One of the measures taken by European Union (EU) governments to counter the detrimental economic effects of the COVID-19 pandemic (which, of course, were partly self-inflicted by the same governments’ decision to bring large parts of the economy to a halt), was to alleviate the rules for state-backed export credit insurance, specifically allowing exporters to obtain credit guarantees for transactions within the European Union.¹ In general, EU national governments are prohibited from guaranteeing export credits for sales to other EU countries because that would give certain exporters a competitive advantage and violate EU competition rules. However, the extraordinary situation created by the economic lockdown was regarded as sufficient legitimation for the suspension of these specific rules of competition in favour of state export promotion.² In an historical perspective, this might be called one of the latest instances of the “securitisation” of foreign trade: a continuous negotiation of security issues between exporting private business, insurers, and the state has been the constitutive element of state-backed trade credit insurance since its invention about a century ago and reflects changing perceptions of security in the sphere of the international economy.

In this article, we attempt to relate the concepts of historical security studies to the subject matter of state-backed trade credit insurance (TCI)³ and explore the potential of an international comparison. State-backed TCI schemes appear to be well suited for that task because in their creation and development, they tied together state agencies, private industrial and trading companies, trade associations, banks, and insurance companies. Different actors representing these entities brought differing views on risk and insurability into the negotiations, so that concepts of danger and secu-

¹ Nikolaeva et al, EU states.
² Jakob, Exportsicherheit.
³ “Trade credit insurance” and “export credit insurance” are used synonymously in the sources and in this article.
rity were verbalised and became accessible in the sources. Britain and Germany are compared not only because they were the major European exporters nor because of their positions as winner and loser of the First World War respectively, but also because of the different British and German systems of TCI which were adapted by other industrial nations. Although geopolitical strategies, constitutional and legal limitations, ideologies, and economic performance all play an important part in the relationship between state and business, for this article we will have to employ a much more limited comparative perspective that focuses on the solutions found for the problem of securing foreign trade through state-backed credit insurance.

The concept of “securitisation” that was developed by Critical Security Studies expresses a constructivist view on security issues. Security there is understood as a social act in which issues are selected, marked and treated as threats to a given state of affairs in order to create a consensus and mobilise extraordinary political action. Within this common constructivist approach, distinctive schools of thought have emerged, among which the so-called Copenhagen and Paris schools seem most influential and inspiring for historical research. The Copenhagen School of Security Studies stresses that the public construction of security problems legitimises extraordinary measures which bypass the ordinary legislative process of liberal democracies, whereas the Paris School emphasises the role of experts and bureaucratic routines for the distinction between “security” and “insecurity”. Their focus on the present and their claims that their respective object of study represents the key to understanding security makes them not directly applicable for historical research, even if their fundamental constructivist perspective and the questions it provokes may guide historians to fresh perspectives on the security problems of the past.

Economic and business historians encounter security issues throughout their objects of study, be it in the form of wars that inflict shocks on economies, predatory states that hinder or prevent business development, corporate crime, or a myriad of other phenomena that are described as threats, dangers, or risks in the sources. Although enterprises do communi-

5 Buzan/Wæver/de Wilde, Security, 23-26. This concept of “securitisation” is not to be confused with the homonymous financial term denoting the creation of securities from a company’s assets or loans.
6 As outlined in Buzan/Wæver/de Wilde, Security.
7 Bigo/Tsoukala, Understanding (in)security.
cate about their security concerns, the sources much more often speak of risks, dangers, threats, and uncertainties. This, however, seems little more than a different way of speaking about security. Although the Copenhagen School, within its international relations context, found it difficult to conceptualise the securitisation of enterprises and stressed supranational economic orders as the referent object of securitisation, enterprises nevertheless should be considered as possible agents of securitisation rather than dismissed on theoretical grounds. This seems especially true for enterprises dealing on international markets, with their increased uncertainty in legal, financial, and political respects.

International trade has been an especially risky or even dangerous enterprise throughout history, and safeguards against the loss of ships and cargo, against piracy, war, fraud, and other perils accordingly emerged early. Insurance against the hazards at sea go back to the Middle Ages, mostly in the form of mutual aid corporations and individual rulers’ initiatives, whereas the first commercial insurance societies emerged in the late eighteenth century, and a fully-fledged insurance industry based on scientific risk calculations had developed by the late nineteenth century. The expansion and internationalisation of the private insurance industry up to 1914 has been described as a co-evolution driven by the intensification of world trade and the first wave of globalisation. The study of the beginnings of TCI, however, directs our view to the interaction of exporting businesses, insurers, and state agencies in the creation and practice of a security measure for foreign trade at a time of heightened uncertainty, risk, and danger.

The First World War not only disrupted the international economic structures and division of labour that had evolved in the so-called “first wave of globalisation”, but also resulted in a more pronounced politicisation of the economy in general and international trade in particular. Both the structure and semantics of world trade and the international division of labour changed to such a degree that a return to the status quo ante bellum became impossible. In the decades before the First World War, politics and business viewed economic pursuits as a predominantly private affair that was to be separated from political intervention as far as possible; during and after the war, this separation was dissolved at an increasing

9 Buzan/Wæver/de Wilde, Security, 22.
11 Borscheid/Haueter, World Insurance.
12 Findlay/O’Rourke, Power, 429–436; Torp, Weltwirtschaft.
The war also changed the meaning of security: rather than the traditional protection of people, property, and territory against war, the capitalist order itself had become endangered by revolution and the wave of violence that ensued in the years after the armistice of 1918.

This article explores the effects of the German and British state-backed trade credit insurance schemes on the relation between state agencies and enterprises before the Second World War. First, it introduces the workings of trade credit insurance. Second, state and business interests in the creation of the TCI schemes are discussed. Third, the influence of TCI schemes on business decisions are examined. Due to the COVID-19 pandemic, however, no British archives could be visited before writing this article, so for the British case we rely mostly on the literature and sources that are available in print or online. The exploration of British cases based on archival sources must be left for a later date. We ask if security gained a new quality and importance for the economic decisions of state, industry, trade and finance and changed the character of foreign trade after the First World War. However, from a business history perspective, there has not been much systematic research into the changing conception and importance of security. Although after 1918, businessmen had to cope with a radically changed world (in particular, new states and borders and a profoundly different international division of labour) and faced numerous new risks (in particular, currency risks after the collapse of the gold standard, political intervention into the flow of capital and goods, and the rise of working-class parties to political power), we do not know much about how this changed the way in which businesses formed security expectations. We hypothesise that for the formation of business expectations, security attained a status as important as market observation. The study of export credit insurance seems especially suitable as a test for this assumption since the effects of First World War motivated the creation of a new instrument for securing international trade.

