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**The Treuhandanstalt: Taking a Nation Private**

The fall of the Berlin wall in November 1989 and the reunification of the two Germanies in October 1990 gave rise to one of the most complex tasks of the 20th century: selling into private hands the entire former East Germany, everything from massive shipbuilding enterprises to snackbars, farms, forests and castles. There was no precedent, no guidepost for the first effort in history to reconvert an economy from communism's centralized command structure to a free-market system.

The vehicle for this historic undertaking, created by East Germany but overhauled and vastly expanded by West Germans, was the *Treuhandanstalt* (the name translates roughly as "fiduciary holding company"). The Treuhand was headquartered in Berlin with branch offices spread throughout the five new states (plus the city-state of Berlin) forged from the old German Democratic Republic (GDR). A board of directors, responsible for operations, was overseen by a supervisory board and the federal Finance Ministry. As the sole shareholder of all former GDR business enterprises, the Treuhand faced the task of finding private sector owners for 8,000 industrial enterprises and an additional 20,000 small businesses employing a total of four million people. At the same time, it had to create itself as an organization. "On the job" training was the only kind available.

Virtually from the start there was disagreement over the Treuhand's proper mandate. While the Treuhand leadership saw its mission as selling state properties into private hands, pressures quickly grew for it also to assume responsibility for the long-term social and economic consequences of its actions. The law creating the Treuhand required it to privatize former state enterprises in order to further a market economy in the eastern states. Companies which could not be sold quickly were to be restructured with an eye to a speedy sale. The worst cases were to be closed. The argument was that only shock therapy would work, keeping the period of inevitable economic pain to eastern Germans as short as possible. The Treuhand itself planned to go out of business within the decade.

Yet East Germany's transformation incurred costs unforeseen in the euphoria which surrounded the collapse of the Berlin Wall and the tidal wave of support for reunification. As the Treuhand sold off or closed down companies, unemployment grew steadily and with it social unrest. Real unemployment rates, including part-time workers, was estimated to approach 40 percent of the 8.6 million workforce. Pressure grew on the Treuhand—from the opposition Social Democrats, the unions and the governments of the "new states"—to cushion the transition's impact on the unemployed.

For months, the agency resisted active participation in industrial and social policy. President Detlev Rohwedder argued that the Treuhand's job—already demanding enough—was to sell companies into private hands. But as waves of strikes and demonstrations by unhappy and unemployed workers swept eastern Germany, the Treuhand in March 1991 agreed to cooperate more closely with state governments to devise stop-gap measures when closing down large enterprises. Then on April 1, 1991, the agency was shaken to the core when the radical Red Army Faction assassinated Rohwedder.

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Rohwedder's successor, Birgit Breuel, took pains to stress the continuity of Treuhand policy under her leadership. In the wake of the murder, Treuhand critics fell noticeably silent.

By June of 1991, however, demands escalated for the Treuhand to undertake greater social responsibility. At the core of the controversy were so-called *Beschaftigungsgesellschaften* (BGs), or "employment companies," which had begun to spring up in areas of concentrated unemployment. BGs, which were largely funded by federal agencies, were designed to provide work for those laid off from the industrial enterprises. Workers were paid to perform public works projects—clean up, rehabilitation, road work—for which communities had no funds. BGs also offered job training. The employment companies often used the buildings, machinery and other facilities of their former employer. The debate raged over who would own the BGs.

The unions, state governments and Social Democrats wanted Breuel to take a major stake in the BGs. They felt that the Treuhand, as the single most important state agency in the new states, should own the employment companies just as it owned the enterprises that spawned them. Supporters wanted the BGs to operate as subsidiaries of their parent companies, with workers' benefits maintained. They demanded that managers of Treuhand-owned companies also run the BGs. They also wanted BGs to continue to use Treuhand company facilities as necessary.

Breuel and the Treuhand board of directors were adamantly opposed to this proposal. They had no grudge against BGs per se as a way of alleviating unemployment. But for the Treuhand to become a BG shareholder would, in their view, undermine everything the Treuhand was trying to accomplish. It was, they argued, simply not the job of a privatization agency to run employment companies. As a practical matter, how could the Treuhand—itself slated to close by the mid-1990s—take on long-term shareholder responsibilities? More philosophically, how could a functioning market economy ever take shape in the eastern states if laid-off workers only moved next door to public companies owned by the same agency as their former firms? Why should the Treuhand support yet more state-owned enterprises, simply perpetuating the GDR model? What would guarantee that the BGs would ever go out of business? What about the competition the BGs posed to fledgling private enterprises?

Yet without Treuhand personnel, buildings, and equipment as well as the moral support of ownership, BG advocates argued, the new firms would fail. What else could be done with thousands of unemployed in single-industry areas? Wasn't it better to keep people working at something than to pay them—through unemployment compensation or "short-time" work—to do nothing? And stemming the flow of east Germans to the west was still a concern.

Treuhand leaders could not deny that every business decision they took had broader consequences. The Treuhand was responsible to so many masters: the companies it sold, workers in the eastern states, all German taxpayers and the Ministry of Finance. Would it fatally undermine the primary task of privatization to let itself get involved in what was essentially a social program? What, pondered the board of directors, should it do about *Beschaftigungsgesellschaften*?

**Reunification—A History**

To understand the controversy surrounding the Treuhand in mid-1991, one needs to go back to the circumstances surrounding its birth. The *Treuhandanstalt* was an offspring of peaceful revolution and reunification, unimaginable even nine months before its creation. In mid-1989, no one would have predicted that barely 18 months later, East and West Germany would be reunited after 40 years of separate existence under ideologically opposite economic, social and political systems. Many say the revolution started on October 9, 1989, when the people of the East German city of Leipzig took to the streets by the thousands despite credible reports that some of the toughest troops of the Communist regime stood ready with clubs, gas masks and even tanks. Erich Honecker was still general secretary of the East German Communist Party (SED). The *Stasi*, or secret police, still exercised formidable power. Soviet President Mikhail Gorbachev, while gradually reforming some aspects of political and economic life in his own country, had just been to East Germany to celebrate the communist nation's 40th birthday.

Yet on that October night—no one knows quite why—the troops were withdrawn. Not 10 days later, Honecker fell from 18 years of power, to be replaced by Egon Krenz. Krenz's name entered the history books as the man in charge of East Germany the night the Berlin Wall fell. On November 9—again just why is not yet clear—the concrete and barbed wire hulk that separated the two Germanies was breached by thousands of people acting on rumors. There was no order to open the wall; a government spokesman referred casually in a press conference to lifting travel restrictions from east to west, nothing more.[1] But the populace interpreted it to mean free passage to the west; they convinced border guards that this was correct, and thousands poured both ways through the Wall in an event witnessed with disbelief by television viewers around the world.

Events began to move more quickly than any individual could comprehend or predict. In early December, Krenz and the entire ruling Politburo resigned; Honecker was arrested; Hans Modrow became prime minister. A political clearinghouse called the Round Table urged free elections for May 6; Gregor Gysi was named new head of the Communist Party, which also renamed itself; Lothar de Maiziere was chosen leader of the newly reconstituted Christian Democratic Union (CDU), the party of West German Chancellor Helmut Kohl; and other West German parties—including CDU coalition partner Free Democrats, and the opposition Social Democrats—scrambled to organize in the east. Sounding a growing drumbeat behind these developments were calls for reunification of the two Germanies. In fact, as early as the end of November Kohl himself proposed a 10-point plan for reunification. On December 22 the Brandenburg Gate, the famed monumental arch which fell into the eastern sector with the division of 1949, was officially re-opened to general celebration.

With the new year, political attention focused on the elections, which Modrow moved up to March 18. The grassroots "peoples' movement," composed largely of intellectuals and generally credited with spurring the events of October and November, combined into an election coalition called Alliance 90. But their strength was swiftly undermined by the enthusiastic movement into East Germany of representatives from West German political parties, busy building themselves political

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1 Darnton, Robert. *Berlin Journal, 1989-1990*. W.W. Norton & Co., New York, London. 1991. p. 85.

bases from the remnants of pre-war parties hastily reconstituted and generously equipped with electioneering materials. The overwhelming winner of the March elections was Kohl's CDU, aligned with some minor parties in what it called Alliance for Germany. The chief message of the election was that East Germany wanted back into the all-German fold: reunification was the rallying cry. The Social Democrats, predicted to win, apparently lost ground over their unwillingness to endorse an accelerated unification schedule. Tens of thousands of East Germans, meanwhile, were voting with their feet, pouring over the newly-opened border into West Germany at the rate of 2,000 a day in search of new jobs and a better life.

A new, coalition government formed in mid-April with de Maiziere as prime minister. The new government's chief task, by its own admission, was to write itself out of existence. By July 1, the two Germanies had agreed on monetary, economic and social union with a conversion rate (for most purposes) of one West German mark to one East German mark.[2] In late July, five new states, or Lander (plus the city-state of Berlin), were created out of the 15 East German administrative units and on August 31, a unification treaty negotiated by the executive branches of both governments was signed. In September, Germany won consent for reunification from the four wartime allies—Britain, France, the United States and the Soviet Union. On October 3, the treaty went into effect reuniting the 16 million East Germans with their 62 million countrymen in the West. On Dec. 3, the first all-union elections returned Kohl firmly to power with his reputation established as the reunification chancellor.

Even as citizens celebrated their new state, however, both the eastern and the western partners began to perceive clouds on the horizon of their rosy dawn. East Germany, long touted as the best of the communist economies, proved to be in disastrous shape by western standards. The infrastructure, from roads to plumbing to telephones, was crumbling. Factories, ports, railroads, public buildings, apartment complexes—all required extensive renovations. In addition, many existing enterprises had, with the collapse of communism and the east bloc economic trade association, COMECON, lost up to 100 percent of their markets. Even at its best, however, East German productivity turned out to be about 25 percent that of West Germany.

West Germans began adding up the costs of unification and suffered anticipatory pocketbook pains. Western financial aid to the East, it was estimated, could reach a trillion dollars over 10 years.[3] Eventual unemployment in the eastern sector could affect, it was said, fully 50 percent of the 8.6 million workforce. For their part, the eastern Germans began to perceive how difficult it might be to live in a united Germany without the social benefits—a guaranteed job, subsidized housing, free daycare, free medical care—to which they had become accustomed. Moreover, their monthly salaries averaged only one-third the typical DM 3,000 West German wage, so they could expect to be relatively poor—even if employed—until plans for eventual wage parity could be implemented.[4]

In this atmosphere, the opposition Social Democrats criticized Kohl and the CDU for failing to formulate a comprehensive plan for how to deal with the expected mass unemployment in the east.

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2 *This was generous, given that the black market rate at the time was 6 East:1 West German mark.*

3 *New York Times*, 10/24/90, p. A6.

4 The West German Deutschmark is valued at roughly \$1=DM 1.6.

The SDP also blamed Kohl for refusing to put a price tag on reunification, accusing him of trying to sweep bad news under the carpet. But, said a CDU spokesman, the urgency of rebuilding could not await accurate budget estimates. Said Michael Glos:

> I compare East Germany to a house whose roof has been torn off. Now winter is coming and the house needs a new roof. We don't have time to get estimates. We've got the money and we need a roof, whether we know what it costs or not.[5]

The roof in question was to be designed and installed by a unique organization, the *Treuhandanstalt*, created in the midst of national chaos and expected to perform before it had assumed an identifiable shape itself.

