

# The foundation of Deutsche Bahn AG

Deutsche Bahn AG is a young company and was founded as a joint stock company in January 1994. It represents the start of a new age in railway history, with two state-run railways now combined into one privately-run company.

The foundation of Deutsche Bahn AG was the political and economic response to two very different challenges in the last decade of the 20th century. The more pleasant one to begin with: as a result of the Monday demonstrations in Leipzig against the unwillingness and inability of the government of the GDR to accept and bring about change through reform, the soft revolution achieved success in East Germany in 1989, as it had earlier in Poland, Hungary and Czechoslovakia. This was the basis for political reunification of a once divided Germany and also for the reuniting of two railway systems and railway companies that had been divided by the Iron Curtain. Although the political reunification of the two German states had taken place unbelievably quickly, the alignment of two economic systems remains a constant challenge. From the point of view of the railways, the main problem was the extremely poor technical condition of the railway system in the GDR. While there had been precious little investment in the railway network in the former West, it seemed in some places as if time had stood still for the Reichsbahn.

## **Bundesbahn and Reichsbahn**

Compared to West Germany, the rail network in the GDR was much more dense. However, in 1990, only 30 percent (3,829 km) of the network was electrified and less than one third of the entire network had more than one track. On the other hand, 45 percent (11,700 km) of the network of the Bundesbahn was electrified and almost 46 percent (12,300 km) had more than one track. In addition, the Reichsbahn infrastructure was out-of-date, with 67 percent of the signal boxes over 40 years old and 35 percent of the 8,224 bridges and viaducts in excess of 100 years old. Restrictions on maximum speed, on the permissible axle load and sections with a temporary speed restriction made operations difficult. In many cases, points and signal boxes were still operated by hand. The outdated network system that was subject to the dictates of the planned economy, however, chalked up twice as many kilometres per passenger a year than its West German counterpart. Accordingly, there was more wear and as a result a higher capital expenditure requirement. The Reichsbahn furthermore was severely overstaffed – as was the case in almost every state-run company in the GDR. In 1990, there was a workforce of 253,000 employees for a network that was half of the size and operated half of the number of trains as the Bundesbahn. That same year, Deutsche Bundesbahn employed 236,000 public officials, employees and workers.

## **The urgent need for reform**

The situation for the Bundesbahn was also dramatic. Competition from road transport and increasingly from the airlines resulted in rail drastically losing its share of the market in terms of the overall traffic volume. Despite decreasing personnel costs and increasing revenues, the state-run company that was managed like a local authority made losses in the 80s that were cause for some concern. Debts following reunification stood at DM 44 billion. Since 1950, each new government had repeatedly set up commissions to find a way out of the Bundesbahn's financial dilemma. None of these reform commissions produced any long-term success. Shortly before the unexpected events in the GDR, both the West German government and the Bundesbahn itself were convinced that the state-run railway authority in its antiquated form had no future. In July 1989, therefore, a Bundesbahn commission was set up by the government to submit a reform plan that would release the government from the Bundesbahn as a budgetary risk and make rail future-compliant again as a mode of transport in a growing single European market. The response to these challenges in the 90s were the same everywhere: deregulation while

introducing new legal requirements that would make market-driven, cost-conscious management possible and inevitable. To this was added the possibility of establishing a freely negotiable pricing system and using the lines in accordance with the profit-making principles of a business enterprise. Deutsche Bahn was to earn its money in the marketplace and not pick it up in parliament.

Whether it would have been possible to push through such a fundamental reform without the changed political conditions that prevailed in West Germany in 1989 will remain unanswered. On the other, there is no doubt that it would have been impossible for any government to have ignored the need for reform following reunification. This is the only way to understand why a parliamentary majority in the Bundestag approved an amendment to the constitution and to a whole package of legislative amendments on 2 December 1993. With 559 votes in favour, 12 against and 4 abstentions, the Bundestag cleared the way for a fundamental reform of the railways. After the Bundesrat had approved the reform with the necessary two thirds majority, it was possible to enter Deutsche Bahn AG in the commercial register of Berlin in January 1994. This was the end for the two state-run rail companies, each of which had had its own special character: the state-run Bundesbahn and the Reichsbahn owned by a socialist government are now history.