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*Was Privatization in Eastern Germany
a Special Case?
Some Lessons from the Treuhand*

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Some Lessons from the Treuhand

by

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September 1997

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Email: usiegmund@ifw.uni-kiel.deHomepage: <http://www.uni-kiel.de:8080/ifw/esf/siegmund.htm>.**Abstract**

Eastern German privatization and restructuring of firms is seen as a special case because of the peculiarities of reunification and the large transfers from western Germany to finance it. Although this is right, the government faced the same problems as other countries in transition when privatizing and restructuring firms: It had to decide about the aims, methods and organization, the extent and the speed of privatization, it had to take into account politico-economic repercussions and traditions, and it had to find a general economic policy toward restructuring. I argue that eastern German privatization is only in a limited way a special case and therefore some lessons can be drawn for other transition countries.

Keywords: Privatization, Restructuring, Eastern Germany.

JEL Classification: L33, P52.

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1. The Uniqueness of Eastern German Privatization and Restructuring

Eastern Germany has largely been deemed to represent a unique case of transition from a centrally planned to a market economy, and therefore also of mass privatization and restructuring of enterprises. This uniqueness is often attributed to the radical shock approach to transition used in eastern Germany, one that included an internal and external liberalization. And to the fact that it had "the asset of kinship: the advantage of having a 'rich uncle' obliged and . . .willing to support the 'poor nephew's' start of a new life" (Hagen 1995). Eastern German transition was "the big bang with the big brother" (Siebert 1993).¹

Consequently, eastern German privatization and restructuring has been seen only in this light. Mass privatization proceeded fast compared to that in some other transition countries. The basic political and institutional structure was imported immediately. The government provided the money for buying investors instead of selling firms to private owners that would restructure them (Breuel 1992a, Schmidt 1996a); it did not restructure the firms itself. It provided the fiscal assistance to ease the transition socially by paying for unemployment, or put more generally, by paying from the very beginning for an increased standard of living, which has not been the case in any other transition country. Overall, privatization has been deemed successful (Fischer, Hax and Schneider 1996; Brücker 1995). Restructuring is under way, although slow and incomplete (DIW et al. 1995-1997, Reports 13-15, Gerling and Schmidt 1997). The only bitter pills have been the high costs of privatization and restructuring and high unemployment, which is only slightly declining. But this, it has been said, were exogenous to the government or the privatization agent, and due to other factors such as the low productivity of the old socialist firms or the wage shocks with currency union and autonomous collective wage negotiations.

Much depends, however, upon the standard against which eastern German privatization is judged. I think it is incomplete to compare eastern German privatization only with privatization in countries of transition (Appendix, Table A1).

¹ For general economic literature about reunification see DIW et al. (various years), SVR (various years), Siebert (1992), Sinn (1991), Hickel and Priewe (1994).

In order to get a better understanding, one also has to compare eastern German privatization with past privatization efforts in western Germany, for example, the people's share privatizations of the 1950/60s or the privatization efforts of the 1980s, and with privatization efforts in industrialized and developing countries (for worldwide privatizations see Kikeri, Nellis and Shirley 1994, World Bank 1995). Eastern Germany was not only able to learn from policy experiences from the East and the West but also to implement a synthetic privatization policy. Once seen in this respect the uniqueness of eastern German privatization becomes much smaller. In this paper, though, I will only compare eastern Germany against other countries in transition. Eastern German privatization is significant because it accounts for about 1/5 of large and medium firms and about 1/10 of small firms that were privatized in countries of transition between 1990-1996.

In Section II, I will describe eastern German experience with privatization, whereby I will distinguish the extent, the speed, the aims, the methods, the organization, the politicization and the special cases of mass privatization. It will become clear that eastern German privatization had to solve the same problems as other transition countries and that many of these problems were not solved differently. The same is true with respect to the restructuring policy before, during, after and beyond privatization, as I will describe in Section III. I will draw conclusions at the end of the paper.

2. The Treuhand Privatization

2.1. On the Extent and Speed of Privatization

Eastern Germany had the advantage of knowing the future institutional system of its transition: the Social Market Economy of western Germany. This was clearly ratified in the State Treaty on the Currency, Economic and Social Union and the Reunification Treaty of 1990. Thus firms and assets in eastern Germany became private only to the same extent as in western Germany. Firms that can operate under competition will become private. Since most of these firms were state owned, this meant mass privatization. Mass privatization was as unique to Germany as to any other country in

transition. Natural monopolies stayed in state ownership that is the traditional European solution to regulation as compared to the United States where private natural monopolies are regulated by a state organization. Thus eastern German railways and telecommunication became part of their respective western German firms. Electricity generation and distribution and water supply stayed mainly in state ownership, although on a much more decentralized level. The new owners were either autonomous state firms or local communities. And finally, the provision of public goods, such as streets, jurisdiction or police, and many services traditionally supplied by the German government, as social security or television and sport facilities were not privatized. For example, the eastern German pension fund became part of the western German one, the western German state unemployment insurance was enlarged to eastern Germany and the eastern German communities became responsible for providing relief to the poor. In sum, natural monopolies, the provision of public good and governmental services were just redistributed within the state sector.

Eastern Germany not only had to privatize as fast as other countries in transition but faster. The reasons were the economic shocks that came along with economic and political unification with western Germany in 1990-1991. No other country in transition had such a shock approach to transition with external and internal liberalization at once. Thus there was no time and no economic buffer such as an exchange rate or tariffs for step-by-step or gradual restructuring. Only private entrepreneurs with fresh capital, new ideas and management know how could rescue the firms. Fortunately, there were plenty of them available next door. And they did not wait. There was spontaneous privatization in eastern Germany during the year 1990 when the privatization agent was in the making but not yet a true intermediate owner of the firms to be sold. In fact the idea of the Treuhand—a trustee on behalf of the eastern German citizens—was born to prevent insider privatization, nomenklatura privatization, outright theft, or giveaway to western German businesses for free.

Table 1. Real Economic Adjustment of Eastern Germany, 1991-1996.

	1991	1992	1993	1994	1995	1996
GDP p.c. change against previous year a)	—	7.8	8.9	9.9	5.3	2.0
Unemployment b)						
- Unemployment in p.c.	11.8	16.1	15.8	16.0	14.9	—
- Unemployment (1.000 persons)	1037	1170	1147	1142	1047	—
- + Hidden unempl. (1.000 persons) c)	3348	3161	2750	2322	1941	—
Eastern Germany in p.c. of western Germany						
- Wage costs d)	47	61	68	70	72	74
- Labor productivity e)	31	43	52	54	55	57
- Unit labor costs (wage/productivity)	151	141	132	130	131	130
- Capital stock per capita a)	39	41	44	46	49	—

Note: a) 1991 prices. — b) Unemployed as p.c. of dependent civilian labor force. — c) Short time workers, public work and training programs, early retirement schemes. — d) Gross labor income per employee. — e) Gross value added at current prices per employed person.

Source: Schatz (1997: Table 2, 7).

Accelerated privatization was not demanded by a stabilization program in which a budget crises had to be overcome, because the macroeconomic management was taken over and reassured by a credible and creditworthy government. It was also not demanded by breaking a monopoly of state firms, because there was from the very beginning fierce competition from western German and international private firms, or by creating political support for transition because there was general support by the public, and political stability. For example, there was no change in government since 1990.

