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PART I

Introduction

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German Historical Institute Washington

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*From Centrally Planned Economy to
Capitalist Avant-Garde?**The Creation, Collapse, and Transformation
of a Socialist Economy*

HARTMUT BERGHOFF AND UTA ANDREA BALBIER

During the celebrations of the twentieth anniversary of German unification in 2010, Federal Minister of the Interior and Commissioner for the New Federal States Thomas de Maizière proudly proclaimed, “Over the past few years, Eastern Germany has become one of the most competitive places for investment in Europe.” He was referring to obvious successes such as the doubling of productivity since 1991 and the decision by numerous foreign firms, including more than three hundred U.S. companies, to invest in the five federal states that had previously constituted the German Democratic Republic (GDR). “Situated in the heart of Europe, this . . . location offers excellent conditions for businesses,” de Maizière continued. “The main advantages of the region include the state-of-the-art research and development landscape, modern logistics and communication networks, a highly qualified and flexible workforce and access to the dynamic markets of Eastern Europe and the major Western European economies.”¹ Low rates of unionization, high levels of subvention, and successful clusters of innovative industries such as renewable energies, chemicals, mechanical engineering, microelectronics, and optics could be added to the list of Eastern Germany’s commercial advantages. The former GDR, according to de Maizière, has become a rejuvenated “powerhouse,” an avant-garde leading the way into the future of capitalism, a model region far ahead of less prosperous sections of Western Germany that had not undergone such rigorous modernization.

The rhetoric of Eastern Germany’s unique promise is not an invention of postunification politics. During the imperial era and the crisis-ridden 1920s and 1930s, politicians and writers from very different political camps saw Germany’s east, which then encompassed vast regions east of the river

¹ Thomas de Maizière, Welcome Address, <http://www.gtai.com/homepage/business-location-germany/powerhouse-eastern-germany/welcome-address/?backlink=0> (accessed August 28, 2010).

Elbe, as the key to remedying the ills of modern industrial society. Going east and settling the land was seen as an alternative to emigration and to urban poverty and lack of community. These agrarian settlers would also help alleviate Germany's dependence on food imports.² During the Great Depression, the idea of using the East for the emergency resettlement of unemployed city dwellers was discussed intensely, but little came of the idea. A bill introduced by the government of Chancellor Heinrich Brüning foundered on the opposition of agrarian magnates who did not want to give up parts of their lands. But as often as the East was associated with utopian visions of social renewal, it was more commonly discussed in terms of backwardness. Large stretches of Eastern Germany were thinly populated, little developed, and desperately poor. Before and after World War I, the state intervened to ease the grave political and social problems of these troubled regions.³ These discussions included Mecklenburg and Western Pomerania, which are among the poorest regions of today's East Germany.

Germany's East shifted westward after 1945. As a result of the redrawing of borders, the region known during the interwar period as Central Germany (Mitteldeutschland) became East Germany.⁴ This area included some of Germany's most important industrial centers, especially in Saxony but also in parts of Thuringia, Brandenburg, and East Berlin. This new East was characterized by a sharp north-south divide. The north (Brandenburg and Mecklenburg-West Pomerania) was primarily agrarian, whereas the south (Thuringia, Saxony, and Saxony-Anhalt) was home to numerous industrial centers. This heterogeneity provided a basis for the GDR to take up the traditional rhetoric of eastern promise and to combine it with the belief in the superiority of socialism. The GDR would become the "better Germany," if not a shining example for the rest of the world. Spurred by the Sputnik euphoria, the GDR's Socialist Unity Party (Sozialistische

² Rita Gudermann, "'Bereitschaft zur totalen Verantwortung' – Zur Ideengeschichte der Selbstversorgung," in *Der Lange Weg in den Überfluss. Anfänge und Entwicklung der Konsumgesellschaft seit der Vormoderne*, ed. Michael Prinz (Paderborn, 2003), 375–411.

