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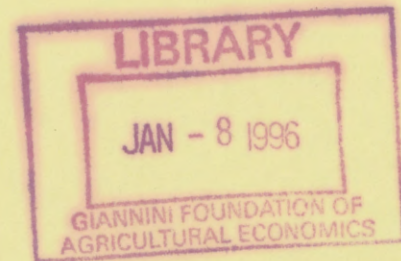
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INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

Occasional Paper 22



J. Kühl

**Privatization and its
labour market effects in
Eastern Germany**





Interdepartmental Project on Structural Adjustment

The aim of the Interdepartmental Project on Structural Adjustment is to strengthen ILO policy advice in relation to structural adjustment policies in order to make those policies more consistent with ILO principles and objectives.

The project investigates various options to give a different focus to adjustment policies, emphasizing major objectives as equitable growth, improved human resource development and social acceptability and it tries to establish how various ILO policies and policy instruments can contribute to such a different focus of adjustment policies.

The range of policy instruments encompasses labour market regulation, social security, wages policies, training policies, industrial relations as well as the employment and income effects of monetary, fiscal and price policies. Greater involvement of the ILO in the area of structural adjustment needs therefore to reflect the interdisciplinary nature of the adjustment problem by combining activities from different departments in the ILO.

During the 1992-93 biennium, the project concentrates on developing policies for the following five main areas:

- the role of the public and private institutions in structural adjustment;
- the role of fiscal policy in generating employment and favouring equitable growth in a process of adjustment;
- the role and function of compensatory programmes and social safety nets during adjustment;
- public sector adjustment, including issues pertaining to privatization;
- the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

**Privatization and its
labour market effects in
Eastern Germany**

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1. Introduction

Contrary to the approach adopted by Central and East European countries, Germany established a new public institution, the Treuhandanstalt (THA), to manage the privatization, reconstruction and reorganization of all state-owned enterprises. It was set up under German Democratic Republic law and began operations on 1 July 1990. The centralized THA was supported by 15 regional sub-agencies dealing with firms employing a workforce of less than 1,500 workers. The THA's basic principles of operation were not changed by the unification treaty, but its credit limit was increased to DM25 billion per year; the figure was DM37 billion in July 1993. The THA operates under the supervision of the Federal Ministry of Finance. As owner of more than 8,000 former state-owned companies, the THA initially had control of over 45,000 plants, with a total workforce of 4.1 million, about half the total workforce in the German Democratic Republic in the second part of 1989 when the Berlin wall fell.

After three years of operation, the THA holds 1,871 firms employing about 350,000 workers in total, less than 10 per cent of the original workforce in all THA companies. Altogether 12,360 firms have been wholly or partially privatized: 5,298 firms have been privatized completely, 523 have had the majority of the shares sold while the THA retains holdings of between 10 and 49 per cent; 6,163 parts of firms have been sold; in 376 cases property rights in mining industries have been sold. Privatized firms employed about 1 million workers by mid-1993, which is about one quarter of the number originally employed in these firms. Initial hopes that privatization would help preserve existing jobs and create new ones have thus not been fulfilled. On the contrary, privatized firms reduced their workforce by 20-30 per cent between taking over responsibility from the THA and mid-1993, in some cases despite promises, included in sales contracts, to maintain certain numbers of jobs.

THA expenditures were DM42.3 billion in 1992, which is 18.0 per cent of GDP in Eastern Germany, and DM41.3 billion in 1993, 14.7 per cent of GDP. The Federal Labour Office (Bundesanstalt für Arbeit — BA) had to spend even more in order to cope with the labour market and social consequences of rapid privatization. BA expenditures were DM46 billion in 1992 (19.6 per cent of GDP) and DM48.3 billion in 1993 (17.2 per cent of GDP). Accounting for 30-40 per cent of GDP annually between them, the THA and the BA had an important impact on the process of reindustrialization and employment in Eastern Germany (table 1). However, neither institution has any structural or industrial policy aims. The THA has had no explicit targets relating to preserving or creating jobs or to industrial or regional structures of employment.

Table 1. Expenditures of the Treuhandanstalt (THA) and the Federal Labour Office (BA), 1991-93

	Expenditure (DM bn)		GDP	Expenditure as % of GDP	
	THA	BA		THA	BA
1991	27.6	29.9	186.2	14.8	16.0
1992	42.3	46.0	235.3	18.0	19.6
1993 ^a	41.3	48.3	281.5	14.7	17.2

^a Budget figures

Source: GDP: *Gemeinschaftsdiagnose*, Spring 1993.

During 1994 the THA will stop dealing with privatizations but continue to control contracts, sell land and real estate, and help the remaining firms which cannot be sold or closed down for which a solution has not been found. The number of THA employees had reached a peak of 4,200 by mid-1993 but will be reduced to 2,800 in 1994 after the privatization process ends. One difficult issue in reforming the industrial structure of a centralized economy is the policy on liquidation. By the end of May 1993 only 49 firms had been completely liquidated, but 2,653 were still in the process of liquidation. In total 2,702 firms employing 303,700 people have been closed down; there is some hope that 82,300 of these jobs (27 per cent) may survive.

As a government agency, the THA has been charged with the following duties (Trusteeship Act, Treuhandgesetz, 17 June 1990):

- (i) Administration of state-owned firms according to the principles of a social market economy; disengagement of company structures and promotion of marketable firms and efficient economic structures. Assistance in preparing opening balance sheets on a DM basis and organizing firms according to western laws.
- (ii) Transfer of companies into the private sector as quickly as possible, the priority being to privatize rather than to reconstruct firms or parts of firms. Transfer means selling to the private sector — even at "negative prices", returning firms to former owners who lost them in 1972, or restoring public ownership by communities.
- (iii) Promotion of the reorganization of firms which can be reconstructed into competitive companies and then privatized. Reconstruction was intended to be achieved by splitting up firms into marketable units, by down-sizing of the remaining companies and by rearranging local economic networks.
- (iv) Provision of real estate for economic purposes; reorganization and privatization of THA assets in agriculture and forestry considering the special nature of these sectors.

The economic activity of state-owned firms was to be reduced as soon and as much as possible, while privatized forms were to be made competitive in markets in western Germany and the European Community, thereby securing existing jobs and creating new ones. The THA had no decisive obligation to revitalize Eastern Germany's economic base, or to create enough good jobs and preserve a high enough level of employment to secure wages and standards of living in the east comparable to those in the west.

The THA strategy may be summarized by its own slogan: rapid privatization, decisive reconstruction, smooth liquidation. But that strategy was not pursued without:

- (i) Workforce reductions in firms at the insistence of the new owners — there were no "promised" numbers of jobs in the initial sales contracts; by mid-1993 less than 60 per cent of 1.46 million jobs promised in contracts were secured by penalty payments — have forced the BA to spend increasing amounts on labour market policy measures and unemployment benefits (table 1);
- (ii) The "supply shock" of firms to be sold quickly led to lower prices; prices fell even further owing to shrinking markets, and the recession in western Germany and the European Community. Some of the new owners of firms received more financial

support or comparable advantages from the THA than they had to pay for the firm and to promise to invest in it. "Negative prices" of firms were the result of the THA's writing off the firm's old debts, the equity capital offered, the takeover of ecological burdens, and some risk-sharing by minority shareholdings of the THA. The consequences of low and even "negative prices" and subsidies to THA firms were large deficits: at the expected end of THA operations in 1994, the THA will have a total debt of between DM275 billion and DM300 billion. That huge burden will further increase the public deficit, which stands at 7.5 per cent of GDP in Eastern Germany in 1993. Future generations will have to pay for this.