Accelerated privatization was demanded by supply and demand shocks (Table 1). Eastern German consumers and eastern European importers purchased western German or international goods because of better quality. Wages of eastern German employees rose dramatically above productivity levels thus squeezing profits and making the firm's capital obsolete. The wage shocks were due to (i) wage increases before currency union when the state firms had no real owner, (ii) to a 300% appreciation with currency union when wages were converted 1:1 with a labor productivity of about 1/3, and (iii) to wage negotiations by proxy when western German employers and trade unionists decided upon eastern German wages in collective wage agreements, with the German government standing aside as lender of last resort to pay the bill of unemployment. The Treuhand as the intermediate owner

and largest single employer was not allowed to negotiate the wages of its firms. This was paradoxical, and why it happened is not yet explained in the academic literature. From 1991-1996 it can be seen: the more firms became private, and as high unemployment remained, the more wage conversion to western German levels slowed (by 1994 wages should have been equal) and the more wages and productivity approached each other.

With regard to the extent of privatization, eastern Germany was not different from other countries in transition because natural monopolies and the provision of public goods and governmental services remained state owned. The only difference was that this was clear from the very beginning. Thus, privatization experiments were not undertaken, as for example the sale of monopolies to foreign private owners or the private provision of some public goods. With regard to speed, eastern German privatization was different from other countries in transition because it had to privatize more rapidly. Although, I see no reason why other countries should not privatize faster if they want to and if there is at least one investor who wants to buy the firm along with all risk.

2.2. Not Only Privatization!—The Assignment Problem and Its Costs

The discussion of mass privatization focused very much on the method of privatization because economists, most reform-oriented politicians, and the majority of the public agreed that privatization was at the heart of transition. Thus, privatization as an aim was not questioned any longer. In practice, although, mass privatization in countries in transition was pursued with many objectives. This was also the case in eastern Germany. Although the German privatization law clearly stated in §1 in the first sentence: "State property has to be privatized", it also stated as objectives:

- to define the size and form of the property to be privatized;
- to restructure firms including their cross subsidizing;
- to liquidate nonviable firms;
- to give away property to cities, counties, federal states, and other state organizations (called communalization);
- to deal with special property differently, for example, in agriculture;

- to reprivatize firms and assets;
- to save or create jobs;
- to foster small and medium enterprises; and
- to promote competition.

Privatization proceeds should be used for restructuring firms, for reducing government debts and for distributing among eastern German citizens.

What can be seen is an overload of aims for a privatization agent. The overload produced confusion. Lawyers tried to bring in some ranking and classification but the interpretation of the privatization law was wide open ranging from a duty to restructure first to a duty to privatize first (Bleckmann 1992, Weimar 1993, Kloepfer 1996). The overload of aims led also to discretion. Thus, the government and the privatization agent were free to choose from among the many aims. Because this was suspect to many politicians, the privatization agent became more and more bound by laws and by direct political influence (see section 2.5). It was possible that without a change in the German privatization law, a change in government could have led to a completely different hierarchy of aims without privatization being the major aim. The overload was due to a political compromise in the reunification year 1990. In the first half of the year an eastern German reformcommunist and a weak interim coalition government favored equality over efficiency aims, that is the equal redistribution of property over the reallocation, and in the second half of the year when a strong all-German conservative government favored efficiency aims but deviated from this in spring 1991 when pressure from political opposition parties, trade unions, and new federal states increased (Kemmler 1994). The overload was also due to overly optimistic expectations about privatization proceeds based on too optimistic calculations of the eastern German capital stock and too much hope of western German and foreign direct investment in eastern Germany. In the end, it was the privatization agent itself that determined privatization as the main aim. This was the virtue of the privatization management and those politicians who put them in office. It follows under the condition of a strong constitutional state: the less clearly the privatization law determines privatization as the single major aim, the more important the beliefs in private property of the privatization managers and politicians are. Or more generally, the more constitutional privatization is, the higher the private and political costs to obstruct privatization are.

What is privatization for? To give the best possible private entrepreneurs the control of assets—from the very beginning. Any other goal is a deviation and predetermines extra government rules on future private owners—extra, compared to normal business practices in a market economy. These extra governmental rules will be corrected sooner or later by the market and have to be accepted by the government. This is the assignment problem of privatization policy: the privatization agent should only be responsible for producing private property from state property (see BMWi 1991). It can be compared to the assignment problem in macroeconomic policies: the central bank is responsible only for price stability, the trade unions and employers are responsible for (un)employment, and the fiscal policy is responsible for good growth conditions. If a government wants to regulate private property it can use independent regulatory bodies; if a government wants to redistribute income it can use taxes and transfers, if a government wants to promote competition it can open entry to the market. All of this is distinct of privatization—and therefore should be dealt with distinctly. Of course, this does not mean that privatization cannot be used for other aims, similar to money creation that can also be used to create short-term employment. Furthermore, it is the interest of the typical politician to use the privatization agent or the central bank to favor his constituency in order to be reelected. This leads to extra disturbances which make the economic coordination by markets expensive, uncertain and vulnerable to political intervention. That is way the privatization agent should be as independent as the central bank with a single and clear specified goal. Other assignments are too costly.

This leads to the problem of high losses by the German Treuhand. Here, I argue that the losses are mainly political costs. Thus, Sinn and Sinn's (1992) arguments of a liquidity constraint of buyers, of a rising interest rate in crediting privatization purchases or more generally, of reunification that reduces the attractiveness of the privatization investment, of falling attractiveness of firms for sale, and of refusing privatization to stop some western German firms from becoming monopolists are considered as secondary. Also considered secondary are the above mentioned arguments of unproductive socialist firms, of a demand shock and supply wage shock. All of these arguments may explain a reduction of prices but hardly explain negative prices. The liquidation value would have been the lowest price to be

obtained by the Treuhand, or it would have had only some administrative costs of handling a giveaway of firms.

Table 2. The Treuhand's Revenues and Expenses as of End 1994. a)

	Billion DM
Expenses for privatization, restructuring and liquidation (in particular investment subsidies, equity capital contributions, financing losses of firms, contributions to social plans, loans to firms, interest payments of the Treuhand)	153
Old debt relief	99
Expenses for cleaning up the environment	43
Other expenses	37
Total expenses of the Treuhand	332
Revenues	76
Deficit	256

Note: a) Including projected revenues and expenses of the Treuhand successors for 1995-1998.

Source: Treuhand (1994:15).

The Treuhand said that it devoted the majority of its expenditures to restructuring, taking over of old debts, and paying for environmental damages, and only a minority to "true" privatization efforts (Table 2). Privatization proceeds amounted to only 1/5 or DM 76 billion out of DM 332 billion for financing privatization; the rest was credited. The low proceeds reflect substantial price discounts for commitments by the investor to save about 1.5 million jobs and to invest about DM 210 billion from 1991 to about 1996, which would have been about 20% of the workforce and more than double the overall investment in eastern Germany in 1991. Lucke (1995) calculated that a committed job was subsidized by price reductions on average of about DM 50,000 and a committed DM 1 of investment by DM 0.5. Thus the proceeds of privatization—*ceteris paribus*—would have been higher by about DM 180 billion. Subtracting DM 100 billion of old debts, the Treuhand would have already reached profits $(330 - 100 < 180 + 70)$.² The Treuhand's privatization proceeds would have clearly been positive without extra political aims. Part of the Treuhand's costs would have appeared in other state budgets. For example, parts of the Treuhand's price discounts would have appeared in the Ministry of Labor's budget

² The existence firms old debts was also a political decision. In the currency union, savings of eastern German citizens were converted 1:1 while the debt were converted 1:2 though not canceled.

as wage subsidy or in the state unemployment insurance budget as expenditures for the unemployed. Whether job and investment commitments during privatization are the least cost institutional arrangements for preserving jobs and inducing investment depends on the opportunity costs of the Treuhand's price discounts.

