Germany: Impact of Unification on Political and Economic Structures**

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I. Collapse of GDR System

Large numbers of people from East Germany fleeing to West German Embassies in Hungary, Czechoslovakia and Poland immediately before the 40th anniversary of the GDR, demonstrations and a growing discussion on the differences of opinion of Mr. Gorbatschow and Mr. Honnecker made people all over Europe realize that the German Democratic Republic, so far a beacon of the Soviet-dominated system of communist economies, was shaky. Public demonstrations, the organization of political movements and new political parties, a change of leadership of the communist “Socialist Unity Party of Germany” made it plain that the GDR was in for a drastic change. Suddenly the Berlin Wall was open. People were expecting a democratization of the GDR, many were surprised when Chancellor Kohl proposed a confederation of two German States in early December 1989. With borders open things changed quickly. The new freedom led to a publicity on the old system and all its secrets. It became obvious that the GDR Government was bankrupt owing considerable debts to Western banks and falling far short of the Western level of providing goods and services to its population. The most important part of this news: no claims of propaganda could be maintained because millions of West Germans studied it for themselves in the East and millions of East Germans realized it for themselves traveling to the West.

II. Politics React

In the GDR - which was to last less than one year - democracy should prevail.

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Therefore, a democratic restructuring of the country based on free elections was planned for. The caretaker-government installed by the Communists was never well respected in the West, who intended to wait for a democratic government elected by the people. The campaign for the “People’s chamber” and the election results in March 1990 made clear that the influence of the Communists was reduced to a real level below 20 percent, the influence of those movements who wanted to reform the GDR to something new, i.e. neither communist nor capitalist, were reduced to a splinter group and the vast majority of people had voted for political parties representing a successful post-war development in the West. Social Democrats were very disappointed, but like the new social movements realized that their failure was largely due to the lack of organization and institutional power, which was still available to the “Party of Democratic Socialism” (follow-up organization to the Socialist Unity Party) and the “Christian Democratic Union” and the Free Democratic Party” who were existing in name in the GDR, closely allied to the ruling communists and who by integrating new groups changed quickly.

The election results were not mere opportunism. Obviously, national emotions and expectations made people to believe more in the conservative forces ruling in the West. It was no mere opportunism, but a basic belief in German Democratic Culture, that the newly elected democratic government introduced a new constitution introducing a federal system for the GDR. This government decided to adopt the Western economic system and created the famous “Treuhandanstalt” (Trust Institution) as an arm of the government to change the economic structure and introduce a market economy, based on private enterprise.

Seeing bad conditions in the East and believing in the strong currency in the West a flow of people to the West started, between autumn 1989 and spring 1991 roughly 1 million people or 6.5% of the total population.

In the confusing debates of 1990 it became solidly clear that despite all differences all Germans knew that there should be political unification, one currency for the whole country and as soon as possible the same living conditions all over the country. The methods were debated, expectations and emotions led to the economic, social and currency union on 1st July 1990 and to unification on 3rd October 1990. Both events are facts, but both events occurred in a development unknown in its duration or its dimension.

III. Political Hopes and Expectations
On 1\textsuperscript{st} July 1990 when the currency union introduced the German Mark, East Germans got valid money into their hands. People in Eastern European countries envied them. On 3\textsuperscript{rd} October 1990 unification of Germany was achieved, the 45 years dream of one nation in one state was achieved. Emotions of the day did not allow to express aspirations and expectations, which in fact were quite different in the Eastern and the Western part of Germany. One can safely say that people in the East expected equity as soon as possible. People in the West looking back at the post war period considered a repetition of the miracle created by the economic and currency reforms of 1948 would do the trick.

In practice, the West German social market economic system was extended to the whole of Germany, this means a free market economic insuring against economic risks of people through an extended system of social security.

In principle three quarter of the population of Germany knew the system, but did not know the costs for the extension of the system. But one quarter of the population of Germany had expectations, did not know the system and did not know how to benefit from social security.

A brief quotation from Mr. Otto Schlecht, former State Secretary in the Ministry of Economics (Financial Times, 29\textsuperscript{th} April, 1991) would illustrate: “We deceived ourselves about the size and depth of the restructuring crisis... the comparison... with the currency reform of 1948... was wrong from top to bottom.” The reasons were obvious: in 1948 all Germans were living on the same low economic level, their motivation for reconstruction was high, politics and elections played almost no role (the Federal Republic did not even exist), whereas there were four elections taking place in East Germany in 1990.

\textbf{IV. Economic and Social Structures}

There were roughly 8000 enterprises in East Germany, “owned by the people” but in fact run by the state. The freely elected government of the GDR in view of its intention to change the economic system decided to set up the Treuhandanstalt (Trust Institution) as government agency which was supposed to take over all these enterprises and to privatize them. Since then there is a continued discussion if these enterprises should be privatized quickly thus allowing them to adjust fully to free market conditions or if these companies should slowly be privatized treating the security of jobs as its preference. Enterprises in the GDR met with extreme difficulties. With the introduction of the West German currency over night wages had to be paid not in a soft, but in a hard
currency. Exports became difficult, because old customers had to pay in hard currency instead of soft exchange rates as under the system of the COMECON. Productivity was low, debts were high. Companies could not change this without creating more unemployment.

