the export credit insurance scheme in the Hanseatic traders’ view would do more harm than good. An insurance would draw traders onto the foreign markets which did not possess the necessary experience for exporting to remote areas in Africa or South America, and the insurance premium would ruin the already low margins. The Hanseatic trade did not, according to Petersen and Wagner, suffer from excessive risks, but from too high wages and too expensive credits in Germany. The Berlin exporters represented by Hermann Hecht, on the other hand, claimed that Hamburg possessed unique sources of credit that were closed to the export circles in Berlin, and that export credit insurance was a necessary means not only to facilitate other exporters’ access to trade credits, but to enable exports into regions where German traders had no experience and ran higher risks. The meeting made clear that German export trade was highly differentiated concerning goods, regions, and finance, and that a government scheme had to consider these interests if additional exports were to be generated.

Ministerial director Schäffer was able to dispel the gravest concerns of the skeptical Hanseatic faction and invited them join the development of the scheme further so that their needs would be included. Schäffer probably felt that their objections, although they certainly were at least in part tactical arguments for protecting Hamburg’s trade, could not be dismissed, as the danger of moral hazard was real; and that additional exports could at best be realized by securing the co-operation of
Germany’s major seaports Hamburg and Bremen, which were at the same time self-governed city-states.

Somewhat ironically, the trade credit insurance scheme intended to be a safeguard for export risks was perceived as a source of uncertainty and risk itself. Three aspects turned out to be especially controversial during the ensuing negotiations in late 1925 and early 1926 between the Reich Ministry for Economic Affairs, Hermes credit insurance company, the associations representing trade and industry, the chambers of commerce, and a number of state and private banks involved in financing export trade: for one, the definition of “additional exports” that were to be achieved and were originally to be made a condition for granting an export credit insurance; second, the definition of “political risk” or “catastrophe risk” (the terms were in general used synonymously), which were considered non-insurable by private enterprise and therefore were to be covered completely by the state as re-insurer; and third, moral hazards created by the scheme. The definition of “additional exports” was unproblematic only at first glance. Herzfelder and the Ministry defined them as exports “which could not be made otherwise and create additional employment of German labour”.  

This was further specified to also include imported and re-exported goods which were refined or processed using a substantial amount of labour in Germany at the request of the Hamburg traders, who specialized in peeling and polishing imported rice for re-export. This focus on added labour did not, however, remove the uncertainty created by the counter-factual meaning of “additional exports” that otherwise would not have been made. An expertise and critique of the insurance scheme written by a member of the association of the German chambers of industry and commerce asked explicitly on what grounds the decision if insured exports were “additional” should be made, and presumed that fixing an export contingent and calculating excess exports on that basis would only encourage “parasitic intermediary trade”. The word “additional” was dropped from further drafts, and the problem was suspended and shifted to the future, when practical experience was expected to clear up what could be understood as “additional export”.

“Additional” exports were only mentioned for fiscal reasons in correspondence with the Reich ministry of Labour, which provided the original 10 million RM from its budget for productive unemployment relief. By pointing out the uncertainty created by the term “additional exports”, business representatives had effectively eliminated a possible source of uncertainty in the application

21 DIHT to RWM, 16.01.1926: Gutachtliche Äusserung zum Plane der Errichtung einer Exportkreditversicherung in Deutschland, January 1926, BAB R 3101/19304. The arguments in the expertise were very close to the position of the skeptical Hanseatic
22 Cf. Niederschrift über die Besprechung in der Münchner Rück, 19.01.1926, BAB R 3101/19304.
23 Niederschrift über die Besprechung des Generalvertrages am 10.06.1926, BAB R 3101/19395.
process for trade credit insurance. Exporters still had to prove that the goods were manufactured using mainly German labour, but the application could not be rejected on the grounds of the argument that the export would have occurred without credit insurance.