While such a calculation is difficult, there is a strong argument against it because job and investment commitments during privatization tend to preserve old industry structures because new firms do not get such subsidies. The reallocation of capital, labor and land is distorted. An argument for such commitments is to have lower contracting and monitoring costs because the privatization agent has better knowledge of its firms than any other state agent. Apart from this economic calculation there was political cost calculation. On the one hand the conservative government wanted not to be associated with indefinitely subsidizing eastern German firms and therefore present privatization successes in the form of the number of privatized firms especially to its western German electorate. On the other hand in order to be reelected it needed also support of eastern German employees and therefore presented employment successes in the form of job and investment (=future employment) commitments to its eastern German electorate. It seems as if this specific institutional arrangement served political interests well.

It can be summarized that the eastern German privatization agent was not special compared to other privatization agents in countries of transition that privatized or restructured under political constraints. The constraints demand their price. What was special was the size of the privatization loss—about 124% of eastern German GDP in 1991. The Treuhand's budget constraint could be made politically soft because mainly western German taxpayers were paying and will pay for the losses. Privatization agents in other countries of transition had to have harder budget constraints which was good for an allocative efficient privatization since this forces governments to sell and even to auction firms for their highest price.

2.3. How to Negotiate?—The Reversal of Polarity Problem

The Treuhand was free to choose its major privatization method: giveaway, bargaining or auctioning. What is not commonly known, is that also in eastern Germany the three major privatization methods were high on the agenda of policy makers. Giveaway to the eastern German population was favored by the civil rights movement that brought about the peaceful political revolution and the party opposition to the reformcommunist government in the first half of 1990 because they conceived a third way between capitalism and communism (Fischer and Schröter 1996). The underlying theoretical concept was the concept of people's capitalism already developed in the 1950/60s and tried with the people's share privatization in western Germany at that time. I conjecture that precisely because of these unique privatization experiences, namely that people's capitalism could not have been created (Siegmund 1997a), giveaway was not chosen as major privatization method in eastern Germany when an experienced all-German democratic government came to power with reunification in the second half of 1990. Also, this government did not need specific political support for privatization because all political agents and the public agreed upon the destination of reform toward private property and a Social Market Economy. Public auctions for the highest price were favored by many economic advisors to the government and parts of the business community (Kemmler 1994). Auctioning was neither chosen by the government nor by the privatization agent as the main privatization method. The Treuhand stated: "Because the Treuhand often has to take into account many other criteria besides the price when privatizing firms, this method [public auctions] cannot be considered in the majority of cases" (Treuhand 1991: 4.4; see also Breuel 1992b). Because of the "many other criteria", namely, the many political aims, negotiating was chosen as the main privatization method in eastern Germany. Negotiating allowed to put through complicated and changing political objectives, be it job preservation commitments or hidden subsidies for declining industries. In general, it is no politico-economic surprise that there was no single country of transition including eastern Germany that applied mass auctions of firms to private investors beyond vouchers as the major privatization method.

Negotiating by the privatization agent meant multi-sided bargaining on multiple criteria. Typically, the Treuhand preselected and approached western German

or international investors of the industry, in which the eastern German firm was operating. Then, it started to negotiate with a small number of investors, often only one to three. Of course, the Treuhand behaved in parts of its sales activities as is done in normal business practice, for example checking the solvency of the investor or describing the object for sale. In its decision, although, it deviated from normal practice. It based the decision of whom to allocate the firm to on the "soundness" of the business concept, every investor had to deliver. Thus, the Treuhand managers thought they knew better than the investor, whether the business concept fit the firm. The Treuhand negotiated foremost the number of intended and/or penalized job preservation or investment commitments, and only secondary other arrangements such as risk sharing in cleaning up ecological damages, speculation clauses or dealing with restitutional claims, and the sale price (Schmidt 1994).

Now, one has to keep in mind: the Treuhand had to sell about 14,000 medium and large firms; 35,000 small firms, parts of firms, real estate units or assets, and about 1.4 million hectares of agricultural land. All of this under a tough time constraint (although with a large pocket). And then, it choose time consuming and complicated negotiating. It is no wonder that the Treuhand expanded its staff from 100 in 1990 to about 4,000 in 1992; that the Treuhand managers were always under an extreme amount of stress; that investors became frustrated; that the public was suspicious of dirty deals. Apart from this capacity and transparency critique there is a more fundamental critique of negotiating as the main privatization method in eastern Germany:

- In bilateral negotiations the Treuhand was in a weak position because it was known to the investor that it would not let the firm simply go bankrupt. Thus, the Treuhand negotiated with "itself" because it always had to calculate the subsidy it would pay to the investor against the opportunity cost should the investor cancel negotiations (Schmidt and Schnitzer 1997). In multilateral negotiations, the Treuhand was more subject to collusion of the buyers than for example in auctions because they had more time to become known to each other.
- In multicriteria negotiations the Treuhand managers "auctioned in their heads" because there was neither a single one-dimensional criterion nor reasonable rules for shadow pricing between the criteria. The Treuhand managers did not know what the main criteria of decisions should be, did not announce criteria and did not

have to explain any decision to the public. They could pursue their own preferences either to the advantage or disadvantage of the taxpayer.

- There is no a priori reason to believe that the larger the firm becomes or the more technically related it is to other firms, it is less able to be auctioned (as was expressed by Brücker 1995). It might take more time to provide the necessary information, or more effort to design an auction mechanism that covers some of the peculiar characteristics but it is not impossible to do so. Prices can also be attached to such firms. The main reason larger or technically related firms were not auctioned was politically determined: the fears of foreign ownership, of windfall profits earned by the new private owner, or of bankruptcy if there were no buyer.

The Treuhand "intuitively" responded to the problems of mass negotiations by standardizing them, issuing rules of behavior and conduct, assigning clear responsibilities and closely monitoring and controlling its lower management. Also the government responded so that the Treuhand became more and more subject to laws, political pressure and parliamentary inquiries. All of these measures being substitutes for characteristics of auctions: efficiency, rule binding, and transparency. This response of the Treuhand and the government leads to a more fundamental problem of privatization methods which I call the "reversal of polarity problem" (Siegmond 1997c). On the one hand, bargaining can be made more auction-like. This happened with the Treuhand. More generally, the state can, for example, define one clear bargaining goal or a hierarchy of goals and it can use means other than auctions to limit the discretion of privatization officials, for example, private and public law. On the other hand, auctions can be made more bargain-like. This happened in Russia. The auction design determines the degrees of acceptance by the state of individuals' valuation of state property rights. Reserve prices, exclusion of bidders and firms, the timing, etc., all can and are used to accomplish political goals. The auction design becomes the object of politico-economic bargaining.³

Although the eastern German privatization agent choose bargaining as the major privatization method, it employed a variety of other methods as well; like any other country of transition (Table 3). It did not use any forms of vouchers and initial

³ To my mind there exists no politico-economic theory of auctions and negotiations. Both theories are domains of applied game theory.

public offerings. That there was no initial public offering shows, too, that auctions were not politically favored. Eastern German firms did not legally qualify for being issued at German stock exchanges. Instead of changing the law for public offerings the government choose not to have a "junk bond market" for eastern German firms. There was no stock exchange comparable to Moscow, Warsaw or Budapest, or to NASDAQ, ESDAQ, or the new German open market for risky small and medium firms that started to operate only in 1996. The firms for privatization and the privatized firms could not use this opportunity to finance restructuring and investment, and to become subject to new, more efficient ownership. Information about the value of firms was also not revealed to the public.