1. *Principles and the beginnings of trade credit insurance*

Today, TCI is an established, if somewhat overlooked, feature of international commerce. It provides exporting companies with cover against default on trade credits by their clients abroad. The risks that are covered are

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13 *Lojko, Age of Illusion.*
14 *Clavin, International organisation, 170.*
usually distinguished by the cause of the default into “normal” or “commercial” risks, like the bankruptcy of a trade partner, which are insured by private means of insurance companies, and into “catastrophe” or “political” risks, like war, revolutions, or earthquakes, which are deemed uninsurable by private means and covered by state schemes. Although the trade covered by TCI schemes usually only amounts to a small percentage of a country’s total trade volume, state insurance and guarantees remain an important tool for the promotion of exports and the stabilisation of foreign trade within high-risk markets. TCI schemes are therefore intended to provide a measure of financial security against risks that would otherwise prevent exporters from engaging in trade with particular customers or countries.

The system of state-backed TCI we know today was founded immediately after the First World War. Contemporary economists in Germany and Britain felt that the new state-backed TCI schemes were not so much a continuation of older developments, but part of an unprecedented intrusion of the state into the economic sphere that had been brought about by the extreme politicisation of international trade during the war. Debates on state-backed TCI included arguments from before the war against government intervention, but the new insurance model was not just another method of subsidising export trade. Rather, by combining the principles of credit insurance that had been developed before the war with state reinsurance, a new safety measure for international trade was created which transformed catastrophic and political dangers into manageable commercial risks and promised to multiply the effect of the state funds employed. For exporting business companies, they became a new instrument for coping with increased insecurity and uncertainty in international trade after the First World War. Yet, at least in some cases, TCI also created conflicts between diverging state trade policies, entrepreneurial interests, and the logic of insurers. The shifting of risks from private enterprise to the state and/or its agents in private insurance was intended to create incen-

15 The First World War “disrupted the budding development. The export credit insurance schemes of the present are something genuinely new. … The war turned export credit insurance into an instrument of trade policy.” Translation by MJ from: Goldschmidt, Exportkreditversicherung, 54.
16 “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”: Shenkman, Insurance, 345.
17 Hauffler, Commerce, 61.
18 For the various German export subsidies cf. Ebi, Export.
tives for exporters to undertake commercial operations which they otherwise would have shunned. This, however, inevitably also changed entrepreneurial expectations and could create the opportunity for hazardous behaviour.

The risk that a customer in a foreign country, after purchasing goods on a supplier’s credit, defaults on the payment of his obligations is as old as foreign trade on the basis of credit itself. When world trade expanded and intensified during the so-called first wave of globalisation in the latter half of the nineteenth century, merchants and exporting manufacturers developed new safety measures that complemented the existing safeguards of foreign trade. Information on customers was essential to assess credit risks. Whereas the older mercantile world had relied mainly on networks of family and trusted long-standing business relations, the rise of credit agencies in the later nineteenth century promised to provide a world-wide source of reliable and up-to-date knowledge about the financial stability and commercial character of customers.\textsuperscript{19} The formalisation and homogenisation of commercial law was an ongoing project when WWI broke out.\textsuperscript{20} Self-insurance by exporters in the form of adding a certain percentage to sales prices that should compensate for the expected usual default of some customers was a recognised practice which nevertheless could not protect the exporter from widespread defaults during economic crises or political upheaval. Accordingly, the idea of credit insurance emerged early in the nineteenth century, yet all early attempts to establish credit insurance companies failed. Only shortly before the turn of the century had the requirements of this particular branch of insurance been understood sufficiently to enable the operation of viable private credit insurance businesses.

In the late nineteenth century, modern credit insurance was developed on the London insurance market, which had become the global centre for maritime insurance and other forms of insurance against trade risks since the beginning of the century. In particular, Lloyd’s underwriters proved creative in finding new contract solutions for the evolving risks that co-developed with modern trade and warfare at that time.\textsuperscript{21} However, the early export credit insurance policies offered by British underwriters and private companies since the 1890s never attained much commercial significance.\textsuperscript{22}

\textsuperscript{19} Berghoff, Markterschließung
\textsuperscript{20} Petersson, Anarchie.
\textsuperscript{21} Cf. Haufler, Commerce, 28–59, for an overview.
\textsuperscript{22} Goldschmidt, Exportkreditversicherung, 53; Brown, Cuthbert Heath, 134–136; Shenkman, Insurance, 128–129.
German credit insurance companies had failed until late in the nineteenth century when a more viable business model was found. In 1898, Hanseatische See- und Allgemeine Versicherungs-Gesellschaft, founded in 1885 in Hamburg as a marine insurance company, took over the business of the Hamburg branch of British Ocean Accident and Guarantee Corporation Limited and offered credit insurance successfully.\(^\text{23}\)

The theoretical groundwork for German credit insurance was laid by Emil Herzfelder in his 1903 legal dissertation on its history and practice, which he published in an expanded form in 1904.\(^\text{24}\) Herzfelder explored the legal problems of credit insurance and stressed the economic and moral limits of insurance against bankruptcy: total insurance against losses would remove all restraints and disrupt entrepreneurial prudence.\(^\text{25}\) The problem of credit insurance companies was to find the right balance between the exclusion and inclusion of risks. Herzfelder argued against the general exclusion of export credits from insurance, because for the insurer, this would result in the loss of a large share of German companies’ business. The constant observation of market developments, firms’ creditworthiness, and country-specific risks was as necessary as cautious insurance contracts. Herzfelder justified the suspension of insurance for exports to certain high-risk countries, yet only as a temporary measure.\(^\text{26}\) Credit insurance was only to cover extraordinary losses that threatened the merchant’s existence, not the average losses every merchant could expect and self-insure against by placing surcharges on the sales price.\(^\text{27}\) He stressed the importance of credit information on the insured and believed that a significant share of the risk should be borne by the insured exporter himself. He identified insufficient information and unclear or incomplete contract regulations in the terms and conditions of existing credit insurers as the most frequent and gravest risks for the insurance companies, especially with regard to determining the veracity of claims.\(^\text{28}\) Herzfelder remarked that the quality and availability of credit information outside the US, the UK and Germany left much to be desired and advised the opening of branches of

