

**“UNIFIED GERMANY’S APPROACH TO ECONOMIC  
RECONSTRUCTION OF ITS EASTERN PART :  
PROBLEMS AND PROSPECTS”**

*Dissertation submitted to the Jawaharlal Nehru University  
in partial fulfilment of the requirements  
for the award of the Degree of*  
**MASTER OF PHILOSOPHY**

**K. G. SREENIVAS**

**CENTRE FOR AMERICAN AND WEST EUROPEAN STUDIES  
SCHOOL OF INTERNATIONAL STUDIES  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI-110067**

**1992**



जवाहरलाल नेहरू विश्वविद्यालय  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI - 110067

CENTRE FOR AMERICAN & WEST EUROPEAN STUDIES  
SCHOOL OF INTERNATIONAL STUDIES

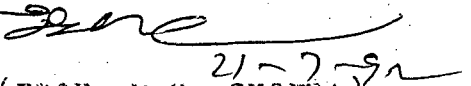
DECLARATION

Certified that the dissertation entitled  
"UNIFIED GERMANY'S APPROACH TO ECONOMIC RECONSTRUCTION  
OF ITS EASTERN PART : PROBLEMS AND PROSPECTS", submitted  
by K.G. SREENIVAS in partial fulfilment of the award  
of the degree of MASTER OF PHILOSOPHY (M.PHIL.) in  
Jawaharlal Nehru University, is a product of his own  
work, carried out by him under my supervision and  
guidance.

It is hereby certified that this work has not  
been presented for the award of any other degree or  
diploma by any University in India and may be forwarded  
to the examiners for evaluation.

  
(PROF. R.P. KAUSHIK)

CHAIRPERSON

  
(PROF. H.S. CHOPRA)

SUPERVISOR

## ACKNOWLEDGEMENT

*This accomplishment, I credit it to my guide and teacher Prof. H. S. Chopra. I drew abundantly upon his scholarship, experience and encouragement. His concern and kindness and grace I cherish dearly.*

*To my beloved parents.*

*To my dear roommate, a valued one, who bore my occasional insensitivity.*

*To my dear friends Raj and Raj, Supu and Supu, Jackie and Mathai who never failed to impress upon me the vibrance of life.*

*To my dear friend Prashen, who believes nothing is too weighty or serious.*

*To dear Santosh, meticulous and organised.*

*To Asif, who brought with him abundant poetry.*

*To Sunil and Dinesh (Arpan Photostat) who made this work possible in print.*

*And to her who made the difference.*

*My appreciation and gratitude.*



**K. G. SREENIVAS**

## PREFACE

This study proposes to examine one of the most phenomenal events in current European history, that of an extraordinary integration of "two States of one Nation," that is Germany. The German nation has had an exceptionally chequered career influencing not only the history of Europe but of the World as well. Located at the centre of Europe and divided by the four allied powers and at the conclusion of the second world war Germany continued to generate powerful historical impulses. The unification of Germany was accomplished by the collapse of the ideological bloc system which had sustained the division of the German nation. The architect of this unprecedented historic systemic change which radically reformed the historical central European structure, was Mikhail Gorbachev.

The revolutionary transformation was symbolized by the fall of the Berlin wall, which had stood as a stark symbol of the severed German nation. "We are one people," so went the demonstration staged by both the East Germans and West Germans over the ruptured wall.

This proposed study aims at analyzing the post-unification modernization, and reconstruction of the former East German economy, and its integration with West Germany.

In this context, the investigative techniques would have to consider the whole gamut of interrelated social and political aspects which are found to have a decisive effect on the dynamics of economic transformation. The study is divided into four chapters. The first chapter presents a historical background to the German Question immediately following the post-war European Settlements. Following the establishment of the four power administrative divisions over Berlin, there has been a constant current of inter-German dialogue at political unification of the two Germany's. Willy Brandt's statesmanship led to the signing of the Basic Treaty of 1972, which in substance 'pre-destined' the unification of Germany.


Chapter 2 deals with the phenomenon of the 'Gorbachevian revolution', which unleashed potent forces dismantling a whole school of ideology that of communism. The attempts at reforms within the state, questioning the supremacy of the party nomenclature and an attempt at a redefinition of the idea of the state and a reorganization of economy in conjunction with market forces. The East European response was revolutionary. The fall of the Berlin Wall was the most visible symbol of the historic systemic transformation. The unification of the Deutschland was a but a matter of time. The German monetary union was the first most decisive step in the direction. The December elections formally and politically unified the severed German nation.

Chapter three deals with the current introduction of a competitive market economy in Eastern Germany and an attempt to enhance and raise industrial capabilities and production up to West German standards. Production structures and labour management in East German industrial plants have been obsolete and inefficient. There was artificial full employment and high production and management costs. With no incentives and work accountability at the shop floor there was a high level of labour indiscipline and consequently lack of productivity. Technologies were obsolete and environment hazardous and damage stupendous.