The distinction of political and commercial risks and coverage for each determined the responsibilities of state and private actors, and a risk distribution that was acceptable to both of them was crucial for the success of the scheme. Political risks that lead to default in export trade comprised war, revolution, riots, and moratoriums, and for German export trade in the 1920s, markets like Yugoslavia, China, and Mexico were considered as risky as they were promising.\footnote{Cf Goldschmidt, Exportkreditversicherung, p. 27-28.} Catastrophic risks usually meant natural disasters, especially earthquakes, which potentially destroyed the ability to pay of the customer abroad.\footnote{Ibid.} Private trade credit insurers had considered political risks as non-insurable before the First World War, although maritime insurance had known war stipulation long before. During the negotiations leading to the establishment of trade credit insurance, political risks were treated as a new area. The actors saw that the post-war world held new risks for which no experience was available, but which had to be calculated and covered if export trade was to be stimulated. Hecht, in his original draft, stressed that so far, British trade credit insurance had failed to stimulate exports to risky markets because the insurance companies could only cover commercial risks, whereas the new German scheme had to find a way for the state to cover political risks fully.\footnote{Hermann Hecht, Ausfuhrförderung, Oktober 1925, BAB R 3101/19304. Between 1919 and 1926, the British export credit insurance scheme was reformed several times to meet demands of the exporters. For a sketch of the British trade credit insurance scheme cf. Goldschmidt, Exportkreditversicherung, p. 54-71; Aldcroft, Derek: The Early History and Development of Export Credit Insurance in Great Britain, 1919-1939, in: The Manchester School of Economic and Social Studies 30 (1962), p. 69–85.} Ministry officials, insurers, and exporters agreed that if political risks were covered, exports might be financed that otherwise would not be made.\footnote{Cf. Niederschrift einer Besprechung am 19.12.1925 über die Einrichtung einer Exportkreditversicherung, BAB R 3101/19304.} Formulating insurance conditions proved to be more difficult. Ministry Director Schäffer argued in a meeting in December 1925 that the Reich, like other governments, had to cover the disaster and political risks fully even without having experience, but that a too low premium would lead to a run on the insurance by all exporters and an accumulation of bad risks. Somewhat optimistically, he added that the significance of disaster risks was overestimated, since one could expect that political developments would calm down in the coming years, and that insurance would have to get used to handling political risks.\footnote{Cf. Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer Exportkreditversicherungs-Stelle, BAB R 3101/19304.} Herzfelder reminded him that disaster risks had been excluded from private credit insurance on principle. There was the precedent of earthquake coverage in fire insurance, which had caused Hermes’s mother company Münchener Rückversicherungs AG heavy costs in 1906. During the
First World War, the Deutsche See-Versicherungsgesellschaft had insured maritime transports against war risks, but other experience was not available. Yet they agreed that export credits required a new basis of security if trade with countries like Romania were to be made possible, since Romania in late 1925 had not yet renounced its right to confiscate German goods guaranteed by the Treaty of Versailles.\textsuperscript{29} Critics of the scheme regarded political risks as a certain cause of failure, and warned against wasting financial resources on securing deals in countries with a volatile political situation like Poland, the Baltic States, or in the Balkans.\textsuperscript{30} However, the consensus during the negotiations was that the political dangers had to be covered if foreign markets were to be developed for German exporters. The debate pointed at a fundamental dilemma of trade credit insurance. The usual commercial risks (default of individual customers because of business failure, bad luck, incompetence etc.) were known and considered calculable. Traders and exporting manufacturers could attempt to protect themselves by information, payment conditions, self-insurance, and securities. Insurance companies would only insure trade credits if the risks seemed acceptable, i. e. if the foreign customer was a firm in good standing, with sufficient capital, and competent owners without a single default in the past. This made the insurance of such “good” commercial risks almost superfluous, and the insurance of “bad” commercial risks was rejected because that would lead to an accumulation of claims and raise insurance premiums to prohibitive heights. The actual range of insurable commercial credit risks therefore was only a narrow section of credit-based exports. Political and disaster “risks”, on the other hand, affected all export trade with a country and a much higher number of claims was generated in case such dangers realized. Individual exporters with capital reserves and enough trust in their information might still be willing to take a chance, but neither private insurers nor credit banks would provide coverage against the fundamental uncertainty and the danger of accumulating claims. The German government, Hermes credit insurance company, and the re-insurers therefore found a contract solution that limited potential losses, but at the same time also the scope of the scheme. The insurers Hermes and (until 1929) FAVAG insured two thirds of credits granted by banks to exporters in case of default, and the exporter bore one third of the loss. The German state provided an original fund of 10 million RM from which claims were to be settled. The insurers and the state each paid half of the claims from commercial risks, and the state paid the full claims from catastrophe risks (political events and earthquakes) until the fund, which in turn was increased by revenue from premiums, was used up. In case the fund was exceeded, the re-insurers of the insurance companies covered the remaining

\textsuperscript{29} Ibid. Romania was one of the most interesting markets in South-East Europe. In March 1927, the German government authorized credit guarantees of 238 million Reichsmark for the trade with Romania that were to stimulate growth in the German industries and open the Romanian market for German trade, cf. James, Reichswirtschaftsministerium, p. 546.

\textsuperscript{30} Cf. letter of member of parliament Walther Dauch to Reich chancellor Luther, 22.12.1925, BAB R 3101/19304. Dauch argued along the line of the Hanseatic export circles in favour of cheapening export credits through better discount rates at the Golddiskontbank
claims from catastrophe risks.\footnote{Generalvertrag zwischen dem Deutschen Reich, vertreten durch den Reichswirtschaftsminister, und der Hermes Kreditversichungs AG, 23.04.1926, Corporate Archive MunichRE AA 791; Vermerk 24.04.1926, BAB R 3101/19306.} This arrangement was seen as a satisfying solution for all involved. With a fund of 10 million RM, insurers and ministry officials expected to be able to insure about 100-150 million of export credits per year. This sum represented only a small percentage of German foreign trade\footnote{In 1926, German imports amounted to 9.951 billion RM, and exports to 9.783 billion RM. Statistisches Jahrbuch für das Deutsche Reich vol. 1928.}, and certainly was not enough to solve Germany’s balance-of-payment problems. However, additional funds were not available, and given the lack of experience with trade credit insurance schemes, a potential loss in the first experiment was limited. For the following year, the fund was increased from the Reich Ministry of Economic Affairs budget as part of the Reich’s export stimulation programme.\footnote{Cf. Verhandlungen des Deutschen Reichstages vol. 391, III. Wahlperiode 1924, 260. Sitzung vom 14.12.1926, p. 83330-8333.} In effect, the German government acted as a re-insurer for the insurance companies, and received part of the received premiums as compensation. Schäffer presented the scheme as a means to provide a protected area for the time it took the insurance companies to gather experience with trade credit insurance, and preferred that the companies would be able to act without state support after a learning period.\footnote{Niederschrift über die Banken-Besprechung, 22.04.1926, BAB R 3101/19306.} It seems improbable, however, that a trade credit insurance without state backing would have been realized. The general agreement between the German government and the insurance companies defined an additional catastrophe risk apart from the usual (war etc.): a catastrophe concerning the liabilities of Reich and insurance companies was also assumed if gross claims payments exceeded 125% of gross premium revenues\footnote{Generalvertrag zwischen dem Deutschen Reich und Frankfurter Allgemeine Versicherungs AG / Hermes Krediversicherungs AG, 23.04.1926, BAB R 3101/19305.}, so that excessive losses were to be borne by the state. The realization of the German credit insurance scheme as a private-public partnership meant that risk-averse private business interests and political aims to overcome incalculable dangers in foreign trade had to be reconciled. The general agreement between the Reich and the insurance companies achieved a distribution of the political and catastrophe risks that was considered adequate by both parties as to the relative stakes of both. But if the contract fixing the relation between Reich and insurance companies managed to create predictable options for the behaviour of the partners, it could create only a limited solution for the potentially hazardous behaviour of exporters, their customers, and other parties involved in export trade.