**Early Treuhand**

The *Treuhandanstalt*, or "fiduciary trust" (the difficult-to-translate name has in German a slightly archaic flavor), was in fact founded by the Modrow government in the waning days of Communist party rule in East Germany.[6] On March 1, the Council of Ministers formed the Treuhand for the purpose of helping some 8,000 East German enterprises, known as *Volkseigentum* or "people's property," convert to Western-style shareholding companies.[7] The Treuhand was designated a holding company—owner of all the shares which would be issued as enterprises converted to private firms. Just three weeks later, the nation held its first free elections in 40 years. The new coalition government, while favoring a deliberate transition to a market economy along the lines of West Germany, continued to regard the Treuhand as a guardian of the people's property.

The brain behind the Treuhand concept was Wolfgang Ullmann, a member of New Forum, one of the "people's movements" leading the sweeping political changes in late 1989. The idea, recounts Ullmann's colleague and leading political figure Jens Reich, was "to save some sort of property or capital from the disintegrating state for the population."

> The argument was we have now lived 40 years under this system and were deprived of any possibility of accumulating some private savings or property. There were of course money savings, but money wasn't worth anything and there was no possibility of owning stocks, real estate or something like that. So with unification and with the downfall of the system, we would have had a population consisting exclusively of rather poor employees, wage earners, without sufficient savings or

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5 *New York Times*, 10/24/90, p. A6.

6 For details on the legal evolution of the Treuhand, I am much obliged to the unpublished master's thesis of Frank-Christian Hansel, Freie Universitat Berlin, submitted on Oct. 4, 1991.

7 Two promulgations created the Treuhand, one called the Regulation on the Founding of an Agency to hold in Trust the Administration of People's Property (Treuhandanstalt); the other called the Regulation on the Transformation of Combines, People's Enterprises and Other Institutions to Companies.

> other provision for their old age, the education of children, all these things that in the west you do over the years, slowly, when becoming an adult and entering the professional sphere. ... So the idea was, from what remained of the people's property, to somehow share it among those who had worked all the time.

The trust agency, under the supervision of parliament (*Volkskammer*), was directed by a triumvirate of top GDR bureaucrats with experience in economics and industry. Naturally, almost all the 60-odd staff came from the "nomenklatura," or Communist party hierarchy, of the GDR. Headquarters was a green glass and steel building in Alexanderplatz in central Berlin. Companies ready for conversion were told to submit a Declaration of Transformation signed jointly by the company and the Treuhand.

But the transformation proved difficult. For its first three months, recalls Prof. Hilmar Schmidt, an economist who joined the Treuhand in March, 1990, "we did nothing but transformation, with minimum legal advice and minimum understanding of how capitalist-managed companies exist." The Treuhand staff, for example, assembled a team which organized seminars for over 6,000 enterprise directors to explain the transformation process, from how to assemble a balance sheet to what an open market means. Schmidt himself ran an information center. He remembers that many of the visitors were citizens asking for their share of the "people's property." All Treuhand staff were working 20-hour days trying to cope with the deluge of queries, but progress was slow.

*The Treuhand Law—June 17, 1990*

As the Treuhand in the spring and early summer of 1990 was still operating only under the authority of Communist-issued regulations, the *Volkskammer* decided to pass a law governing Treuhand operations. As Frank Bogisch, a Social Democratic member of the *Volkskammer* recalls, legislators wanted considerable parliamentary control over the Treuhand as it sold off state property. The financial benefits to the people, it was naively estimated, would reach DM 500 billion.

Accordingly, parliament enacted the June 17 Law on the Privatization and Reorganization of National Property (the Trust Act).[8] Most immediately, the law speeded up the privatization process with a provision for *automatic* conversion to limited liability companies of all enterprises by July 1, the date set for monetary union. The Trust Act, which formed the basis for the Treuhand's future legal status, declared that the "transfer, break-up and privatization of state economic monopolies into decentralized, privately owned economic units is the decisive prerequisite for a switch from a planned to a market economy."

> The Treuhand's job is to further adapt the economy to the demands of the market, particularly by influencing the development of enterprises which can be restructured and modernized, turning them into competitive businesses and

[8] The Treuhand legislation was compatible with West German law, in the expectation that the two countries would eventually unite. The date of unification, however, was generally felt to be several years away.

> privatizing them. It should strive to ensure that viable businesses are created through the break-up of business structures and that the economic situation created offers the greatest possibile opportunities for small and medium-sized companies.

On a practical level, the Treuhand was organized with headquarters in Berlin and 15 branch offices set up in the GDR administrative districts. Its actions were subject to approval by a 16-member supervisory board.

*Charter of the Treuhand—July 18, 1990*

The monetary union of July 1 spurred further revisions to the Treuhand law. The Charter of the Treuhand of July 18 gave the Treuhand a specific organizational structure as a holding company. The Treuhand would consist of four or five separate, decentralized share-holding companies responsible for specific business sectors, such as heavy industry, consumer goods and services. Headquarters, in Berlin, would have strictly supervisory duties. The stock companies would conduct the real business of actually privatizing, restructuring and liquidating former East German enterprises. Under West German law, each company would require, besides a board of managing directors, a supervisory board with half the members appointed by trade unions. The 15 branch offices in administrative capitals would be retained.

A second law also affected the Treuhand. The *Staatsvertrag* (State Treaty), which went into effect July 22, created six German states, or Lander, in place of the 15 GDR administrative districts. In one of the law's provisions, the Treuhand was given, for the purpose of restructuring companies, a credit limit for 1990 of DM seven billion and of DM 10 billion for 1991. It also provided that, upon reunification, the GDR state debt would be transferred to the Treuhand to the extent that such debt could be paid off by the sale of Treuhand properties. Remaining debt would be serviced jointly by the federal government and the states.

*The Unification Treaty—August 31, 1990*

As the events of the summer of 1990 unfolded with the same almost incomprehensible rapidity that had marked the previous nine months, it became clear that reunification was not a matter of years—but of months—away. The final piece of legislation affecting the Treuhand was the Unification Treaty, which was in fact not a parliamentary document but negotiated between the executive branches of the two Germanies. Under the treaty signed on Aug. 31, 1990, the legal framework of the Treuhand as set forth in the Trust Act was added on to the Basic Law of the German Federal Republic.

The Unification Treaty describes the Treuhand as a "transformation agency," a public organization supervised by the Ministry of Finance, in consultation with the Ministry of Economics. Parliamentary oversight fell to a subcommittee of the *Bundestag* (Parliament) Budget Committee. To accommodate the interests of the new states, the size of the supervisory board, which sets policy, was expanded to 23 with a representative from each state. In addition, as it became clear that rebuilding eastern industry would take longer than initially anticipated, Treuhand borrowing capacity was raised to DM 25 billion for 1990 and 1991.

The Treuhand that emerged from these laws was a curious hybrid. It was a public agency, but it would act in the private sector. It was responsible for the companies it owned, but would not run them on a daily basis. That remained the job of existing management. The Treuhand would only assist firms trying to make themselves attractive—through lay-offs, streamlining, consolidation—to buyers from the private sector. It had one overriding task: to privatize companies and, once its stock of 10,000 was depleted, to dissolve itself. While the process would clearly be painful, planners hoped to limit the pain and accomplish the task in the shortest possible time.

That was easier said than done, as it became increasingly apparent that the eastern economy the Treuhand had inherited was in complete disarray, with its former system in shambles and no effective replacement yet in sight.

**The Treuhand Inheritance**

For most Westerners, accustomed to a market economy, the specifics of how planned economies work are murky. That certainly proved the case with the western Germans who came to take a close look at the dying East German economic order. A general appreciation of the fact that Communist economic planners allocated supplies, determined products and created markets had hardly prepared west Germans for the economic mess into which this had led eastern Germany. All internal problems were only exacerbated by the collapse of the inter-country communist trading community, COMECON.

The *Treuhandanstalt* inherited the productive sector, or what was left of it, including half of the workforce and fully 40 percent of the eastern landmass.[9] Overnight it acquired responsibility for and ownership of 8,000 major enterprises, which as they were broken up into smaller components came to number between 10,000 and 12,000. In addition, the Treuhand assumed ownership of some 20,000 small, retail establishments previously owned by the state, such as clothing boutiques, restaurants, hairdressers, garages and repair shops. The Treuhand also took over so-called Special Assets, thousands of acres of property which had previously belonged to the Ministry for State Security and the Office for National Security (secret police, or *Stasi*), and the former Ministry of Defense.

The larger companies taken over by the Treuhand were former *Kombinate*, conglomerates which were highly vertically integrated—meaning they kept within the firms as many steps of the manufacturing process as possible by making their own components. The *Kombinate* also provided services to employees on a scale unheard-of in the west. Besides cafeterias, it was not unusual to find *Kombinate* which owned and operated kindergartens, employee-training schools, medical clinics, sports facilities, even farms providing food for both the cafeteria and employees. Industrial facilities could boast not only soccer and hockey teams, but ballet troupes, choruses, folk dancers and so forth.

[9] The Treuhand did not take over the railroads, municipal and state government buildings, or the telephone and postal service.

These large *Kombinate* employed an average of 925 employees. Excess employment was the norm in almost every sector, because employment for all was a goal of communism.[10]

Industrial production dominated the East German economy, employing 3.2 million people or 37 percent of the workforce of 8.6 million. Many industrial areas were entirely dependent for employment—and consequently social benefits—on a single enterprise. The chief production industries—such as chemicals, textiles, computers and steel, were centered around the cities of Leipzig, Chemnitz, Dresden and Berlin. Ship-building played a central role in Rostock on the nothern coast. The services industry, which consisted chiefly of tourism and the government, employed some 1.8 million people.

Trade was another important function in East Germany, with internal retail and wholesale trade coordinated centrally by Trade Organizations while foreign trade was managed by Foreign Trade Companies. All of these were government-run. Agriculture, meanwhile, employed 11 percent of the labor force working on 404 National Estates and 3,844 Agricultural Production Cooperatives. Private farming was nearly non-existent.

Industrial ministries, housed in Berlin's House of Ministries, controlled half of the nation's *Kombinate*, along with their subsidiaries *Volkseigene Betriebe* (VEBs, or People's Enterprises). The remainder fell under the direction of 15 District Councils organized in each of the nation's administrative districts. The *Kombinate* usually enjoyed a monopoly in their industry. Different branches of the same *Kombinate* could be located at great distances from one another. An Economic Planning Authority told each *Kombinate* and each VEB what it should produce, how much, by when, to whom it would ship its product and what the price would be. Wage levels were set centrally. Factory success was measured and bonuses granted according to production quotas, not by quality of product or by sales volume.

East Germany under the communist regime had a reputation for one of the most productive economies in the east bloc. However, as West German businesspeople got a closer look at the east, they found productivity stood at only about one-quarter that of West Germany. Wages, meanwhile, were one-third the West German average. Moreover, by Western standards, the degeneration of the East German physical plant was deplorable.