³ Uwe Müller, "Die sozialökonomische Situation in den ostdeutschen Grenzregionen und die Beziehungen zu Polen im 20. Jahrhundert," in *Politische Ökonomie Deutch-Polnischer Beziehungen im 20. Jahrhundert*, ed. Dieter Bingen, Peter Oliver Loew, and Nikolaus Wolf (Wiesbaden, 2008), 58–77; Uwe Müller, "Die Industrialisierung des agrarischen Ostens. Motive, Erfolge und Grenzen staatlicher Industrieförderung in Westpreußen um 1900," *Jahrbuch für Regionalgeschichte* 28 (2010): 99–115.

⁴ The GDR comprised East Berlin as its capital city and Mecklenburg, Brandenburg, Saxony-Anhalt, Thuringia, Saxony, and the western parts of two provinces, Pomerania and Lower Silesia. Still, there was some overlap with the "old East."

Einheitspartei Deutschlands, or SED) announced in 1958 at its tenth congress that the “superiority of the socialist model” vis-à-vis “the imperialist forces in the Bonn state” could be “unambiguously proven.” Consumption in the GDR, the party predicted, would reach and then surpass the level of West Germany by 1961.⁵ The frustration caused by the utter failure of this promise was among the main reasons behind the mass exodus of East Germans to the Federal Republic that led to the erection of the Berlin Wall in 1961. Apparently undeterred by the failure of the SED’s earlier promise, party General Secretary and GDR head of state Walter Ulbricht made an even bolder prediction in 1970 when he famously announced that the GDR would overtake the West economically without bothering to catch up. This declaration became the rallying cry in the GDR’s attempt to find its own path to industrial progress without copying Western products or strategies.⁶

Even if this eagerness could not prevent the economic decline of the GDR, we still have to consider the relative success and longevity of the East German economic system. By many measures, the East German economy was the strongest economy in the Eastern bloc, and the GDR ranked as one of the twenty most important industrial nations worldwide. But the economic history of the GDR is nonetheless usually presented as a history of failure, a failure all the more conspicuous when contrasted to the Federal Republic’s record of economic success. From this perspective, the GDR stands as the preeminent example of the deficiencies of central planning. It was not a foregone conclusion in 1945, however, that East Germany would fall behind Western Germany economically or that the gap between them would steadily widen. Loss of productive capacity to Allied bombing was far less extensive in what became the Soviet occupation zone than in the western part of the country. That difference was more than offset, however, by Soviet dismantling and removal of factories during the occupation. The establishment of central planning, the nationalization of large industrial companies, and the emigration of business and technical elites further weakened Eastern Germany. As econometric research by Albrecht Ritschl has shown, the transition to central planning triggered a shock that immediately pushed down productivity levels. A considerable gap had emerged vis-à-vis

⁵ Quoted in Annette Kaminsky, *Wohlstand, Schönheit, Glück. Kleine Konsumgeschichte der DDR* (Munich, 2001), 49.

⁶ See André Steiner, *Von Plan zu Plan: Eine Wirtschaftsgeschichte der DDR* (Munich, 2004); published in English as *The Plans That Failed: An Economic History of the GDR* (New York, 2010).

West Germany by 1950.⁷ Central planning means in essence to do without market signals, feedback from strong competitors and critical consumers, and constant incentives to improve quality and raise productivity. It is undisputable that central planning has a built-in tendency to self-destruction, but to summarize the economic history of the GDR as an “exercise in futility,” as Ritschl put it, is deterministic and ahistorical. Nor does underscoring the limitations of central planning explain the comparative economic success the GDR achieved or how its economy managed to continue functioning for as long as it did.