Table 3. Methods of Privatization of the Treuhand.

Method	Applied to
<i>Sale of the whole property rights bundle a)</i>	
Two-side bargaining	- all types of assets b) - liquidation cases - MBO/MBI of small and medium firms
Multi-side bargaining	- direct offer to few selected investors in process and complex industries (oil, chemistry, steel, paper) - direct offer to many selects investors in product and well structured industries with small and medium enterprises (wood processing, furniture, textile)
Public tendering	- small privatization (services) - real estate
<i>Sale of single or proportional property rights a)</i>	
Shareholding	- few very large firms
Leasing	- agricultural and forestal land
Contracting out	- few small and medium firms
<i>Giveaway</i>	
Reprivatization (restitution)	- all types of assets
Notes: a) Rights to transfer, to manage, to profits of the assets. — b) Often used in Treuhand subsidiaries, and until spring 1991.	

It is concluded that with regard to methods of privatization, eastern Germany was no special case. It used a variety of privatization methods with a certain type of negotiations as the major method; and all were politically determined. So were the methods of privatization in many other countries. The privatization agent pushed the negotiations closer to auctions, a fact which might not be known internationally, and may be peculiar. Special was also that the choice of the privatization method and its operationalization was "controlled" by unique privatization experiences of the past, a strong constitutional state, and market-oriented managers. Nevertheless, I think, the

Treuhand should have auctioned to the highest price because it was in a better position than any other country in transition. Unfortunately, the soft budget constraint eased the auction pressure demanded by the shock approach. It was a missed opportunity for all countries in transition, namely, to be an example for mass auctions beyond vouchers.

2.4. How Much Decentralization ?—The Competition Problem

The Treuhand was created as a centralized organization. But it decentralized immediately by creating sectoral and functional subdivisions in its headquarter, 15 regional branches responsible for small and medium-sized privatizations, and many special departments, subsidiary firms and task forces for special aims and tasks (Figure A1, Appendix). Even though the Treuhand decentralized, it always kept its control rights tight over lower levels of management. For example, in 1990 the Treuhand's president already refused to install four independent Treuhand stock companies (Treuhand Inc.) with a holding company at the top; and the government refused to install several equally equipped regional Treuhand companies (Länder-Treuhand). After the Treuhand was restructured—and not dissolved—to successor organizations at the end of 1994, centralization increased, reflecting its downsizing.⁴ While it was clear that the Treuhand had to decentralize, decentralization stopped before either spontaneous privatization or privatization competition. Spontaneous privatization, meant as privatization of the firms themselves, was neither chosen by the firms who relied on liquidity and subsidies of the Treuhand nor by the Treuhand which was established to prevent such privatization. But why was privatization competition prevented in Germany—and in any country of transition? If competition improves welfare and efficiency so should it in privatizing firms (Schmieding and Koop 1991, Siegmund 1997b).

⁴ The Treuhand successor organizations consisted of the BVS, being its core, responsible for contract management and remaining privatizations, reprivatizations and liquidations; the BMBG responsible for administration of remaining shareholdings and restructuring of some firms; the TLG responsible for the sale of urban real estate; the BVVG responsible for leasing and sale of agricultural and forestal land; the DISOS responsible for information processing. All successors are directly owned by the Ministry of Finance.

There are several arguments for and against this thesis. First, the Treuhand should behave as a monopolist in order to receive large revenues. But, the Treuhand was no monopoly in the market for firms and assets. Internationally, the Treuhand competed with privatization agents all over the world, not only in the countries of transition. Nationally, the Treuhand competed against the investor's decision to build a new firm somewhere else or to refuse to buy one from the Treuhand. Moreover, with every sale the Treuhand's supposed monopoly was eroded. Second, it was feared that regional Treuhands might become more subject to political pressure of eastern German citizens than a federal Treuhand might become subject to political pressure of all Germans. But, decentralized and nonpolitical Treuhands would have been possible. Regional Treuhands would be subject to the competition of the Länder for investors in order to improve the welfare of their citizens. The Länder cannot indefinitely expand subsidizing. Sectoral Treuhands must not be owned by federal ministries or Länder governments. They could be owned instead by "agents of capital" as, for example, representatives of taxpayers and business organizations. Or, investment funds could have been used with their shares sold at stock exchanges. Third, there were also economies of scale and scope attributed to a central privatization agent. But, while there are economies of scale and scope there were also diseconomies of scale and scope. Managers of the Treuhand often expressed dissatisfaction with the growing bureaucracy. It was the Treuhand that assigned clear responsibilities, separated functions, and decentralized, so indicating that scale and scope is only partially important. Furthermore, several privatization agents would have led to learning from each other how best to privatize, although the time for learning would have been short. Fourth, the costs of assigning firms and assets to the decentral Treuhands were seen as too high. But, the problem of assignment could have been solved by a lottery. Even if there is only one privatization agent, as the Treuhand, the problem of assigning property to it arises for the government. And, the Treuhand assigned property to its many decentralized organizational units, so solving this problem internally. That there was no privatization competition seems to have politico-economic reasons.

Also in the organization of privatization, eastern Germany was not a special case either. It decentralized, as many other countries in transition have done, with several ministries responsible for privatization, with using investment funds and other

financial intermediaries to govern firms in interim periods until the best private owner arrives, with the crudest form of decentralization being spontaneous privatization. What was special, is that the Treuhand decentralized only internally and that its autonomous status avoided political fights between ministries over the interim ownership, as is known from Poland and Hungary.

2.5. Institutional De- and Politicization

Initially, the Treuhand was supposed to belong to the parliament and there were ideas of creating a Ministry for Eastern German Reconstruction with the Treuhand at its heart. In the course of reunification, the Treuhand did not become a ministry (first step of depoliticization), rather it became subordinated to the government (second step), therein to the Minister of Finance, who can be seen as the best representative of reformers and taxpayers during transition (Boycko, Shleifer and Vishny 1995) (third step), and finally it became an autonomous state organization (fourth step). Real ownership rights were widely dispersed over different political and administrative hierarchical levels (see, again, Figure A1, Appendix). Thus, there was a whole set of principal-agent problems with politicians on top fighting for survival in the politico-bureaucratic market by maximizing votes, privatizers in the middle privatizing under political constraint, and firm managers at the bottom fighting for survival in the market by maximizing profit accompanied by rent seeking.

The direct political influence was best secured by administrative rights in the highest decision-making body, the Administrative Board, and by financial property rights, when approving the expenditure and debt creation by the Treuhand. In the Administrative Board the largest, and therefore also politically most important privatization cases, were decided. These were firms with more than 1,500 employees or DM 150 million in returns or book value, or that needed more than DM 100 million for restructuring. The structure of the Administrative Board mirrors the German tradition of corporatism and consensus: collective bargaining, codetermination, state patrimony, and consensus (Table 4). While on the one hand this led to less political conflict than having a board of "pure capitalists", on the other hand privatization and especially liquidation was hindered. Consensus was not difficult to reach because the taxpayer, as third party, was not adequately represented at the table. The Treuhand

was an off-budget organization, allowed to issue debt up to certain limits per year.⁵ These limits were approved by the Ministry of Finance's Treuhand department and by a parliamentary subcommittee responsible for the Treuhand. Apart from these two direct property rights the Treuhand was comparatively politically independent so that lawyers saw the Treuhand acting under mediating law (Übergangsrecht) which is in between public and private law (Weimar 1993:V).