Under the Communist Party, very little investment took place. *Kombinate* did not retain or even keep track of profits. Any earnings went directly into state coffers. Likewise, if a plant needed to make an improvement, it applied for a loan from the state bank. Those loans—which had little meaning since reserves were never generated out of which they could be repaid—were carried on the books of companies forever. The result was that buildings and equipment were in very bad shape. About 21 percent of industrial machinery was more than 20 years old, while a further 29 percent was 11-20 years old.[11]

These conditions meant that when the Treuhand took on the job of privatizing the East German economy, it also assumed the task of teaching an entire population about free-market economics.

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10 To be unemployed was illegal, and called "social parasitism."

11 By comparison, five percent of machinery in West Germany was over 20 years old.

Managers, whose decisions had always been made on high, knew little about management. Most workers were accustomed to jobs without responsibility or stringent attendance requirements. On the financial side, balance sheets and income/expense statements were non-existent or meaningless in a society where everything belonged to the state (in the name of the people). The question of corporate debt alone was staggering: it existed but had been forcibly imposed on companies which therefore, Bonn concluded, could not be held solely responsible for repayment.[12]

Most daunting, perhaps, was the absence of clear measures of value. Nothing in the eastern German states had an agreed-upon standard of worth. Without the freedom to buy and sell, no one had any idea what real estate, businesses, housing, products or food should cost. Businesses kept track of production levels but not of costs. The most challenging task for each enterprise shepherded into the private sector by the Treuhand was putting together its so-called "Deutsch-mark opening statement," a basic accounting document which attempted to ground East German firms in western economic reality. Although the statements were all due on July 1, 1990, some companies were unable for nearly a year to formulate a balance sheet.

From this clay, the Treuhand was expected to mold capitalism. The person who emerged by August 1990 to lead the Treuhand effort was Detlev Carsten Rohwedder, one of the inner circle of top West German industrialists.

**The Rohwedder Era—First Stage**

The Treuhand Rohwedder took over on Aug. 20, 1990 was in a shambles. The seven weeks since the July 1 monetary unification had been even more chaotic than usual. During them, the Treuhand had acquired and in short order lost its first West German president, Reiner Maria Gohlke, the former head of the *Bundesbahn* (West German railways). Gohlke had been handed a liquidity crisis on his first day in office: With the monetary union, almost all East German enterprises were sinking under the burden of cash-flow shortfalls. Overnight, East German firms had to meet all obligations in the "hard" (convertible) currency of the D-mark. Most of their trade, however, had been with east bloc companies in "soft" currency. Even prosperous firms could barely meet the payroll. The solution was to provide 40 percent of what firms said they needed to help them weather the storm. Liquidity loans eventually totalled DM 22.5 billion.

But the task overwhelmed Gohlke, who resigned on Aug. 20 in response to pressure from, among others, Rohwedder—who was already chairman of the Treuhand's supervisory board. Rohwedder took over at the personal request of Chancellor Kohl, agreeing to stay only until the end of the year, by which time he hoped a functioning structure would be in place. The former head of the West German steel giant Hoesch AG, Rohwedder had won a reputation in the 1980s as a turn-around expert for restoring the shaky company to economic health. Rohwedder also had considerable political experience. The Social Democrat had served from 1969-78 in Bonn's Economics Ministry responsible for, among other things, economic relations with East Germany.

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12 One estimate put the collective debt at a staggering DM 110 billion. *Wall Street Journal*, 3/8/91, p. 1.

Rohwedder would later tell an interviewer that he had personal reasons for taking the Treuhand job, as well. Born in the eastern state of Thuringia, he conceded that he had "always felt strongly and emotionally about the division of Germany, not in a nationalistic sense, but in the same way an American might feel if his country had been divided along the Missouri River."[13] As a manager, Rohwedder also had a reputation for being blunt, arrogant, and tough. At 57, he found himself nearing the end of an illustrious career, free to act without the constraints a younger person with unfulfilled ambitions might feel. He clearly had no illusions about the task which awaited him, telling a newspaper that, at the Treuhand, "We can't even tell yet which companies don't need help at all and which others don't deserve it."[14]

Rohwedder turned his attention first to restoring some kind of order within the Treuhand. His urgent task: to define what the Treuhand would do, and to create an organization that could do it. The evolving political situation made his job all the more pressing. East Germany seemed to be collapsing faster than anyone had predicted. On Aug. 23, 1990, the East German Parliament voted to accede to West Germany under an article of the West German constitution. Earlier in the week, the Social Democrats had quit the ruling East German coalition government. In reaction, the government moved the proposed reunification date up from Dec. 2 to Oct. 14, but the Social Democrats wanted it a month before that.

On the economic front, the DM 22.5 billion in Treuhand liquidity loans seemed to be the only source of income for East German businesses. In addition, after farmers' demonstrations that included burning unsaleable crops, Bonn pledged DM 5.6 billion to support agriculture. One estimate put the combined 1990 budget deficit for the two Germanies at DM 66 billion, compared to DM 4.5 billion for West Germany in 1989.[15]

*Defining the Mission*

Rohwedder's first move was to define the Treuhand mission. Its little-tested mix of public agency with private sector duties made it crucial, he felt, to state clearly what the Treuhand would and would not do in order to avoid expectations that the agency could be all things to all people. Only by limiting the task was there a hope of accomplishing it. That meant making it clear, concluded Rohwedder, that a privatization agency's overriding responsibility—and an enormous undertaking in itself—was to privatize former state enterprises. Dealing with the social, political or structural consequences of privatizing should properly fall to politicians. The Treuhand could not be a subsidy machine resembling the old East German economic structure. Instead, it had to emphasize self-sufficiency and enterprise among the managers of the companies it now owned.

In October, Rohwedder spelled out the new rules in "Policy Guidelines." Privatization, these said, would always take priority over restructuring. Sales were to be accomplished as quickly as possible in order to maintain uninterrupted business operations and to save the maximum number of jobs. The Treuhand also wanted to sell entire companies, not simply the most profitable parts, in order to

13 *Wall Street Journal*, 4/3/91, p. A17.

14 *Wall Street Journal*, 8/22/90, p. A6.

15 Ibid. Estimate from the German Economic Research Institute in Berlin.

avoid remaining part owner of moribund properties. Finally, from the start the Treuhand said it was particularly keen to bring foreign investors into the former East Germany in order to promote a healthy mix of ownership.[16]

Restructuring—meaning technical or financial assistance to a firm trying to streamline, change its product or find new markets—would be considered only in cases where the company management provided persuasive business plans which the Treuhand agreed would improve its chances of eventual sale. In the words of the *Wall Street Journal*, Rohwedder "ended a crippling debate over whether the agency's role was to salvage or sell its assets."

> He sent out word that crumbling companies would need to come up with viable survival plans fast, or face the possibility of closure.[17]

*Designing a Workable Agency*

To accomplish even this qualified task, Rohwedder felt it critical to move the Treuhand away from what he considered the unworkable and cumbersome current structure of separate holding companies described in the Treuhand Charter, with their multiple managing directors and supervisory boards. Under this system, the Treuhand was subject to German corporate law. Rohwedder wanted to recreate the Treuhand as a clearly defined independent public agency, subject to public law—a functional coordinating body with one main office providing direction to branch offices.

The day he took over operations, Rohwedder hired two management consulting firms, the American McKinsey & Co. and the German Roland Berger, to produce independent reports recommending organizational strategy. They had a one-week deadline. Both firms came back with recommendations that the four or five holding companies be scrapped. Instead, they agreed that the Treuhand should be centralized in Berlin, with headquarters given the authority to issue policy guidelines to the regional offices. In contrast to the sectoral organization of the holding companies, headquarters would be organized along functional lines from the board of directors down. Armed with the experts' reports, Rohwedder obtained Kohl's consent to revise the Treuhand's organizational structure.

One of Rohwedder's aims in promoting such a reorganization, says Dr. Wolf R. Klinz, soon to be a managing director of the Treuhand, was to "get away from the formal, central-orientated sort of structures that were characterized by a sector approach."

> Here, like in all Communist countries, you had ministries for each and every large industry sector. So [Rohwedder] said, 'Let's try an approach that has nothing to do with the former structure so that people realize here is a new era starting and not just the old stuff with new faces.'

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16 Details on the Policy Guidelines from the Treuhandanstalt's "How to Purchase a Company in Eastern Germany: Questions and Answers," p. 4; and "Investing in East Germany," Schon Nolte Finkelnburg & Clemm and Linklaters & Paines, July 1991, p. 11.

17 *Wall Street Journal*, 3/8/91, p. 1.

An initial five board members were assigned responsibilities: Rohwedder as president, Gunter Halm as vice president with responsibility for administration, personnel and special assets, Karl Schirner for privatization, Dr. Klaus-Peter Wild (from a government ministry in Munich) for restructuring and liquidation, and Wolfram Krause for finance. Dr. Alexander Koch joined in October with responsibility for personnel.

Rohwedder also considered what to do with the existing 15 branch offices. He decided to retain all of them, despite the fact that they had been created for East German administrative districts which no longer existed. But he recognized that their leaders needed replacement. In September, therefore, he asked Birgit Breuel, a CDU politician from Lower Saxony, to join the Treuhand board as managing director in charge of the regional offices. Her first act was to make a clean sweep of all the existing heads of the Treuhand regional offices, most of whom were Communist Party appointees. Professional networks and headhunters were activated to locate 15 Western managers for the branch offices, who were installed on Oct. 4, the day after reunification.

*Losing the Unions*

At least one Treuhand member, however, perceived a significant cost in Rohwedder's new organizational structure: the loss of the unions as active participants in Treuhand policymaking. Under German corporate law, the five holding companies would have been required to allocate half the seats on their supervisory boards to trade union representatives. With the new organization, there was no assigned spot for unions representing the workers in the Treuhand-owned firms. Says Volker Hillebrandt, the fifth West German to join the Treuhand, "this problem was, in my opinion, a very severe one."

> I said we should try to include trade union representatives in the Treuhand administration, on a very high level just beneath the board. This would have involved them in responsibility for the East German companies.... In fact, we had no one on our side representing the trade unions.[18]

There was never a decision *not* to include trade unions, emphasizes Hillebrandt, but rather a failure to act.[19]

*Staffing the Treuhand*

Rohwedder also had to beef up the middle and lower levels of Treuhand staff. When he took over in August, some 170 people worked for the Treuhand. Most of the staff were former Party functionaries, some of whom were accused of conflicts of interest in the deals they had struck. Often these deals benefitted not only a Treuhand staffer, or his friend the factory manager, but West German

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18 Hillebrandt is an interesting example of the kind of person attracted to working for the Treuhand. A former in-house lawyer for Dow Chemical, he had spent several years in state government in Lower Saxony, a state with high unemployment and poor infrastructure. When his party lost the election, Hillebrandt became one of a group Kohl sent to the GDR to assist with negotiations over the unification treaty. Hillebrandt was attached to the minister of economic affairs, Gunter Halm, who was also Treuhand vice president.