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23 Herzfelder, Problem, 71–72.
24 Herzfelder, Problem. For earlier approaches to credit insurance see Koch, Versicherungswissenschaft, 70, 271.
25 Herzfelder, Problem, 93–94.
26 Herzfelder, Problem, 97.
27 Herzfelder estimated a surcharge of 2% on average, which could be significantly higher if the merchant traded to countries with unfavourable credit laws or a lax administration of debts: Herzfelder, Problem, 98–100.
28 Herzfelder, Problem, 106–111.
international credit agencies, which to the merchant sometimes would make the difference in deciding whether or not to trade with a country.\textsuperscript{29} In summary, Herzfelder had identified the careful construction of legal requirements to pay in the insurance contract and information on creditworthiness as the crucial problems in credit insurance. As an insurance manager, he would implement and further develop the principles outlined in his dissertation in the context of the dynamic German insurance business before and after the First World War.

The German insurance industry had internationalised successfully from the last decades of the nineteenth century and became part of the global web of insurance and reinsurance that counterbalanced the increased risks stemming from industrialisation and urbanisation.\textsuperscript{30} However, the First World War led to a sharp decline of international business, and during the inflation period, the frequent default of insurance companies on their foreign customers vaporised the considerable trust German insurers had enjoyed abroad. The global insurance market became increasingly nationalised after 1914, and German insurers themselves were now seen as security risks abroad.\textsuperscript{31} Münchener Rück, the leading German international reinsurer, lost its lucrative international markets during the war without hope of returning to them after hostilities ceased. Anticipating that the German economy would be in need of large sums of capital after the war, but that credits would bear a greater risk, Münchener Rück founded Hermes credit insurance bank in 1917, together with Globus insurance company and the Austrian Kompass credit insurance bank.\textsuperscript{32} Emil Herzfelder, who had been member of the board of Globus insurance company in Hamburg, was appointed director of Hermes, which took over Globus’s business and acquired the German branch of R.G. Dun &Co. credit rating agency, thus gaining access to a comprehensive collection of business information.\textsuperscript{33}

Theory and practice of trade credit insurance thus emerged in the first wave of globalisation before 1914 as a purely commercial innovation. Yet only with the further politization of foreign trade brought about by the First World War did the problem of trade credit insurance leave the sphere of business risks and become part of an economic policy security repertoire. Apart from the economic rationales for its existence, the literature as-

\textsuperscript{29} Herzfelder, Problem, 125–127.
\textsuperscript{30} Borscheid, Systemwettbewerb.
\textsuperscript{31} Borscheid, Vertrauensgewinn.
\textsuperscript{32} Bähr/Kopper, Munich Re, 102.
\textsuperscript{33} Habicht, 50 Jahre, 17–22.
cribes the use of export credit insurance to political motivations. In a political atmosphere marked by international conflict and not co-operation, states stepped in where private insurers would no longer provide cover against political risks. The origins of the state-backed trade credit insurance systems still in existence today thus lie in the economic nationalism of the 1920s and 1930s.

2. The creation and operation of the British and German TCI schemes

Britain

During the latter half of the First World War, the British government was concerned that it would take considerable time until Britain’s international trade resumed its pre-war level, and in 1919 decided to adopt a scheme providing a £26 million credit guarantee against abnormal commercial risks via the newly-founded Export Credit Department (ECD). The Overseas Trade (Credit and Insurance) Act of 1920 retrospectively empowered the Board of Trade from 21 June 1919 onwards to grant credits and undertake insurances for the re-establishment of overseas trade. However, during the first two years, the ECD acted as a de facto state bank, making direct cash advances to cover between 50% and 80% of the costs of exports. As in the German case, the British government pursued several aims: to promote employment by stimulating exports and thus manufacturing; to secure export markets; and to assist in the economic restoration of the Central European and South-Eastern European states that had been devastated by the war. The failure of this new scheme to stimulate exports led to a complete re-organisation of the ECD, turning it from a de facto state credit bank into a state credit insurance scheme in 1921.

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34 For a discussion of market failure due to informational asymmetries, employment policies, and the balancing of chances on foreign markets as justifications of trade credit insurance, cf. Mildner, Handeln.

35 Hauffler, Commerce, 60–62.

36 Aldcroft, History, 69; Dietrich, Export Credit Insurance, 236–237.

37 Sun, History, 86–87.

38 Aldcroft, History, 70.

39 The Schedule to the Act specifically limited the countries for which guarantees could be grated to Finland, Latvia, Estonia, Lithuania, Poland, Czechoslovakia, the Serb-Croat-Slovene State, Romania, Georgia and Armenia, although other countries were added later: Sun, History, 87.

40 Aldcroft, History, 70.
After the reform of 1921, the ECD no longer advanced cash, but guaranteed bills drawn by British exporters. The ECD’s liability varied depending on what amount of recourse was agreed on.\textsuperscript{41} This scheme operated until 1926 but discontinued when it failed to meet expectations – less than 10\% of the scheme’s funds were utilised at any given time during its operation, and demand came mainly from only three industries, which exported to only around twenty countries. The rules were deemed overly complicated, the private banking sector did not cooperate with the department, and the premiums were too high to attract many customers, but too low to cover the department’s own expenses.\textsuperscript{42}