A number of moral hazards were anticipated during the negotiations to create the trade credit insurance scheme. The Hanseatic faction’s concerns that the covering of risks would create incentives for inexperienced or even fraudulent traders, and lead to price dumping and the loss of
trust in German traders’ reliability abroad, have already been mentioned above.\textsuperscript{36} As much as these objections can be regarded as tactical arguments by Hamburg exporters to protect their market areas, the danger of attracting highly speculative businesspeople and bad risks was considered real enough. The insurance conditions therefore initially not only limited the insurance coverage for credit risks to two thirds and left one third to be borne by the exporter at his own risk, but also included a clause that explicitly forbade the exporter to seek additional insurance for his remaining own risk.\textsuperscript{37} This regulation was considered a sufficient incentive for the exporter to examine the creditworthiness of his customer thoroughly and not to enter speculative transactions. Another danger was that an exporter would increase the declared value of his exports by including an excessively high profit margin, thus effectively lowering his own risk and gaining coverage for the whole transaction.\textsuperscript{38} Schäffer proposed to have the exporter bear the full loss of his first transaction to ensure his participation, although this could have deterred potential customers. The knowledge of exporters like Petersen was considered indispensable to detect fraudulent calculations, and the exporters were to be included in the committee deciding about applications, although this could lead to conflicts since an exporter would gain insight into potential competitors’ business. Another danger was pointed out that originated from the insurers themselves: although the Hermes company specialized in credit insurance, it was part of the insurance group Allianz-Müchener Rück headed by Wilhelm Kißkalt, and the FAVAG offered a wide range of insurance services. The insurance companies were in the position to make the conclusion of a trade credit insurance policy dependent on the exporter buying additional insurance (e. g. transport insurance) from them or a company of the same business group.\textsuperscript{39} Accordingly, the general agreement between the Reich and the insurance companies explicitly forbade this practice. Along similar lines, Petersen as spokesmen of the Hamburg exporters feared that banks would in future make trade credits dependent on them being insured, in fact creating mandatory insurance even for exports considered safe and raising prices, when in fact the rationale behind the trade insurance scheme was to provide exporters with guarantees enabling them to obtain bank credits in the first place. Lastly, and perhaps most important, the practice of approving applications was prone to another hazard, namely that political aspects could outweigh economic considerations and lead to a high share of bad risks from politically desirable, but economically unsound exports. In anticipation, the general agreement gave

\textsuperscript{36} Cf. Rudolf Petersen’s statements during a meeting in December 1925: Niederschrift einer Besprechung am 19.12.1925 über die Einrichtung einer Exportkreditversicherung, BAB R 3101/19304.

\textsuperscript{37} The percentage of the exporter’s own risk was made negotiable in a revision of the trade credit insurance scheme in September 1928, and then was between 12.5% and 50% for commercial risks, and a maximum of 33% for catastrophe risks. Cf. Goldschmidt, Exportkreditversicherung, p. II, and Geschäftsführung des Reichsverbandes der Deutschen Industrie (ed.): Die Exportkreditversicherung mit Unterstützung des Reiches. Berlin 1929, p. 23-24; 42.

\textsuperscript{38} Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer Exportkreditversicherungs.-Stelle, BAB R 3101/19304.

\textsuperscript{39} Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer Exportkreditversicherungs.-Stelle, BAB R 3101/19304; cf. also letter from Walther Dauch to Chancellor Luther, 22.12.1925, who warned against the creation of an insurance monopoly.
the re-insurers the possibility to exclude certain countries from the scheme that they considered too risky. The export credit insurance committees handling the applications were located in the insurance companies’ offices, and insurance clerks inspected the applications first before ministry officials evaluated them.