- (iii) The estimated "value" of all THA firms has shrunk rapidly; from an estimated DM600 billion to as little as DM81 billion. The opening balance of the THA was estimated at DM114 billion, including no equity capital at all. In fact, the THA started with a deficit of DM209 billion. Consequently, privatization will not yield a surplus which can be redistributed to the people, but large deficits which will have to be paid for by taxpayers.
- (iv) Instead of reconstructing firms before privatization, the THA strategy has contributed to a rapid deindustrialization in all industrial sectors and in almost all regions. Investments by the new owners of former THA firms have been subsidized to a large extent by federal, state and local programmes. The cost consequences of the THA strategy are not yet clear. The THA argues that as a public institution it has no responsibility for regional and industrial policies, which are the responsibility of the five new states (*Länder*). Reconstruction and reindustrialization may cost more than DM1 trillion, while the THA has large running deficits and a rigid credit limit of DM37 billion in July 1993.

2. The main THA activities

THA activities can be divided into five periods:

- (i) Until the unification of Germany, the THA had to guarantee the liquidity of its firms by offering cash. It had to take an inventory of firms and their capital stock, real estate and obligations. Firms were asked for a certain opening balance and their business plan; they had to be reorganized according to the economic and legal system of the Federal Republic of Germany. By October 1990 only 34 firms had been privatized.
- (ii) From October 1990 until the end of the year the THA remained passive while West Germans began to buy the best firms.
- (iii) From the beginning of 1991 the THA offered "company information services" and an "Official Register of Treuhandanstalt Companies". Official and mass media advertising of firms to be sold supported a policy of rapid privatization. About 70 per cent of all firms were judged to be reconstructable, mainly after being sold to the private sector or transferred to public authorities.
- (iv) Active marketing by the THA started in 1992. This included looking for foreign investors¹ and promoting management buy-outs and buy-ins (MBOs, MBIs); workers could also take a 20 per cent share in their company. Small and medium-sized firms (SME) were offered to SME owners in western Germany. Registers of all firms to be privatized were published. THA initiatives aimed at boosting public and private sector orders to THA firms. An operation "Match Making" promoted cooperation with THA firms.
- (v) In late 1992 the THA started active reorganization of firms because many companies could not be sold immediately. Reconstructable firms were combined into management partnerships (10 to 15 firms would enter a management company). The states of Eastern Germany began to take responsibility for the industrial firms within their borders. Large firms essential to the industrial base and labour market of the whole region came to be seen as "core companies". Although no private investors had yet been found, the THA and state government officials agreed to reconstruct certain firms and to share the costs. But the THA always makes the final decision unless the state alone is paying for the reconstruction of a firm. In July 1993 the THA introduced a kind of portfolio privatization by selling 13 firms en bloc to the Deutsche Industrie Holding (DIH).

Carlin and Mayer (1992, p. 336) have documented highly active restructuring by the THA: creation of opening balance sheets; evaluation of the viability of firms; writing off

¹ By May 1993, foreign investors had bought 657 firms (or parts of firms), paying DM4.6 billion. They guaranteed 132,200 jobs and promised to invest DM18 billion, which is 10 per cent of all investment promised by all new owners over the period of 1990-94.

debts for firms believed to be viable; creation of supervisory boards; identification and evaluation of potential buyers; negotiation of employment and investment guarantees and sale prices; break-up of enterprises, liquidation of assets, and closure of firms.

The THA approach to privatization was thus a single-company one; it sold downsized firms to investors without regard to the industrial or regional structures of employment. The main criteria were number of firms to be transferred, number of jobs to be preserved and amounts to be invested. The THA showed little interest in productive potential, preservation of a qualified labour force, research and development facilities, training resources, creation of new products, marketing, or reconstruction of competitive firms before selling them to the private sector at decent prices.

3. The economics of THA operations

Table 2 shows the quarterly progress of privatization from late 1990 to May 1993: altogether 12,360 firms were wholly or partially sold by the THA during that period. The pace of privatization reached a peak in 1992. It has slowed down thereafter because mainly hard-to-sell companies are left.

Table 2. Privatization of firms and the THA debt, 1990-93 (DM m)

Quarter and year	Number of firms privatized ^a		Total THA debt	Credit market	Takeover of firms' debt	Debts due to equalization claims of firms
	By quarter	All				
IV. 1990	374 ^b	408 ^b	14 058	4 330	9 728	0
I. 1991	853	1 261	15 272	5 544	9 728	0
II. 1991	1 322	2 583	18 869	9 111	9 758	0
III. 1991	1 205	3 788	26 909	13 643	13 266	0
IV. 1991	1 422	5 210	39 402	24 192	15 210	0
I. 1992	1 369	6 579	49 443	27 075	20 352	2 016
II. 1992	1 596	8 175	58 549	32 883	23 650	2 016
III. 1992	1 163	9 338	73 138	42 166	28 575	2 397
IV. 1992	1 705	11 043	106 792	54 669	38 010	14 113
I. 1993	1 317 ^c	12 360 ^c	125 253	75 539	34 644	15 070

^a All forms of privatization: complete companies or majority shares, parts of firms, MBOs, minority shares up to 49 per cent retained by the THA; reprivatizations and community privatizations are not included.

^b Includes 34 privatizations before October 1990.

^c Includes 2,339 MBOs before end of May 1993.

Sources: THA, Bundesbankbericht, own calculations.

By May 1993 the THA's total debt had increased to over DM125 billion; 60 per cent was borrowed on the credit market, 28 per cent stemmed from the THA's taking over of firms' debts, and 12 per cent was due to "equalization claims" by THA firms. The THA allowed firms to make equalization claims in order to compensate for their severe losses owing to the general lack of competitiveness, the loss of eastern markets and a widespread lack of capital. The THA's increasing indebtedness is closely linked to the progress of privatization, not only because of the THA's writing off of firms' debt and paying equalization claims but also because of the supply of equity capital to firms — the amount depending on the industrial sector involved. In spring 1993 the THA debt per privatization could be estimated at DM10 million.

4. THA privatization criteria: Jobs, investments, revenues

Table 3 elaborates on the THA's own privatization criteria. Out of the initial 8,000 firms (with 45,000 plants), the plan was to privatize about 6,100. The gross number of firms under THA control (its "portfolio") increased rapidly as firms were split up into smaller, more marketable units. By mid-1993 almost 13,000 firms had been under THA control. The privatization of complete firms or parts of firms proceeded rapidly up to 12,360 units by the end of May 1993. The privatization rate, that is privatizations per number of firms in the THA portfolio, increased as follows:

mid-1991	27.4%	of firms in the THA portfolio privatized
mid-1992	69.5%	"
mid-1993	95.4%	"

In addition to these privatizations, 1,350 firms have been reprivatized; 253 community privatizations have taken place, and a further 71 are under way (end of May 1993).