19 In February 1991, the issue was revisited by the board, who at that point did decide to invite trade union representatives onto the board. By October 1991, however, no steps had been taken to do so.

buyers. When the Treuhand was still East German, reports were rampant of firms run into the ground in order to bring the price down, in exchange for job guarantees or a generous pay-off. Other western firms, taking advantage of the absence of an East German Cartel Office (anti-trust) and no jurisdiction for the West German one, established illegal monopolies in those early, "cowboy" days.[20] Former members of the *Stasi*, or secret police, were commonly thought to be involved in these activities.

Rohwedder and his newly-recruited colleagues agreed that, for the Treuhand to be effective, it needed to clean house, ridding the staff of certified *Stasi* collaborators and reassigning many others. Top managers had to come from the West. The second tier, however, could be sought in the east. They also decided to go after professionals with skills from the business, banking and legal communities in addition to some government employees. As Helmuth Coqui, director of the Berlin branch of the Treuhand, observes, this alone would make it difficult to forge a uniform corporate identity. :

> The Treuhandanstalt, on top of being build up within very few months, has a unique requirement that you need very different types of people. For privatizing shops and restaurants and what have you, you need that entrepreneur who thrives on making the right decisions by himself—let's call him the Microsoft guy. But at the same time, it's a government agency and it has to be capable of tying into the bureaucracy in Bonn and state bureaucracies, it has to deal with and communicate with people who are totally bureaucratic, so in that sense it's like the contracts department of General Motors or General Electric. Those are very different company styles.

Before long, staffing the Treuhand was portrayed as a matter of patriotic duty. Chancellor Kohl, in separate meetings with the senior leaders of German industry, banking and the legal profession, appealed to these firms to send their best and brightest to assist in the restructuring effort in the east. Many responded, sending for six months or a year what became known as "one-dollar men" (and women) because they were paid by their original firms, thereby costing the Treuhand nothing.[21] One of the most generous firms was Bayer AG, a chemical company, which sent upwards of 50 people. Its motivation may have been typical. Says Klinz:

> Bayer said well, maybe I better be close to the chemical [opportunities in the east], and they sent really good, excellent people. They made this a program of their internal management development. They said, spending half a year in Berlin or working for Treuhand is a healthy and educating experience and will foster somebody's career.

Some of the hundreds of other westerners hired directly by the Treuhand were attracted by the nature of the Treuhand's task, or they felt a duty to be useful. Klinz continues:

20 East Germany did start a Cartel Office on April 18, but it was never particularly effective.

21 The Treuhand eventually attracted some 35-50 bankers and 150-200 people from industry through this program.

> The bulk have come because they felt this is a unique setting where you have an interesting and really in the true sense of the word unique type of work. ... You do find some sort of idealism. *I can only speak for myself, but from a certain age,* money—of course, it's never of no importance—but it's not all that important and you want something else in life. I must say for me, this factor has been very important, to feel that you do something that has some sort of idealistic element.

Others were no doubt lured by the very generous salaries, plus hotel housing costs and weekly flights home to other parts of Germany, which were part of the package offered to West Germans.[22] The Treuhand also signed short-term contracts with leading legal, management consulting and accounting firms for consultants, who would eventually number several hundred. Thus, the western Treuhand staff came largely from corporate Germany. Yet some 90 percent of the companies held in trust by the Treuhand were small: under 500 employees.

East Germans, too, were hired in great numbers—two for every West German—but the vast majority were support staff such as secretaries. Even those in management were paid on average 40 percent of the salary paid a West German. The argument was made that, by and large, the East Germans needed on-the-job training in free-market principles which the westerners did not. In addition, these wages still left Treuhand East Germans better paid than their counterparts in the eastern states.[23] The easterners were likely less motivated by a desire to serve their country than by an avid desire, amidst the spreading unemployment in the east, to have a job.

Newly hired staffers were expected to go straight to work putting in 14- to 16-hour days. There was no training. As Hillebrandt remembers:

> Nobody thought about training. All the people in the company said, 'You have from tomorrow to do these things.' If they couldn't swim, we sacked them. ... There was always the feeling that the problems are growing, and every night the feeling that you hadn't done enough that day.

By late October, the Treuhand had grown to some 1,000 staffers. The chief task, until the end of the year, was assigning thousands of companies to either Berlin or the district branch offices, and then deciding definitively into which industrial sector they should fall. Only once the companies were clearly divvied up could potential investors know where to go with their bids.

*Reorganized Again*

Rohwedder's first mode of organization, along strictly functional lines, lasted until mid-November, 1990. At that point, a second reorganization was set in motion giving directors not only

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22 The Treuhand does not make its salaries public, but entry-level managers in their late 20s can easily earn an annual $60,000, extraordinary by German standards.

23 There was also agreement that the easterners would achieve wage parity by 1994.

functional, but sectoral responsibilities. The burden on single board members had become too great. As Klinz—who was given responsibility for procedures and policies as well as chemicals, electronics, paper and pulp and textiles/leather—recalls, when he arrived in mid-November:

> I had no secretary, I had no assistant, I had no office. What came as a shock, however, was the pile of mail I found on the desk. It was addressed to nobody, no name, just everything that they felt had to do with my areas. So we were reading mail at nights until 11, 12, 1 o'clock, not knowing what they were talking about. There was no systematic list of the companies that we had, nor did we have any information about the companies. It was wild. But quite interesting.

The number of board members had increased to eight, plus Rohwedder. Six board members, while retaining certain functional responsibilities, were placed in charge of divisions organized by industrial and business sectors, such as heavy machinery, mining/minerals, wood/paper and hotels/resorts. Koch retained the personnel department, while Krause remained in charge of finance.[24]

In addition, in December the decision was taken arbitrarily to assign companies with less than 1,500 employees, excluding all the *Kombinate* and the Special Assets, to the regional offices. Sales of all larger firms would be handled by the Berlin headquarters. The exceptions—properties which headquarters retained regardless of size—included transport companies (including airports), energy and oil companies, sewage and water supply firms, foreign trade companies, banks, printing and newspaper publishing firms (but not book publishers), and travel agents and hotel chains.

The Treuhand was also given a 1991 budget which reflected its increased size and varied tasks. Its DM 37.7 billion appropriation included a deficit or credit limit of DM 20.8 billion. It expected to earn through sales to the private sector DM 15.8 billion. At the same time, expenditures on restructuring efforts were budgeted at DM 12.9 billion. Personnel, despite the generous salaries and fringe benefits, accounted for only DM 384 million.[25]

With the organizational structure almost in place, Kohl appealed to Rohwedder to stay on the job, despite the earlier understanding that he could leave at the end of 1990. Realizing that finding a replacement would be a formidable undertaking at this delicate juncture, Rohwedder agreed to stay for a full, four-year term.

## A New Year

With the advent of the new year, the Treuhand was able to take stock. Despite the turmoil of the months since unification, the holding company had sold—overwhelmingly to West Germans—over 350 of the companies placed in its trust: 90 in October, 120 in November and 164 in December.[26] In

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24 See Exhibit 1. [organizational chart]

25 Treuhand *Informationen*, No. 3/4,July/August, 1991, p. 9.

26 From a Treuhand report, "Successfully on duty for all citizens. Nine months' work of the Treuhandanstalt." 4/3/91, p. 3.

addition, negotiations were underway for some 1,000 further deals. These sales were the more impressive considering that, of the 8,000 DM-opening balance sheets required by law to be submitted by the previous July, the Treuhand had in fact received only 1,000. Therefore, in many cases Treuhand divisions still had virtually no concrete information about the companies whose fate lay in their hands.

Treuhand staffers also had to cope with the limitations imposed by their working environment. As their numbers ballooned, often five or six were assigned to a room with a single telephone. That telephone was on an antiquated East German circuit, meaning it was extremely difficult to call anywhere. Potential investors, company managers with their business plans, Treuhand staffers all milled about in hallways looking for the person they should be talking to, never sure but that a more relevant person was being hired at that moment.

Nonetheless, the sale of 20,000 Treuhand-owned small businesses was going well. In the majority of cases, those working in bars, hairdressers, etc. were able to take over the business for a nominal sum. By January, several thousand of these businesses had sold. One reason these sales were fairly straightforward was that they rarely involved real estate. The small businesses instead continued to rent or lease necessary property from the Treuhand and, eventually, private-sector purchasers.

For large enterprises, however, that was impractical. Indeed, the property question—who owned what in post-communist eastern Germany—was becoming one of the greatest thorns in the side of the Treuhand.

*The Restitution Carousel*

When critics charged that the pace of Treuhand sales was too slow, the Treuhand could with justification point an accusing finger at the property morass. In the flush of reunification, property owners had been promised restitution of land and buildings confiscated during the turbulence of the previous 50 years. Some property had been wrongfully seized under Hitler, some by the Soviets during their post-war occupation and much more by the GDR regime.

When specifics were worked out, and particularly with the Soviet agreement in September 1990 to allow the reunification of Germany, different property holders found themselves in different categories. The Restitution Act, approved in conjunction with the Unification Treaty, provided that those who had lost land under the Nazis (1933-45) or the GDR government (1949-89) were entitled to their property back, or compensation. Those who lost their property under the Soviets were out of luck. Under the Gorbachev-Kohl agreement, confiscations during that period would not be compensated.

The difficulty with these efforts to mete out justice was that often the same piece of property had, with the shifting political sands, been seized from successive owners. Thus, claims from east and west Germans alike poured into the federal government, mounting quickly to 9,000 claims on businesses and over one million on property.

*The Economic Picture*

Meanwhile, the economy in the new states was crumbling. As companies went out of business because their eastern markets had disappeared, their products were inferior, or their expertise was obsolete, unemployment figures mounted steadily, climbing 115,000 in the month December to January alone to reach 8.6 percent, or 757,200. These figures did not include another 1.86 million workers covered under the hastily arranged government agreement in the fall to pay "short-time work' (*Kurz-Arbeit*) costs. Under this arrangement, the state paid 70 percent of wages to workers who worked only part-time, or in some cases not at all, with their employers paying the balance up to 90 percent of salaries.

Equally seriously, the eastern state and local governments were close to bankruptcy as tax revenues, decimated by unemployment and closing businesses, fell to almost nothing. Overall, Bonn had pumped some DM 75 billion into eastern Germany in 1990 alone and the trend showed no sign of stopping. On the positive side, some 280,000 new small businesses were founded by East Germans during 1990, of which only 30,000 folded within the year.[27]

But the Treuhand insisted it could not influence a turnaround in the overall economy without assistance in the property ownership question. Any Treuhand property potentially involved in an ownership dispute was, by definition, unsaleable. The prospect of a purchase tied up in legal claims for years deterred many potential investors from even investigating opportunities. The Treuhand appealed to the government to formulate guidelines for ownership questions which would untie the agency's hands. Only then, said the leadership, could the agency get rolling on sales using the procedures which were finally coming to resemble a system.

**Doing Treuhand's Business**

While the specifics of a Treuhand sale differed from division to division and even from person to person, there were guidelines established for investors seeking to do business with the Treuhand. Most successful investors started by doing their own homework, researching available companies and their suitability for purchase. An investor's first step would normally be to contact the manager of a target East German company to discuss product line, potential markets, the size of the labor force, the physical plant and potential earning power. Often the manager would not know the answer to those questions, so it was up to the investor, with the help of relevant experts, to try and unravel these mysteries for himself.

