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The Work of the *Treuhand* in Retrospect (2005)

As part of a series of interdisciplinary lectures at Humboldt University in Berlin in the summer semester of 2003, representatives from politics and business were asked to take a critical look at the work of the *Treuhand*. The revised contributions were collected in a book. Birgit Breuel, president of the *Treuhandanstalt* [Trusteeship Agency] from 1991 to 1994, defended the privatization strategy of the time, though she did not shrink from addressing the problems entailed by the pace and cost of privatizing East Germany.

[...]

For all the known difficulties and mistakes, the introduction of free market conditions in the former GDR is regarded as the central success of the transformation, as something unparalleled in world history. Despite all the concerns about the speed and costs of privatizing East Germany, it is indisputable that privatization made possible an irreversible step in the direction of a market economy. The central responsibility for this task was borne by the *Treuhandanstalt* [Trusteeship Agency]. It carried out the privatization of East Germany so rapidly and consistently that there was hardly any time for the reflection needed to render a judgment on the *Treuhandanstalt* model. Today there is disagreement about the successes and failures of the model.

[...]

Taking Stock of the *Treuhand's* Achievements

The day-to-day work of the *Treuhandanstalt* was not as orderly and schematic as one might be led to suspect from what has been said before. We had to deal with many areas all at once: push ahead with the actual privatization deals, install controls, establish an administration for personnel and data, and draft regulatory codes and guidelines. It was a time of learning by doing in its purest form.

When the *Treuhandanstalt* ceased its work on December 31, 1994, it had

- carried out 15,102 privatizations;
- reprivatized 4,358 enterprises, returning them to their former owners or the descendants thereof;
- municipalized 310 enterprises or placed them under the care of local communities;
- phased out and shut down 3,718 businesses after partial privatization and outsourcing. The successor to the *Treuhand*, the BvS¹, assumed the remaining stock of 192 enterprises, especially in management KGs [limited partnerships];
- found new owners for around 25,000 small stores, shops, restaurants, and pharmacies. The real estate administration of the *Treuhand* (TLG) sold 36,800 properties; the *Treuhand* itself sold about 9,700.

In less than five years, a total of about 85,000 individual privatization contracts were signed; they affected all areas of business and enterprises of all sizes – from pubs to land for residential building or industrial use, all the way to integrated steel plants.

The Results of Privatization in the Area of Industry and in the Services Sectors

If one looks back at the desolate economic starting point, at the developments and setbacks caused by the disappearance of the Eastern European markets, one can assess the industrial restructuring as having been rather successful – surely also as a success brought about by high investments in East Germany. During the *Treuhand* years, investments stood at 50% of the gross national product (GNP); the West, during these years, only achieved investments of 25% of the GNP.

It is regrettable, however, that only a few large industrial companies (e.g., Jenoptik, ...) could be preserved, and that few East German owners had a chance because they had neither the financial nor the entrepreneurial resources, and could not have had them coming from the GDR era.

[. . .]

Weaknesses and Mistakes

Even though, from the perspective at the time, employees were hired, an organization with a headquarters and branches was established, and guidelines were created at breakneck speed – always in tandem with day-to-day business – there were many sources of errors. It was only with the introduction of controlling, auditing, and staff positions that the work was done in a more

¹ BvS is the acronym for *Bundesanstalt für vereinigungsbedingte Sonderaufgaben* [Federal Agency for Special Tasks resulting from Unification]

orderly fashion. The *Treuhand*, however, could probably never live up to the standards of a German court of auditors.

A personal note: the purely entrepreneurial decisions of the early period, which had to be made without rules of any kind, were not the worst. However, the documentation was inadequate.

And then, unfortunately, there were also old-boy networks in East and West, there was criminal activity, as is so often the case in times of upheaval. And of course there were also bad individual decisions, each of which is still painful today. From the perspective of the time it was already a mistake not to require, along with a business plan, a plan for research and development. From today's perspective it was a mistake not to have boosted the equity capital after the collapse of the CIS² markets, since the hopes of the early buyers were focused on the markets in the East, which were now suddenly lost to them.

A chance for a joint shaping of the united Germany was lost when more than 200,000 paragraphs of the West German legal system were transferred [onto the East]. It would have been better to trim back the overgrown bureaucracy in the Federal Republic and adjust it to the new conditions. As it is, the incrustations in the West have remained in place and were passed along to the East.

Moreover, the decision by the business and political sectors in the old federal states to take the West as the yardstick in (almost) all things, without consideration for a few quite progressive achievements in the East, created new problems at times. Here, I shall mention the Water and Wastewater Enterprises [WABs or *Wasser- und Abwasser-Betriebe*].

The western model was transferred to the East 1:1. Consequently, the WABs had to be transferred to the municipalities. The result can be seen today: inflated prices and plants that are too big. The consulting provided by some Western engineering firms played no small part in this bad decision. It would surely have been better to preserve the WABs as AGs [joint-stock corporations] or as GmbHs [limited liability companies] and to allow the municipalities to sell their shares. Given the way they were eventually dealt with, one might just as well have broken them up right away.

Among the misguided developments was also the half-hearted dissolution of the *Treuhandanstalt*. From the outset, it was the *Treuhand's* declared goal to dissolve itself as thoroughly as possible at the earliest possible date. After all, the issue was to put an end to this large administrative economic agency under direct federal oversight in order to allow for normal federal structures. Instead, the federal government and the *Länder* decreed an extension of the special economic system for the East German states. This meant, among other things, that many a generous subsidy continued to flow from the federal treasury, with or without political

² CIS refers to the Commonwealth of Independent States that was founded at the time of the collapse of the Soviet Union. It includes eleven (up to 2005 twelve) former Soviet republics – eds.

pressure, and that independent entrepreneurship had a difficult time developing. A wait-and-see attitude spread before nary a sleeve was rolled up.

[...]

Source: Birgit Breuel, "Die Treuhandanstalt – Zielvorgaben, Rahmenbedingungen und Ergebnisse" ["The Trusteeship Agency – Objectives, Basic Parameters, and Results"] in Birgit Breuel and Michael C. Burda, eds., *Ohne historisches Vorbild. Die Treuhandanstalt 1990 bis 1994. Eine kritische Würdigung* [Without any Historical Model: The Trusteeship Agency from 1990 to 1994. A Critical Assessment]. Berlin: Bostelmann & Siebenhaar, 2005, p. 13 ff.

Translation: Thomas Dunlap