Already the West German government has transferred 167 billion DM into the Eastern part. The Kohl government has drawn up detailed investment, retraining and technology-transfer programmes in conjunction with the EEC also. Unemployment which stood at 30 percent at the time of unification, and repressed inflation in Eastern Germany are the other important dimensions to be dealt with. The monetary union with West Germany has provided eastern Germany with stable macro - economic equilibrium for the reconstruction. Quantitatively considered East Germany's integration means adding up to 10 percent of the West German Gross Domestic Product and about 26 per cent of West German population to the unified Germany.

The study, therefore, will consider the emergent problems and prospects in the due course of East German modernization and reconstruction. The social and economic costs will also be considered. Another significant dimension would be an examination of the political and economic implications within the context of the emergent political unification of Europe.

N. DELHI  
21.07.92

  
U. G. SREENIVAS

## CONTENTS

	<b>Page</b>
PREFACE	(i) - (iv)
CHAPTER 1 : INTRODUCTION	
<b>THE GERMAN PROBLEM : ITS HISTORICAL SETTING</b>	1 - 26
1.1 DIVISION OF GERMANY INTO FRG AND GDR	9 - 17
1.2 THE QUADRIPARTITE AGREEMENT ON BERLIN AND THE BASIC TREATY, 1973	17 - 26
CHAPTER 2 : SYSTEMIC CHANGE IN THE USSR : THREE PRONGED STRATEGY INITIATED BY GORBACHEV AND ITS EFFECT ON THE ERSTWHILE GDR AND EASTERN EUROPE	27 - 49
2.1 GDR'S RESPONSE : HESITANT	42 - 45
2.2 POPULAR UPSURGE FOR POLITICAL CHANGE : FALL OF BERLIN WALL AND GERMAN UNIFICATION	45 - 49
CHAPTER 3 : ECONOMIC COSTS OF UNIFICATION	50 - 84
3.1 METHODOLOGY OF ECONOMIC RECONSTRUCTION	55 - 67
3.2 THE GERMAN ECONOMIC AND MONETARY AND SOCIAL UNION	67 - 77
3.3 UNEMPLOYMENT, WAGES, PRODUCTIVITY AND GOVERNMENT SPENDING	77 - 82
3.4 CURRENT CAMPAIGN FOR ADVANCED TRAINING	82 - 84
CHAPTER 4 : CONCLUSION	85 - 91
BIBLIOGRAPHY	92 - 103



## CHAPTER 1

### THE GERMAN PROBLEM : ITS HISTORICAL SETTING

Germany is an extraordinarily historical nation. For a substantial part of its history Germany has been a divided nation subject to the compulsion of external forces and international treaties. "The problem of German unity and disunity has been for centuries much more portentous than similar problems of other nations."<sup>1</sup>

The historical approach takes recourse to the political geography aspect of the German question considering that the geographical position and features of the original settlement, the nature of the frontiers and the quality and degree of ethnic awareness of the inhabitants are fundamental matrices in the evolution and development of a people's political cultural and economic destiny.

The end of the eighteenth and the beginning of the nineteenth centuries saw a French invasion of Germany. This led to her fragmentation, the dissolution of the Reich, defeats of Austria and Prussia, and the creation of the confederation of the Rhine. German dismemberment continued after the Congress of Vienna. However, economic factors and the increasing quest for unity led to the creation of the Zollverein which paved the way for a political union eventually.

---

1. Ference A. Vali, The Quest for A United Germany, (Baltimore: Johns Hopkins, 1967), p.3.2.

Under the leadership of Bismarck, Prussia from 1866 to 1871 attempted to achieve the so called *Kleindeutsch* (little German) instead of the so called *Grossdeutsch* (Great German) solution by creating the Second Reich with the exclusion of Austria.

The creation of the Hohenzollern Empire led to the grand-scale development of German military and economic power. Its mere existence and nature created ever newer political and economic possibilities and anxieties. The traditional European balance of power had been upset.

"Germany's very existence- in any form- could , in fact, be regarded as a source of unrest".<sup>2</sup> It is argued that Germany, located in the very centre of Europe surrounded by Latin and Slav peoples, surrounded by small as also by two big nations - the French in the West and Russians in the East, have therefore of necessity been destined to lead a geo-politically precarious and unstable existence.

The Germans prior to the Bismarckian unification had been an "inchoate nation". "After 1871, Germany definitely became a nation- state, though a belated nation- state."<sup>3</sup>

---

2. J.K. Sowden, German Question 1945-1973, (London: Bradford University Press, 1975), p.20.

3. *ibid.*, n.1, p.8.

Powerful after her unification, yet diffident, Germany metamorphosed into a threat to most of her neighbours. She tried to establish a continental hegemony through two world wars, but failed, though resulting in large-scale human agony and material destruction.

At the conclusion of World War II in 1945, the war-time Allies drew up and finalised proposals for Germany's future, including the question of occupation zones. These considerations reflected political thinking, and deliberations among the allied powers accordingly shaped the course of the history of post war Germany and Europe. The partition of Germany contributed thus to the creation of the bipartite (or with West Berlin, tripartite ) Germany till the fall of the Berlin Wall in 1989.