The time is ripe to set aside the simplistic narrative that regards the GDR economy primarily as a failure and as nothing but an example of the inherent deficiencies of central planning, especially when contrasted with the outstanding economic success of the Federal Republic. The story is much more complicated. Accordingly, this volume does not propose an alternative narrative but rather stresses the coexistence of continuity and upheaval, the concurrence of contradictory trends, the fragmentary nature of East Germany’s economic development, and the persistence of regional disparities. The contributors explore the factors behind both the strengths and weaknesses of the East German economy. The time period considered here is not limited to the years of the GDR’s existence. This volume takes the decades before 1945 as well as the post-1990 era into account to consider longer historical trends, the effects of several changes of political regime, and the fate of distinct regional economic structures over the *longue durée*. Just as the GDR did not begin with a blank slate in 1949, the dissolution of the GDR in 1990 did not simply wipe away the legacy of four decades of central planning. This volume shows, in short, that the GDR was by no means isolated from the course of German history.

This book is interdisciplinary. The contributors come from the fields of history, economics, political science, and business history. Their methodological approaches range from biographical and business case histories to macroeconomic analyses. This book sets out to do three things: to take stock of the research on the economic history of the GDR published since the early 1990s, assess trends in research, and integrate the history of the Eastern German economy within one narrative that encompasses the socialist past, the process of unification and transformation, and the capitalist future.

With the opening of the East German archives in the early 1990s, scholars were at last able to study the GDR’s economic history in depth and thereby

⁷ Albrecht Ritschl, “An Exercise in Futility: Growth and Decline of the East German Economy, 1945–1989,” in *Economic Growth in Postwar Europe*, ed. Nick Crafts and Gianni Toniolo (Cambridge, 1996), 498–540.

gained new insights. André Steiner and Jeffrey Kopstein were the first historians to present narratives that spanned the decades from the Soviet occupation and the beginnings of central planning through the economic experiments of the 1960s to the period of rapid decline after 1970 and the end of the East German state in 1990.⁸ Both authors explored the functioning of the socialist planned economy with its internal processes, ideological limitations, historical legacies, and external challenges.

In the opening essay of this collection, Steiner builds on and extends his basic narrative. He integrates recent research on price policy⁹ and consumerism¹⁰ in the GDR, and he continues his narrative beyond 1989 to consider the economic situation of the “new eastern states” in united Germany. Steiner outlines the major economic decisions by the Soviet occupation authorities in the immediate postwar period and, later, by the SED. He traces the history of the major crises in the 1950s, the reform programs of the 1960s, the challenges of the 1970s, and the attempts at industrial innovation in the 1980s. The key factor behind the GDR’s ultimately disastrous economic performance, Steiner argues, was the inflexibility of the SED’s economic plans, which rested on incomplete or inadequate information, eschewed competition, and stifled innovation. Taking stock of the period of transformation in the 1990s, Steiner concludes that the results were largely positive despite the high social costs and the burdens of adaptation borne by East German citizens.

BEGINNINGS, CRISES, AND REFORMS: THE PLANNED ECONOMY,
1945–1971

Of all the different phases of the separated East German territory’s history, the years of Soviet occupation are the period we know the least about. In the mid-1990s, Norman Naimark opened the way to a deeper understanding of

⁸ Jeffrey Kopstein, *The Politics of Economic Decline in East Germany, 1945–1989* (Chapel Hill, NC, 1997). Steiner, *Von Plan zu Plan*. Even broader in regional and chronological scope is Jaap Sleifer, *Planning Ahead and Falling Behind: The East German Economy in Comparison with West Germany 1936–2002* (Berlin, 2006).

⁹ Jennifer Scevarado, *Vom Wert des Notwendigen: Preispolitik und Lebensstandard in der DDR der fünfziger Jahre* (Stuttgart, 2006); Jonathan R. Zatin, *The Currency of Socialism: Money and Political Culture in East Germany* (Cambridge, 2007).