The negotiations between state, insurers, exporters, banks, and trade associations therefore created a complex institutional solution to a large number of different risks and dangers. Experiences from before the First World War were applicable only in part, and all parties involved underwent a readjustment of their expectations. That a contractual solution was found for the conflicting interests and most hazards anticipated can be attributed to a general consensus that a new tool for stimulating exports was necessary, and also to the personality of Ministry Director Hans Schäffer, who managed to integrate the skeptical Hamburg faction into the creation of the trade credit insurance scheme.\footnote{40} However, as all contracts are incomplete, the solutions found could not provide for all thinkable hazards. The trade credit insurance scheme was created as a political instrument with clear-cut rules designed to a large part by Emil Herzfelder and other insurance experts, but being an experiment, after it had begun to work in April 1926, despite its contractual fixings, it proved astonishingly flexible.\footnote{41} In the following section, the trade credit insurance provided for a major business venture of a major German steel and engineering in Colombia will be examined for the actors’ perception of hazards and decisions made to obtain security.

III Trade credit insurance in practice: the case of Gutehoffnungshütte’s Nasintrans investment

The case presented here is not a typical application of the German trade credit insurance scheme in the interwar period. It was chosen, however, because it shows the room for manoeuvre this instrument allowed, and demonstrates how the co-operation of business, insurers, and the government created risk expectations that set a major business operation in motion despite warnings from the very beginning. As in the creation of the export credit insurance scheme, personal networks played an important part in creating reciprocal trust.

In autumn 1928, Gutehoffnungshütte (GHH), one of the major German steel, engineering, and shipbuilding corporations\footnote{42}, began to plan a substantial investment in Colombia after the market

\footnote{40} The original government plan, insuring exporting manufacturers against default of their customers abroad, was put in practice as plan A, whereas the proposal of the Hamburg traders was put into practice as plan B, which insured the crediting bank against default of the exporter. Plan C insured exports to the Soviet Union and resembled plan A, but with different payment periods and conditions.

\footnote{41} For example, export credit insurance was used to secure imports of furs from the Soviet Union in order to restore Leipzig’s position as a European furrier centre lost in the First World War.

\footnote{42} GHH had been founded in 1758 as an ironworks. After the First World War, its director Paul Reusch built a vertically integrated and diversified corporation, with the take-over of MAN as the most important step. Cf. Bähr,
chances in Latin America had been explored during the travels of GHH Oberhausen AG’s director Wedemeyer in 1927 and 1928. The GHH corporation had struggled with insufficient sales and excess capacities since 1924, and was striving for a further expansion of its already substantial exports.\footnote{In the 1920s, exports comprised about one third of GHH Oberhausen AG’s turnover. Cf. Bähr/Banken/Flemming, MAN, p. 254.} GHH Oberhausen’s technical expertise was undisputed since before the First World War. In the 1920s, it had constructed some of the world’s largest bridges, including the bridge over the river Dulce in Argentina in 1924/1925, and its new shipyard at Walsum on the Rhine had built the first fully electrified Diesel river tugboat.\footnote{Bähr/Banken/Flemming, MAN, p. 525.} With many Latin American countries investing in their infrastructure, the region was a promising market for GHH’s products and expertise.

Between November 1927 and May 1928, one of GHH Oberhausen’s directors, the engineer Olaf Sommerstad, travelled through the Americas. The report on the Latin American countries that he wrote for GHH mixed business opportunities with a larger political outlook. Sommerstad depicted the engagement of German firms on that continent as part of a larger political struggle for influence.

After stating that Latin America possessed rich deposits of natural resources and was thinly populated, he wrote:

“The countries of Tropical America wish for German industrial products, German expertise, and German immigration. They expect benefits for their countries from a co-operation with Europe, and hope to be able to resist effectively North American attempts to encircle them. […] Leading men of Colombia thought that the near future will decide whether Tropical America will succumb to the pan-American power politics of the United States, or if Tropical America manages to keep its economic and political independence through strengthening its relations to Europe.”\footnote{Amerikareise Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, p.1, BAB R 3101/19399. Translation MJ.}

Sommerstad’s report focused on Colombia. He pointed out that the country had increased its imports from Germany since the First World War again, so that German imports came third in rank of Colombia’s import countries.\footnote{According to Sommerstad, in 1926, imports from the US amounted to 53 million $, from Britain 17 million $, and from Germany 13 million $. More than 90% of Colombian exports (mostly coffee) in the same year went to the US, and only about 1% to Germany. Cf. Amerikareise (as footnote 45), p. 2-3.} He argued that Colombian investments in its infrastructure enabled it to absorb more German imports. In particular, he pointed out that “at present, there is a unique opportunity for Germany to gain a lasting influence on Colombia’s most important traffic artery, the river Magadalena, and gain a firm foothold in Colombia.”\footnote{Cf. Amerikareise (as footnote 45), p. 3.} The report went on to say that although roads and railway lines were being constructed, the river Magdalena would remain the most important transport route for heavy goods for the foreseeable time. Sommerstad stressed that Germany had an opportunity here to intervene and increase the effectiveness of transport, and in
consequence Colombian sympathies for Germany would be reinforced to great economic effect. At the mouth of the river Magdalena, work was in progress to deepen the river bed and connect the river port of Barranquilla directly to the Atlantic ocean, whereas so far, goods were landed in Puerto Colombia and brought to Barranquilla by rail for shipment upriver. GHH at the time assembled tugboats and lighters for the Colombian Ministry of Public Works at Barranquilla and was familiar with the area. Sommerstad wrote that a shipyard and freight terminal at Barranquilla would be very profitable, and that a suitable plot of land was available. River transport on the Magdalena, however, was not an easy task. The river’s water level varied greatly with the seasons, and on the upper part of the river, the sharp bend and strong currents at Honda required that freight was unloaded from the barges, transported by railway to Beltran, loaded on barges again and shipped further upriver to Girardot, from where the state railway brought the goods to the capital Bogotá. Frequent loading and unloading resulted in heavy damage to the goods, and the complicated method slowed the flow so much that large piles of freight accumulated in the harbours. Sommerstad had projected a technical solution that would make transshipping freight at Honda unnecessary, and the engineering firm Siglechner & Hugo from Bogotá had made a profitability study that was to prove the economic viability of the project. Sommerstad’s solution had been patented, and on the basis of the patents the Colombian government had granted a 25 years exclusive concession for direct shipment of goods from Barranquilla to Girardot to the newly founded “Compania Navegacion sin Transbordos” (Nasintrans). The Nasintrans had been founded by Colombian investors and was looking for the necessary capital to realize the project. Sommerstad warned that US banks were keen on investing in the project, and that talks with G. M. Forman & Co of Chicago were progressing. Sommerstad warned that this would make the Honda project “a tool of US power politics”, and advised that Germany should not allow that, but invest and secure its influence over the Colombian transport sector, complementing the already existing German air transport company Scadta, whose planes flew between Barranquilla and Girardot. In conclusion, Sommerstad’s report promised that yearly profits could amount to about 50% of the necessary investment capital of two million $ (about 8 million Reichsmark), and that German banks should be interested in the venture.