The Treuhand never pretended to offer industrial expertise or to know how to run the companies under its umbrella. Therefore, investors themselves were invited to determine what they considered a fair market price for the property. In cases where there was more than one interested buyer, this worked well in assigning value where none had existed. In cases where there was only one potential investor, the participants negotiated a mutually acceptable price.

But price was only one, and perhaps the least important, element of the "business plan" the Treuhand requested from each interested purchaser. In the business plan, a buyer would outline the number of workplaces he intended to retain, the amount of money he planned to invest in the business and the nature of the business. A proposed purchase price was also included. As managing director Klinz puts it:

27 Treuhandanstalt, "The Chance of the '90s", p. 8.

> Employment, investment, business concept. Those are the three important factors. And price—we cannot simply give things away, so price is important. But it's the least of those four. This is the clear yardstick.

Once an investor had a plan, he would submit it to headquarters for firms with over 1,500 employees, or to a branch office for smaller enterprises. With the plan in hand, the responsible Treuhand division would appoint a team, usually composed of an accountant, a lawyer and an industry expert, to verify the fine points of the agreement.

Negotiations on disputed aspects would take place between the purchaser and the team. Some of the toughest negotiations revolved around Treuhand willingness to assume the firm's corporate debt—which it was authorized to do under a September 1990 law. At the same time, if the Treuhand agreed to take on the debt, that would usually increase the purchase price. The Treuhand was also empowered by law to assume liability for a maximum 10 years for environmental damage caused during the GDR period.[28] But if it agreed to cover environmental risks for the investor, the price could again be expected to go higher. Any sale required approval from the division chief within the Treuhand.

For large deals, approval was additionally required at high levels. Normally, the board of directors was sufficient. But if a sale took on political overtones because it involved massive lay-offs, or because it created a potential monopoly, or because a state government objected to a deal, then decisions could go to the Treuhand supervisory board and eventually to the Finance Minister himself for approval.

Inevitably, Treuhand decisions met with criticism, be it from disappointed purchasers, worried politicians or unemployed workers. By March, the agency's actions had generated a wide variety of complaints.

**The Critical Chorus**

Among the most vocal critics were East German workers laid off by Treuhand-owned companies. Although the Treuhand had closed less than 300 of its 8,000 enterprises by February 1991, they were large, employing jointly some 80,000 workers. What's more, their closure created pockets of concentrated unemployment. Tens of thousands more people found themselves out of work due to reorganizations designed to turn the bloated eastern German companies into more efficient and competitive units.

But bitter workers charged that, in too many cases, the Treuhand was closing down companies because the real estate they occupied was valuable, rather than working with management over the long term to make them viable in a capitalist market. Others felt that eastern companies which posed a potential competitive threat to their western German counterparts were likewise allowed to die. As early as November 1990, angry workers had stormed Treuhand headquarters in response to a wave of

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28 The Treuhand won legal authority to assume environmental liabilities under both civil and public law as of March 1991.

closings. By winter, those protests had become regular. Demonstrations similar to the ones which preceded the fall of the Berlin Wall had begun again in eastern cities, this time directed against the Treuhand.

Other criticism came from those who had hoped to work with the Treuhand but found the process excruciating. Some felt bureaucratic inefficiency was the Treuhand's chief fault—one potential West German investor said, "The Treuhand is a noble idea that desperately needs to get its act together."[29] Others were sharper, accusing Treuhand staffers of being young, inexperienced and yet arrogant. Tales abounded of deals apparently concluded, then derailed at the last minute, of conflicting and unclear lines of authority, of inexplicable stalling by the Treuhand. Foreigners in particular complained of discrimination.

There was also a perception of growing corruption within the ranks of Treuhand staffers. Although cases continued to surface of former East German *Stasi* members working in Treuhand factories or for the Treuhand itself, most observers were less troubled by the potential for wrong-doing by these cast-offs of history than by some of the questionable deals making their way through the West German ranks of the Treuhand. Accusations were rife in the press about castles sold for DM 1, of factories closed down although they seemed viable and the valuable real estate under them sold to developers for a song. Controls on the directors of divisions approving sales were practically non-existent. Too often, behind these deals were found personal connections between the Treuhand official in charge of the deal and the purchaser. The result, charged many—including foreigners—was that West Germans had long since acquired the cream of the crop of eastern enterprises for bargain prices.

Director Helmuth Coqui of the Treuhand's Berlin branch sees this problem stemming from the speed and the manner in which the Treuhand staff was built.

> If you have a 35, 40, 45-year-old guy who comes out of an industry, who worked in that industry for 15 years, he's bound to have a lot of loyalties to that industry, and he is bound to think—maybe only subconsciously—that two years down the road he has to look for another job in that industry. So even if he's not consciously trying, it would be very surprising if there wouldn't be a strong bias for large German companies.

Dr. Rolf Schmachtenberg, a West German directing a department within the (eastern) Brandenberg Labor Ministry, takes an equally unsentimental view of the Treuhand's role. He says:

> The Treuhand changed from the steward of state-owned assets [under the GDR government] into a mechanism for setting the terms of market sharing by West German firms. East Germans—because they knew they couldn't trust their own economic experts—accepted this. Within six months or so the job was done—the markets were sliced up, and the managers went back

29 *Wall Street Journal*, 3/8/91, p. 1.

> to their firms. ... The Treuhand stresses privatization for one simple reason—rapid privatization, unconstrained by concern for the East's economic viability, is what is best for West German industry, and West German industry is effectively in control of the Treuhand's priorities. There is nothing at all surprising about this. It would be surprising, in fact, if anything else happened.

Union leaders, too, felt that the Treuhand ignored the long-term effects on eastern German economic health of the deals it approved. Antonius Engberding is an economist with IG Metall, the largest union in Germany and, with 3.6 million members, one of the largest in the world. IG Metall exercises considerable political influence in Germany. The union, says Engberding, objected not to the Treuhand but to the mandate carved out for it by Bonn.

> Our problem is not with the people of the Treuhand. What they do, they do fairly well. The problem is that the Treuhand's mission is much too narrowly defined, and that is a failure of the government, not the Treuhand itself.

IG Metall, says Engberding, objects to the Treuhand's short-term, and short-sighted, approach.

> What we want is for the eastern German economy to be healthy, efficient and competitive in the long term. That means there must be strong and autonomous firms—not only subsidiaries, not only dependent suppliers. One thing which economic history proves over and over is that when the business cycle turns down, it is the distant subsidiaries and suppliers that bear most of the burden—they act as a cushion for the core company. So a whole *region* of cushion enterprises is not acceptable. ... Our unhappiness with the Treuhand stems from the fact that the fastest way to privatize is to make enterprises into subsidiaries and suppliers, and what the Treuhand cares most about is finding the fastest way to privatize. They are not interested in structural soundness—that is not defined as their duty. What the Treuhand does in the next few years will determine the structure of the eastern German economy for half a century or more, but they say it is not their business to think about that.

What's more, says Engberding, the Treuhand's haste to privatize does not give East German managers even a reasonable chance to change the habits of a lifetime.

> It is almost impossible for you or for me or for anybody who grew up in a market system to really understand how traumatic and fundamental this change is. The managers of eastern

> German enterprises are not crazy, not stupid, not lazy, not unqualified or unmotivated. But they have to relearn *everything*. Many of them simply cannot; they are too old, they are past the time when they can learn everything new. Some of the managers—and not just a few—will learn how to aply their expertise in new ways. But they cannot do it today or tomorrow. They need a little bit of time to learn how to get around in this new world. And the Treuhand does not give them any time.

Such criticism gained credence from questionable sales or liquidations. For example, the bungled sale of Interflug, the East German airline, left many questions. The West German Lufthansa airline had expressed early interest and, indeed, thought it had a deal to purchase Interflug. But the Treuhand found itself caught between conflicting views. The Economics Ministry and the Federal Cartel [Anti-Trust] Office urged other buyers be found, while the Ministry of Transportation favored Lufthansa. So the Treuhand stalled, and the tactic backfired. When the trust agency failed, despite promises, to make a final decision in mid-January, Lufthansa withdrew its offer. Unfortunately, the Treuhand also failed to find another purchaser. British Airways was interested, but found itself unable to make headway in negotiations.[30] As a result, the Treuhand on Feb. 8, 1991, announced that Interflug, unable to sustain heavy operating costs while the search for a buyer dragged on, would be liquidated. A profitable piece of it went to the West German Piper company. Its laid-off employees went either into a state-funded general training program or, for those who wished to remain in the airline business, into a specialized program funded by Lufthansa, with the hope that they would eventually find jobs with commercial airlines.

*Rohwedder Responds*

The Treuhand did not take these criticisms lying down. Rohwedder, the blunt and outspoken president, frankly believed that the Treuhand was an indispensable tool in the transformation of eastern Germany. As he said in an interview, "If we didn't exist, the Treuhand would have to be invented." Its critics, he continued, were unrealistic.

> [The Treuhand] cannot, within a few months, cause the collapse of the GDR to be forgotten, turn the economy around and transform it into the blooming of the new federal states. ... Only after we've wiped out the disease of 40 years of socialism and communist industrial practices will a healing process be able to take place.[31]

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30 Informed outsiders say British Airways had no chance because Lufthansa had been unable to buy British Caledonia years before, and German industry leaders had therefore no intention of letting the British in the backdoor to the German airline industry.

31 *Freie Welt*, "We are not the successor of 25 Industrial Ministries." 2/16/91, p. 7.

Rohwedder also firmly rejected any view of the Treuhand as a development agency. "That," he told his eastern German interviewer, "would be a gross overestimation and also a false interpretation of our assigned task."

> Questions of the economic future have to be decided by the government and the provincial parliament [*Landtag*]. These are things that reach well into the realm of the political, of the autonomy of the provinces, of the area of responsibility of economic agencies or economic ministries of the new provinces. I emphasize this because our agency is wrongly considered by many people as a replacement for the 25 Ministries of Industry of the GDR.

Rohwedder conceded that the Treuhand was unpopular: "We're hated by the factory workers who lose their jobs when we refuse to allow factories to continue to operate." But he emphasized that the Treuhand could not nurse along enterprises with no chance of competing in a global marketplace because, among other things, it would be prohibitively expensive.

> Businesses have to realize that they can't be dependent daughter companies of the Treuhand, sheltering so to speak under the warm skirt of the Treuhand as state companies. It is crucial that each business consider carefully its non-state future. Whoever does so will have in the Treuhand a very friendly advocate.[32]

The criticisms, however, continued.

**More Bad Economic News**

The Treuhand critics were fueled by the increasingly gloomy economic news in the east. Unemployment in February rose to nine percent, or 787,000, plus another 21 percent on "short-time" work. The newly appointed Economics Minister, Jurgen Mollemann, in February acknowledged that "[w]e underestimated the dimension of the problems."