The reforms that were implemented on 1 July 1926 made the newly-named Export Credit Guarantee Department (ECGD) practically an independent subdepartment of the Overseas Trade Department and again changed its operations. The former system of “Advances” and “First Guarantee” was discontinued and instead the so-called “Second Guarantee Scheme” became operational and ran until 1930. The ECDG could offer different contracts: Contract A covered bills of exchange given by the importer up to 75\% and Contract B covered a bank providing credit to an exporter against default of the exporter up to 100\%, thus facilitating the obtaining of credit.\textsuperscript{43} However, the high premium rates again led to disappointing results. Although the acceptance of the new scheme again fell behind expectations, it was continued after 1930 following a report by a committee chaired by Sir Otto Niemeyer. Aldcroft supposes that political reasons guided the decision to continue the scheme, namely its usefulness for supporting certain industries and in signalling the government’s goodwill to influential entrepreneurial circles.\textsuperscript{44}

A 1930 reorganisation based on the Niemeyer committee’s recommendations brought relief for the overworked Advisory Committee through the installation of an Executive Committee composed of businessmen that were entrusted with the management of the scheme.\textsuperscript{45} The ECDG was made an independent department within the Department of Overseas Trade, receiving its own allocation of funds, and was now to operate on a

\textsuperscript{41} Sun, History, 88, and Aldcroft, History, 70–71 give slightly different descriptions of the first guarantee scheme. The maximum coverage was either 85\% according to Aldcroft or up to 100\% according to Sun.

\textsuperscript{42} Aldcroft, History, 71–72.

\textsuperscript{43} Sun, History, 90.

\textsuperscript{44} Aldcroft, History, 73–75.

\textsuperscript{45} Aldcroft, History, 76.
commercial basis and draw up annual commercial accounts. Most importantly, from 1930 onwards the ECGD made several changes that reduced its extensive losses in previous years and attracted more customers. Whereas the earlier schemes had insured the exporter against the failure to pay on the maturity of bills, the ECDG switched to make payment conditional on the proof of insolvency of the foreign buyer. The department also no longer insured against transfer risks caused by exchange restrictions between 1931 and 1934 in reaction to the difficult situation created by the banking crisis of 1931. With the conclusion of the Anglo-German Payments Agreement of 1934, this decision was reversed and the ECGD guaranteed the transfer of debts paid by German importers in sterling.

In November 1932, the ECGD introduced the Comprehensive Credit Guarantee Policy (the German equivalent was the so-called Bündelvertrag, literally “bundle contract”) that insured all of an exporter’s business with a certain market, allowing for wide distribution of risks and low premiums. Holders of Comprehensive Credit Guarantee Policies trading with Germany were insured against transfer risks in case of a breakdown of the Anglo-German Payment Agreement in 1934, and in 1935 holders of Comprehensive Policies in general were given the opportunity to insure against transfer risks. Whereas these measures were aimed at short-term credits for consumer goods with a duration of up to twelve months (which was a considerably longer payment period than the Germans usually offered to insure), the ECGD also developed new insurance contracts for long-term credits. Between 1933 and 1938, it guaranteed several ventures of British firms building infrastructure and manufacturing plants abroad.

As mentioned above, at first the British TCI scheme was limited to certain countries, and its scope later extended. Trade with the Soviet Union (SU), however, was a special case for British and German export credit insurers, although both countries had signed trade treaties with the SU in 1921 and 1925 respectively. Both at first excluded the SU from the scheme. The Soviet trade partners were the state trade delegations in the respective countries and trade organisations for specific products. Trust played an es-

46 Sun, History, 92.
47 Sun, History, 91.
48 Aldcroft, History, 77.
49 Aldcroft, History, 78.
50 Aldcroft, History, 77; Sun, History, 92–94 in more detail.
51 Sun, History, 94–96.
52 Sun, History, 97–98; Aldcroft, 78.
especially important role for the establishment of business relations between private firms and communist officials.\textsuperscript{53}

\textbf{Germany}

Like the British, the German government hoped to create further employment by stimulating exports of goods manufactured or refined in Germany, but also was much more pressed to achieve export surpluses because of its obligation to make reparation payments.\textsuperscript{54} In contrast to the British case, the construction of the German state-backed trade credit insurance schemes was shaped by private enterprise from the beginning. In view of the numerous problems that had plagued the first years of the ECD/ECGD, the British TCI scheme was taken as a model from which the German one was to be different. German state and business actors were well aware of the British system, and made frequent references to it in their discussions.

Apart from their second-mover advantage in being able to observe the results of the first years of the British experiment, the German creators of the TCI scheme of 1926 operated under the far more limited financial and organisational capabilities of the Reich government.\textsuperscript{55} The Reich government did not, and would probably simply not have been able to, create a ministerial department like the ECGD, but instead chose to offer TCI through and together with private insurance companies. The construction of a public-private partnership was not a new form of economic organisation. For example, an institution that combined private and state representatives had been created and widely implemented in the German \textit{Kriegsrohstoffgesellschaften} (war raw materials companies).\textsuperscript{56} German businessmen and state officials had not only become used to working together in times of crisis in a previously unknown manner,\textsuperscript{57} but their close cooperation had contributed to a shared trust in each other’s capability to find

\textsuperscript{53} Lutz, Siemens und die Anfänge.
\textsuperscript{54} Niederschrift einer Besprechung am 19.12.1925 über die Einrichtung einer EKV, Bundesarchiv Berlin (BArch) 3101/19304.
\textsuperscript{55} Guarantees were also given by the individual states of the German Reich, e.g. Saxony, which were often offered in conjunction with Reich guarantees. In this article, we will focus on the Reich level.
\textsuperscript{56} Cf. Rathenau, Organisation; Michalka, Kriegsrohstoffbewirtschaftung; van de Kerkhof, Partnership.
\textsuperscript{57} Boldorf, Ordnungspolitik, 41.
an organisational compromise. Nevertheless, the creation of the German TCI scheme required intensive and controversial negotiations between the Reich ministry for Economic Affairs, insurers, and the business companies that were the intended object of the new measure.

The idea to use public money for the creation of an insurance fund became 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 forward 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, a member and former chairman of the association of German exporters, and member of the provisional Reich economic council (Reichswirtschaftsrat).

Negotiations between Hecht, Emil Herzfelder, director of Hermes Credit Insurance Bank, and ministerial director Hans Schäffer of the Reich Ministry for Economic Affairs (RWM) began at the same time. Hecht drafted a proposition for a credit insurance scheme that already contained many features of the government plan realised a few months later. In his draft, Hecht argued that high wages in Germany, import substitution in former export markets, and protectionist measures 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 the greater difficulties in obtaining 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 companies, 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 Reichsmarks would put in motion exports amounting to 100 million Reichsmarks per year, and suggested expanding the sum if the first experiment proved successful.