Sommerstad’s imperialistic outlook and repeated reference to the competition posed by the US do not come as a surprise given the mostly conservative or right-wing attitudes among business leaders of the German iron and steel industry in the Weimar Republic. Yet in how far were they the expression of genuine sentiment, and in how far a rhetorical tool for gaining attention of the German government to garner support for the costly investment? Sommerstad’s report was sent to

the Ministry of Economic affairs together with the profitability study by Sigllechner & Hugo, but seems to have been written for internal use by GHH. Nevertheless, Sommerstad could have had an official use of his report in mind. In any case, the reference to wider political implications of the business venture lent force to the urgency of his argument. But how serious could his depiction of the threat of US control over the project be when GHH itself had placed a bond of ten million $ for twenty years on the US capital market in 1925 through the US banks W. A. Harriman & Co and Lee, Higginson & Co to finance its need for short-term capital?

In my view, it appears more plausible that GHH tried to win over German banks for the investment because it did not wish to or could not expand its liabilities on the US capital market. The GHH corporation’s head manager Paul Reusch in general could mobilize credit from German banks in the second half of the 1920s, yet the Colombian investment required a different degree of security than domestic ventures. Export credit insurance offered that degree of security, but required to convince the German government that its conditions for granting substantial insurance coverage could be met and that the risk was manageable.

Negotiations with the Reich ministry of Economic Affairs began in September 1928. GHH had favourable relations with Deutsche Bank und Disconto-Gesellschaft, which offered to finance the venture. For a first meeting with representatives of GHH, the Reich Ministry of Economic Affairs invited an employee of the Hamburg trading firm Schlubach, Thiemer & Co for advice on the project. He pointed out that, although direct shipments from Baranquilla to Girardot navigating the currents at Honda would be a welcome alleviation for trading in Colombia, there was a number of risks involved. First, the profitability of the enterprise depended on the costs of the operation and the amount of freight passing through the installation at Honda. If the Nasintrans operated its own lighters, the question arose if it would and could tug lighters of the other numerous shipping companies active on the Magdalena through the Honda currents. Second, although it might be possible to make an agreement with other shipping companies, the British-owned railway that so far handled the freight transport circumventing the Honda currents meant fierce competition. Third, two new railway lines were being built that would make it possible to pick up freight downriver from the Honda currents and transport them directly to Bogotá, thus rendering the Honda installation largely superfluous in the foreseeable future. The GHH representatives dismissed the objections, as the new railway lines would take several more years to be built, and even if finished, expected sufficient demand for freight transports from riparian plantations and the government. It was only during this meeting that the Reich Ministry of Economic Affairs became aware that GHH

53 Cf. Bähr/Banken/Flemming, MAN, p. 255; Marx, Paul Reusch, 304-305.
54 Marx, Paul Reusch, p. 306-308.
55 Bericht über Reise Berlin – Besprechung im Reichswirtschaftsministerium am 23.09.1928, 24.09.1928, BAB R 3101/19399. One of the directors of Schlubach, Thiemer & Co was Walther Dauch, member of the Reichstag (DVP), who had been an outspoken critic of the export credit scheme in 1925/1296, see above.
planned not only to deliver equipment and build the installation, but to operate its own shipping line. The representative of Schlubach, Thiemer & Co in his report for the Reich Ministry of Economic Affairs concluded that GHH was promoting its own interests, and that the project would not advance German industry and trade in Colombia. He regarded it as a very risky venture because of Colombia’s dependence on coffee exports and resulting vulnerability for fluctuations in the world market that would immediately affect its imports.\textsuperscript{56}