Table 4. Administrative Board of the Treuhand, 1991 and 1993.

Interest Group	Status or Profession	Number in	
		1991	1993
(President)	Chief Executive Officer (CEO) of a large trade firm	1	1
(Vice President)	Self employed accountant	1	1
New Länder	Premier of Saxony	6	6
	Premier of Mecklenburg-West Pomerania (1993: other person)		
	Premier of Saxony-Anhalt (1993: Minister of Economics)		
	Premier of Brandenburg		
Federal Ministries	Minister of Finance of Thuringia (1993: Premier)		
	Minister of Finance of Berlin		
Federal Ministries	State Secretary, Ministry of Finance	2	2
	State Secretary, Ministry of Economics		
Trade Unions	Head, German Trade Union	4	4
	Head, Trade Union of Public Workers		
	Head, Trade Union of Chemical Workers		
Employers	Member of the board, Trade Union of Metal Workers		
	CEO of a large computer firm (1993: retired)	9	6
	CEO of a medium machine tool firm		
	Self employed consultant		
	President of a large photo and chemical firm (foreigner)		
	CEO of a medium firm (since 1993 vice president)		
	Member, executive board of a large trade firm (1993: retired)		
	CEO of a large utilities firm		
	CEO of a medium textile firm (1993: retired)		
	CEO of a large electronics and consumer goods firm (1993: retired)		
Member, exec. board of a medium machine tool firm (1993: new)			
Others	(retired) Member, board of directors of the Bundesbank	1	1
Total		24	21

Source: BMF (1991: 43), Treuhand (March 1991:23).

In the course of privatization the Treuhand became, again, subject to more direct political influence. This was due to the fact that the profitability of firms to be privatized declined and therefore many firms had to be liquidated—although there was already large-scale de-industrialization. The political importance per privatized or liquidated firm increased. Especially the so-called old industrial cores, agglomerations

⁵ With 1995, all debts to finance reunification became a budget item with the inherited debt sinking fund (Erblastentilgungsfond) including the deficits of the Treuhand and its successors.

of firms in declining industries, had to be either liquidated or subsidized with the hope of becoming new industrial cores (DIW et al. 1996, Report 14). The industrial cores were subsidized by the Treuhand (and others) according to political lobbying of the eastern German Länder. Brandenburg lobbied for steel industry, Mecklenburg-Pomerania for shipbuilding, Saxony-Anhalt for machine building and (outdated) chemical industry, Saxony for textile and (outdated) machine building industry, and Thuringia for (outdated) microelectronics, optic, electronic and glass industry.

Already in 1991, the Treuhand came to terms with the Länder and the trade unions by signing a letter of intention, wherein subsidies for medium-term restructuring and slow liquidation were determined. Because of political pressure the Treuhand installed advisory boards and discussion forums on the communal (Beiräte Niederlassungen) and regional levels (Wirtschaftskabinette Länder/Treuhand). Furthermore, the Treuhand became subject to an inquiry by the parliament in 1993/94. Although the inquiry's results were rather disappointing, it showed some organizational, legal and financial weaknesses in the Treuhand and, more important, made the managers on all levels think more about politics (Treuhand 1994, volume 13, 14).

The Treuhand was for a long time less vulnerable to political influence than in many other countries in transition. I would attribute this mainly to the political tradition of German policy making with the Bundesbank being the best example. Nevertheless, the Treuhand was not a private organization but a state one and adapted to political demands (Hau 1996). It became more politicized in the course of privatization. Whether, on average, the Treuhand was more politicized than the Czech ministry of privatization, or less than the Hungarian privatization agencies, I do not know. Though, I suppose that it was less and differently politically influenced.

2.6. Privatization Outside the Treuhand

Outside the Treuhand there have been privatizations, too: privatization by law, insider privatization, and reprivatization by restitution. Finally, the Treuhand and its successor acted in some cases as political trustee. Again, one finds some peculiarities of eastern German privatization and some cases not different from other countries in transition.

Privatization by law means that all eastern German cooperatives became by the stroke of a pen in spring 1990 private firms owned by their members and not by the Treuhand. Agricultural cooperatives owned about half and used about 5/6 of a total of 6.3 million hectare agricultural land (Schrader 1991:13); construction cooperatives owned about 20% of a total of 6.6 million flats in eastern Germany (Sander 1994:8). While they were before the law subject to central planning, although legally private, afterwards they were completely private operating in markets with strong state intervention. Compared to Treuhand firms they were discriminated because they did not, or only partially, receive debt relief, did not receive liquidity support in times of hard adjustment and did not receive legal assistance when dealing with complicated land and asset assignment and restitution issues.

There was also insider privatization in eastern Germany in 1990. Banks and insurances were privatized by the eastern German Minister of Finance under close observation by the western German government and the Bundesbank in summer 1990. There was no international public offering of financial firms. All of them went to the largest western German banks and insurances. Similarly the eastern German Ministry of Energy started to privatize the energy and gas transmission networks to a western German energy cartel and a quasi gas monopolist. Later politicians and potential big industrial consumers complained, and the Treuhand and the German Cartel Office intervened in the deals (Neu 1991). It is not yet clear why insider privatization occurred. The reasons stated by politicians did not sound very convincing: to prevent a financial crisis in times of currency union and an energy crisis in winter 1990/91. This insider privatization corresponds well with spontaneous privatization within the Treuhand that had occurred at the same time indicating that there was no "true" public owner.⁶

With the reunification treaty in autumn 1990 the restitution principle was applied to expropriated property. This immediately created an obstacle to fast privatization because of insecure property rights for investors. In spring 1991, the restitution principle was weakened by a so-called Investment Preference Clause with

⁶ The Eastern German State Bank went to Deutsche and Dresdner Bank, the Cooperative Bank went to Genossenschaftsbank, and the State Insurance Company went to Allianz. The State Loan and Savings Banks remained under communal ownership. The energy cartel consisted of RWE/ Preussen Elektra/ Bayernwerk and the quasi gas monopolist was Ruhrkohle.

which new investors that promised more jobs and investments could buy the property despite restitutional claims, and the old owner could get compensated by the state. The preference was declared by communal administrations or by the Treuhand for its own firms but could be challenged by the old owner. The outcome of this political solution was partially a "privatization by courts" because judges decided to whom to allocate the assets.

Although the Treuhand owned about 1/3 of agricultural land in eastern Germany it was not allowed to sell it. This was a political decision officially declared not to "disrupt" land prices (BMF 1991). Unofficially this land was reserved by the government for a political bargain with the old owners that were expropriated between 1945-1949 by the Russian occupation power, and which will not given back their property according to international contracts signed during reunification. Thus, the Treuhand leased the land, mainly, to private cooperatives, although, only for a very short time of 1 to 3 years. In mid 1996, the Treuhand successor still owned about 70% of its agricultural land and 90% of its forests (BVS 1996). Agriculture and forestry was a case where the Treuhand acted as political trustee, and not as a privatization agent. So it was with assets of the old eastern German political parties and mass organizations in trusteeship for a special federal political committee.