¹⁰ No aspect of the economic and the cultural history of the GDR has received as much scholarly attention as the consumption. See, e.g., Philipp Heldmann, *Herrschaft, Wirtschaft, Anoraks: Konsumpolitik in der DDR der Sechzigerjahre* (Göttingen, 2004); Mark Landsman, *Dictatorship and Demand: The Politics of Consumerism in East Germany* (Cambridge, MA, 2005); Judd Stitzel, *Fashioning Socialism: Clothing, Politics, and Consumer Culture in East Germany* (Oxford, 2005); Eli Rubin, *Synthetic Socialism: Plastics and Dictatorship in the German Democratic Republic* (Chapel Hill, NC, 2008).

the hopes and fears that shaped Soviet policy in the wake of the war.¹¹ Several recent German publications have broadened our understanding of the reasoning behind agrarian reform during the Soviet occupation and reparation policies.¹² In his contribution to this volume, Burghard Ciesla analyzes the Soviet's strategic economic decisions in their occupation zone and the mind-set – a mixture of fear and revenge – that led them to impose an often-contradictory reparations policy that made economic success in East Germany impossible in the long run. Ciesla describes in detail the dismantling of factories in the Soviet zone and its economic consequence. The memory of earlier hunger crises, he notes, was a guiding force in the Soviet's economic decision making in Germany.

The essays on the period 1945–1971 that follow Ciesla's analyze the interconnections between central factors in the GDR's economy – labor, enterprises, technology, and trade – that have usually been discussed separately.¹³ Rainer Karlsch's article on autarky projects in Eastern Germany shows how Nazi-era autarky projects in the “Chemical Triangle” near Halle influenced the economic structure of the GDR and created unhealthy path dependencies. Karlsch also analyzes projects that originated in the GDR but had the same aim as Nazi autarky projects, namely import substitution and the alleviation of the badly strained foreign exchange balance. These projects included copper and iron mining; the production of crude oil and natural gas; and, later on, microelectronics. All of these projects turned out to be a burden on the GDR economy, and none proved viable under free market conditions after unification.

The long-term studies by Karlsch and Silke Fengler in this collection point to the constraints on enterprises in the GDR. They tell a story of strong Soviet influence, inflexible plans, lagging innovation, and eventual decline.¹⁴ But more than that, they provide insights into the more complex power play between ruling, planning, controlling, and resisting on the level of everyday work life. Andrew Port shifts attention to the field of workers' history, which has gained the most attention of all topics in the spectrum of

¹¹ Norman M. Naimark, *The Russians in Germany: A History of the Soviet Zone of Occupation, 1945–1949* (Cambridge, MA, 1995).

¹² Rainer Karlsch and Jochen Laufer, eds., *Sowjetische Demontagen in Deutschland 1944–1949: Hintergründe, Ziele und Wirkungen* (Berlin, 2002); Elke Scherstjanoi, *SED-Agrarpolitik unter sowjetischer Kontrolle 1949–1953* (Munich, 2007).

¹³ A comparable attempt was published in German: André Steiner, ed., *Überholen ohne einzuholen: Die DDR-Wirtschaft als Fussnote der deutschen Geschichte?* (Berlin, 2006).

¹⁴ On the very special case of uranium mining, see Juliane Schütterle, *Kumpel, Kader und Genossen: Arbeiten und Leben im Uranbergbau der DDR. Die Wismut AG* (Paderborn, 2010).

the GDR's economic history.¹⁵ That is understandable, as Kopstein argued in his 1995 book, as the “social compact” between state and working class had given the latter a kind of veto power. In addition, the lives and actions of the working class are a key to understanding the unique picture of social conflict and consent in the GDR that can in the end even explain the curiously long stability of the economically and ideologically declining dictatorship.¹⁶

In his contribution on workers' life in Saalfeld, Port makes use of Alf Lütke's concept of *Eigensinn*. Port shows how the state's attempt to create artificial competition among workers to stimulate productivity failed. The promise of special gratifications had a contrary outcome: socialist workers began to sabotage the work of their colleagues in the struggle for benefits and honors – a process Port terms the “dark side of *Eigensinn*.” His essay shows how fragile and self-destructive the economic system was on the basis of everyday work life and shop-floor practices. Morale was notoriously low, and the workers' party did not reach the proletarians it claimed to represent. There was no constructive element in their frustration. It was not only the plans that failed but also the people who were supposed to use them as guidelines.