A brief consideration of the consequences, in the global strategic context, of this implosion and breakdown of the historical structure of central Europe and the "eclipse of the traditional European polycentric constellation of power".<sup>4</sup> may be in order. There was a crystallization of an inherently non-European, East-West bipolarity, wherein two superpowers, the U.S. and the (erstwhile) U.S.S.R confronted each other across not only a divided Europe, but also across Germany, the strategically most central and important country in Europe.

---

4. *ibid.*, n.3, p.25.

The genesis of the post-war German question could be found in the deliberations of the wartime Allies. Following were the terms of reference in the deliberations of the allies: Unconditional surrender; occupation and control, dismemberment, isolating Prussia, reparations and war criminals and the question of collective guilt of the German people.

Thus in 1945, the victorious Allies took control of the vanquished German Reich and its capital Berlin. Berlin was later to play an historic role in the post-war and much later in the post-cold-war era.

The intentions of the western Allies in 1944-45 in the Yalta-Potsdam deliberations and plans to be implemented a little later were essentially 'punitive' with respect to Germany. Though the Morgenthau Plan was never implemented the functional assumption was that the principal allied objective would essentially be "to prevent Germany from ever again becoming a threat to the peace of the World." This was set forth in the Joint Chiefs of Staff Directive 1087 of April 1945 to the Commander-in-Chief of the United States forces of occupation, regarding the military Government of Germany, the *Kommandatura* :

*Essential steps in the accomplishment of this objective are the elimination of Nazism and militarism in all their forms, the immediate apprehension of war criminals for punishment, the industrial disarmament and demilitarizing of Germany, with continuing control over Germany's capacity to make war and the prepa-*

*ration for an eventual reconstruction of  
German political life on a democratic basis.*<sup>5</sup>

This was the historical scenario that was sought to be fashioned on the eve of the implementation of the Yalta-Potsdam decisions and later the actual division of Germany. The three heads of the Allied governments met at Yalta, on 4 February 1945. A three-member Advisory Commission drafted recommendations for all European questions and drew up plans for the military occupation of Germany.

Before the cessation of hostilities in Europe, the European Advisory Council had produced three documents relating to Germany. These were:

1. The draft instrument on unconditional surrender of Germany, drawn up on 25 July 1944.

2. The protocol on the zones of occupation in Germany and the administration of Greater Berlin, signed by the representatives on 12 September 1944; amendments to this protocol were unanimously adopted on 14 November 1944; further to include France were signed on 26 July 1945.

3. The agreement on the control machinery in Germany, signed by the representatives on 14 November 1944 and amended on 1 May 1945 to include France.<sup>6</sup>

---

5. Martin J. Hillenbrand, Ed, The Future of Berlin. (Montclair: Allanhold Osmun Publishers, 1980), p.4. See text contained in Germany 1947-1949, The story in Documents, U.S. Department of State Publication 3556, (Washington, D.C., 1950), pp.22-33.

6. *ibid.*, n.3, p.62.

The Eastern portion of Germany (about 40% of the territory of the Reich) was given over to occupation by Soviet forces. North West Germany was to be given to the British and South West Germany to the American occupation forces. Greater Berlin was designated as an area of joint occupation by the three powers. A French zone was carved out of the American and British zones and France was also able to share in the joint occupation of Berlin.

The European Advisory Commission also reached agreement on the governmental structure of occupied Germany. Each Commander-in-Chief was to be the supreme authority in his respective zone, and joint control over all Germany was to be exercised by a Control Council of Germany comprising the four Commanders-in-Chief. Berlin was to be governed by the so called *Kommandatura*.<sup>7</sup> The concluding meeting of the wartime leaders was held in Potsdam. The leaders of the United States, (Harry Truman) the Soviet Union, (Stalin) and Britain (Sir Winston Churchill and then Clement Attlee) met in the former royal palace, the Cecilienhof, at Potsdam in July-August 1945.

Here, the political and economic principles to govern the treatment of Germany had to be decided. It was agreed upon that "for the time being no central government shall

-----

7. The *Kommandatura* (the Russofil version of the German Kommandatur, a city military commandant's office) was the Council of the four Berlin military Governors, under the authority of the Control council of Germany.

be established," but it was provided that certain essential German administrative departments shall be set up, particularly in the fields of finance, transport, communications, foreign trade, and industry. In the economic field the Potsdam Protocol decreed that "during the period of occupation Germany shall be treated as a single economic unit."

Germany's history attained its lowest point in the months immediately following May 1945. On 5 June 1945 the German people were officially informed of Allied intentions on occupation and control of Germany by the United States, United Kingdom, Soviet Union and France. This announcement, signed as a document in Berlin by General Dwight Eisenhower, Supreme Allied Commander, General Montgomery, British Chief of Staff, Marshall G. Zhukov, Soviet Chief, and General Lattre de Tassigny the French Chief of Staff at Allied Headquarters, came to be known as the "Berlin Declarations".