> Now, we have to act. Producing unified living conditions is going to last longer and be more difficult than some optimists, including myself, originally believed.[33]

On Feb. 12, Bonn approved $3.4 billion in emergency aid to the financially strapped cities and states of the east. With firms failing and widespread unemployment, tax revenues had virtually vanished. Industrial production, for example, stood at 50 percent of 1990 levels. Chancellor Kohl also told a meeting of unions and employers that the government would double the number of public works

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32 All Rohwedder quotes above, Ibid.

33 *New York Times*, 2/13/91, p. A1.

jobs in the east to 260,000. Economists predicted a total economic aid bill of $1 trillion over 10 years, and nearly DM 100 billion in 1991. In the first six weeks of the year alone, the government had given DM 11 billion to the states and cities and designated a further DM 70 billion for reconstruction in the east. The price: an unpopular one-year, 7.5 percent income tax increase which violated Kohl's December election campaign no-new-tax pledge.

But even the increased aid proved inadequate. At the end of February, strikes and work stoppages swept factories in the states of Mecklenburg and Brandenburg, among others. Thousands of workers demanded a rise in wages to 65 percent of the western German norm. Inevitably, much of the protest was directed against the agency workers considered responsible for much of their unhappiness: the Treuhandanstalt. The time had come to reconsider its mandate, at the national level.

**Changing political climate for the Treuhand**

March 1991 proved a watershed for the Treuhand and eastern Germany. On March 8, responding to the growing pressure from the east, the Kohl cabinet approved emergency aid measures of DM 24 billion ($15.5 billion) over two years for creating jobs in the new states. The aid package included credits to private investors in the eastern states, as well as monies to communities for infrastructure projects. This followed by only days agreement to shift a larger proportion of sales tax revenue to the eastern states. The government also announced plans to extend "short-time" work benefits until the end of 1991, at least postponing even greater official unemployment.

*Restitution Settled*

In an even more significant move for the Treuhand, the federal government and parliament came to grips with the property restitution issue. In a measure endorsed by parliament and put into effect March 29, the Ministry of Economics ruled that potential investors with job-creating business plans would take precedence over former property owners. Moreover, an investor would have final and definitive title to his property even if an owner subsequently appeared; the owner would in this case be financially compensated but have no claim on the land, buildings or enterprise.

*Aufschwung Ost*

But the most important March event by far for the Treuhand was the March 14 agreement among Kohl, the leaders of the new states and the Treuhand to modify the Treuhand's mission. Known as "Upswing East" (*Aufschwung Ost*), the eight-point agreement put restrictions on the Treuhand's ability simply to break up and close down some of the largest, single-employer *Kombinate* in the industrial areas. New procedures were established for consultations with the state governments, chiefly through newly formed state economic cabinets. Essentially, although not explicitly, the states were given veto power over Treuhand closure of large enterprises.

Most importantly from the point of view of those advocating greater Treuhand responsiblity for eastern Germany's development, the agreement stated explicitly that the agency "is committed to promoting an efficient economic structure for the five new federal states through the process of privatization and rehabilitation of eastern enterprises. The Treuhandanstalt will provide support in an effort to create a regional, socially responsive, political structure."

The Treuhand was directed, in cases where an enterprise must be closed, to provide (in cooperation with the new states and the federal government) "directions and new job opportunities for those employees who will be affected" and to supply full details on the closing to the state authorities. The states in turn were given responsibility for establishing *Arbeitsbeschaffungsmassnahmen* or ABMs, special on-the-job training programs designed to give workers new, contemporary skills.

*Severance Payments*

March also saw progress on the final details of an agreement among the Treuhand, the *Deutsche Gewerkschaftsbund* (German Trade Union Federation or DGB) and *Deutsche Angestelltengewerkschaft* (German Employees Union or DAG) on fair payments to those laid off from their jobs.[34] Under West German law, employers are responsible for devising "social plans" covering all those who must be dismissed from their jobs. These include severance payments. Many of the enterprises liquidated by the Treuhand were, however, unable to pay employees anything. Under the DGB-DAG-Treuhand agreement, the Treuhand would undertake to pay up to DM 5,000 to every worker in cases where the employer was bankrupt.

*Support for the Treuhand*

Not all observers criticized the Treuhand's resistance to greater political and social involvement. Horst Siebert, president of the World Economics Institute in Kiel, wrote that political efforts to force the Treuhand to restructure before selling former GDR companies were mistaken.

> The Treuhand can't take on the task of modernizing the remaining unsold 7,300 companies which up to now have employed some four million people. This is equivalent to asking the federal Ministry of Economics to run the 100 largest companies in West Germany as state-owned businesses. ... The premiers of the new Lander are pressing the Treuhand to declare explicit structural policies or to work more closely with the state governments. ... This would be politics replacing the market.[35]

*Rohwedder's Easter Memorandum*

Rohwedder, however, apparently felt that the March agreements had the virtue of confirming the Treuhand's central mission, while perhaps also appeasing some of its critics. In a memorandum to all Treuhand staff of March 27, Rohwedder expressed his continued heartfelt conviction that "privatization is the best means to restructuring an enterprise" because privatization meant infusing a firm with skilled managers, new capital and new strategic objectives. Reflecting his view of the agency's purpose, he titled the memorandum "The Treuhand carries out its task: rapid privatization, decisive restructuring, careful liquidation." The Treuhand's central task, he wrote, is to "remove as fast

34 The DGB is the trade union for blue-collar workers, while the DAG represents white collar employees.

35 *Wirtschaftswoche*, 4/5/91, p. 27.

as possible all vestiges of a state-run economy and to find new, enterprising owners." How properly to do this was, he conceded, a matter of considerable debate.

> Since the new federal states have been exposed to the competition of global markets, many seemingly viable jobs—actually supported by subsidies and trade barriers—have lost their competitiveness. The decision to eliminate these jobs is painful for those concerned. To maintain them, however, would be expensive for the population as a whole and would slow down the reorganization of the national economy which everyone wants.

To the Treuhand, Rohwedder said, had fallen the task of carrying out the "administrative details" of this undertaking. Reflecting some of the developments of March, he said Treuhand managers making individual sales decisions were to keep in mind the "overall social, economic and financial consequences" of their actions. Companies to be restructured and then sold would be offered the "resolute support" of the Treuhand, he pledged. As for those which needed to be liquidated, the Treuhand promised to do its best to make closures the "crucible for the creation of new activities." It also expressly offered the use of existing buildings and infrastructure in the closing enterprises for the rapid creation of new jobs.

Meanwhile, he was encouraged by the progress that the Treuhand had been able to make. Sales were increasing monthly, from 230 in January to 321 in February and 307 in March for a total since October of 1,2150. Revenues from these sales by headquarters alone had yielded DM 5.8 billion. The Treuhand estimated that it had preserved upwards of 500,000 jobs. Compared to these figures, only 333 companies employing some 87,000 people had been or were in the process of being liquidated.

Given the lack of a blueprint for Treuhand activities, it was only natural that whatever it did would attract criticism, Rohwedder concluded his memorandum philosophically. But managing disapproval, he made clear, was part of the job. As he put it:

> The Board of Directors and our colleagues must realize that our work will quite properly attract critical attention from outsiders. Hostile and slanderous accusations are not, however, constructive criticism and should therefore not concern us.

He had long ago accepted that a necessary qualification for his own job, as he told a reporter, was to "be a tough guy and someone who doesn't get nervous if the environment around you gets mad and hysterical."[36]

*Worker Unrest Continues*

The March agreements by the government and the Treuhand to increase assistance to the east and to put new emphasis on easing unemployment did not, however, quickly appease eastern German workers. During the week of March 25, the Berlin regional branch office of the Treuhand was

[36] *Wall Street Journal*, 4/3/91, p. A1.

firebombed by a previously unknown group.[37] Some workers publicly threatened to march on Bonn in June. As *Der Spiegel*, the leading German weekly news magazine, put it:

> In Leipzig, once more people are taking to the streets by the tens of thousands each Monday, protesting not only against the federal chancellor who promised too much, but against the Treuhand that has accomplished too little. Managers and workers accuse the Treuhand of systematically letting enterprises die. Potential investors complain about bureaucratic hassles and drawn-out processing of their proposals. And many doubt whether the Treuhand is even the right instrument for the reshaping of the eastern German economy.[38]

*Der Spiegel* further accused the Treuhand of becoming simply another Ministry of Industry on the East German model, a bureaucratic juggernaut, a state within a state. Its concentrated power, said the magazine, "is comparable only to the just-abolished planning bureaucracy of the German Socialist Party (Communist)."

Rohwedder, it reported, "is the most hated man among east German working people, the scapegoat of managers and investors." His arrogant manner, it continued, offended many. "An ability to listen patiently is not exactly his strong point," the magazine said, adding that he paid too much attention to such trappings of privilege as executive cars.

But the magazine did feel that the March agreements had given the Treuhand a new direction, whether it liked it or not. "In future, the Treuhand will not merely liquidate and privatize, but 'actively rehabilitate,' according to the new mandate from Bonn," it said. "Rohwedder is now supposed to carry out active industrial policy."

**The Assassination**

Rohwedder, however, would carry out nothing. His March 27 memorandum proved to be the Treuhand president's last official communication. On April 1, as he sat in his study at home in Dusseldorf working at night, Rohwedder was shot dead by members of the radical Red Army Faction. While the murder was not linked to any specific Treuhand action, it clearly came in response to the mounting criticism of the agency. The radical group felt it was riding a wave of public dissatisfaction which would vindicate its violence. In a note found nearby, the group said that "freedom is only possible in the liberating struggle. We are building revolutionary power to confront the imperialist beast."[39] Complicating the question of the killers' motivation were reports that the Red Army Faction had long been financed, trained and supplied by East Germany's secret police, the *Stasi*. The death

37 There were no injuries. The building was empty at the time.
38 *Der Spiegel*, 3/25/91, p. 34.
39 *New York Times*, 4/3/91, p. A5.

had a stunning effect on the Treuhand, where for days the atmosphere was silent and sober. It also silenced the agency's critics for a while.

Chancellor Kohl took two weeks to name a successor. Several candidates, such as Edzard Reuters of Daimler and Siemens boss Karlheinz Kaske, were said to have turned the job down. The choice finally fell on Birgit Breuel, the Treuhand board member in charge of regional offices. Hero Brahms, head of finance for Hoesch Corp. (where he began as Rohwedder's assistant), was brought in as the new vice president to handle the daily business side of the Treuhand.

Breuel, 53, brought a number of advantages to her new position. For one thing, she and Kohl were members of the same political party, the CDU. Moreover, Breuel was a seasoned politician. As cabinet minister for Economics and then Finance in Lower Saxony from 1978 to 1990, she had acquired a reputation for toughness, standing up to the powerful and outspoken state minister-president, Ernst Albrecht. She stuck to her free market principles, staunchly defending them even against her own party. As *Wirtschaftswoche,* a leading German business magazine, put it:

> At the Cabinet table in Hannover, the CDU politician from Hamburg was usually the only one to stand up to the autocratically-inclined executive. In the Economics ministry, she struggled successfully for eight years for the privatization of public enterprises—a position that was by no means the conventional wisdom even in her own party. ... Breuel brought the economics of structural change into full play in the north-German state, just as is now so urgent in the ex-GDR: Market economics, privatization, a clear path for entrepreneurial initiative.[40]

Breuel came from a prominent Hamburg family. Her father, Alvin Munchmeyer, was one of the foremost bankers of his day. Personal wealth, suggests *Wirtschaftswoche,* may have enabled her to be particularly selfless in politics.