The Reich Ministry for Economic Affairs (RWM) regarded GHH’s request as highly irregular, and pointed out that the trade credit insurance scheme had not been designed to cover more than 70\% of potential losses, whereas GHH required that not only its own investment of 1,237,000 $ (with 250,000 $ provided by GHH, 1 million $ bank credit, and up to 500,000$ raised in Colombia from emissions) would be covered, but also interest payments amounting to about 200,000 $, so that 86\% of the invested sum would be insured. Even if the RWM made an exception, it would not cover more than 70\% and only if the Foreign Office provided a favourable report on the Colombian investors of the Nasintrans.\textsuperscript{57} The German ambassador in Colombia, Podewils, reported that the Nasintrans had existed for three years, that the shareholders were morally impeccable, but lacked capital, and that it was doubtful if the 500,000 $ could be raised in Colombia because the completion of the new railways would diminish the importance of transport on the Magdalena river, so that the investment of German capital in a project without good future prospects appeared hazardous.\textsuperscript{58} The GHH received knowledge of Podewil’s negative assessment before its next meeting with the RWM from an official of the Foreign Office.\textsuperscript{59} In the following days, the RWM received more favourable reports from the Foreign Office\textsuperscript{60}, and GHH submitted a statement offering to take a greater part of the risk and pointing out that the delivery contract with Nasintrans had been finalized\textsuperscript{61}, so that time was pressing for a decision about the credit risk. The Hermes credit insurance company took the position that a trade credit insurance could not be granted because the Nasintrans did not possess sufficient capital to provide securities for the credit, and that the plan for the operation of a shipping line was not profitable because of the large supply of freight space on the Magdalena. In effect, Hermes concluded, GHH was seeking a guarantee for the profitability of its business venture.\textsuperscript{62} GHH in the meantime mustered political support for the

\textsuperscript{56} Bericht über Reise Berlin – Besprechung im Reichswirtschaftsministerium am 23.09.1928, 24.09.1928, BAB R 3101/19399.

\textsuperscript{57} Aufzeichnung, 29.09.1928, BAB R 3101/19399.

\textsuperscript{58} Telegram from Podewils to the Foreign Office, 06./07.10.1928, BAB R 3101/19399.

\textsuperscript{59} Krüger an Sommerstad, 09.10.1928, Rheinisch-Westfälisches Wirtschaftsarchiv (RWWA) 130-404163/8.

\textsuperscript{60} Written by the same Foreign Office official, Löhneysen, who had received the GHH representative, and who also informed the RWM that he had sent GHH a copy of the more favourable report from Colombia, cf. Löhneysen to Reichswirtschaftsministerium, 12.10.1928, BAB R 3101/19399.

\textsuperscript{61} Cf. Abschrift/Vermerk Landrichter Daniel, 11.10.1928, and letter from GHH Oberhausen to RWM betr. Columbianische Binnenschifffahrt, 10.10.1928, BAB R 3101/19399.

\textsuperscript{62} Hermes to RWM, 15.10.1928, BAB R 3101/19399.
Nasintrans credit. A railway engineer named Wendland working for the German state railway (Reichsbahn) had been recruited by GHH to lead a construction project in Cali, Colombia. Wendland recommended an expert, Regierungsbauumeister Randzio, to write a favourable expertise about the Honda project.\textsuperscript{63} Randzio’s expertise commissioned by GHH argued that the completion of the new railway lines that would make navigating the Honda currents almost superfluous probably would occur several years later than the completion of Honda installation, and that even after completion, a large portion of freights would be continued to be shipped on the Magdalena.\textsuperscript{64}

In view of these favourable evaluations of the project which stressed that the risks were manageable and expected profits high, the RWM was ready to provide GHH with trade credit insurance. GHH was aware that it could probably cope with the commercial risk posed by the Nasintrans enterprise, but that political and catastrophe risks could scupper it and required insurance.\textsuperscript{65} Deutsche Bank financed the venture with a credit to GHH, which in turn was used by GHH for Nasintrans. That the insured credit was taken by GHH and not Nasintrans made it considerably easier for Hermes to conclude a contract.

The insurance with Hermes Kreditversicherung was made according to plan B of the trade credit insurance scheme, which meant that the bank financing exports was insured against default of the exporter, in this case Deutsche Bank against GHH Oberhausen AG. Object of the insurance was a credit sum of 900,000 $ and 180,000 $ interest (10% p.a. for 2 years) which was used as an advance payment of GHH to Nasintrans. The insurance began at the date of the advance payment or, in the case of catastrophe risk, at the day of the first shipments from GHH to Nasintrans and ended one month after payments were due. Hermes received a premium of 4% for the credit sum and 1,6% for interest, which was a comparatively high premium reflecting a perceived high risk. With fees and taxes included, GHH had to pay a total premium of 41,364 $ (173,728.80 RM).\textsuperscript{66} The insurance policy was tailored to the needs of this special transaction. To the usual definition of the catastrophe risk, whose occurrence would make the German state liable for 100% of the insured sum according to its general agreement with Hermes, a special condition was added: a catastrophe was assumed to have happened if two conditions coincided: 1. the total amount of goods shipped on the Magdalena in one year fell below 60% of the average of the preceding 5 years, for which official statistics had to be presented as proof; and 2. the whole import and export of Colombia was less than 75% in value and quantity than the average of the preceding 5 years, for which official statistics had to be

\textsuperscript{63} Cf. letters from Wendland to Baumann, 13.10.1928, Wendland to von Rheinbaben, 14.10.1928, Wendland to Sommerstad, 14.10.1928, RWWA 130-404163/8.

\textsuperscript{64} Cf. Dr. ing. Dr. jur. Ernst Randzio, Gutachten, 20.10.1928, BAB R 3101/19399, p. 12-13.