59 Letter from Hermann Hecht to MinDir Hans Schäffer, 01.10.1925, and attached proposal, BArch R 3101/19304.
Hecht’s first draft and further specifications were not completely acceptable to the Reich Ministry for Economic Affairs, mainly because the Reich would have to bear too large a share of the risk and receive no compensation, but the basic idea of this export credit insurance scheme was fully compatible with the Ministry’s line of thought and developed in subsequent negotiations. Hermann Hecht, Emil Herzfelder, and Geheimrat Heimann of the state-owned Reich Credit Bank (Reichskreditgesellschaft) explored the possibilities of insured credits further, and the Reich Ministry for Labour was asked to provide the first 10 million Reichsmarks from its budget for productive unemployed relief. In December 1925, 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.

The influential Reichsverband der Deutschen Industrie (RDI, German Industrial Association), which represented in particular the interests of smaller and medium-sized industrial companies, was in favour of the German TCI scheme, and its representatives were involved in negotiations with the Reich Ministry for Economic Affairs from an early stage. After debating the scheme in its committee for banking and credit, the RDI’s board announced its unanimous support in its meeting of 11 February 1926.

The insurance scheme provided that the state would cover a 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, staffed by insurance clerks and government officials, was to be set up in the headquarters

60 Annotation by MinDir Hans Schäffer of a letter addressed at him by Geheimrat Heimann, Reichskreditgesellschaft, 06.10.1925, BArch R 3101/19304.
61 Vermerk in der Angelegenheit Förderung der Ausfuhr durch Kreditversicherung, 13.10.1925, BArch R 3101/19304.
63 Reichsverband der Deutschen Industrie, Exportkreditversicherung, 7.
of Hermes credit insurance company in Berlin. Representatives of export trade and 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 thoroughly to investigate the creditworthiness of importers and the risk on the basis of information not older than two or three months.\textsuperscript{64}

During the meetings in December 1925, 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 for 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 were regarded as a model for the organisation 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.\textsuperscript{65} 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.\textsuperscript{66} But even if the state was not aiming at further controls, the Hanseatic merchants predicted that the export credit insurance scheme would do more harm than good: an insurance would draw traders onto the foreign markets who 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

\textsuperscript{64} Vermerk „Einrichtung einer Exportkreditversicherungsstelle“, 08.12.1925, BArch R 3101/19304.
\textsuperscript{65} James, Reichswirtschaftsministerium, 526–527.
\textsuperscript{66} 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, BArch R 3101/19304.
experience and ran higher risks.\textsuperscript{67} These debates showed 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. In the following weeks, Ministerial director Schäffer was able to dispel the gravest concerns of the sceptical Hanseatic faction and invited them to join to a greater extent in the development of the scheme so that their needs would be catered for. Schäffer probably felt that their objections – although they certainly were at least in part tactical arguments used 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 realised by securing the co-operation of Germany’s major seaports Hamburg and Bremen, which were at the same time self-governed city-states.

So, somewhat ironically, the very trade credit insurance scheme intended to be a safeguard for export risks was perceived as a source of uncertainty and hazards itself. Three aspects turned out to be especially controversial during the negotiations in late 1925 and early 1926: first, 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” (in general, the terms were used synonymously), which were considered non-insurable by private enterprise and therefore were to be covered completely by the state as reinsurer; and third, the moral hazards created by the scheme itself.

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”.\textsuperscript{68} This was further specified also to 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 specialised in peeling and polishing imported rice for re-export.\textsuperscript{69} 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 expert critique of the insurance scheme written by a

\textsuperscript{67} Niederschrift einer Besprechung am 19.12.1925 über die Einrichtung einer Exportkreditversicherung, BArch R 3101/19304.
\textsuperscript{68} Emil Herzfelder, Vermerk betr. Einrichtung einer Exportkreditversicherungsstelle, 08.12.1925, BArch R 3101/19304.
\textsuperscript{69} Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer EKV-Stelle, BArch R 3101/19304. For the Hamburg rice trade, cf. Lindner, Schiffbau.
member of the association of the German chambers of industry and commerce asked explicitly on what grounds the decision whether 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 ambiguity of the term “additional exports”, business representatives had effectively eliminated a possible source of uncertainty in the application 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 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 led to default in export trade comprised war, revolution, riots, and moratoriums, and for the German export trade in the 1920s, markets like Yugoslavia, China, and Mexico were considered to be as risky as they were promising. Catastrophic risks usually meant natural disasters, especially earthquakes, which potentially destroyed the ability of the customer abroad to pay. 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 insecurities which were beyond their experience, but which had to be calculated and covered if export trade was to be stimulated. Hecht, in his original draft,

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70 Deutscher Industrie- und Handelstag to RWM, 16.01.1926: Gutachtliche Äusserung zum Plane der Errichtung einer Exportkreditversicherung in Deutschland, January 1926, BArch R 3101/19304. The arguments in the expertise were very similar to the position of the skeptical Hanseatic representatives.

71 Niederschrift über die Besprechung in der Münchner Rück, 19.01.1926, BArch R 3101/19304.

72 Niederschrift über die Besprechung des Generalvertrages am 10.06.1926, BArch R 3101/19395.


74 Goldschmidt, Exportkreditversicherung, 21–32.
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.\(^7\) Ministry officials, insurers, and exporters agreed that if political risks were covered, exports might be financed that otherwise would not be made.\(^6\) 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 too low a 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.\(^7\) 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 von 1914 (German Marine Insurance Company of 1914) 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.\(^7\) 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.\(^7\) However, the consensus dur-

\(^7\) Hermann Hecht, Ausfuhrforderung, Oktober 1925, BArch R 3101/19304.
\(^7\) Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer Exportkreditversicherungs-Stelle, BArch R 3101/19304.
\(^8\) Ibid. Romania was one of the most interesting markets in South-East Europe. In March 1927, the German government authorised credit guarantees of 238 million Reichsmarks for its trade with Romania that was to stimulate growth in the German industries and open the Romanian market for German trade. *James*, Reichswirtschaftsministerium, 546.
\(^9\) Letter of member of parliament Walther Dauch to Reich Chancellor Luther, 22.12.1925, BArch R 3101/19304. Dauch argued along the line of the Hanseatic
ing the negotiations was that the political risks had to be covered if foreign markets were to be developed for German exporters.