According to the principle of rapid privatization, the THA proceeded very fast in wholesale and retail trade, restaurants, hotels and services. The privatization rate in manufacturing industries was much lower. However, looking simply at numbers of firms privatized neglects factors such as firm size (number of jobs), and the regional and industrial distribution of firms. In the beginning, no targets for jobs or investments were included in sales contracts. Later on, buyers promised certain numbers of jobs and levels of investment, and later still contracts contained penalty payments (*poenale*) if the promised figures were not met after privatization. Out of the 1.46 million jobs promised at the end of May 1993, only 58 per cent were backed up with fines if the new owners broke the agreement. By that time 1,015 contracts securing 106,000 jobs had been broken.

On average, firms reduced their workforce by 20-30 per cent after the THA's responsibility ended. Some firms had made no promises on jobs; some had no agreements on penalties; some kept on parts of the workforce for some time before dismissals; some found their initial expectations of a rapid upswing disappointed, having made this a condition for retaining jobs. Only a very few privatized firms have been asked to pay the fine of DM5,000-DM20,000 per job promised — a sum which would bring firms close to bankruptcy if they had to pay it.

For similar reasons, less than one-half (DM88 billion) out of DM179 billion worth of investment promises is backed up by fines. The majority of investment promised are to be undertaken in 1994 and 1995; one-quarter of all investments have no specified time-scale. Many investment plans have been revised downwards because of slack economic conditions in western Germany.

The number of jobs promised per firm privatized is in fact quite high, an average of 174 in mid-1991, declining to 118 by mid-1993. But that is still eight times as large as the average firm size in western Germany. Downsizing is thus expected to continue.

Table 3. Privatizations out of the THA portfolio of firms, promised jobs and investments, and gross revenues from sales of firms, 1991-93

Quarter and year	Portfolio of THA firms ^a	Privatizations	Firms to be privatized	Promised jobs ^b		Promised investments ^b			Gross revenues from THA sales ^b		
				Total (000s)	Per firm privatized	Total (DM bn)	Per firm (DM m)	Per job (DM 000)	Total (DM bn)	Per firm (DM m)	Per job (DM 000)
II. 1991	10 334	2 583	7 200	449	174	35.3	13.7	78.6	11.6	3.9	24.4
III. 1991	10 357	3 788	6 500	643	170	55.2	14.6	85.8	13.9	3.7	21.6
IV. 1991	10 970	5 210	6 000	853	164	84.0	16.1	98.5	19.5	3.7	22.9
I. 1992	11 555	6 579	5 117	1 001	152	98.8	15.0	98.7	26.8	4.1	26.8
II. 1992	11 759	8 175	4 340	1 147	140	114.0	13.9	99.4	30.7	3.8	26.8
III. 1992	12 142	9 338	3 810	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IV. 1992	12 599	11 043	2 843	1 260	114	150.2 ^c	13.6	119.2	39.2	3.5	31.1
I. 1993	12 892	11 530	2 173	1 440	125	176.7 ^c	15.3	122.7	41.6	3.6	28.9
II. 1993	12 952	12 360	1 871	1 457	118	178.9 ^c	14.5	122.8	43.0	3.5	29.5

^a Gross number of firms under THA control. Mergers, splitting up of firms, property rights in mining industries, firms without employment and firms in foreign countries mean a permanently fluctuating number of firms in the THA portfolio.

^b According to contract.

^c Includes DM30 billion investments in energy industries offering 77,000 jobs. These are excluded from the upper part of the table because they were blocked until an agreement had been reached between the big energy suppliers in western Germany and local firms in Eastern Germany.

The level of promised investments per firm are quite stable over time, DM15 million on average. The level of investment per job promised, on the other hand — an indicator of the capital-labour ratio of privatized firms — increased by 56 per cent within two years up to DM123,000 per job.

Table 4. THA firms:^a Earnings from operations, wages/salaries and cash flow per unit of sales, 1991-92^b (%)

Industry	Earnings from operations		Wages and salaries		Cash flow	
	1991	1992	1991	1992	1991	1992
Agriculture	-20.1	-14.8	31.2	29.6	-14.9	-8.2
Energy, water	3.0	-36.7	25.2	50.7	27.8	-14.0
Mining	-16.0	-30.2	25.8	59.6	-8.8	-16.8
Chemicals	-58.0	-37.7	55.1	29.8	-47.3	-32.1
Synthetics	-44.8	-40.1	52.9	51.6	-37.2	-38.3
Stone, glass, ceramics	-41.3	-24.5	57.1	48.3	-30.2	-14.5
Iron, non-ferrous metal	-25.8	-10.9	37.3	19.7	-18.3	-12.4
Steel, light metal	5.6	-0.4	25.6	22.3	7.2	8.4
Machinery	-17.1	-31.9	38.6	51.5	-13.9	-27.0
Vehicles, auto industries	-43.4	-14.1	47.3	38.9	-38.0	-13.5
Shipbuilding	-56.9	n.a.	47.8	n.a.	-26.3	n.a.
Electrical, electronic	-43.3	-36.9	60.0	52.4	-31.5	-25.7
Precision machinery, optics	-82.1	-69.6	104.6	62.1	-67.3	-58.4
Metal goods, sport, toys	-50.3	-33.2	67.5	57.5	-43.9	-31.0
Wood	-48.6	-18.0	53.6	42.7	-45.2	-16.7
Paper, printing	-31.0	-12.9	36.3	28.7	-22.7	-10.7
Leather, shoes	-87.8	-44.2	64.4	50.7	-71.9	-41.6
Clothing, textiles	-64.1	-37.2	69.6	48.2	-47.8	-39.1
Food, drink	-12.7	-5.6	21.6	15.7	-9.2	-5.0
Total manufacturing	n.a.	-21.1	n.a.	35.6	n.a.	-17.1
Construction	-2.7	-16.2	36.1	59.8	1.6	-12.0
Other building industries	n.a.	-4.2	n.a.	34.6	n.a.	-2.1
Trade (wholesale/retail)	-5.8	-2.4	14.0	12.6	-5.1	-3.0
Transport and communications	-21.4	-27.6	46.0	46.0	-7.0	-10.9
Services	-10.9	-11.1	48.7	53.3	-6.4	-1.7
TOTAL	n.a.	-19.9	n.a.	36.6	n.a.	-14.5

Notes: n.a. = Figures not available

^a Survey of 2,647 THA firms in 1991 and 812 firms in 1992.

^b 1992 figures do not include the fourth quarter.

Source: Lichtblau, 1993, p. 28.

Gross revenues from THA sales of firms had reached DM43 billion by the end of May 1993. Net revenues might be lower because of some firms having difficulties paying the sum agreed. A few firms have been given back to the THA, and many renegotiations concerning prices, conditions, and job or investment promises are under way. If we accept the official THA figures, gross revenue per firm privatized has remained fairly stable at around DM4 million, showing a slight decline in recent quarters. Gross revenue per job promised has

increased slightly to just under DM30,000 at the end of May 1993. For comparison, average gross wages/salary per full-time worker in privatized firms was DM2,811 per month in March 1993, which is around DM34,000 on a yearly basis.

On the face of it, the THA achievements are impressive: the overall rate of privatization, the number of jobs and level of investment promised, and the gross revenues are remarkable. But actual employment figures and investment levels lag far behind the promises.