It was drafted by the European Advisory Commission. The document consisted of a fifteen article Declaration and three additional statements. This provided the legal basis for the joint occupation policy of the Allies. The Potsdam Agreement refers back to the Berlin Declaration in many respects. It could be considered briefly in the following paragraphs.

The Preamble of the Declaration states that as a result of the unconditional surrender of the German armed forces

and the absence of a central government, the Allied governments were assuming supreme authority in Germany although they stressed that this assumption of the said authority and powers does not amount to the annexation of Germany.

The fifteen articles of the Declaration hence refer specifically to the individual measures involved in the exercise of supreme authority over German territories within the boundaries as on 31 December 1937, including the complete disarmament and demilitarization of the country, the stationing of Allied civil and military authorities, the apprehending of National Socialist leaders and of all those suspected of war crimes.

On frontiers, the three Powers agreed that pending the final delimitation of Poland's western frontier, the Poles should administer the territory upto the Oder-Neisse except for the area of East Prussia around the city of Konigsberg. This was to be administered by the Soviet Union on the understanding that the Western Powers would support its incorporation into the USSR at the peace settlement. There was to be an orderly transfer of Germans from Eastern Europe. The German people were promised that they would not be enslaved and that their institutions would be reconstructed on a democratic basis.

Finally, Germany was to be treated as an economic whole. No German government was to be set up. Instead five or more central administrative departments were to be estab-



lished which would carry out the policies laid down by the Allied Control Council.<sup>8</sup>

The Potsdam Conference had been code-named Terminal<sup>9</sup> and in many ways it symbolised the end of the wartime alliance against Nazi Germany.

On reparations it was agreed that each occupying power was to take its reparations mainly from its own zone and German assets abroad. However, the Soviets who had been promised half the total of all German reparations were to be allowed a sixth of the surplus established in the Western zones.

#### 1.1 DIVISION OF GERMANY INTO FRG AND GDR

The year 1949 constituted a crucial historical point in the German Question. All did not go well with the occupation plans. Four years of negotiations marked by threats and recriminations because of misunderstandings and mistrust culminated in the Berlin Blockade and the cold war.

The spring of 1948 saw the cold war in full operation with its centre of gravity in Germany. The London Conference realised the rift between the Soviet Union and the Western Powers. The Western Powers now decided to go alone

---

8. See Michael Balfour, West Germany (London: 1968 and 1982), p.69.

9. David Childs, The GDR: Moscow's German Ally. (London: George Allan & Unwin, 1983), p.12

and held a conference on Germany in London during the first half of 1948, attended by the United States, Britain, France, Belgium, Holland and Luxembourg. They agreed to re-establish a German government.

To counter this move by the Western Powers to politically integrate the Western zones, the Soviet government on 20 March 1948 announced that the "Control Council virtually no longer exists as the supreme body of authority in Germany."<sup>10</sup>

With Marshal Sokolovsky, the Soviet Commander-in-Chief leaving the meeting of the Council, the quadripartite Allied Government of Germany came to an end. The Berlin Kommandatura continued to work for another three months but could not direct the German City Council because of the rule of unanimity.

The Soviets asserted that because of the end of the quadripartite rule in Germany, the Western garrisons no longer had any right to be stationed in their Berlin sector because all-Berlin was in the Soviet zone.

Adding to the struggle for Germany was the decision of the Western powers to exchange the former Reichsmark for the new Deutsche Mark in Berlin and later in West Berlin. The Soviets retaliated by imposing a blockade of Berlin on the

---

10. *ibid.*, n.1, p.8.

interzonal border. The Western Powers chose to defy the Soviet blockade by initiating an airlift, thus keeping West Berlin supplied by air transportation with food, coal and other articles needed for its sustenance. The time approached for the creation of the two German states.

Finally on 8 May 1949, the Parliamentary Council passed the Basic Law of the Federal Republic of Germany. Bonn was designated as its capital. The Basic Law was approved by the legislature of all the Laender.

In October 1949, the German People's Council sponsored by the Soviet Union reconstituted itself as the Provisional People's Chamber of the "German Democratic Republic." Prior to this, the People's Council had voted a constitution which was now adopted as the legal basis of the new East German State. 11

Consequent upon political and administrative developments, "Potsdam Germany" (the area originally subjected to the four power control) had by 1949 become divided into five parts:

1. The Federal Republic of Germany;
  2. The Saar territory integrated economically and politically with force;
  3. The German Democratic Republic;
  4. East Berlin under Soviet control; and
  5. West Berlin under Four Power control.
- 

11. *ibid.*, n.1, p.23.

The 1949 division threw up additional complexities involved in the German Question. The two German regimes that emerged developed into subsystems of their respective superpower sponsors. Directly relevant to and concerned with the all important theme of German reunification from 1949 onwards are four main issues:

- i) Super-power relations,
- ii) West-European integration;
- iii) European security; and
- iv) Specific guiding details for reunifying Germany.