The basic idea of the Treuhandanstalt is to change enterprises in such a way that they are able to compete in a market economy. Contrary to early estimates it was difficult to privatize enterprises for different reasons and thus the Treuhandanstalt never made profits, but it running on a deficit. So far 1,600 enterprises have been sold at the price of 7 Billion DM. Environmental problems, property rights’ problem and the low productivity of enterprises are important factors for this. Therefore, the privatization of enterprises might be a rather long process.

With the hard currency introduced at a politically motivated high rate of exchange consumers in East Germany could buy all products available on world markets—and so they went for a shopping spree preferring Western goods. This promoted the booming West German economy and pushed quite a few East German enterprises from the market. In early 1991 we have roughly 500,000 East Germans working in West Germany. There are roughly 120,000 people commuting daily into (West) Berlin. The famous mail order firm of Quelle in Nürnberg employed more than 800 people from East Germany commuting by bus (daily 6 hours on the road) to travel to West Germany to pack and mail parcels to East German customers.

Before the wall was pulled down as well as immediately afterwards the people leaving East Germany were the qualified, technicians, doctors, engineers and other professionals. Many in the qualified elites of the East German economy in the old GDR were pulled into the Communist Party. So any Innovation in East German enterprises depends to a large extend on the old, politically discredited elites.

On top of all these problems the infrastructure (roads, telephone lines, railways) is far behind conditions in the Western part of Germany.

Adjustment to market economic conditions and privatization make it necessary to streamline operations, jobs and the employment of labour in enterprises. Unemployment has grown considerably and will grow further when certain protection agreements expire on 30 June 1991. It has been agreed that social costs for unemployment will be borne by the public - but psychological, human and resulting political costs cannot be calculated.

It is expected that a number of enterprises will operate well fairly soon. It is also expected that with public funds made available for public investments sooner or later self employment construction companies and small companies will head for a take-off
though there is still a lack of skill in running such business. Therefore, training is expending very quickly.

When the ground has been laid in two or three years time it is expected that East Germany will be a heaven of investment in modern industries and in five or six years time might be one of the most modern industrial regions of the world.

POLITICAL STRUCTURES

West Germany has its own distinguished political system which is a mixture of traditional democratic experiences of Germany, conclusions from the failures of democracy in the 1920s and studies of experiences in the Western world. The distinguished political culture of West Germany is based on its specific system of division of power, federalism, a center party system and a non-partisan unitary trade union movement. The basic democratic consensus for 40 years guaranteed a compromise of interests in political decision making.

The principle institutions of the West German political system expanded to the 5 Eastern states when the old GDR system collapsed. The population of the five Eastern states is neither trained nor used to the Western political culture. But integrated into a communist system which expected people to listen and to obey the people in the five new Eastern states are certainly more interested in their social and economic expectations than in political culture. So they have to be integrated and they have to learn about political and economic behavior on a free society.

Though there are no new structures there are new behaviors and the (West) German political culture might change in view of a number of factors whose impact is felt so far but whose lasting impact is difficult to judge.

- There is a basic social and democratic consensus in the five new Eastern states across party boundaries, sometimes expressed during a vote in the Bundestag (Parliament) frightening established party leaders as well as parliamentary whips.
- There are social problems like unemployment, bad housing conditions etc. in the East, but people do not protest loudly (as those in the West would do) and do not show much of a visible reaction.
- The old secret police structures are still felt, some of the old secret policemen are still around and make people feel insecure: despite the felt necessity to have peace in society and conciliation among all sectors of the population there is uneasiness about former collaborators of secret police and politically influential people who have not been checked or even sued in court.
- Different levels of income, different social conditions and different levels of development could destabilize the whole of Germany compared to the former West and/or could lead to anew type of a division (without a wall).

- Parties have difficulties to integrate the population in the East whose approach is “more social than economic”. The Free Democratic Party has 67,000 members in the West, but 107,000 in the East. It could change. In the Christian Democratic Union there are roughly 120,000 members in the East, but 600,000 in the West. The Social Democratic Party has only 25,000 members in the East and 950,000 in the West. This is an indicator of the change still in process.

- With so many social problems around there is a danger of radicalism; hatred against foreigners is increasing; criminal activities against foreigners has increased in the five new Eastern states, silent protests and unruly demonstrations indicate that there is a dimension for political radicalism; if it can develop to an extent destabilizing the whole political system is not known, but considered possible if the system does not deliver the goods (jobs, equal wages, a good economy) people expect.

  Patience and tolerance will help to integrate the East Germans into the political system. Education and improved social and economic conditions will be the best instruments. If these goods are not delivered structures might really change. Developments of the next two to three years will show the direction.