Dolores Augustine's work on microelectronics tells a similar story at the management level and its relation to the political leadership. By choosing a biographical approach, she also highlights the combined social, economic, and political changes that marked the transition from Ulbricht to Erich Honecker in 1971. Analyzing the biography of Werner Hartmann, the “father of GDR's microelectronics,” Augustine outlines the shifts in the GDR's culture of technological innovation that undermined the regime's economic viability as early as the 1960s. Lack of access to Western technological developments, she argues, was not the only obstacle impeding the GDR's microelectronics industry. The increasingly restrictive security measures in the realm of technology imposed by the SED and the Stasi also had a deadening impact on scientific and technological productivity. The further tightening of control over scientific research during the Honecker years is one reason why the GDR's competitive potential in the technological sector hit a new low point in the 1980s. Hartmann started off as a

¹⁵ Renate Hürtgen and Thomas Reichel, eds., *Der Schein der Stabilität: DDR-Betriebsalltag in der Ära Honecker* (Berlin, 2001); Jeannette Z. Madarász, *Working in East Germany: Normality in a Socialist Dictatorship, 1961–1979* (New York, 2006); Christoph Kleßmann, *Arbeiter im “Arbeiterstaat” DDR: Deutsche Traditionen, sowjetisches Modell, westdeutsches Magnetfeld (1945–1971)* (Bonn, 2007).

¹⁶ Andrew Port, *Conflict and Stability in the German Democratic Republic* (Cambridge, 2007).

dedicated and highly motivated scientist, but, as Augustine explains, he was ultimately worn down by his frustration with the SED regime.

LIVING BEYOND ONE'S MEANS: THE LONG DECLINE, 1971–1989

The third section of this volume concentrates on the last two decades of the GDR's existence. These essays increase our understanding of the economic changes that followed after Honecker supplanted Ulbricht as the GDR's head of state and leader of the SED. They highlight the different factors at play during a period that, for very good reason, has typically been characterized as a time of stagnation and decline. Compared to the 1960s, when the state tried to implement several economic reforms and create artificial competition within the planned economy, the 1970s and 1980s saw a number of initiatives to assuage public discontent, including increased production of consumer goods and the extension of social welfare benefits, but few serious attempts to address the fundamental structural problems hobbling the GDR's economy.

Reflecting a trend in recent scholarship on the GDR, the essays in this section take the international dimensions of the GDR's economic history into consideration. Technological competition with the West, the challenges posed by global economic crises, and the GDR's all-important but difficult trade relations with the Federal Republic are central topics in this section. These essays also highlight the inner-bloc dependencies and the Soviet Union's role as *de facto* occupier, sometime generous but often-unreliable business partner, and competitor. The GDR's planned economy did not operate solely within the protected cocoon of the Council for Mutual Economic Assistance (COMECON). The deficiencies of economic cooperation within the Eastern bloc spurred increased cooperation with the West, which brought with it new international dependencies. Indeed, "inner-German economic relations," which rested on massive loans from Bonn to East Berlin, helped postpone the GDR's economic collapse.

In his contribution to this volume, Ray Stokes analyzes the impact of the 1970s oil crises on the GDR. The surge in oil prizes in 1973 and 1978 upset the world economy at large and also deeply affected the countries of the Eastern bloc and their trade relations with each other. The GDR's demand for oil increased sharply with the SED's new emphasis on satisfying consumer demand after Honecker came to power. Stokes shows how heavily the GDR relied on the Soviet Union as its principal supplier and how the Soviet Union initially supported the GDR by selling it oil on extremely favorable terms. After the Soviet Union began to cut back on oil deliveries

in the late 1970s, however, the GDR had to change course. The regime rose to the new challenge by investing money into short-term solutions like increasing brown coal production, which threatened further harm to the environment, and expanding the GDR's debt to foreign lenders. The regime simply did not consider long-term solutions to economic problems and energy needs but tried to cling to an unsustainable pattern of consumption and trade. Its collapse was only a matter of time.