3. Restructuring Firms with State Intervention

3.1. Restructuring Before and During Privatizing

The privatization agent is also an intermediate owner of the firm. In some countries, as in Hungary, this task was separated into two agencies: one for the firm's short to medium term restructuring and one for pure privatization. In eastern Germany, the Treuhand pursued both functions at once. It had to decide when to restructure a firm and when to privatize or to liquidate it. The Treuhand managers decided to put privatization first, and to leave restructuring to the private owner. "Privatization is the best restructuring" was the slogan. Therefore, the Treuhand was very reluctant to restructure firms, also because of its own administrative incapacity. It made only capital replacements and no capital widening investment; it stopped restructuring efforts when a private investor showed an interest in the firm; it favored total over

partial privatization and selling bundles of firms over selling single ones. The problem that arose was a matter of time. When multi-sided multiple-criteria negotiations take a lot of time, up to two years, the buyer can play time to decrease the price of the firm. In the meantime, the firm cannot get necessary investment and may go bankrupt.

Nevertheless, the Treuhand restructured firms—passively. First and foremost it paid huge sums for restructuring by the new private owner in terms of price discounts for job and investment commitments. It also took over future losses of privatized firms, sometimes for 1-3 years. The problem with this, apart from finding the right shadow prices and to incur privatization losses, was to control all proposed commitments after privatization. Second, the Treuhand broke up the former big conglomerates, sometimes covering a whole industry because it wanted to have a pool of firms tailorable to investors' needs, and it wanted to enhance competition. That the eastern German firms exercised monopoly power is in most cases not a convincing argument for breaking them up because western German firms were larger in terms of capital or market share. The Treuhand might have even broken up too much, and it might have broken firms up wrongly because it did not apply profitability criteria for dividing firms where the parts were more worth than the whole. Third, the Treuhand replaced eastern German managers, used to central planning, with western German managers, used to a market economy. More than 8,500 new members of firm boards were appointed by the Treuhand, and 2,200 new chief executive officers. (Treuhand 1994, Vol. 13: 445); that means the whole socialist manager elite was replaced. Of course, the Treuhand then had to make sure that no conflict of interests between the new western German manager and his old employer or friends emerged. It had to prevent insider trading. Fourth, during privatization, the Treuhand sometimes partially restructured and financially endowed the firms as part of the deal with the new private owner. It often injected capital in small and medium firms for a MBO or MBI.⁷ This can be classified as pure subsidy. Fifth, in some cases with very large firms, it privatized only partially and shared in the risk of restructuring. It preferred to be the minority although not silent shareholder. The advantage is that the privatization agent can privatize firms that with total privatization would not find an investor. The

disadvantage is that the privatization agent may either be forced to act as lender of last resort in emergency cases, or it may use its partial shareholdings for influencing the firm politically. Sixth, the Treuhand started an experiment of outsourcing restructuring and privatization to managers with about 100 firms it thought viable. The management contract depended more on finding new investors quickly than on restructuring the firm completely. After all, this outsourcing was not successful (Bös and Kayser 1996).

In summary: the Treuhand did not act as entrepreneur. This was, according to the assignment problem, a good decision. It is different from some countries in transition (Poland, Hungary) and not different from others (Estonia, the Czech Republic). When restructuring, the Treuhand preferred to pay for, instead of doing itself because it could afford to do so. It restructured only passively. With such large money endowment, it was no wonder that many interest groups (trade unions, employees, the Länder, opposition parties) demanded the Treuhand to become a big state industrial holding company for restructuring. The government and the Treuhand management resisted successfully.

3.2. Restructuring After Being Privatized

The result of the Treuhand privatization was a huge amount of medium- to long-term contracts with new private owners that the Treuhand successor(s) had to monitor. The Treuhand successor had to control about 80,000 contracts of which 38,000 belong to firm sales, 31,000 to real estate sales and 11,000 to agricultural land leasing and sales (Bös 1997: 186). Consequently, the labor force of the privatization agent was reduced more slowly than anticipated in 1994. The economic problem was to distinguish between rent seekers and firms accidentally being in real trouble. In September 1996, about 2,500 firm contracts were in renegotiations and 4,800 were settled; together, 20% of the firm sale contracts (DIW et al. 1997, Report 15:59).⁸ The renegotiations are about postponing or reducing investment and job preservation commitments,

⁷ MBO/MBI cases totaled to about 3,000, that is 6% of all firm sales of the Treuhand (Treuhand 1994:2). MBO/MBI were considered politically important because they included participation of eastern German managers and employees.

payment defaults, revaluation of assets and resolving restitution claims. Although the Treuhand successor mentions that job and investment commitments are more than fulfilled on average, the distribution seems to be wide including firms short before bankruptcy and still keeping their promises and firms that would have invested and kept labor force anyway. There has been free riding by some investors, and there are rent seekers that want to transform their information advantage into at least temporary information rent. It seems that part of the liquidation cases were just delayed by the Treuhand's generous privatization policy.

If a firm is in emergency, the Treuhand successor typically has three options. First, it refuses any renegotiation and further subsidizing, despite some "true" legal disagreements, as for example, about restitutional claims. This would be the market solution of a once and for all privatization with a hard budget constraint on the privatized firm. Second, the Treuhand successor renegotiates the contract especially thereby lowering the penalty for not keeping job or investment commitments. This is the Treuhand successor's preferred solution with the problem of never-ending subsidization. Third, it takes the firm back (see Greiner et al. 1995 for a theoretical discussion). Although it did not want to renationalize, except in cases of crime (as happened with some dozen firms in one regional branch), it was politically forced to do so. There is an increasing number of cases where the Treuhand successor alone or in combination with the eastern German Länder became an owner again. Compared to the Treuhand's holdings before and compared to the whole eastern German economy this amount of renationalized firms is small; for some regions, though, this level matters a lot, as with the shipyards in Mecklenburg-Pomerania.

The Treuhand was, and the Treuhand successor will be, involved in financial restructuring for some time. This is a special aspect of eastern German privatization. Privatization is supposed to draw a line between the state and the private owner. This line was, in many cases, not drawn from the very beginning. Privatization was incomplete because the privatization agent was, and still is, politically forced to exercise financial property rights over the privatized firm. Only a hard budget constraint of the privatization agent and clear rules for contract renegotiation and even

⁸ Bös (1997:186) mentions 3,500 contracts in renegotiation and 5,000 settled contracts for the same time.

renationalization, stating that both should be very special cases, can prevent moral hazard. Privatization in which private investors buy firms, restructure them and always have the opportunity to give them back without incurring big losses is privatization without risk taking and therefore no full privatization.

3.3. Restructuring Beyond Privatization

Despite subsidies of the Treuhand there was a discussion about the general economic policy toward restructuring of firms in eastern Germany during transition. The question was whether capital or labor should be subsidized by the state. See SVR (1991), Schmidt and Schatz (1991), Siebert (1992), and DIW et al. (1997, Report 15) in favor of capital subsidies, and Akerlof et al. (1991), Klodt and Paqué (1993) and Sinn (1994) in favor of labor subsidies (see also, again, Table 1).

Capital subsidies were proposed because the capital stock in eastern Germany was outdated, and therefore had to be replaced, and small compared to western Germany. Capital subsidies lower the relative price of capital and make investments more profitable. Once capital is invested the private owners have an interest in keeping and extending it, thereby creating new and profitable jobs. The main drawback with capital subsidies is that they substitute capital for labor. Increasing unemployment is the result, in times of already high unemployment. A dual economy might emerge with high-tech industries of very productive firms and low-tech industries with unproductive firms.