\textsuperscript{66} Cf. insurance policy Nr. 26B, 25.03.1929, and Genral Insurance Conditions, RWWA 130-4001160/14.
presented as proof. In the case that one of the parties doubted the claims of the other, a court of arbitration would decide.\footnote{67}{Cf. Anlage zum Versicherungsschein Nr 26 B, RWWA 130-4001160/14.}

GHH delivered four Diesel tugboats, including one purpose-built for the Honda currents, along with twenty lighters, and completed the Honda installation. By September 1930, the Nasintrans was fully operational. Two tugboats operated between Barranquilla and Honda, and another upriver of Honda to Girardot. Lighters loaded in Barranquilla were tugged to Girardot without transshipping.\footnote{68}{For the completion and operation, cf. the correspondence in RWWA 130-404163/48.} From a technical and engineering standpoint, GHH had mastered the task satisfactorily.

However, Nasintrans never managed to make profits. Colombian imports dropped dramatically in 1930, and the large supply of freight space on the Magdalena let freight rates plummet. The railway lines providing a direct connection to Bogotá had been completed and provided fierce competition.\footnote{69}{Cf. report of Hermann Lustig to GHH, 21.03.1932, RWWA 130-4041160/11.} In the first half-year 1931 alone, Nasintrans manager Mahler reported that Nasintrans made a loss of $142848,11. Mahler explained that the original expectations towards freight volume and rates on the upper Magdalena had been far too optimistic, and that the purpose-built tugboat Salto had cost $22,000 in maintenance, but only earned $9,600.\footnote{70}{Ph. Mahler, Barranquilla, to GHH, 01.08.1931, RWWA 130-4041160/11.} In April 1931, it was clear that Nasintrans would not be able to meet its obligations with GHH, and it dawned on the GHH management that the very specific conditions laid down for the catastrophe risk might render the insurance worthless.\footnote{71}{Cf. Schreiben von Hilbert an Wedemeyer, 24.04.1931, Besprechung betr. Hermes-Versicherung Nasitrans am 04.05.1931, Niederschrift vom 05.05.1931, RWWA 130-4001160/36. GHH attempted to achieve a dissolution of the contract with Hermes or to re-negotiate.}

Sommerstad at that time reflected that in retrospect, the insurance and the whole venture had been laid on a weak basis. In July 1931, GHH notified Hermes that the insured catastrophe had indeed occurred, after negotiations between GHH, RWM and Hermes that resulted in an attempt to keep Nasintrans afloat and try to salvage its operations after the economic crisis had...
run its course. However, the Great Depression was longer and deeper than anyone had expected. By the end of 1931, Nasintrans owed GHH 1.4 million $, and since an end of the crisis was not in sight, GHH sought ways to minimize losses by selling, forming a cartel with other shipping companies, or mothballing the fleet. Talks with the US firm Grace, who had shown interest in buying some parts of the fleet, were considered the best option, but came to no conclusion. By September 1932, Nasintrans had been liquidated, and Hermes had paid GHH a first instalment of 1.8 million Reichsmark from insurance claims. Until December 1932, GHH had received 3104589,19 RM from Hermes insurance claims, and had relinquished its property in the fleet, which went over to Hermes and was in turn acquired by the RWM. The Ministry now was proprietor of a practically worthless fleet of river tugboats and lighters from the Nasintrans liquidation, which were mothballed at Barranquilla and were practically unsaleable. In autumn 1934, the Colombian Association of Coffee Traders expressed interest in buying boats for about 250,000-300,000 RM, which was a small fraction of their original value. Ministerialrat Soltau of the RWM vented his frustration by saying that to sell at this price would mean to squander German values, and that it would be better to sink the fleet right away (although he reminded himself that technical and fiscal reasons spoke against that option). Left without better options, the RWM accepted to sell at the offered price, but the sale was not concluded.

The Nasintrans debacle also had repercussions on the relationship between the RWM and Hermes credit insurance company and its re-insurer Münchener Rückversicherung. Claims from the GHH venture used up almost the whole funds for plan B of the trade credit insurance scheme of 5 million Reichsmark. Münchener Rück instructed Hermes not to accept any more liabilities or new credit insurances for exports to the Soviet Union under plan B because of the high claims resulting from the GHH venture. The RWM reminded them of their agreement to insure transactions worth multiple times the fund provided by the state, and that this agreement was the reason Hermes and its re-insurers received part of the premium for catastrophe risks. Even though the fund was used up almost entirely and did not allow for risk distribution through other dealings, the excesses of other exporters provided a certain risk compensation for the insurers. Therefore, the RWM advocated the granting of further credit insurance for firms that did not run the risk of bankruptcy in case a bill was not honoured. Hermes let his mother company pursue further negotiations with the RWM.