A few management ratios for THA firms may help explain why the privatization process was so problematic. Table 4 shows that earnings from operations and cash flow per unit of sales were negative in almost all industries and during both 1991 and 1992 for the majority of THA firms. In 1991, 84 per cent of 3,425 THA firms showed a loss of DM12.2 billion for the financial year, which represents 25 per cent of the value of sales. Just 16 per cent of firms made some profit or broke even. Some progress may be seen in the figures for the end of March 1992: three-quarters of all firms suffered from severe losses (13 per cent of the value of sales on average), while only 764 out of 3,135 firms made some profit and 28 firms broke even. The data stem from internal THA sources; more recent figures are not available.

5. Employment and employment prospects in THA firms and in privatized firms

Between April 1991 and 1993, five representative surveys have been conducted in order to monitor the development of employment and employment prospects in THA firms and in privatized (ex-THA) firms. By 1 April 1991, THA firms had reduced their workforce by 35 per cent down to 2.65 million. Many workers commuted to western Germany in pursuit of higher wages. Some early retirement schemes had been introduced by the German Democratic Republic government. Only a minority of the total job losses of 1.4 million during the period covered by the survey stemmed from privatization (some privatizations had taken place before the THA started operations). At that time, THA firms expected their workforce to decline further to 1.2 million by the beginning of 1994. That figure is very close to that reached in each of the subsequent surveys (see the last line of table 5).

During the period covered by the second survey, the privatized (ex-THA) firms also reduced their workforce. If we calculate a rough figure for jobs at the end of the THA's responsibility for firms of 355,000 — which might be a little artificial as privatizations took place between 1 July 1990 and 1 October 1991 — we observe a substantial decline in employment in privatized firms down to 285,000 (a loss of 20 per cent). A further decline in employment down to 238,000 by the beginning of 1994 (a loss of 16 per cent) was projected. A stabilization of employment in privatized firms was expected in 1993, but at a level one-third lower than the initial workforce.

The employment record of privatizations has not changed much over time. In general, privatized firms have hastened the decline in employment. In addition, employment prospects have become even worse over time. This finding is reinforced if we look at the job projections of individual firms over all survey dates, indicating that initial hopes of a rapid recovery were disappointed.

At the fifth survey date of 1 April 1994, THA firms offered 337,000 jobs, less than 10 per cent of the workforce at 1 July 1990 when the THA started operations. A little over 1 million workers had been transferred to privatized firms. Both groups of firms predicted a decline in their workforce of 100,000 workers by the end of 1994. By that time a little over one-quarter of all the jobs which existed when the Berlin wall fell in 1989 may survive in privatized firms.

Table 5. Employment and employment projections in THA firms and in privatized (ex-THA) firms, 1989-95 (000s)

Date (survey dates)	First survey 1.4.91 ^a			Second survey 1.10.91			Third survey 1.4.92			Fourth survey 1.10.92			Fifth survey 1.4.93			
	THA	THA	Ex-THA Total	THA	Ex-THA	Total	THA	Ex-THA	Total	THA	Ex-THA	Total	THA	Ex-THA	Total	
1.1.1990	4 080 ^b															
1.4.1990	4 000 ^b															
1.7.1990	3 500 ^b															
1.1.1991	2 937	2 979	n.a.	n.a.			2 903	n.a.	n.a.			1 539	n.a.	n.a.		
1.4.1991	2 653	n.a.	355 ^c	n.a.				n.a.	n.a.			n.a.	n.a.	n.a.		
1.7.1991	2 115	n.a.	n.a.	n.a.			n.a.	733 ^c	n.a.			n.a.	n.a.	n.a.		
1.10.1991	n.a.	2 000	285	2 285			n.a.	n.a.	n.a.			n.a.	n.a.	n.a.		
1.1.1992	1 565	1 404	254	1 658			n.a.	n.a.	n.a.			n.a.	n.a.	n.a.		
1.4.1992	n.a.	n.a.	n.a.	n.a.			1 235	553	1 788			n.a.	1 190 ^c			
1.7.1992	n.a.	n.a.	n.a.	n.a.			1 070	529	1 599			n.a.	n.a.	n.a.		
1.10.1992	n.a.	n.a.	n.a.	n.a.			n.a.	n.a.	n.a.			560 ^d	885	1 445		
1.1.1993	1 356	1 098	236	1 334			906	511	1 417			472	836	1 308	364	1 083 1 447
1.4.1993	n.a.	n.a.	n.a.	n.a.			n.a.	n.a.	n.a.			439	n.a.	n.a.	337 ^e	1 047 1 384
1.7.1993	n.a.	n.a.	n.a.	n.a.			n.a.	n.a.	n.a.			406	815	1 221	n.a.	n.a. n.a.
1.1.1994	1 196	1 036	238	1 274			812	506	1 318			375	799	1 174	262 ^e	952 1 214
1.1.1995	n.a.	n.a.	n.a.	n.a.			n.a.	n.a.	n.a.			n.a.	n.a.	n.a.	231 ^e	936 1 167

Notes: Numbers below the line at the survey data indicate employment projections of firms.
n.a. = Figures not available

^a A survey of privatized firms on 1 April 1991 was not possible.

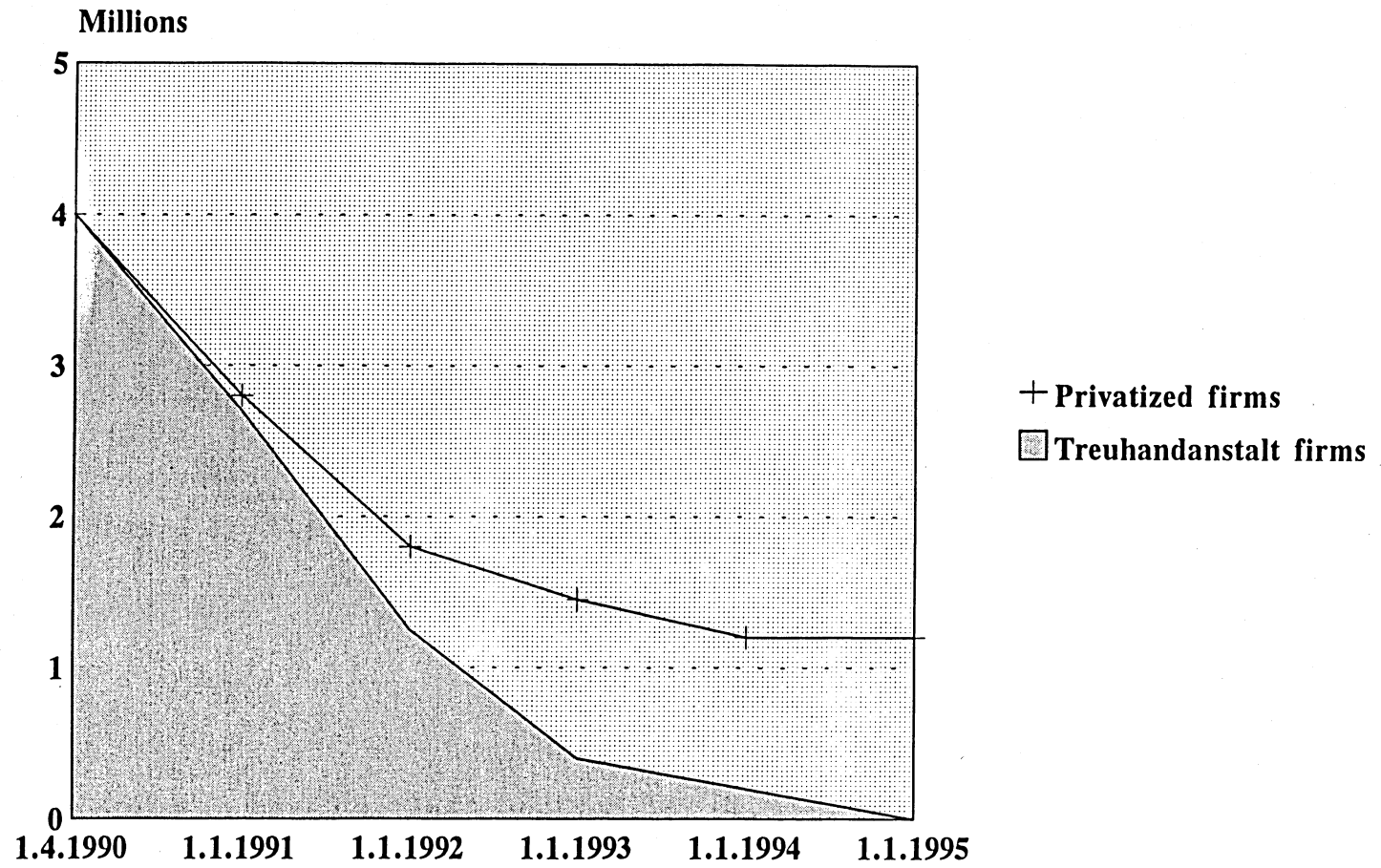
^b Employment in firms which came under THA supervision on 1 July 1990.