> Thanks to her personal background, she was able to live for politics, without relying on politics for her livelihood. That gave her the freedom of not concerning herself with the popularity of her proposals.[41]

She had studied political science in Hamburg, Oxford and Geneva, and spoke English well. Her reputation for personal toughness sometimes drew comparisons with Britain's Margaret Thatcher. Breuel seemed not to relish the comparison, although she admired Thatcher.[42]

Breuel's appointment to succeed Rohwedder also had the virtue of giving continuity to an agency just starting to find its feet. Close to her former boss, Breuel had in fact drafted some critical

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40 *Wirtschaftswoche*, 4/12/91, p. 20.

41 Ibid.

42 Among Treuhand staffers, her personal courage was illustrated by the story of how, on the death after a chronic illness of her 23-year-old son, she took only one day off from work to attend the funeral and mentioned the event to no one.

Treuhand documents, including the legislation eventually adopted by parliament as the "Aufschwung Ost" initiative. She also wrote much of Rohwedder's March 27 memorandum.[43] As Breuel herself recalled her relationship with Rohwedder:

> There was never even the hint of a difference of opinion between Mr. Rohwedder and me, since to insist on introducing the principles I stand for — a market economy with some social programs—overnight would be neither tolerable nor sensible.[44]

The Social Democrats greeted the news of her appointment without enthusiasm. Wolfgang Roth, deputy leader of the SPD parliamentary delegation, said that her appointment sent "a wrong political signal" because she was known chiefly as an advocate of an "extreme and ruthless policy of privatization."[45] But balancing such criticisms were the accolades she received from other quarters. Breuel could not replace Rohwedder, said *Wirtschaftswoche.* But she offered "[i]dealism and stubbornness, fidelity to principle, credibility and—not to be forgotten—courage."[46] A Treuhand board member offered a candid assessment when he observed that:

> The probability that things will go wrong under Frau Breuel is less than for all the other candidates.[47]

As if to open a new era, one of Breuel's first official acts was to inaugurate the new Treuhand headquarters, whose refurbishing had been commissioned by Rohwedder. On April 18, the Treuhand officially celebrated the move of headquarters from the crowded site at Alexanderplatz into the former Luftwaffe building constructed in 1937 for Nazi Air Force chief Hermann Goering. During the GDR period, the building had housed the Ministry of Industries.[48] The dingy ministry building had been greatly improved with up-to-date communications, modern office furniture, computers and lots of white paint. With a new regard for security, visitors were directed to a massive lobby where Treuhand personnel issued badges and a slip of paper authorizing visits to specific staff members. However, the massive mural on the outside of the Leipziger Strasse building, painted in the heroic Social Realism style favored under communism, was left untouched.

Breuel's challenge, however, was greater than that posed by a move into a new building. She needed above all to consider whether her appointment offered the Treuhand an opportunity to move gracefully away from its all-out commitment to privatization to a more candid participation in creating the social and industrial structure of the former eastern states. In other words, Breuel had an opening to declare the Treuhand frankly an instrument of industrial policy. In a sense, she had a mandate to do so simply because of the mass demonstrations which met the Treuhand's earlier efforts and which, many would say, led directly to Rohwedder's violent end. As *Wirtschaftswoche* put it:

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43 According to personnel manager Hermann Wagner in interview 9/30/91.
44 *Finanzen*, June 1991, p. 22.
45 *Tagesspiegel*, 4/14/91, p. 1.
46 *Wirtschaftswoche*, 4/12/91, p. 23.
47 *Die Zeit*, 4/19/91.
48 Some of the east Germans at the Treuhand, employed because of their in-depth understanding of East German industry, had new offices only steps from their previous ones.

> Even if it is stressed over and over again, in Bonn and Berlin, that there will be nothing different about Treuhand policies in the aftermath of Rohwedder's murder, the search for an approach that is both politically and economically workable has been going on for a long time and the strategy of the Treuhand is in fact changing. But neither in Bonn nor in Berlin does anybody know the details of what will emerge.[49]

Yet early indications were that Breuel would not confront the issue head on. In a press conference to inaugurate the new headquarters, she insisted that "privatization *versus* restructuring" was an inaccurate antithesis.[50] The two activities were, she insisted, complementary. At the same time, she did acknowledge that the Treuhand was paying relatively more attention to the "social" factor of job retention and less to the "private sector" factor of price in accepting purchase bids.

> We have two criteria. First the price we can get and secondly the amount to be invested and the number of jobs. The latter has begun to play a bigger and bigger role for us. ... You can't just let a whole economy go down the drain. We have to try and help as many firms as possible become competitive. But where nothing can be done we will certainly go ahead and shut them down.[51]

In a different interview, she assured readers that "it doesn't go against the grain for me to say that we need a certain transition period in East Germany during which different rules will apply than those I have advocated up to now in the old federal republic."[52]

**The Zeiss-Jena Affair**

The difficulty of finding cookie-cutter solutions to the problems of East German companies was perhaps nowhere so well demonstrated as in the case of Zeiss-Jena. The Treuhand board, especially managing director Klaus-Peter Wild (in charge of liquidation), had struggled with the case almost since the first days of the Treuhand.

This conglomerate in the state of Thuringia employed at its height nearly 70,000 people. It was descended from an historic firm founded in 1846 by Carl Zeiss and overseen by the philanthropic Carl Zeiss Foundation since 1889. Zeiss was known as one of the foremost optics companies of its day. With the war, and the division of Germany, a significant number of the firm's most talented staff escaped to the West, where they founded a second Zeiss company in the town of Oberkochen. They also reconstituted the Zeiss foundation in the west and refused to recognize the eastern one. Zeiss-

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49 *Wirtschaftswoche*, 4/12/91, p. 23.
50 *Financial Times*, 4/19/91, p. 3.
51 *Finanzen*, June 1991, p. 22.
52 *Industriemagazine*, June 1991, p. 17.

Oberkochen flourished and, with reunification, it was assumed that Zeiss-West would reintegrate with Zeiss-East.

But the eastern company had changed character considerably. First of all, it had expanded dramatically, producing not only optics but medical and space equipment, laser technology and weapons components. It had combined with Jena, a glassworks factory. The Zeiss Foundation still existed, but as a state entity. It had absolutely no money, although it did have titular responsiblity not only for the Zeiss company but for several hospitals, research laboratories, theatres and a planetarium. With the decline in the East German economy beginning in 1989, Zeiss-Jena had cut its employment considerably, but it still stood at some 27,000. It was by far the most important employer in its area, and its staff were distinguished by their advanced education and technical skills. The Jena area was considered the Silicon Valley of East Germany.

Zeiss-Oberkochen, it turned out, had no intention of taking on a company twice its size, with lines of work well outside the core business. It proposed to let go all but 2,800 employees in order to run an effective, competitive business. When these details became public, not only Zeiss-Jena workers but the state government of Thuringia were enraged. As the head of Zeiss-East, Rainer Hedrich, said in an interview, "we are not in such a condition that we require mouth-to-mouth resuscitation."[53] Under the terms of the March 14 *Aufschwung Ost* agreement, this was precisely the sort of case over which state leaders were to have control. They arrayed on their side the powerful German trade unions, and the stage was set for a confrontation. The middleman was the Treuhand, which controlled the terms of any eventual agreement.

Negotiations were lengthy and heated. In March, the Treuhand unexpectedly offered all of Zeiss-East to the eastern Zeiss Foundation. The Treuhand would assume corporate debts of DM 1.3 billion. But Zeiss-West challenged this proposal and it fell apart. In April, Lothar Spaeth—former president of the state of Baden-Wurttemburg and chair of the state CDU—came in as personal "Zeiss advisor" to Thuringian Minister-president Josef Duchac and matters began to move more swiftly.

When the dust settled on June 25, three companies had emerged. Zeiss-West acquired 51 percent of a new entity, to be called Carl Zeiss Jena GmbH. The firm would make microscopes, binoculars, telescopes, medical-optical instruments and surveying equipment. Zeiss-West would provide distribution. Shares of a second firm, Jenoptik GmbH, went 100 percent to the state of Thuringia. The company, whose new director was Spaeth, would in the future specialize in optical electronics and retain the majority of the Zeiss-East land holdings. Jenoptik also owned the other 49 percent of Carl Zeiss Jena, an arrangement scheduled to last for five years, after which the western Zeiss foundation would acquire the whole company. Jenoptik, according to the agreement, would also at that time be sold by the state into private hands.

Schott Glaswerke, a subsidiary of Zeiss-West, bought 51 percent of a third firm, Jenaer Glaswerke (ownership would go to 100 percent on Jan. 1, 1995). The other 49 percent was retained in the interim by the state of Thuringia.[54]

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53 *Der Morgen*, 5/17/91, p. 6.

54 Details of the settlement from *Frankfurter Allgemeine Zeitung*, 6/14/91. p. 19.

The price paid by the Treuhand for this arrangement was DM 2.74 billion in severance packages, transition funds and debt service for Jenoptik.[55] It also paid DM 600 million in start-up capital and coverage of losses to 1995 for Carl Zeiss Jena, as well as DM 300 million (in partnership with Thuringia) to rehabilitate Jenaer Glaswerke. The total number of jobs saved: 2,800 in Carl Zeiss Jena; 6,700 in Jenoptik and 1,200 in Jenaer Glaswerke. Fourteen thousand were left jobless, although Spath said there was a possibility of generating a further 5-6,000 jobs through a joint venture. The outcome, conceded Spath, said more for government intervention than for the free market.

> From a business-economic point of view, Zeiss is finished. But from the point of view of structural policy, we have a huge opportunity.[56]

In effect, the Treuhand—charged with privatizing the state-owned enterprises of East Germany—had created a state-run company. In its defense, the Treuhand noted that it would remain such for only a limited period. The Treuhand leadership also told anyone who would listen that it did not plan to make a habit of such deals. Said Treuhand director Wild:

> It is not a solution which is totally satisfying. But we must look for very, very flexible ways to privatize companies. And this offered a possibility of privatization. What's more, the alternative had been to abolish the enterprise, to close it.

But the Treuhand had, in fact, set a precedent of intervening in an acceptable market transaction—the sale of Zeiss-East to Zeiss-West albeit with a massive labor force scale-back—in order to maintain labor market stability and to protect the unique nature of Jena as a research and technology center.[57] But that, maintained the Treuhand, did not mean it had formulated any social or industrial policy. That had been left to the politicians, and the Treuhand had tried to be accommodating. Its chief job was still to privatize and/or restructure.

**Feeding the fires: public works firms**

The Zeiss-Jena affair did not, however, take place in a vacuum. Inevitably, its resolution would have an effect on another, simultaneous battle. This one concerned whether or not the Treuhand should participate in so-called "make-work" companies (or *Beschaftigungsgesellschaften*: BGs), set up to employ those laid off by the largest firms in areas thereby struck with instant mass unemployment.[58]

By June, companies owned by the Treuhand had—with the encouragement of the unions and state governments and with funding from the State Employment Office in Nuremberg—set up some 200 BGs. The companies were modelled on those first experimented with in West Germany in the mid-1980s

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55 The state of Thuringia contributed a further DM 860 million.