73 Cf. Besprechung bei Hermes wegen der Versicherung für Nasitrans in Berlin am 29. Juni 1931, 30.06.1931, and following correspondence, RWWA 130-4001160/36.
74 Unterlagen für Hüttenentscheid, Baranquilla, 18.01.1932, RWWA 130-4001160/36.
75 R. Lustig an Direktor O. Wedemeyer, 24.03.1932, RWWA 130-4001160/36.
77 Hermes to RWM, 24.02.1933, BAB R 3101/19401.
78 Besprechung zum Verkauf am 05.11.1934 im RWM, Niederschrift, BAB R 3101/19304.
79 GHH to Hermes, 04.01.1935, BAB R 3101/19304.
80 Hermes to RWM, 10.09.1930, BAB R 3101/19395.
81 RWM an Hermes, 29.09.1930, BAB R 3101/19395.
Münchener Rückversicherung argued that the Reich by using the fund for a few massive risks had changed the export credit insurance’s character and effectively made it a state guarantee, and that therefore the conditions laid down in the general agreement between the Reich and the insurers, especially the guideline of insurance sums of up to 25 times the fund, were not applicable any more. Münchener Rück asked the RWM to take on no more major risks and not be too generous with guarantees for exports to the Soviet Union until the general agreement had been re-negotiated. Münchener Rück also reminded the RWM of its right to exclude certain countries from insurance coverage. In the following months, a new version the general agreement for plan B was negotiated.

Gutehoffnungshütte’s (GHH) investment in the Nasintrans shipping company in Colombia illustrates the implemented insurance mechanics and the use of political arguments in strictly economic contexts. The German firm not only built and delivered specialized Diesel-powered tugboats to Nasintrans, but became a partner in its risky enterprise that depended on a constant flow of imported goods into Colombia and distribution along the river Magdalena, eventually acquiring a majority of shares. GHH directors considered business in Colombia as part of the competition between the US and Germany for influence in the region. This argument was brought forth when applying for trade credit insurance against political and catastrophic risks. Despite reports from the Foreign Office and other sources that a new railway line would make river transport unprofitable soon, GHH decided to enter a joint venture. When Nasintrans began operations in September 1930 (and demonstrated that it could solve the technical difficulties of river navigation satisfactorily), the Great Depression had already begun to affect Colombian imports. Predictably, the venture failed, and negotiations began for the payment of several million Reichsmarks of insurance. Attempts to sell the operation to the US Grace Line failed. It would be wrong, however, to simply ascribe GHH’s overly optimistic outlook to the availability of insurance. Financial losses were not compensated for fully, and the loss of reputation affected future business opportunities in Colombia and Germany. Export credit insurance was created from a personal network between government and business, and personal networks had created trust between decision-makers in private business and government that overcame risk-averse evaluations, which turned out to be right in the end.

**Summary and conclusion**

In contrast to the British model, German export credit insurance was realized as a public-private partnership, with two private insurance companies (Hermes and FAVAG, and Hermes alone when FAVAG went bankrupt in 1929) acting as insurers of commercial risks at their own expense, and the
German state acting as re-insurer together with private re-insurance companies Münchener Rück for Hermes and Frankona for the FA V AG. The Reich Ministry of Economic Affairs provided the original fund, co-ordinated negotiations and was involved in all decisions about applications for trade credit insurance. Although the Ministry acted always in consideration of business arguments, trade credit insurance was created as and used as a political tool for a variety of purposes: alleviating the scarcity of capital, directing trade flows, supporting employment, and regional aid among them. In practice, being a political, state-backed and state-funded insurance scheme, business and political considerations became inseparably mixed in risk assessments and decisions.

From the beginning, the scheme met heavy fundamental opposition from the Hanseatic export trade and a part of German chambers of industry and commerce, whereas the powerful Reichsverband der Deutschen Industrie, representing the interests of smaller and medium-sized industrial companies, and other industrial associations greeted the scheme as a means to generate new export opportunities for its members. A central argument of the critics was the anticipation that state-backed credit would lead to reckless risk-taking by inexperienced companies and disrupt existing trade relations. The Hanseatic trade circles favoured measures that would allow exporters easier access to bank credits. Their criticism was taken up and in addition to the original government scheme which insured the exporter, a second scheme was introduced that provided the lending bank with insurance against default of exporters. Whereas the Soviet Union was originally excluded form coverage, a third scheme was introduced especially for German-Soviet Trade along with large trade credits granted by the state, which was used by medium and major companies.

The negotiations to construct a working institutional framework for trade credit insurance thus highlight the diversified structure and attitudes of German export trade and export-oriented industry as well as credit banks. Expectations of moral hazard and unwanted encouragement of risky ventures were built into the construction of the trade credit insurance scheme. The nature of a private-public partnership, however, implied also the possibility of fundamentally differing views on desirable uses of export credit insurance. Hermes usually applied a matter-of-fact, risk-averse approach, while the RWM soon exploited the export credit schemes potential as a versatile tool to use foreign trade for political purposes.

In the case of GHH in Colombia, personal networks created an environment that overemphasized profit chances and neglected risks. The close connections of business and politics in Weimar


Germany created trust in a system of risk management that promised security for national players in the international economy. Greater state intervention in the economy was not necessarily perceived as a danger for business, although GHH’s general director Paul Reusch himself propagated entrepreneurial liberty and a minimum of intervention. However, security for business transactions in the interwar period meant no longer only the ability to enforce international agreements and gather information, but was becoming an institutionalized feature of nation states in an environment which was perceived as a zero-sum game in which gains of security were only possible by inflicting losses on the other players.\footnote{James, Harold: Das Reichswirtschaftsministerium und die Außenpolitik, in: Holtfrerich, Carl-Ludwig (ed.): Das Reichswirtschaftsministerium der Weimarer Republik und seine Vorläufer. Strukturen, Akteure Handlungsfelder. Berlin/Boston 2016, p. 517-578, here p. 518.}