^c Employment in privatized firms at the end of THA responsibility.

^d Excluding 66,000 workers in THA firms to be closed by liquidation.

^e Excluding 45,000 workers in THA firms under liquidation, out of which 27 per cent of jobs are believed likely to survive.

Figure 1. Employment in Treuhandanstalt firms and in privatized firms, March 1990 and end of 1995



6. Labour market status of workers after leaving THA firms

Table 6 shows the labour market status of different workers leaving THA firms. In 1991 ordinary retirement and special early retirement schemes — *Vorruhestandsgeld* up to 2 October 1990, *Altersübergangsgeld* after unification — accounted for one in eight workers leaving THA firms. In 1992 the figure was a little more than 4 per cent, and by 1993 the retirement possibility seems to have been exhausted. About one-quarter of all THA leavers in 1991 found new jobs in privatized firms, management buy-outs (MBOs) or management buy-ins (MBIs), mostly as a result of voluntary moves to other firms or attempts to start a new business. During the phase of active privatization in 1992 a greater proportion of leavers were absorbed by privatized firms. Moving to other firms and setting up new businesses declined in importance as economic conditions worsened in Eastern Germany.

Table 6. Labour market status of workers after leaving THA firms, 1991-93 (%)

Labour force status	1.4.1991	1.10.1991	1.4.1992	1.10.1992	1.4.1993
Retirement	4.4	1.2	1.0	4.4	0.6
Early retirement	7.1	12.9	3.2	0.4	0.0
Total	11.5	14.1	4.2	4.8	0.6
Privatization, MBO, MBI	12.6	5.8	15.2	15.8	6.7
Move into another firm, founding new firms	15.4	15.7	13.3	10.8	7.2
Total	28.0	21.5	28.5	26.6	13.9
Employment companies	0	8.4	10.7	8.4	16.4
Job creation programmes	10.3	8.1	3.1	1.5	1.2
Training and retraining	6.3	5.2	3.7	1.9	1.9
Total participation in labour market policy measures	16.6	21.7	17.5	11.8	19.5
Unemployment	44.0	24.0	34.5	42.7	43.0
Other, unknown	—	18.5	15.5	14.1	23.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Surveys of THA firms and privatized firms.

In accordance with the THA strategy of reducing the workforce of firms to be sold until an investor was willing to buy and relying on labour market policy measures and unemployment benefits to cater for redundant workers, almost one in five workers benefited from labour market policy measures.² At first job creation via wage subsidies and

² By and large no new instruments were introduced by policy-makers, but those already existing in western Germany were adapted to the new problems arising from the process of transition. In addition to migration to the west and commuters working in the west, four major measures dealt with the rapid decline in employment:

(continued...)

vocational training/retraining schemes accounted for impressive numbers, but the figure dropped to 3 per cent of THA leavers in 1993 as the financial resources of the BA became gradually exhausted.

Increasingly large shares of THA leavers were taken into employment companies with different obligations relating to training, job creation, and regional or industrial restructuring to cope with labour market slack. Employment companies became a precondition of privatization as they took on increasing numbers of workers who had to be made redundant before privatizations could take place. As employment companies offered training and job creation measures financed out of the BA budget, their expansion may explain why the relative importance of these measures fell over time.

If we leave aside leavers of unknown and other status (less than 20 per cent), an ever-increasing share of former workers in THA firms became unemployed, up to 43 per cent in the spring of 1993.

Labour market policy attempted to cushion the effects of dismissals in THA firms and to stabilize employment in privatized firms by means of short-time working allowances. Table 7 looks at the extent of that scheme, showing that almost two-thirds of all short-time workers in Eastern Germany were in THA firms and privatized (ex-THA) firms.

Table 7. Short-time workers, 1991-93 (in thousands and as % of workforce)

	1.4.91		1.10.91		1.4.92		1.10.92		1.4.93	
	000s	%	000s	%	000s	%	000s	%	000s	%
THA firms	1 271	47.9	709	35.5	237	19.2	104	18.6	58	17.2
Privatized firms	n.a.	n.a.	n.a.	n.a.	47	8.5	50	6.0	97	10.1
Eastern Germany	1 990	22.6	1 333	15.1	494	6.5	251	4.4	246	4.3
Western Germany	139	0.6	133	0.6	266	1.1	204	0.9	1 061	4.6

Note: n.a. = Figures not available

On 1 April 1993 about 17 per cent of workers in THA firms were working reduced hours and about 10 per cent of those did so in privatized firms. Both groups received wage subsidies for short-time workers from the BA budget.

Table 8 sums up total expenditures by the BA on labour market policy measures in Eastern Germany, although it is not possible to calculate the shares of expenditure related to THA firms and privatized firms. In 1993 more than 17 per cent of GDP in Eastern

²(...continued)

- (i) Support for workers taking early retirement at 57 years until regular pension schemes step in;
 - (ii) Public job creation schemes (ABM) offering wage-cost subsidies of differing extents, project costs, large-scale measures (Mega-ABM) and recently a wage-cost subsidy of DM15 200 per annum per worker. In general the subsidies offered by job creation schemes have decreased over time.
 - (iii) Short-time working allowances down to zero hours worked in order to finance the wages of redundant but so far not dismissed workers.
 - (iv) Training and retraining measures offering wage substitutes to workers, such as costs of full-time or part-time training courses. The possibility of combining "zero hours" short-time working schemes with training was not successful because the incentives for participation were too low.
- Most of these measures were financed under the Labour Promotion Act (AFG), which produced large deficits in the east. They were financed by surpluses from the contributions of workers and firms in western Germany and by public deficits of the Federal Government.