Labor subsidies were proposed because there was high unemployment in eastern Germany, partly due to the old planning system's hidden unemployment, partly due to the wage cost explosion with and after currency union. Wage subsidies lower the wage cost to the employer making it profitable to employ more workers. Costs for unemployment become costs for subsidizing employment. The main drawback with labor subsidies is that they do not restrain wage cost explosion and thus do not cure one important cause of unemployment, just the symptoms. Wage subsidies also prevent restructuring of the outdated capital in eastern German firms.

Both subsidies distort relative prices, are expensive, invite rent seeking and free riding and cause moral hazard problems. In eastern Germany mainly capital subsidies were chosen as policy instrument. For example, there was a general subsidy

for investment goods of 12% from 1990-92, lowered to 8% and now 5%. Many other measures were taken ranging from financing new firms, via liquidity subsidies and equity financing to sales subsidies (DIW et al. 1997, Report 15). While some economists claim that it was the best thing to do because the capital stock becomes rebuilt and modern (Schmidt 1996b), others argue that capital subsidies brought about even negative capital prices so exacerbating the above mentioned drawbacks (Sinn 1994). In fact, subsidies to labor were given, too, either as investment in human capital by financing retraining schemes or by easing unemployment by financing workfare programs. (The Treuhand expenses for social plans during liquidation and job commitments can be seen so, as well).

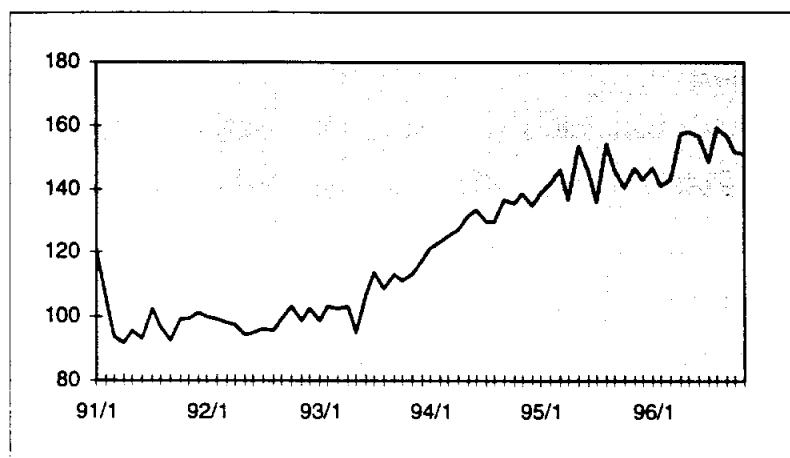
The mixture of the economic policy toward restructuring in eastern Germany is special compared to other countries in transition. The western German postwar assignment of economic policy did not work in eastern Germany. First, wage costs rose wide above productivity levels producing huge unemployment due to a collective wage bargaining system. Second, the state (including the Treuhand) subsidized capital heavily thereby increasing the number of unemployment further. Third, the state (including the Treuhand) picked up the bill for unemployment. Fourth, the German government did not let fall the standard of living in eastern Germany even though the firms did not produce the wealth of this nation. All of this meant huge public transfers amounting to about 1 trillion DM for 1991-1996 whereof the largest part is for consumption and not investment. The eastern German economy is in its sectoral structure now almost comparable to the western German economy (Table 5), though the firms are not yet as competitive (DIW et al. 1997, Report 16). Industrial production (including construction) is continuously increasing after the breakdown in 1989-1991, but the GDP growth slowed in 1995 and 1996 (Figure 1, Table 1). In general, this was a great leap forward in eastern Germany—on credit of western Germany. Whether the interest of the credit can be repaid by future self-sustained growth, and whether the principal of the credit can be repaid by eastern German growth rates higher than western German ones still remains to be seen.

Table 5. Sectoral Structure of Employment in Eastern and Western Germany (percent).

	Eastern Germany			Western Germany
	1989	1991	1995	1995
Agriculture	10.0	6.2	3.5	2.8
Energy, Watersupplies, Mining	3.6	3.2	1.7	1.5
Manufacturing	35.0	28.0	16.2	27.3
Construction	6.4	9.6	16.8	6.9
Wholesale and Retail Trade, Transport, Communication a)	15.5	17.0	17.6	19.1
Services b)	6.4	12.7	20.5	22.3
Government Services	20.9	20.5	18.8	14.8
Private Non-Profit Organizations c)	2.2	2.8	4.9	5.3

Notes: a) Including hotels and restaurants. — b) Credit institutions, insurance companies, other services. — c) 1989: Private households.

Source: Schatz (1997: Table 9).

Figure 1. Industrial Production in Eastern Germany, 1991-1996.

Note: 1991=100; seasonally adjusted.

Source: Schatz (1997: Table 10)

4. Ten Lessons

A government that wants to (mass) privatize should remember some lessons from eastern Germany:

1. *Privatize as much as possible.* Determine the extent of privatization according to international experiences while taking into account the country's (nonsocialist) tradition.
2. *Privatize very fast.* Only private entrepreneurs can restructure firms according to market signals. Often there is only a politico-economic "window of opportunity" to do so. If you want to help firms in restructuring, use normal economic policy for a limited period of time. The faster firms become subject to markets the better.
3. *Privatize only.* Do not assign any other goal to a privatization agent. Social policy should be pursued by means of taxes and transfers; competition policy should be implemented by an anti-monopoly office; etc. Mixed goals confuse responsibility and become expensive. If you have to or wish to assign another goal give it secondary ranking. Use privatization for other goals only to get the political momentum (critical mass) for the overall reform at all.
4. *Privatize unpolitically but with rules.* Use a privatization agent that is as politically autonomous as possible. Restrict yourself in intervening in privatization. The best rule to bind an independent privatization agent is to let him auction the firm to the highest bidder. The second-best rule is a constitutional state that binds the agent by law, incentive contracts, monitoring and public control. The third-best rule is to hire privatization managers who believe in private property.
5. *Privatize by standard auctions.* Place a lot of effort on marketing the firms to create demand. Negotiations are time consuming, opaque, discretionary and expensive because they demand many controls. If the privatization agent is (somehow) pressured to negotiate he can standardize negotiations and make them more auction-like.
6. *Privatize decentrally.* You can create competition between privatization agents and learn from the best agent. The more you can guarantee points 3. and 4., the more you can decentralize. If you do not decentralize externally, the privatization agent will do so internally.

7. *Privatize once and for all, and totally.* Shareholding and relational contracting between the privatization agent and the private owner can become expensive for you because of rent seeking and moral hazard problems, and it can become dangerous for the private firm if you or your successor's policies change toward more intervention.
8. *Do not restructure firms before and while privatizing.* Privatize when there is at least one private investor, including firm's managers and employees, that want to buy it quickly. If the only private investor delays in order to lower the price, threaten him with liquidating the firm. Liquidate firms not privatizable in order to be credible.
9. *Put firms to be restructured aside.* This creates clear responsibility and separates restructuring costs from privatization costs, thus providing politically important information.
10. *Create the privatization agent as a temporary institution* (see also point 7.). It should be made known that the privatization agent operates only to dissolve itself. Otherwise, the agent turns into a bureaucrat that administers, restructures and controls firms.

The Treuhand's slogan "rapid privatization—resolute restructuring—considerate liquidation" must be qualified in the light of its experience to "privatize only and rapidly—restructure seldom—liquidate when necessary".