Cooperation within the framework of COMECON was envisioned as a motor of economic development, but the results often fell short of expectations, as Fengler shows in her study here of the VEB Filmfabrik Wolfen. The Wolfen film works' difficulties were compounded by the SED's decision in 1958 to make the country's photochemical industry independent of Western suppliers. The result was a decline in the quality of Wolfen's products, which hurt sales not only in the West but also in the other COMECON member states. The Wolfen works fell steadily behind its capitalist competitors technologically during the 1960s and 1970s. Plans to trade its film products for Soviet goods and raw materials, above all oil, did not halt the firm's decline. The opening of the Eastern German economy to international competition with unification spelt the end for the Wolfen film works.

Ralf Ahrens's essay analyzes the vicious circle that developed in the GDR's foreign trade during the Honecker years. The more heavily the GDR depended on the other COMECON states as an export market for its outmoded, low-quality products, the less capable it was to pursue technological innovation, which in turned fueled an "import hunger" for Western goods to meet domestic consumer demand. The Soviet Union supported the GDR by buying East German products that could not be sold in the West, for example, and by providing raw materials at below world-market prices. The Soviet Union could not, however, prevent the GDR from spiraling into debt caused by its trade with Western countries. Rising prices for raw material on the world market contributed to the problem and lead to a predictable breakdown of the GDR's economic system in the late 1980s. Taken together, the contributions by Ahrens and Stokes shed light on the complex relations between the GDR and the Soviet Union by calling attention to the Soviet Union's dual role as protector but also competitor for market share.

With Kopstein's essay, attention shifts from the micro- to the macrolevel. Offering a new reading of the GDR's political economy, Kopstein examines the nature of the economic order that evolved from occupation-era Soviet influence and the legacy of National Socialism. Drawing on the work of the political economist Andrew Janos, he considers the question

of continuity between the Third Reich and the GDR by looking at their economic systems as “militarized economies.” Although weapons production did not figure prominently in its economy, the GDR was a major supplier of militarily relevant products – ranging from machine tools and optical technology to chemicals and uranium – to the Soviet Union. More important, Kopstein suggests, was the militarization of East German society and its impact on labor relations. The SED’s attempts to spur workers to greater productivity with militaristic sloganeering met with considerable resistance. Both the Nazi and SED dictatorships responded to worker discontent with social bribery because both feared the prospect of challenge by mass protests: 1919 and 1953, in short, cast long shadows.

TRANSFORMATION, SUBVENTION, AND RENEWAL, 1989–2010

This volume extends the history of the Eastern German economy into the postunification period and offers for the first time an integrated narrative of the socialist economic past and the difficult transformation process during the first decades of the Berlin Republic. Going a step further, several contributors also offer their thoughts on the long-term effects of the socialist experiment and the transformation process on Eastern Germany’s economic future.

Although Helmut Kohl’s famous 1990 promise of “flourishing landscapes” and de Maizière’s “powerhouse” metaphor might not have been much more realistic than Ulbricht’s 1971 vision of a socialist land of plenty, some scholars have nonetheless identified distinct advantages that the East German economy possesses. Rather than extolling such advantages uncritically or making unrealistic claims for East Germany’s prospects, these scholars balance signs of promise against the glaring indications of decline, notably persistently high unemployment; continuing emigration of the young and skilled; heavy dependence on subsidies; and comparatively high levels of support for radical political forces on both the left and the right. They either constitute legacies of older regional advantages or emerged only in the transformation process. Instead of extolling these factors in a one-sided fashion and founding unrealistic claims of an avant-garde model region on them, these scholars balance these factors against the still-glaring signs of decline such as high unemployment figures, high numbers of emigration especially of young and well-qualified people, the continued dependence on subventions, and a marked overrepresentation of political radicalism.