Germany was spent by the BA on labour market policy measures. If we combine expenditures on early retirement, unemployment benefit and unemployment assistance, more than DM26 billion were paid to economically inactive people in 1993, which represents almost 10 per cent of GDP in Eastern Germany. It has already been argued that the BA incurred larger annual expenditures than the THA because the employment consequences of privatization were largely transferred to the BA.

Table 8. Expenditures on active labour market policy and on unemployment benefits/assistance, 1991-93 (DM bn)

Selected expenditures	1991	1992	1993	1993 (as % of GDP)
Individual and institutional promotion of vocational training and retraining	4 267	10 721	9 774	3.5
Job creation	3 076	7 803	8 639	3.1
Short-time working allowance	10 006	2 653	1 379	0.5
Early retirement	2 700	9 317	11 991	4.3
Unemployment benefits	7 810	11 809	10 954	3.9
Total expenditures of BA	29 875	46 014	48 278	17.2
Unemployment assistance paid out of the federal budget	271	1 489	3 335	1.2

Source: BA; 1993 budget figures.

The enormous expenditures of the BA on labour market policies aimed at both active and inactive workers may explain why the tremendous decline in employment in THA firms — which resulted in just over 1 million workers transferring to new jobs in privatized firms and left almost 3 million to the mercy of slack labour markets — was implemented without large-scale unrest and social resistance.

7. Comparison between THA firms and privatized firms

To obtain a deeper insight into the employment consequences of privatization, it is worthwhile to compare different aspects of THA firms and privatized firms.

7.1 Size of firms according to the workforce

Table 9 reveals a very similar average size for THA and privatized firms, that is 166 and 162 workers per firm respectively in spring 1993.

Table 9. Size of THA firms and privatized firms, spring 1993

Employment size	THA firms (31 May 1993)			Privatized firms (1 April 1993)		
	Firms (%)	Workers (%)	Workers per firm	Firms (%)	Workers (%)	Workers per firm
1-20	46.6	1.3	5.9	17.9	1.3	11.3
21-50	16.8	3.5	34.1	26.7	5.4	32.5
51-100	12.1	5.4	73.7	21.1	9.3	71.7
101-250	13.5	12.9	158.5	20.8	19.8	154.7
251-500	5.7	11.8	343.4	7.2	14.8	332.3
501-1 000	2.7	10.8	657.0	3.6	15.5	695.1
1 001-1 500	1.0	7.4	1 204.2	1.3	9.6	1 199.7
+1 500	1.5	46.9	5 026.6	1.3	24.3	2 939.4
Total	100.0	100.0	166.0	100.0	100.0	162.1
Number	1 871	310 536		2 385	386 517	

Source: THA survey of 2,385 privatized firms.

While the THA points out that 47 per cent of the total of 1,871 firms still to be transferred out of its responsibility have a workforce of 20 employees or fewer, it is interesting to note that only 1.5 per cent of the firms account for 47 per cent of all jobs to be privatized. If we define small and medium-sized firms as those with a workforce of up to 500 employees, about 95 per cent of all THA firms and privatized firms belong to that group. They employ 35 per cent of workers in THA firms and just over half (50.6 per cent) of employees in privatized firms. Privatization has thus brought about a decisive downsizing of firms. The THAs difficulties in privatizing firms are mainly due to the very large size of their workforce. The THA has published a list of the "big 30", giving the name, industry and workforce of the firms, which are seen as the core industrial sectors.

7.2 Wages and salaries

Wages in the German Democratic Republic were fairly low and the industrial wage structure was flat. Soon after unification on 3 October 1990, the western system of wage setting through collective bargaining was introduced in Eastern Germany, and employers' organizations and unions in the different industries started negotiations on a decentralized

basis. They agreed to try to close the huge wage gap between east and west by the end of 1994, thus stressing the fact that Eastern Germany was not to be a low-wage country in the future. Investors were told to use the most recent technologies: workers were offered incentives to stay at their firms to reconstruct them. Both the state and social security system had reasons to expect good revenues from productive workplaces.

Table 10. Eastern wages as a percentage of western wages, 1991-92

Industry	1991	1992
Manufacturing		
Blue-collar	46.9	57.9
White-collar	40.1	50.6
Construction		
Blue-collar	63.4	71.8
White-collar	54.2	64.7
Retail trade		
White-collar	51.3	62.8
Banking services		
White-collar	46.8	59.7

The speed of adjustment may be seen from the official figures for gross monthly wages/salaries in 1991 and 1992 (see table 10).

In 1993 wages paid in the east were about 70 per cent of western gross wages. Most recent collective bargaining agreements have slowed down the speed of adjustment.

Table 11. Wages and salaries in THA firms and privatized firms

	THA firms		Privatized firms	
	DM	Index (March 1993 = 100)	DM	Index (March 1993 = 100)
March 1991	1 530	53.8	n.a.	n.a.
September 1991	2 083	73.2	1 991	70.8
March 1992	2 237	78.6	2 299	81.8
September 1992	2 593	91.1	2 679	95.3
March 1993	2 845	100.0	2 811	100.0
Selected industries				
Agriculture	2 373	83.4	2 164	77.0
Energy, water	3 517	123.6	3 306	117.6
Mining	3 344	117.5	3 348	119.1
Manufacturing	2 562	90.0	2 547	90.6
Construction	3 538	124.4	3 202	113.9
Females share in firms' workforce				
Less than 20%	2 659	93.5	2 880	102.5
More than 20%	2 040	71.7	2 073	73.7

Source: Survey of firms (see Appendix).

Wages in THA firms have increased and collective bargaining plus privatization has led to large wage differentials between industries. Table 11 shows the level and structure of wages in March 1993 and table 12 gives more details by industry.

Table 12. Monthly gross wages/salary per full-time worker, March 1993

Industry	Level (DM)	Change from previous year (%)	Index (April 1991 = 100)	Female wages as % of level	THA wages as % of wages in privatized firms
Agriculture	2 373	26.6	173.8	92.5	109.7
Energy, water	3 517	21.3	171.7	88.7	106.4
Mining	3 344	37.4	195.7	94.1	99.9
Chemicals	2 817	19.8	173.2	91.7	98.3
Synthetics	2 444	20.9	184.6	91.9	104.0
Stone, glass, ceramic	2 497	27.4	141.1	87.5	95.7
Iron, non-ferrous metal	2 603	23.0	181.3	93.4	107.6
Steel, light metal	2 563	19.4	171.1	97.2	99.9
Machinery	2 626	24.7	190.2	91.7	102.3
Vehicles, auto industries	2 376	17.6	174.6	94.9	96.0
Electrical, electronic	2 468	18.5	188.4	88.7	97.8
Precision machinery, optics	2 528	22.2	188.8	93.5	108.0
Metal goods, sport, toys	2 167	15.0	201.6	88.1	94.3
Wood	2 489	25.5	176.9	84.9	107.7
Paper, printing	2 619	15.6	187.2	88.4	95.8
Leather, shoes	2 096	15.7	243.4	94.5	110.3
Clothing, textiles	2 081	26.2	201.5	93.0	102.2
Food, drink	2 436	28.5	181.8	85.0	101.9
Construction	3 538	24.2	161.8	90.2	110.5
Other building industries	2 650	16.2	146.5	93.9	93.4
Trade (wholesale, retail)	2 776	25.8	148.9	86.3	104.1
Transport and communications	3 178	39.0	186.7	71.5	109.4
Services	2 661	21.1	160.6	89.7	95.3
Unknown	3 048	28.1	202.5	83.4	109.1
TOTAL	2 845	27.2	185.9	89.0	101.2

Source: Survey of firms (see Appendix).