The debate highlighted a fundamental dilemma of trade credit insurance. The usual commercial risks (default of individual customers because of business failure, bad luck, incompetence, and so forth) were known and considered calculable. Traders and exporting manufacturers could attempt to protect themselves by gathering information, imposing payment conditions, or through 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 were generated in case of such events. 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 reduced the scope of the scheme. The insurers Hermes and (until 1929) Frankfurter Allgemeine Versicherungs-Aktiengesellschaft (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

export circles in favour of cheapening export credits through better discount rates at the Golddiskontbank

The FAVAG went bankrupt in 1929 because of mismanagement, cf. Eggenkämper/Modert/Pretzlik, Frankfurter, 11–19. The ministry of economic affairs did not wish for a monopoly, but failed to win over another insurance company to take over part of the TCI business, and Hermes became the only provider of state-backed TCI in Germany until after the Second World War.
re-insurers of the insurance companies covered the remaining claims from catastrophe risks.81 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 RM of export credits per year. This sum represented only a small percentage of German foreign trade,82 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 for Economic Affairs budget as part of the Reich’s export stimulation programme.83 In effect, the German government acted as a re-insurer for the insurance companies, and received part of the 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.84 It seems improbable, however, that TCI without state backing would have been realised.

The general agreement between the German government and the insurance companies defined an additional catastrophe risk apart from the usual ones such as war: namely a catastrophe concerning the liabilities of the Reich and insurance companies if gross claims payments exceeded 125% of gross premium revenues,85 so that excessive losses were to be borne by the state. The realisation 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 in addressing the relative stakes of both. But if the contract fixing the relation between the Reich

81 Generalvertrag zwischen dem Deutschen Reich, vertreten durch den Reichswirtschaftsminister, und der Hermes Kreditversicherungs AG, 23.04.1926, Corporate Archive MunichRE AA 791; Vermerk 24.04.1926, BArch R 3101/19306.
82 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.
84 Niederschrift über die Banken-Besprechung, 22.04.1926, BArch R 3101/19306.
85 Generalvertrag zwischen dem Deutschen Reich und Frankfurter Allgemeine Versicherungs AG/Hermes Kreditversicherungs AG, 23.04.1926, BArch R 3101/19305.
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 the 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. 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. This regulation was considered a sufficient incentive for the exporter to thoroughly examine the creditworthiness of his customer and not to engage in highly 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. 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 exploitation of insider information was another concern: the knowledge of exporters like Petersen was considered indispensable to detect fraudulent calculations, and the exporters therefore 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’ businesses.

87 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, 77, and Geschäftsführung des Reichsverbandes der Deutschen Industrie, Exportkreditversicherung, 23–24, 42.
In a similar manner, another hazard that originated from the insurers themselves was pointed out by ministry officials: although the Hermes company specialised in credit insurance, it was part of Allianz-Müchener Rück insurance group, and the FAVAG offered a wide range of insurance services. The insurance companies were thus in a 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.89 Accordingly, the general agreement between the Reich and the insurance companies explicitly forbade this practice. Along similar lines, Petersen as spokesman of the Hamburg exporters expressed concerns that, in the future, banks would make trade credits dependent on them being insured. This would create a mandatory insurance even for exports that were considered safe and would raise 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 importantly, 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 the re-insurers the possibility to exclude certain countries from the scheme that they considered too risky because of political instability, economic crisis, or other reasons. 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 the German government, insurers, exporters, banks, and trade associations therefore created a complex institutional solution for 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

89 Niederschrift über das Ergebnis der Besprechung vom 28.12.1925 über die Errichtung einer Exportkreditversicherungs.-Stelle, BAB R 3101/19304; cf. also the letter from Walther Dauch to Chancellor Luther warning against the creation of an insurance monopoly, 22.12.1925, BArch R 3101/19304.
Hans Schäffer, who managed to integrate the sceptical Hanseatic faction into the creation of the trade credit insurance scheme.\textsuperscript{90}

However, as all contracts are incomplete, the solutions found could not provide for all conceivable hazards. The trade credit insurance scheme was created as a political instrument with clear-cut rules designed in large part by Emil Herzfelder and other insurance experts. However, after it had begun to work in April 1926, it proved astonishingly flexible despite its contractual fixings.\textsuperscript{91} By 1937, the German scheme had not only undergone a similar evolution in response to experiences from its operation and demands from business customers as the British one, but also had been made a tool of Nazi autarky and armament policy. Weimar Germany had already used TCI as a means for covert financing of armament projects, whereas the British explicitly forbade the ECGD to engage in arms deals until 1937.\textsuperscript{92} Although neither the German nor the British\textsuperscript{93} TCI schemes were able to insure a significant share of the respective country’s foreign trade, it could prove useful for entry into certain markets or business transactions that were deemed in the interest of the state. In a memorandum written in 1937, a British Foreign Office official concluded that the German system “may well continue indefinitely – at least for certain markets. There is, therefore, a danger that German exporters will entrench themselves so firmly in such markets that our own exporters may find themselves seriously handicapped”.\textsuperscript{94} In the following and final section, an attempt to entrench German business in such a market with the help of trade credit insurance will be examined more closely.

\textsuperscript{90} 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.

\textsuperscript{91} 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.

\textsuperscript{92} Kaiser, Economic Diplomacy, 176–180.

\textsuperscript{93} Aldcroft, History, 79–80.

3. The state-backed high hopes of Gutehoffnungshütte in Colombia

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 that this instrument allowed, and demonstrates how the co-operation of business, insurers, and the government created risk expectations and a notion of security that set a major business operation in motion despite warnings against it 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, began to plan a substantial investment in Colombia after the market chances in Latin America had been explored by its director Olaf Sommerstad. GHH had struggled with insufficient sales and excess capacities since 1924, and was seeking a further expansion of its already substantial exports. GHH Oberhausen’s technical expertise had been undisputed since before the First World War. In the 1920s, it constructed some of the world’s largest bridges, including the bridge over the river Dulce in Argentina in 1924–25, and its new shipyard at Walsum on the Rhine had built the first fully electrified Diesel river tugboat. 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, 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. 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.