Karl-Heinz Paqué, an economist who served as economics minister in the state of Saxony-Anhalt from 2002 to 2006, has stressed the magnitude of the

challenge in integrating East Germany into the global market economy.¹⁷ This venture, in Paqué's view, was hampered by the lasting damages of forty years of socialist economic planning. Decades of isolation from Western markets and from cutting-edge research and development, of running down the country's capital stock, and of horrific environmental contamination could not be overcome in a couple of years. Productivity was deplorably low and competitive products almost nonexistent. Political oppression and propaganda left their scars on Eastern society and habits of thought. A dictatorship that encouraged conformism and discouraged initiative had created a culture of compliance and passivity. Consequently, free markets and individual responsibility were viewed more as threats than as opportunities. Many former GDR citizens expected much from the welfare state and deeply mistrusted the market. When millions of industrial jobs were axed in the first postunification years, bitterness and resentment loomed large. Overcoming this mental legacy will take many years, Paqué contends, and the coming of age of younger generations that escaped the influence of the SED dictatorship. Considering the severity of these challenges, East Germany has, with the help of massive transfers from West Germany, done rather well in Paqué's view, although many problems persist. Average per capita productivity in Germany's Eastern states, for example, is still well below the level of the Western states but higher by large margins than the Polish, Hungarian, Slovakian, Slovenian, and Czech averages.¹⁸

Political scientist Wolfgang Streeck has also concluded that unification has had mixed results. In his view, unification not only radically changed the former GDR but also paved the way for a new type of capitalism that spells the end of the Federal Republic's model of cooperative capitalism.¹⁹ Under extreme time pressure during the heady days of 1989–90, when the window of opportunity for uniting Germany opened unexpectedly and the rapid pace of stunning developments required immediate decisions, there was no chance to pursue a "third way" or to design a radically new political or economic system. Instead, in a rare historical experiment, the complete institutional system of one state was transferred to another. For interests vested in the preservation of West Germany's social system of production, unification was "a unique opportunity to protect the West German welfare state from mounting pressures for reform by extending it"²⁰ to the former

¹⁷ Karl-Heinz Paqué, *Die Bilanz. Eine wirtschaftliche Analyse der Deutschen Einheit* (Munich, 2009).

¹⁸ *Ibid.*, 198–207.

¹⁹ See Wolfgang Streeck, *Re-Forming Capitalism: Institutional Change in the German Political Economy* (Oxford, 2009), esp. 207–16. See also Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, 2001).

²⁰ Streeck, *Re-Forming*, 212.

GDR. The result was an unhealthy cocktail composed of unsustainable demands on the social welfare system, the overextension of parafiscal budgets, the need to subsidize them out of the state budget, and an escalating debt burden for the enlarged Federal Republic. Unification thus at first aggravated the massive problems that the West German system already had and brought the cautious attempts at institutional reform of the 1980s virtually to a standstill. Ironically, this temporary triumph of vested rights set in motion a “gradual process of transformative institutional change” that undermined some pillars of West German cooperative capitalism and created, according to Streeck, the opportunity for creating a new system that might be more sustainable under conditions of globalization. Organized labor and capital were substantially weakened in East Germany during the 1990s, and centralized collective wage agreements were frequently replaced by more flexible local agreements, which led to substantially lower wages. In Streeck’s view, unification was a shock that – after a phase of high expectations and futile attempts to preserve the status quo – revealed the undeniable need for institutional reform and set into motion first steps toward a fundamental transformation of the German variety of capitalism. Even though this process is still far from completion, the unique historical event of unification opened the way to institutional renewal.²¹

Both optimistic and pessimistic assessments of the unification process are represented in this volume. Social historian Gerhard A. Ritter emphasizes the negative consequences of transferring the social system of the Federal Republic to the new states. Drawing on his study *Der Preis der Einheit*,²² he demonstrates how the transfer of the West German system to the economically weaker East produced higher wages and inflated the cost of unification. Western options for early retirement and short-term employment became important parts of the labor market policy toward the East. The result, Ritter notes, was a vicious circle in which high social welfare costs led to increasing unemployment.