A host of ideas constantly were thrown up in the conferences and diplomatic exchanges during this period: "four power responsibility, sole representation, free elections, an all German Council, a 'national assembly", <sup>12</sup> as some of the important ones. The three main stages leading to re-unification (accepted in theory by the Four Powers regardless of East-West disagreement on the order of their implementation) were: "free elections, on all German council or a national assembly, and on all-German government".<sup>13</sup>

---

12. J.K. Sowden, The German Question 1945-1973 (London, Bredford University Press, 1975), p.131.

13. Ibid, n. 3, p.131

However, for the time being, neither of the new born Republics was a true state, since neither enjoyed full sovereignty.<sup>14</sup>

The building of the Wall in 1961 reinforced the powerful reality of Germany's division. A protracted process of re-thinking and reevaluation began. The significance of 1961 was that it marked a turning point in the Federal Republic's policy on reunification and a radical shake-up of the Federal Government's Ostpolitik in the latter half of the decade.

Adenauer's Westpolitik was successful and got off to a good start even before the FRG received its sovereignty and achieved all its major objectives by 1963. His Ostpolitik showed no success during the same period and led to the widening of gap between the "BRD and the DDR".

Adenauer's Ostpolitik was substantially guided by his prejudice against Soviet and East European Communism. Hence, the "Ostpolitik attitude was one of open confrontation and undisguised hostility".<sup>15</sup>

---

14. Alfred Grosser, Germany In Our Time - A Political History of the Post-War Years, (London: Pall Mall, 1971), p.74

15. *ibid.*, n.3, p.255.

Features such as

"sole representation, the Hallstein Doctrine, insistence on the boundaries of 1937 and the sharply implied NATO membership of a Germany reunified as a result of free elections, all contributed towards forcing the Eastern Bloc countries to join the DDR<sup>16</sup> in branding the BRD<sup>17</sup> as revanchist, militaristic and revisionist".<sup>18</sup>

This was the situation at the beginning of the 1960s. Briefly, the view points of the principal West German parties on the German Question during the period can be hardly categorized into any hard and fast party ideological pattern.

However, it should be interesting to note how ideas developed by Brzezinski did influence initially Foreign Minister Gerhard Schroder's policy towards East Europe. In this assessment of the Central European situation, Zbigniew Brzezinski assumed five aims of his Western Policy. One of these meant to persuade the East European countries that the existence of East Germany restricted their freedom without enhancing their security. The West was supposed to pursue a policy of 'peaceful engagement' in its relations with these countries.

---

16. Deutsche Demokratische Union : German Democratic Republic.

17. Bundesrepublik Deutschland : Federal Republic of Germany.

18. *ibid.*, n.3, p.255.

East Germany was to be forced into isolation and into becoming a political 'anachronism' for the Soviet Union. The East European countries were to be treated, on the other hand, as fully independent nation states. 19

However later, the CDU/CSU experienced great difficulty in making a break with the Ostpolitik regime and several strands and groupings of opinions can be observed. Foreign Minister -Dr. Gerhard Schroeder's attempts to introduce an element of flexibility into the Federal Government's policy towards Eastern Europe were opposed from the outset and eventually reduced to nought as a result of opposition from the radical conservative ranks of Schroeder's own party.

The SPD and FDP also had problems of varying degrees of inner dissension. The end of the decade saw the SPD forced to mark a careful course in its Deutschlandpolitik between three disparate factors - the relevant policy of its partners in the Grand Coalition, the electorate and those factions in the party that were agitating for a more clearcut acceptance of political realities.

In addition to the different party viewpoints a particularly notable feature during the period was the substantial

---

19. Zbigniew Brzezinski, Alternative to Partition : For a Broader Conception of America's Role in Europe, (New York, Mc Graw Hill, 1965), p.144.

output of theses, memoranda and tracts on various aspects of the German Question produced by Churches, political parties, societies interest groups, research teams and private individuals. All the literature and the substantive debate contributed to the West German population's change of attitude to the situation in Central Europe.

A substantial resolution was arrived at in the final breakthrough of the Brandt-Scheel coalition Ostpolitik as a starter for the normalisation of BRD/DDR relations.

The "Principles and Elements of a Treaty regulating Relations between the BRD and the DDR" and since known as the "Twenty Points" epitomises Brandt's policy vis-avis the other German state and anticipate the main thrust and substance of the Basic Treaty, 1972.<sup>20</sup>

The first ten points of the Treaty provides a glimpse into Brandt's Deutschlandpolitik. His "two states and one German nation" concept is conceived therein. A summary of the explanatory part of the concept may be looked into :

That the two German states, whose constitutions embody as their final goal the unity of the nation, wish to conclude a treaty regulating relations between the two states, improving contacts between their populations and helping to eliminate adverse circumstances. That both sides would proclaim their desire to conduct their relations on the basis of human rights, equality, peaceful co-

---

20. *ibid.*, n.3, p.304.



existence and non discrimination, respect for each other's territorial integrity and frontiers and of abstention from use of force. That both states declare that war should never originate on German territory and a solution to be sought for the problems relating to the separation of families.