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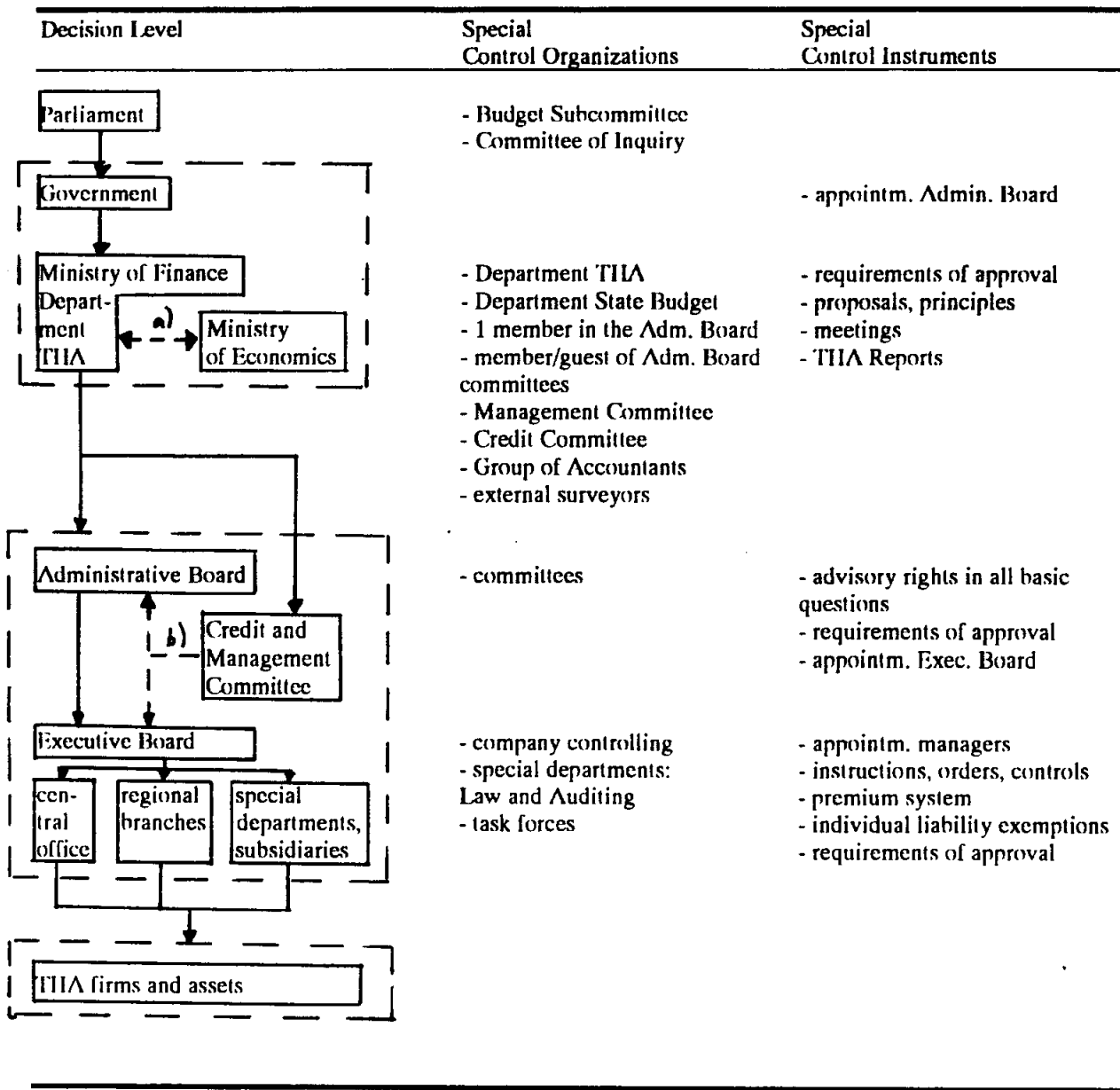
Table A.1. Privatization in Countries of Transition 1990-1996 (number of firms).

No	Country	EBRD				OECD							
		Total Privatized	Large Privatization %	Methods	Small Privatization Privatized	Agent	Large Privatization Privatized %	Methods	Small Privatization Privatized %				
1	Albania	400	100	25	Voucher	—	MEBO	x	53	18	Voucher	36000	95
2	Armenia	1100	600	55	Voucher	3200	MEBO	—	343	17	Voucher	2100	—
3	Azerbaijan	—	—	—	Voucher	—	—	—	—	—	—	—	—
4	Belarus	8000	—	—	Voucher	500	—	—	—	—	—	—	—
5	Bulgaria	3500	1000	29	Sale, Voucher	1700	Sale	x	534	15	Sale	24000	—
6	Croatia	2800	2100	75	MEBO, Voucher	—	—	—	—	—	—	—	—
7	Czech R.	4700	4700	100	Voucher, Sale	2200	Auction	x	4424	87	Voucher, Sale	25000	100
8	Estonia	500	500	100	Sale, Voucher	1500	MEBO, Auction	x	465	93	Sale	—	100
9	Georgia	1200	400	33	MEBO, Voucher	10000	—	—	—	—	—	—	—
10	Hungary	1900	1100	58	Sale	10000	—	x	1515	82	Sale	18000	100
11	Kazakhstan	1700	1000	59	Voucher, Sale, MEBO	11000	—	—	1555	52	Voucher	10000	—
12	Kyrgyzstan	1900	1500	79	MEBO, Voucher, Sale	4000	—	—	—	—	—	—	—
13	Latvia	1000	400	40	Voucher, MEBO	300	—	—	356	—	—	—	90
14	Lithuania	8700	6600	76	Voucher, MEBO	2700	Auction	x	2483	71	Voucher, MEBO	2800	95
15	Macedonia	1600	1200	75	MEBO	—	—	x	—	—	—	—	—
16	Moldova	1600	2200	138	Voucher, Sale	—	—	x	862	29	Voucher	1100	—
17	Mongolia	—	—	—	—	—	—	—	720	51	Voucher, Auction	3200	—
18	Poland	8900	3400	38	MEBO, Voucher, Sale	20000	—	—	3740	55	MEBO, Sale	—	95
19	Romania	7800	1500	19	Voucher, MEBO	3000	—	x	1433	20	MEBO	—	—
20	Russia	17800	15100	85	Voucher, MEBO, Sale	100000	MEBO, Auction	x	17000	71	Voucher, MEBO	85000	80
21	Slovak R.	1400	1200	86	Voucher, MEBO	10000	Auction	x	1251	74	Voucher, Sale	10000	100
22	Slovenia	1600	700	44	Voucher, MEBO	—	—	x	1474	54	Voucher, MEBO	—	—
23	Tajikistan	1300	400	31	MEBO, Voucher	1800	MEBO	—	—	—	—	—	—
24	Turkmenistan	600	—	—	—	1800	Auction, MEBO	—	—	—	—	—	—
25	Ukraine	8000	3500	44	Voucher, MEBO	31000	MEBO	x	6400	27	Voucher, MEBO	36000	70
26	Uzbekistan	11800	2300	19	Auction, Sale	60000	MEBO, Auction	—	—	—	—	—	—
	Total	99800	51500	52	—	274700	—	—	44608	—	—	253200	—
27	<i>E.Germany</i>	13800	13800	100	Sale	35000	Auction, MEBO	x	13800	100	Sale	35000	100

Note: Data without financial institutions, real estate, agricultural firms and land, restitutions. OECD majority privatized firms. MEBO: management or employee, buyout or buyin, or participation.

Source: EBRD (1996: 136-184), OECD (1996: 15-26), Eastern Germany: Treuhand (1994); own calculations.

Figure 1. The Structure and Control of the Treuhand 1991-1994.



Notes: a) Weekly meetings. — b) Proposal rights. — TIIA = Treuhand.