56 *Handelsblatt*, 6/14/91, p. 17.

57 This was far from the only sale of Treuhand property to a municipal authority. But the majority of the other deals involved real estate holdings.

58 There are also *Arbeitsbeschaffungsmassnahmen*, or ABMs, which are often equated with BGs but are in fact different, concentrating more on training than employment.

when economic necessity forced the closing of large firms. IG-Metall, the powerful metalmakers union, had experience with them then and first re-introduced the idea of their use in the new eastern states.

The BGs were as various in their structures and activities as the conglomerates from which they arose. By and large, they sprang up next to Treuhand-owned companies which were either closing or dutifully cutting back personnel in order to make themselves more saleable. Some of their administrators came from among the ranks of the unemployed; others were managers of the parent company. They used Treuhand premises and equipment. Their work usually consisted of clean-up or demolition projects, the kind of public works for which there was great need but no funds in the state government budgets. They were considered by many a social bargain because the cost to the state per job thus maintained was DM 22,000, versus DM 15,000 for unemployment benefits. For this incremental increase, the BGs were able to keep people profitably employed (with all that implied for self-respect and motivation), to stem the flood of workers from east to west in search of jobs, and they offered a training component preparing workers for further employment.

The question that began to arise as these BGs multiplied was: who owned them and who should run them? This debate took on greater urgency in June because, on July 1, an IG-Metall contract prohibiting lay-offs of its workers in the east was due to expire. Massive firings were feared. In addition, Chancellor Kohl wanted the matter settled before the July 2 anniversary of one year of all-German monetary, economic and social union.

In the view of the unions and the opposition Social Democrats, as well as the state and local governments, it seemed only logical that the Treuhand take over full ownership of the BGs. After all, the Treuhand was the largest industrial property holder—with the readiest access to funds and management expertise—in the eastern states. It made sense that BGs, too, should fall into their bailiwick. The BGs should be run, felt supporters, by the managers of the parent company. What's more, the unions demanded that BG employees be allowed to remain nominal employees of their parent firm, with no loss of benefits if employment could be resumed.

But the Treuhand wanted nothing to do with ownership of the BGs. In a June 7 memorandum to all Treuhand-owned companies, Managing Director Alexander Koch told Treuhand managers in no uncertain terms to refrain from any financial participation in the BGs. The Treuhand, he emphasized, had nothing against training programs and indeed supported many of them with equipment and work space. It could not, however, countenance direct Treuhand participation in the BGs. The memo said:

> In many cases, BGs may be necessary. Please support the founding of such societies with advice, coordination and also by placing at their disposal equipment and premises. [But] a takeover or legal participation in these societies is, as a rule, out of the question.

Others at the Treuhand argued that BGs could pose unfair competition to struggling private sector firms. Says Helmuth Coqui, the Treuhand's Berlin branch director:

> You want to avoid a situation whereby the massive inflow of money and orders hinders and finally starves the process of

> restructuring into a free market system which can survive without a long-term subsidy from the government. [You also] want to make sure that you're not taking away orders from normal private companies, because otherwise you will be stopping them from restructuring and becoming stronger.

More specifically, if the Treuhand assumed 100 percent ownership of the eastern German BGs, asks Coqui, what incentive would remain for other state and private authorities to take their share of responsibility for unemployment?

> The legitimate concern was that as soon as you do that, all the others—the states, the communities, the trade organizations, the trade unions—would all be happy that somebody had done it and would kind of lay back and enjoy it instead of becoming active.

Although there were some financial considerations involved in Treuhand willingness to own the BGs, the crux of the debate was ideological. Treuhand ownership of BGs, argued the agency, would undercut everything it had set out to do in establishing a market economy in the east. Workers would never accept that they needed to find real employment if they could simply move across the street into a BG. Buyers would never purchase firms still responsible for a subsidiary employment company. The Treuhand leadership spelled out the agency position in greater detail in a lengthy June 18 press release. The Treuhand, it said, welcomes BGs and other training programs "which make a contribution to cushioning the social and regional problems connected with shutting down plants and lay-offs." But, referring to the March 14 *Aufschwung Ost* agreement, the statement pointed out that state governments had accepted primary responsibility for creating the BGs, with assistance from the Treuhand.

> However, as soon as it's a case of activities that go further, in the form of maintaining or creating jobs that would be subsidized for a long time or that would be unprofitable, no support of any kind is to come from the *Treuhandanstalt*. ... The Treuhand acknowledges completely the responsibility of its firms to implement a socially acceptable reduction of employment where this is unavoidable. The Treuhand wishes to emphasize again its readiness to supply companies with all measures which were discussed and agreed to on March 14 with the new Lander. Above all, this means providing assistance in the areas of organization and management. The Treuhand rejects the false assertion that it wishes to hinder the founding and work of BGs or to hamper them in any way.

The Treuhand pledged, in cases where agency-owned companies had already taken a stake in a BG, to find a new owner to replace itself. But it pleaded, in exchange, for a stop to unjustified criticism.

> The Treuhand appeals to all those in positions of responsibility to continue calmly and with great seriousness the efforts which have begun. Criticisms such as those raised against the Treuhand yesterday, for example: that Treuhand is provoking social unrest; that the Treuhand is taking a confrontational attitude toward workers and unions; that the Treuhand is starting fires in the new Lander—criticism like this is without foundation.

In late June the Treuhand leadership did agree to negotiate further over the BGs. The federal government, including Economics Minister Joergen Mollemann and Finance Minister Theo Waigel, supported the Treuhand position. On June 28, Treuhand leaders met with representatives from the state governments and agreed on some parameters for the BGs: that they have a clear mission, an unambiguous concept and a limited time frame. Moreover, both sides agreed to reject the union demand that BG employees remain formally employed by their former enterprises.

A further meeting of interested parties—the federal government, the Treuhand, unions and the eastern states—had been scheduled for Cologne on July 1, the day before the anniversary of monetary union. Breuel would be in Japan, where she was headed June 29 on a goodwill mission for the Treuhand, trying to drum up thus far minimal Japanese interest in its companies. But she would be represented in Cologne by Managing Directors Hero Brahms and Alexander Koch. How, Breuel argued before her departure, could the Treuhand do its business if it was saddled with ongoing responsiblity for the BGs?

> What is at stake is whether we become part owners. That is not foreseen in our mission. And it's also not necessary.[59]

The Treuhand was charged with privatizing companies, period. It should then put itself out of business, which Breuel hoped would happen as early as 1994. Any long-term operating responsibilities should go to other government agencies, not to the Treuhand. Moreover, on a practical level, managers of Treuhand-owned companies were overwhelmed as it was, running their own wheezing enterprises. They should not be expected to assume BG responsibilities as well.

Yet the political pressure building on the Treuhand to participate was real. At issue was, once again, the proper role of the Treuhand. Should it be an agent of industrial and development policy or not? Specifically, what should the Treuhand do in cases where an enterprise can be neither privatized nor closed—either because it is the only employer in the area or because, with help, the business would have a 50-50 chance of survival? Despite the commitment of its leadership to private sector principles and practices, how long could it resist pressure to take actions inconsistent with free market scripture? Had it not in fact already taken so many steps down the road to interventionism that only its rhetoric any longer reflected a true privatization agency? Or was its first responsibility to resist any more movement in that direction?

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59 *Hamburger Abendblatt*, 7/2/92, p. 10.

Exhibit 1

**President**
Birgit Breuel

**General representative of President**
Economic matters
Relations with federations / international relations
Bonn office
'Laender' matters
Enterprise planning
Communication / Media
Law
Revision

**Division1**
Hero Brahms

**Business responsibility:**
Construction of heavy machinery and plant
Toolmaking machinery
Special machines

**Functional responsibility:**
Control / administration of participations

**Division 2**
Dr. Klaus-Peter Wild

**Business responsibility:**
Optics/ Ceramics/ Precision engineering
Motor vehicle production
Coastal industries
Transport
Export businesses

**Functional responsibility:**
Modernization
Closure

**Division 3**

**Business responsibility:**
Agriculture and forestry
Foods, luxury food
Mining / minerals
Special assets

**Functional responsibility:**
Administration
Organization / EDP

**Division 4**
Dr. Wolf R. Klinz

**Business responsibility:**
Electro - tech./ electronics
Timber / Paper
Services
15 branches / coordination of branches
Company for privatization of commerce

**Functional responsibility:**
Privatization

**Division 5**
Dr. Hans Krämer

**Business responsibility:**
Iron and steel production
Building industry
Hotels and holiday houses
Public revenue assets
Treuhandanstalt property company

**Functional responsibility:**
Treuhandanstalt financing
'Altlasten' expert group

**Division 6**
Dr. Klaus Schucht

**Business responsibility:**
Communal assets / Water industry
Energy industry
Chemicals
Textiles / Clothing / Leather

Other special assets

**Personnel**
Dr. Alexander Koch

**Functional responsibility:**
Treuhandanstalt staff
Personnel consulting firms
Labor market and welfar matters

**Finance**
Wolfram Krause

**Functional responsibility:**
Financial planning and control of contracts
Enterprise finance / balance sheets
Bank guarantees
Accounting/ Budgeting

Source: Treuhandanstalt

Exhibit 1

**President**
Birgit Breuel

**General representative of President**
Economic matters
Relations with federations / international relations
Bonn office
'Laender' matters
Enterprise planning
*Communication / Media*
Law
Revision

### Division 1
Hero Brahms

**Business responsibility:**
Construction of heavy machinery and plant
Toolmaking machinery
Special machines

**Functional responsibility:**
Control / administration of participations

### Division 2
Dr. Klaus-Peter Wild

**Business responsibility:**
Optics/ Ceramics/ Precision engineering
Motor vehicle production
Coastal industries
Transport
Export businesses

**Functional responsibility:**
Modernization
Closure

### Division 3

**Business responsibility:**
Agriculture and forestry
Foods, luxury food
Mining / minerals
Special assets

**Functional responsibility:**
Administration
Organization / EDP

### Division 4
Dr. Wolf R. Klinz

**Business responsibility:**
Electro - tech./ electronics
Timber / Paper
Services
15 branches / coordination of branches
Company for privatization of commerce

**Functional responsibility:**
Privatization

### Division 5
Dr. Hans Krämer

**Business responsibility:**
Iron and steel production
Building industry
Hotels and holiday houses
Public revenue assets
Treuhandanstalt property company

**Functional responsibility:**
Treuhandanstalt financing
'Altlasten' expert group

### Division 6
Dr. Klaus Schucht

**Business responsibility:**
Communal assets / Water industry
Energy industry
Chemicals
Textiles / Clothing / Leather

Other special assets

### Personnel
Dr. Alexander Koch

***Functional responsibility:***
Treuhandanstalt staff
Personnel consulting firms
Labor market and welfar matters

### Finance
Wolfram Krause

***Functional responsibility:***
Financial planning and control of contracts
Enterprise finance / balance sheets
Bank guarantees
Accounting/ Budgeting

Source: Treuhandanstalt