And most importantly that though the Germans are living in two states, they regard themselves as belonging to one nation.

## 1.2 THE QUADRIPARTITE AGREEMENT ON BERLIN AND THE BASIC TREATY, 1973

The beginning of the 1970s shows the ramified complexity of the German Question even more in the network of negotiations and exchanges which developed between the five main parties concerned - the Western Allies, the Soviet Union, the Federal Republic, West Berlin and the DDR.

There were three discernible and principal strands of negotiations: One between the Western Allies and the Soviet Union on a solution to the Berlin situation; a second between the Berlin senate and the DDR on improving travelling and visiting facilities and on the settlement of enclave questions; and a third between the Federal Republic and the DDR.

The negotiations between the Federal Republic and the DDR covered various aspects of qualitative and substantive progress in intra-German relations finally leading to the

signing of the Basic Treaty. They included such matters as transit traffic between the BRD and West Berlin, postal services, telecommunications and traffic between the two German States.

The Federal Republic's Berlin policy carried three main requirements: *Zuordnung* i.e. West Berlin's close ties with the BRD should be preserved, *Zugang*, i.e. there should be no impeding of the access routes between the BRD and West Berlin and *Zutritt*, i.e. West Berlin's citizens should be allowed entry into East Berlin; and the DDR. <sup>21</sup>

It may be useful now to consider the Four Power Berlin Agreement of 3 September 1971 or otherwise known as the Quadripartite Agreement. It represented a crucially important part of this policy of BRD-DDR detente. More importantly it was a further step towards greater intra-German dialogue and normalisation of relations: The Agreement anticipated the Basic Treaty which led to West German and international recognition of the East German state.

Part I, General Provisions of the Agreement stated the following:

---

21. *ibid.*, n.6, p.342. Also see Elmer Plischke, *Government and Politics of Contemporary Berlin*, (The Hague, Martinus Nijhoff, 1963).

1. "The four Governments will strive to promote the elimination of tension and the prevention of complications in the relevant area.

2. The four Governments, taking into account their obligations under the Charter of the United Nations, agree that there shall be no use or threat of force in the area and that disputes shall be settled solely by peaceful means.

3. The four Governments will mutually respect their individual and joint rights and responsibilities, which remain unchanged.

4. The four Governments agree that, irrespective of the differences in legal views, the situation which has developed in the area, and as it is defined in this Agreement as well as in the other agreement referred to in this Agreement, shall not be changed

22

unilaterally."

What was the achievement of the Quadripartite Agreement? For a start as Willy Brandt pointed out in his address to the nation on 3 September 1971, there would be no more Berlin crises. The crisis potential of Berlin had been dissolved. The people of West Berlin would be able to live and work in relative security. Hence, the Western Powers' rights and responsibilities regarding West Berlin had been unambiguously confirmed. West Berlin was not fully incorporated into the constitutional framework of the Federal Republic. The permanent residents of West Berlin were now able to visit the DDR and East Berlin.

-----

22. *ibid.*, n.6, pp.57-58.

In continuation of the spirit of the inter-German negotiations, the "Treaty on Questions of Traffic was initialled" in Bonn on 12 May 1972. In addition to the Transit-Traffic Agreement and the Traffic Treaty, there was a resumption of telephone connections between East and West Berlin and a BDR-DDR postal and telecommunications service agreement.<sup>23</sup>

Two important aspects of diplomatic activity in the wider international framework during 1972 were of far-reaching importance and its ramified consequences for the intra-German negotiations: preparations for a Conference on Security and Cooperation in Europe and the question of United Nations membership for the two German states.

Multilateral exploratory talks continued apace. The Soviet Union expressed its desire of a strengthening of bloc interests by the participation of the DDR as an equal member.<sup>24</sup> Thus, the international enhancement of the DDR was considered a part of European detente.

The UN while welcoming the two German states insisted on indisputable evidence of a normalization of intra-German relations before UN membership could be granted.

---

23. *ibid.*, n.10, pp.85-86.

24. Janes L. Richardson, *Germany and the Atlantic Alliance*, (Cambridge: Mass 1976), pp 353-54 .

The United States Government insisted upon the East-German state officially recognizing Four Power responsibility for the whole of Germany. Exploratory talks on intra-German normalization of relations began between on 15 June 1972. Tough negotiations continued and eventually the Basic Treaty was signed in East Berlin on 21 December 1972. 25

TH-4037

The Basic Treaty is a challenging set of documents reflecting the ramified complexity of the German Question arising from a configuration of German problems consequent upon post-war developments in Central Europe. The Preamble to the Treaty lists six principles as guidelines to the Treaty. The fifth principle draws attention to the fact that both parties were proceeding from the historical realities but differed on fundamental issues, including the national question.