Gross monthly wages/salaries have increased by 86 per cent in two years. In March 1993 male workers' salaries were DM450 per month higher than female wages in THA firms, while in privatized firms men got over DM500 more than women. Firms employing more than 80 per cent female workers pay only 72 per cent of average wages in THA firms, and only 74 per cent in privatized ones.

Wage increases vary between industries, from 41 per cent in stone, glass and ceramic industries to 143 per cent in the very low-paying leather and shoe industries, indicating large wage differentials during 1991-93. Wages for women are below average in all industries. In 14 out of 24 industries, wages in privatized firms are lower than the wages of comparable

THA firms. So far it has not been possible to control for employment structures, qualification levels, short-timers and firm size. Even within single industries, wage differentials between firms are high and increasing. In September 1992, for example, THA construction firms paid workers DM3,311 gross per month on average, with a dispersion of DM365. The lowest-paying firms offered DM2,106, while the highest-paying gave DM4,170. Privatized construction firms paid DM3,154 gross per month on average, with a dispersion of DM 359. The lowest wage was DM1,500, the highest wage DM4,562. In 16 out of 24 industries the lowest wages in privatized firms were below comparable levels in THA firms. The highest wages were higher than those paid in THA firms only in six industries.

While wage increases in privatized firms were higher than in THA firms in all industries in 1992, there was a slowdown in this wage dynamic during 1993/92. Mainly owing to collective bargaining, comparable wage increases began to prevail in THA firms and in privatized firms.

7.3 Sales per worker in manufacturing industries

Because it was not possible to ask for production figures in the surveys, sales per worker are used as a proxy for productivity. Table 13 again compares the two groups of firms and indicates great differences in productivity between eastern and western Germany.

Table 13. Sales per worker in manufacturing industries, 1991-93 (DM 000)

Industry	THA firms			Privatized firms			Western Germany 1992
	1991	1992	1993	1991	1992	1993	
Basic products	61	94	143	86	131	151	369
Investment goods	46	82	114	81	97	120	234
Consumer goods	27	53	78	63	81	107	201
Food and drink	120	82	189	206	267	336	451
Manufacturing	49	82	118	94	123	147	268

Source: Surveys of firms (see Appendix).

Privatized firms expected DM147,000 sales per worker in 1993, a little over half the figure for western Germany, but well above those for THA companies. Although there are some indications of progress towards more stable productivity gains, it should not be forgotten that both THA firms and privatized firms reduced their workforce during 1991-93, which was to some extent responsible for productivity gains.

Workforce reductions apart, the most important sources of productivity gains were innovations both in products and in production processes, new investments, and firm-specific training measures. Modernization of capital equipment, adequate supplies of materials, smaller production units and a more efficient organization of production also contributed to increased productivity. Whereas many old firms produced a considerable range of goods and services, the privatized firms tend to concentrate their production on a very limited range.

7.4 Investments

Investment is crucial for economic reconstruction, although the primary impact on employment differs according to individual firms' capacity for rationalization. More than two-thirds of investment orders went to manufacturers in western Germany.

Table 14. Investments in THA firms and privatized firms, 1992-93 (DM bn)

Industry	THA firms		Privatized firms		Private investments in Eastern Germany 1993
	1992	1993	1992	1993	
Agriculture	n.a.	0.0	n.a.	0.1	2.0
Manufacturing	n.a.	4.9	n.a.	26.6	46.4
Wholesale and retail trade	n.a.	0.2	n.a.	2.0	6.5
Transport and communications	n.a.	0.3	n.a.	2.7	24.0
Total	n.a.	5.5	n.a.	35.4	113.2
Investment per firm (DM m)	3.1	3.9	4.2	5.6	n.a.
Investment per worker (DM 000s)	20.0	19.0	28.0	38.0	n.a.
Investment per unit of sales (%)	12.0	16.0	19.0	22.0	n.a.

Sources: See Appendix; total private investments, IFO Institute.

The level of investment in THA firms is well below that in privatized firms (see table 14). In 1992 one-third of all THA firms did not invest at all, and the majority of firms invested only DM3.1 million per firm, that is DM20,000 per worker, mostly to repair machinery, to replace those machines most urgently in need of replacement, and to improve the general working environment. Seen against the needs of modern production, the level of investment in THA firms was too low and its structure did favour reconstruction. In contrast, investment in privatized firms expanded very rapidly to remarkable levels per firm/worker/unit of sales. If, however, we compare actual investment (DM150 billion worth of investment promised in the near future by privatized firms at the beginning of 1993), we see that actual investment fell far below both of promises and of medium-term needs.

Taking all economic indicators together, the privatized firms performed quite well over time in terms of wages, sales and investment. Firms privatized in 1990/91 performed better than those privatized later. Recently all firms have suffered from the recession in western Germany and the fight for jobs between east and west, from the loss of markets in Central and Eastern Europe, from losses in total employment and purchasing power, and from the shortcomings in the way the reconstruction of Germany has been tackled.

8. Deindustrialization in Eastern Germany

Total employment in the German Democratic Republic in 1989/90 was 9.8 million. This figure will fall below 6 million on average in 1993, including 250,000 in job creation programmes and a further 250,000 in short-time working schemes. The workforce (those who pay social security contributions) was down to 5.3 million by the end of March 1993. Employment in agriculture, manufacturing, transport/communications and public services is still declining, while construction, trade, finance and private services show some increases in the number of jobs. Almost 40,000 young people were unable to get an apprenticeship training place in 1993. Manufacturing production was down to 59 per cent by May 1993 (index: second half 1990 = 100), and manufacturing employment was down to one-quarter of the late 1989 level (756,000 workers in April 1993). Industrial production contributes just 15 per cent to GDP, half of the contribution achieved in western Germany. Sales of industrial products per 1 million inhabitants were only one-fifth of the western figure.

Small and medium-sized firms are economically weak; they invest too little and do not make sufficient use of the huge range of public subsidies and promotion programmes that is available. Nor do they offer enough training places. The structure of new enterprises does not favour reindustrialization; the rate of new firms starting up is declining; the rate of closedowns is increasing. Only one-third of training and retraining is aimed at industrial occupations. Trade unions are losing members, and they are afraid of having more unemployed than employed members. Firms are leaving employers' organizations, and new firms are not joining them. Massive investment subsidies have not succeeded in stabilizing the manufacturing sector so far. Industrial research and development has almost ceased. Privatized firms offer just one-quarter of the jobs offered by THA firms in 1990, and employment continues to decline after firms are privatized. It is hard to believe that manufacturing production and/or employment will ever again reach the levels formerly prevailing in the German Democratic Republic.