95 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 takeover of MAN as the most important step. Cf. Bähr/Banken/Flemming, MAN; Marx, Paul Reusch.

96 In the 1920s, exports comprised about one third–of GHH Oberhausen AG’s turnover. Bähr/Banken/Flemming, MAN, 254.

97 Bähr/Banken/Flemming, MAN, 525.
… 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, BArch 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 Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 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 Magdalena, and gain a firm foothold in Colombia”.\footnote{Amerikareise Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 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 future. 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.\footnote{Amerikareise Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 6.} 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.\footnote{Amerikareise Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 7.}
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, the sharp bend and strong currents near 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. The frequent loading and unloading resulted in heavy damage to the goods, and the complicated method slowed the flow of goods 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 Sigllechner & 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 an exclusive twenty-five-year concession for the direct shipment of goods from Barranquilla to Girardot to the newly-founded Compania de Navegacion sin Transbordos (Nasintrans). Nasintrans had been founded by Colombian investors and was looking for the necessary capital to realise 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 $2 million (about 8 million Reichsmarks), and that German banks should be interested in the venture.

Sommerstad’s imperialistic outlook and repeated references 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 how far were they the

103 Amerikareise Sommerstad November 1927-Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 7–8.
104 Amerikareise Sommerstad November 1927–Mai 1928, Teilbericht Tropicalamerika, BArch R 3101/19399, 8–9. The company’s name can be translated as „steamship company without transshipment“, referring to its through service from Barranquilla to Girardot.
expression of genuine sentiment, and how far were they a rhetorical tool for gaining attention of the German government to garner support for the costly investment? Sommerstad’s report was sent to the Reich Ministry for Economic Affairs together with the profitability study by Sigllechner & Hugo, but it seems to have been written for internal use by GHH in the first place. 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 $10 million for twenty years on the American 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 mobilise 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 for 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 for Economic Affairs invited an employee of the Hamburg trading firm Schlubach, Thiemer & Co. to write an expertise on the project. This advisor pointed out that, although direct shipments from Barranquilla 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 Nasintrans operated its own lighters, the question arose if it would and could tug lighters of the

106 Cf. Bähr/Banken/Flemming, MAN, 255; Marx, Paul Reusch, 304–305.
107 Marx, Paul Reusch, 306–308.
108 Bericht über Reise Berlin – Besprechung im Reichswirtschaftsministerium am 23.09.1928, 24.09.1928, BArch R 3101/19399. One of the directors of Schlubach, Thiemer & Co. was Walther Dauch, member of the Reichstag for the DVP, who had been an outspoken critic of the export credit scheme in 1925 and 1926, see above.
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 by British firms that would pick up freight downriver from the Honda currents and transport it directly to Bogotá, thus rendering the Honda installation largely superfluous in the foreseeable future. The GHH representatives dismissed the objections. In their opinion, the new railway lines would take several more years to be built, and even if they were finished, GHH expected sufficient demand for freight transports from riparian plantations and the Colombian government. It was only during this meeting that the Reich Ministry for Economic Affairs became aware that GHH planned not only to deliver equipment and build the installation but to operate its own shipping line. The representative of Schlubach, Thiemer &Co. concluded in his report for the Reich Ministry for Economic Affairs 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 to fluctuations of the world market price and demand that would immediately affect its imports.109

The Reich Ministry for Economic Affairs 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 Ministry 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.110 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 Ger-

110 Aufzeichnung, 29.09.1928, BArch R 3101/19399.
human capital in a project without good future prospects appeared hazardous. Before the next meeting with the Reich Ministry for Economic Affairs, GHH was informed of Podewil’s negative assessment by an official of the Foreign Office. In the following days, the Ministry received more favourable reports from the Foreign Office, 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 finalised, so that time was pressing for a decision about the credit risk.

The Hermes credit insurance company, however, took the position that a trade credit insurance could not be granted because 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. In the meantime, GHH mustered political support for the 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, Regierungsbaurmeister (Government Construction Engineer) Randzio, to write a favourable evaluation of the Honda project. Randzio’s expertise was commissioned by GHH, and he argued that the completion of the new railway lines that would make navigating the Honda currents almost superfluous would probably occur several years later than the completion of

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111 Telegram from Podewils to the Foreign Office, 06./07.10.1928, BArch R 3101/19399.
113 These reports were written by the same Foreign Office official, von 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. the letter of the Foreign Office to Reich Ministry for Economic Affairs, 12.10.1928, BArch R 3101/19399.
115 Hermes to RWM, 15.10.1928, BArch R 3101/19399.
Honda installation, and that even after completion, a large portion of freights would be continued to be shipped on the Magdalena.\footnote{Cf. Dr. ing. Dr. jur. Ernst Randzio, Gutachten, 20.10.1928, BArch R 3101/19399, 12–13.}

In view of these favourable evaluations which stressed that the risks of the project were manageable and its expected profits high, the Reich Ministry for Economic Affairs agreed 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.\footnote{Cf. the letter from Sommerstad to Blank, 20.10.1928: ‘Die Hütte leistet Gewähr für die Selbstkosten der Compania und somit für die Rentabilität unter normalen Verhältnissen. Gegen politische und wirtschaftliche Gewitter müssen wir voll versichert sein.’ RWWA 130-404163/8.} Deutsche Bank financed the venture with a credit to GHH, which in turn was used by GHH for Nasintrans. This arrangement, where 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. The object of the insurance was a credit sum of $900,000 and $180,000 interest (10\% \textit{per annum} for two 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).\footnote{Cf. insurance policy Nr. 26B, 25.03.1929, and General Insurance Conditions, RWWA 130-4001160/14.}

The insurance conditions were tailored to fit 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 events coincided: 1.) the total amount of goods shipped on the Magdalena in one year fell below 60\% of the average of the preceding five years, for which official statistics had to be presented as proof; and 2.) the whole import