The body of the Treaty consists of ten Articles:

Article 1 - that the two states were to develop normal, good-neighbourly relations on the basis of equality;

Article 2 - to observe the aims and principles of the UN Charter;

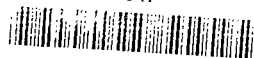
Article 3 - to refrain from the threat of, or use of force;

Article 4 - to accept each other's internationally independent status;

- 
25. Gunther Docker, et al, "Berlin and the Quadripartite Agreement of 1971," *American journal of International Law*, (Washington: Mass 1973), vol.67, p. 56

DISS  
338.943  
Sr18 Un

21



TH4037

Article 5 - to support international control and limitation of armaments;

Article 6 - to respect each other's sovereignty in internal and external affairs;

Article 7 - to declare their readiness to settle mutual practical and humanitarian questions;

Article 8 - to exchange permanent representative missions;

Article 9 - to agree that all previously concluded bilateral and multilateral international treaties of both parties remain unaffected, and

Article 10 - refers to the customary ratification of the Treaty and its entry into force.

26

There was a Supplementary Protocol which contained provisions on the implementation of Articles 3 and 7. A note appended to the Protocol referred to differences in legal standpoints preventing a settlement of property matters. There were two Declarations to the Protocol, one from each contracting party concerning questions of nationality.

Further fifteen documents were appended in all. These were broadly in three categories - Declarations, Explanations and the majority being Exchanges of Letters on subjects relating to substantive normalization such as postal and telecommunication services, reunion of families, border-crossing points and working facilities for journalists.

-----  
26. *ibid.*, n.3, pp.360-61.

Documents 5 and 6 dealt with the modalities of the application of both states for UN membership. Document 7 referred to Article 9 in relation to Four-Power rights and responsibilities. Document 10 declared that the Federal Republic's permanent mission in the DDR would represent the interest of West Berlin. Document 11 established that both states should hold discussions on questions of mutual political interest. Document 15 stated the Federal Government's intention of informing the DDR Government, in writing of the BRD's aims on the national question. 27

Developments in intra-German relations after 1975 centered on two matters: first on the difficulties of implementing Article 8 of the Basic TREATY (on the establishment of permanent mission between the two German states and the subsequent dispute in the BRD over the constitutionality of accrediting the DDR representative to the Federal President; Second, on the amendment of the 1968 constitution of the DDR and the reaction of the Federal Government.

The first was resolved when the two missions were authorised to enjoy the equivalent of diplomatic privileges as laid down in the Vienna Convention of 1961 and the heads of mission were to be accredited to the respective heads of state. On 27 September 1974 DDR amended its 1968 constitution extensively. It was reflected in the Treaty in that

-----

27. *ibid.*, n.3, p.361.

the DDR was no longer described as "a socialist state of the German nation" but as a "socialist state of workers and farmers". The first section of the Preamble removes the reference to DDR's responsibility towards the entire German nation and stresses in its place, the DDR's right of self-determination as a nation and state.

The Federal Government reacted by maintaining that the Basic Treaty remained unaffected and that the oneness of identity of the German people could not be abandoned.

As compared to the Deutschlandpolitik pursued by Adenauer and Erhard which had led to the cementing of Germany's partition into two states integrated into the rival military alliances, Willy Brandt took new radical steps to defreeze the inter-German relations to an extent that the two Germanies entered into a constructive dialogue. Brandt expected no miraculous results at one go. He had the innate ability to understand the constraints to which each of the two states had been subjected to. Therefore, the path to constructive dialogue was one of political realism. In one of the statements, he had remarked that we are going to break the hostile and frozen relationship : that means a movement from a bad relationship to a moderate one, then one to a business-like relationship and eventually to a relationship based upon the principle of "productive peaceful co-existence."



Willy Brandt's Ostpolitik was remarkably anchored in his Westpolitik. While he moved Eastwards to break new paths with a view to attaining a normalized state of peace and of increased interaction in economic and technological fields with the East European countries, he, with equal vigour, contributed to the expansion of the European Community. That is how he could ensure West Germany's increased credibility both in the East and the West.

The FRG-GDR Basic Treaty of 1972 is another remarkable feat of Willy Brandt's statesmanship. While the existence of the two states was given recognition, and the two states were admitted as full-fledged members in the UNO there was a school of thought that proposed that the German Question had found its answer. But that it was no more than a superficial meaning that one could derive therefrom. In reality his concept of "Two States One nation" had kept the question open, so that its answer was expected to emerge eventually in peace and freedom. It may be pertinent to note Brandt's observations in a speech made in 1964 :

"Peace in our part of the world cannot be stable ..... as long as German division, as long as the division of Europe continues .... The right of self-determination serves peace....." 28

---

28. Speech by Willy Brandt at the Executive Committee of the Social Democratic Party of Germany, *News from Germany*, (Bonn), September/October, 1964, pp.1-2.

This has now happened as we may see in the next chapter. It took another decade and a half to reestablish this oneness of the German nation, identity and consciousness.