Nevertheless, privatized firms offer about 1 million jobs, and sales, investments, productivity and unit labour costs are all improving steadily. Almost half of all privatizations so far have transferred only parts of firms — the more successful parts — to the new owners. But there is no concept of reindustrialization: the THA and the BA spend almost one-third of eastern GDP but they have no legal basis for pursuing industrial and regional policies. Their instruments, budgets and personnel are not suited to such activities. The states (*Länder*) are responsible for structural policies, but have neither the means nor the ideas needed to formulate and implement them. The THA wants to cease privatization operations in 1993/94, and leaves the public budget with a total debt of DM300 billion.

9. Employment companies and new counselling services

Labour market policies accompanying privatizations did not create new instruments but they did introduce some new measures and counselling services/institutions. These were introduced as a kind of "bridge over troubled waters" of slack labour markets until such time as self-sustained growth offered enough good jobs and real incomes up to the standard of living in west Germany.

Employment companies were established to employ and retrain redundant workers, namely those leaving THA firms to be sold after downsizing. They implement training and job creation measures, largely financed by the BA. Additional means come from the THA firms (money, rooms, training staff and facilities, organizational help, management), from severance payments (on average DM5,000 per redundant worker), from public programmes financed out of federal, state and local budgets, and — sometimes — from the employment companies' own earnings. Aiming at the promotion of employment and structural development ("Gesellschaften zur Arbeitsförderung, Beschäftigung und Strukturentwicklung" — ABS companies), they try to cooperate at the regional level in order to formulate and implement industrial policies.

The THA and the BA agreed to establish employment companies after very controversial discussions with the trade unions. The THA even joined some of them. Now there is a general consensus that employment companies are a necessary precondition for the reconstruction of the economy and the reorganization of industrial structures through training and job creation. In 1991/92 there were 333 ABS-companies operating, with more than 130,000 workers under contract, which is about one-tenth of all participants in labour market policy measures (Kaiser, 1993). Of these 130,00 workers:

- about 40 per cent of participants worked in job creation schemes;
- 35 per cent stayed in short-time working schemes, some of these in fact not work at all (zero hours — "Null Kurzarbeit");
- almost 17 per cent were trained or retrained;
- 2 per cent received vocational education.

After leaving the employment companies, about one-third found a new job outside, one-quarter became unemployed, and one-tenth went to work in western Germany. One in 20 joined another job creation scheme, one in 25 retired early, and just under 1 per cent tried to survive as entrepreneurs. Starting your own business while under contract to an employment company was initially believed to be a good idea, but there is now a consensus that such businesses seldom operate successfully.

Some employment companies have adjusted their activities in the light of regional planning and projects, training workers according to the needs of local firms and attempting to combine subsidized and market operations.

Parallel to the employment companies, a large variety of counselling services/institutions were founded in order to provide information and promote investment and job creation (Fritzsche et al., 1993).

Coordinating bodies were created at the state, regional and industrial levels to support and advise employment and training companies. Teams, consultants, "round tables" and promotion agencies were established to shape and coordinate policies. Both public bodies and private institutes, such as chambers of commerce, promote technology centres and the setting up of new firms. Regional labour offices, operating on a tripartite basis, implement labour market policies. Unemployed people, women and other groups particularly affected by the employment crisis have organized their own associations. Trade unions and employers' organizations have started counselling and training efforts.

Consultants and coordinating bodies always tend to proliferate if much money is involved. In addition to the expenditures of the THA and the BA, about 5 per cent (gross) of western Germany's GDP is transferred annually to the east, roughly DM150 billion per annum. Nevertheless it is necessary to have good counselling agencies to implement the transformation of a system.

Recently some of the eastern states — Sachsen, Mecklenburg-Vorpommern, Brandenburg und Berlin — have tried to cooperate with the THA in order to reconstruct some of the "core-firms" which remain under the THA. They have either established special agencies (ATLAS in Sachsen, ANKER in Mecklenburg-Vorpommern) or involved the state ministries responsible for economic and structural policies. There is some co-financing for three years of reconstruction for individual firms, but the THA makes the final decisions. The states do not participate in supporting individual firms, but offer money out of European and federal funds for regional and social policies. The lack of policy formation and coordination, the absence of industrial policies, and the general need for counselling services are seen as the most important reasons for the industrial decline of Eastern Germany. Recently more state action has emerged, the banking sector has been involved in privatizations, and state funds have been created in order to deal with privatization failures. Finally, the THA has started to reconstruct firms completely before privatization.

10. Conclusions

Rapid privatization by the THA has transferred 1 million out of 4 million jobs into the private sector. THA official indicators for jobs and investments promised in the sales contracts, and for gross revenues, are quite impressive. But the labour market effects have been severe: 3 million workers have had to leave THA companies, mainly for unemployment, retirement or participation in active labour market policy measures, including employment companies.

Spending DM46 billion in 1992 and DM48 billion in 1993, the Federal Labour Office (BA) has faced increasing expenditures to deal with the employment consequences of THA activities. THA expenditures were DM42 billion in 1992 and DM41 billion in 1993. Only a small part of that money was spent on reconstructing firms. The THA's and BA's expenditure combined makes up almost one-third of GDP in Eastern Germany, but neither institution has any explicit targets relating to the reconstruction of the country or regional/industrial policies. An efficient, high-budget labour market policy is nevertheless a precondition for rapid privatization. The same is true of employment companies, which take over redundant workers from firms that are downsizing in order to make them sufficiently attractive for private investors to buy, even at negative prices.

The economic performance of privatized firms in terms of sales, investment, productivity and wages is far better than that of THA firms. Nevertheless, the process of deindustrialization has not been reversed so far, although much money is spent. Wage differentials between firms, between industrial sectors and in the whole economy have increased in the process of privatization, mainly owing to collective bargaining.

The methodological approach of monitoring the processes of privatization through regular surveys of firms involved has been quite appropriate, because the single-firm criteria used by the THA may need to be qualified by the overall macroeconomic and labour market consequences of privatization.

Given the reconstruction of the industrial bases of the economy that is needed in order to reindustrialize the core regions and branches of manufacturing, the low number of jobs offered by the privatized firms, and the huge deficits left by the THA at the end of its operations, there are some doubts whether the German model of privatization should be exported to the other countries of Central and Eastern Europe. Even the THA president Breuel does not recommend this solution.

Appendix

Data base

Most data stem from surveys of all THA firms and all privatized (ex-THA) firms carried out twice a year since 1991 — a panel on firms in Eastern Germany. The following table shows the representativeness of the surveys, which were all carried out by the Institute for Social, Economic and Structural Analysis (SOESTRA, Berlin) at the request of the Institute for Employment Research (IAB).

Survey date	Contacted		Answers of firms		Usable answers			
	Firms (No.)	Employment (000s)	No.	%	Firms No.	%	Employment 000s	%
			THA firms					
4.91	8 468	2 653	5 657	67	5 269	62	2 025	76
10.91	8 047	2 000	5 192	65	4 894	61	1 384	69
4.92	6 688	1 235	n.a.	n.a.	3 838	57	783	63
10.92	5 187	626	3 473	67				

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