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\footnote{Cf. Dr. ing. Dr. jur. Ernst Randzio, Gutachten, 20.10.1928, BArch R 3101/19399, 12–13.}

\footnote{Cf. the letter from Sommerstad to Blank, 20.10.1928: ‘Die Hütte leistet Gewähr für die Selbstkosten der Compania und somit für die Rentabilität unter normalen Verhältnissen. Gegen politische und wirtschaftliche Gewitter müssen wir voll versichert sein.’ RWWA 130-404163/8.}

\footnote{Cf. insurance policy Nr. 26B, 25.03.1929, and General Insurance Conditions, RWWA 130-4001160/14.}
and export of Colombia in the same year became less than 75% in value and quantity than the average of the preceding five years, for which official statistics had to be presented as proof. In the case that one of the parties doubted the claims of the other, a court of arbitration would decide.\footnote{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, 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{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 made a profit. 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{Cf. the report of Hermann Lustig to GHH, 21.03.1932, RWWA 130-4041160/11.} In the first half of 1931 alone, Nasintrans manager Mahler reported that the company had made a loss of $142,848.11. 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 generated $9,600 in revenue.\footnote{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{Cf. Schreiben von Hilbert an Wedemeyer, 24.04.1931, Besprechung betr. Hermes-Versicherung Nasintrans 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 weak foundations.\footnote{Sommerstad wrote in an internal memorandum what amounted to a confession that GHH had failed to understand what really was necessary for operating a successful transport business, but nevertheless regarded the trade credit insurance claim as GHH’s rightful due: RWWA 130-4001160/36.} In July 1931, GHH notified Hermes that the insured catastrophe had indeed occurred, after negotiations between GHH, the Reich Ministry for Economic Affairs, and Hermes that resulted in an attempt to keep Nas-
intrins afloat and try to salvage its operations after the economic crisis had run its course.¹²⁶

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 minimise losses by selling, forming a cartel with other shipping companies, or mothballing the fleet.¹²⁷ 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.¹²⁸ By September 1932, Nasintrans had been liquidated, and Hermes had paid GHH a first instalment of 1.8 million Reichsmarks from insurance claims.¹²⁹ Until December 1932, GHH had received 3,104,589.19 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 Reich Ministry for Economic Affairs.¹³⁰ The RWM now was the 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).¹³¹ Left without better options, the RWM accepted to sell at the offered price, but the sale was not concluded.¹³²

The Nasintrans debacle also had repercussions for 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

¹²⁶ Cf. Besprechung bei Hermes wegen der Versicherung für Nasintrans in Berlin am 29. Juni 1931, 30.06.1931, and the following correspondence, RWWA 130-4001160/36.
¹²⁷ Unterlagen für Hüttenentscheid, Barranquilla, 18.01.1932, RWWA 130-4001160/36.
¹²⁸ Letter from R. Lustig to director O. Wedemeyer, 24.03.1932, RWWA 130-4001160/36.
¹²⁹ Letter from GHH to Lustig in Barranquilla, 28.09.1932, RWWA 130-404163/10.
¹³⁰ Hermes to RWM, 24.02.1933, BArch R 3101/19401.
¹³¹ Besprechung zum Verkauf am 05.11.1934 im RWM, Niederschrift, BArch R 3101/19402.
¹³² GHH to Hermes, 04.01.1935, BArch R 3101/19402.
million Reichsmarks. Münchener Rückversicherung 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.\(^\text{133}\) 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 why 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 policies, 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.\(^\text{134}\) Hermes let its parent company pursue further negotiations with the RWM. Münchener Rückversicherung argued that the Reich had changed the export credit insurance’s character by using the fund for a few massive risks and effectively turned it into a state guarantee, and that therefore the conditions laid down in the general agreement between the Reich and the insurers, especially the guideline stipulating that insurance sums of up to twenty-five times the fund should be taken out, were not applicable any more. Münchener Rückversicherung asked the RWM not to take on 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 Rückversicherung also reminded the RWM of the re-insurer’s right to exclude certain countries from insurance coverage.\(^\text{135}\) In the following months, a new version the general agreement for plan B was negotiated.

Gutehoffnungshütte’s 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 specialised 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 their 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 catas-

\(^{133}\) Hermes to RWM, 10.09.1930, BArch R 3101/19395.
\(^{134}\) Letter from RWM to Hermes, 29.09.1930, BArch R 3101/19395.
\(^{135}\) Münchner Rückversicherungsgesellschaft an RWM, 04.10.1930, BArch R 3101/19395.
trophic 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 resulted in the payment of several million Reichsmarks of insurance from public funds. It would be wrong, however, simply to 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. Personal networks had created trust between decision-makers in private business and government, so that arguments founded on entrepreneurial optimism and a politicised view on foreign investment overcame risk-averse business evaluations, which, however, in the end turned out to be right.

4. Summary and conclusion

In the interwar period, state-backed trade credit insurance was created as a measure to compensate for the effects of the First World War on trade and the international division of labour, as well as out of domestic political concerns, especially employment. Contemporary observers seemed to be correct in pointing out that foreign trade had been politicised to an unprecedented degree, and that TCI was an integral tool of new foreign trade policies. However, as much as foreign trade was regarded as an issue that required security measures against foreign competition, or was (in the case of German autarky politics) regarded as a security problem itself, state and private business interests seldom converged.

In contrast to the British model, German export credit insurance was realised 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 FAVAG). The Reich Ministry for Economic Affairs provided the original fund, co-ordinated negotiations and was involved in all decisions about applications for trade credit insurance. Although the Ministry always acted 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 with heavy 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.\(^\text{136}\) 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 from 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.\(^\text{137}\)

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, also implied the possibility of fundamentally differing views on the 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 overemphasised 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

\(^\text{136}\) This divergence of interests and attitudes towards state export propagation could already be found in Imperial Germany, cf. Ullmann, Exportförderung.

\(^\text{137}\) See Lutz, Siemens, for a case study; Pohl, Geschäft, for a comprehensive overview.
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 international business
transactions in the interwar period meant no longer only the companies’
ability to enforce agreements and gather information, but guarantees were
becoming an institutionalised 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. 138

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