Ritter’s negative take on German economic unification stands in contrast to the more positive assessment offered here by economist Michael Burda. Surveying economic developments in the different regions of the former GDR since unification, Burda underscores the dramatic improvements of

²¹ This argument is also put forward in Michael Burda, “What Kind of Shock Was It? Regional Integration and Structural Change in Germany after Unification,” *Journal of Comparative Economics* 36 (2008): 557–67; Michael Burda, “Factor Reallocation in Eastern Germany after Reunification,” *American Economic Review* 96 (2006): 368–74.

²² Gerhard A. Ritter, *Der Preis der deutschen Einheit: Die Wiedervereinigung und die Krise des Sozialstaats* (Munich, 2006); published in English as *The Price of German Unity: Reunification and the Crisis of the Welfare State* (Oxford, 2011).

living standards in the East over the last two decades and the convergence of consumption patterns in the East and West. He also points to the relocation of firms to the Eastern states resulting from the wage differential between Eastern and Western Germany. The economic future of new states, Burda predicts, will be characterized by growth, not decline.

The final essay in this volume takes up a question that countless Germans, ordinary citizens as well as economists and policy makers, have asked: Why did the currency union of 1990 and economic reforms introduced with unification fail to trigger a second *Wirtschaftswunder*? To answer that question, Holger Wolf compares the West German currency reform of 1948 and the reform of 1990. In both instances, economies stifled by wage and price controls, heavy governmental debt, and extensive state influence were to be invigorated by monetary reform and price liberalization. The reform of 1990 had a very different outcome than that of 1948. In 1990, Wolf notes, currency reform did not introduce a hard but undervalued currency as in 1948 but rather a hard and high-valued currency; most industrial firms were simply priced out of the market as a result. Moreover, the favorable real labor cost dynamics of the postwar period could not be recreated for political reasons. Wolf points also to differences in the international settings in which the reforms took place. The liberalization of world trade, the push for European integration, and strong global demand for capital goods helped turn the D-Mark boom of 1948 into the sustained West German economic miracle of the 1950s and 1960s. Although global trade was expanding rapidly during the 1990s, East German firms found it difficult to gain a foothold in intensely competitive international markets. Acknowledging the difficulties that the East German economy experienced in the years immediately following the 1990 reforms, Wolf, like Burda, sees the more recent growth in manufacturing output and exports as encouraging signs for the future.

It is clear that former chancellor Helmut Schmidt's warning in 2005 that East Germany might become a "Mezzogiorno without the mafia" was unrealistic and too gloomy.²³ There have been many positive developments: spectacular productivity gains, flexible labor market arrangements, low real labor costs, and the successful rejuvenation of old regional specializations. Nevertheless, East Germany's successful regions can still be seen as mere pockets within a larger area of relative depression and backwardness. Twenty years after unification, East Germany continues to suffer from high unemployment and net emigration, especially of the young and the skilled.

²³ Quoted in Paqué, *Bilanz*, 181.

A government brochure celebrating the twentieth anniversary of unification bemoans that “inner unity” has still not been fully achieved. The “equalization of living conditions in the East and the West,” which is mandated by the Germany constitution, remains an unfinished task “of national priority.”²⁴ But what is the real significance of the findings presented in this book? The coexistence of prosperous regions with strong industrial and services sectors alongside less affluent regions dominated by agriculture and tourism might not be such a disaster. That is probably a rather normal situation and a pattern very much in line with the regional economic structures of pre-1945 Germany as well as of other nations such as Britain, France, and the United States.

²⁴ *Magazin-deutschland.de. Forum on Politics, Culture and Business* No. 3, 2010, 3.