## CHAPTER 2 :

### SYSTEMIC CHANGE IN THE USSR : THREE PRONGED STRATEGY INITIATED BY GORBACHEV AND ITS EFFECT ON THE ERSTWHILE GDR AND EASTERN EUROPE

Mikhail S.Gorbachev was elected General Secretary of the CPSU on 11 March 1985. On assumption of power Gorbachev made it clear that his top most priority was to halt and reverse declining rate of economic growth in his own country.

*The country began to lose momentum. Economic failures became more frequent..... Analysing the situation, we first discovered a slowing economic growth. In the last fifteen years the national income growth rates had declined by more than a half and by the beginning of the eighties had fallen to a level close to economic stagnation.<sup>1</sup>*

The new leader put the blame for the country's problems on his predecessors' failure to modernize the antiquated system of central planning and to allow the increasing enlightened and well educated population any stake in the running of the society. "We have forgotten how to work.... Not just that but forgotten how to work in democratic conditions",<sup>2</sup> he told an informal meeting with the Soviet writers in 1986.

- 
1. Mikhail Gorbachev, *Perestroika*, (London, Fontana/Collins, 1988) pp.18-19.
  2. Vojtech Mastny, *Soviet-East European Survey, 1986-87*, (Boulder and London: Westview 1988), p.19.

As a first step Gorbachev took recourse to mass-mobilization aimed at shaking the population out of the inertia of the Brezhnev era. He launched a campaign for tighter discipline and order. Gorbachev assured to streamline the system of economic management, to rationalize central planning, to prune the bureaucracy and to give greater independence to enterprises.

However, reform was not easy as Gorbachev was aware when he assumed power in 1985. Even moderate decentralization of the economy would meet with entrenched opposition. He was quoted in Pravda in 1987 as saying that "restructuring must be carried out from below and from above".<sup>3</sup> In the course of 1986 leading up to the Twenty-seventh Congress of CPSU. Gorbachev became increasingly frank and outspoken about resistance to change which he confessed existed not only among the middle level strata of the bureaucracy but at every level of society.

Mikhail Gorbachev's response to "contradictions in the development of our society, our errors and omissions"<sup>4</sup> was his promulgation of his twin policies of Perestroika and Glasnost. It was at the April 1985 Plenary Meeting that the recommendations of a group of Party and state leaders,

---

3. Ibid., n.2, p.21.

4. Ibid., n.1, p.42.

and economy during the Brezhnev era commanding immense expenditure incurred in connection with Soviet international policy in the period of the Cold War. This massive monetary imbalance led to the institutionalizing of the practice of buying off various sectors of the economy with subsidized privileges.<sup>7</sup>

The contradictions inherent in these policies came to a head under Gorbachev, endangering the very existence of the system.

However, significant sections of Soviet citizenry were skeptical about Perestroika. Gorbachev was aware that his newly enunciated policy had not evoked the economic and political responses he had envisioned.

Gorbachev was now convinced that only with "a restructuring of people's thinking shall we be able to tackle our tasks."<sup>8</sup>

The Twenty seventh Party Congress of 1986 laid down an agenda for political reforms as a vital complement to the economic reforms. Gorbachev now stressed upon the importance of the "human factor", a shift of his emphasis from economic to political reform.

*We have come to the conclusion that unless we activate the human factor that is, unless we take into consideration the*

---

7. Ibid.,

8. Ibid., n.2, p.22.

scientists and experts on the state of the Soviet economy became the basis for the documents of Perestroika. The principal priorities as Gorbachev envisioned lay in a "profound structural reorganization of the economy, in reconstruction of its material basis, in new technologies, in investment policy changes, and in high standards of management. All that adds up to one thing - acceleration of scientific and technological progress".<sup>5</sup>

Thus the first sphere where contradictions became obvious was in the economy, i.e. failure of the planned economy to deliver. The growing stagnation of the Brezhnev era marked the critical point in the manifestation of the economic problems of the Soviet regime. The stagnation a direct result of the general insufficiency and inadequacy of central planning in regulating a "routinized and diversified" modern economy was aggravated by the disproportionately heavy burden of the military expenditure.<sup>6</sup>

The economy therefore was based in the predominantly militaristic orientation of the regime. Consequently, military grew as an "autonomous sector" of the Soviet society

---

5. Ibid, n.1, p.27.

6. S.N.Eisenstadt, "The Breakdown of Communist Regimes", *Daedalus*, (Cambridge: 1992), vol.121, no.2, p.29.

*diverse interests of people, work collectives, public bodies, and various social groups... and draw them into active, constructive endeavor, it will be impossible for us to accomplish any of the task set, or to change the situation in the country.<sup>9</sup>*

The Twenty Seventh Congress was to discuss and adopt a new edition of the Programme of the CPSU, amendments to the Party rules and Guidelines for Economic Development for the next five years and beyond.

Gorbachev at the Twenty Seventh Congress attempted to qualitatively alter the party's nature. While duly giving credit for the achievements Gorbachev laid down that the CPSU considered its duty to tell the party and people truthfully and frankly about the shortcomings in political and practical activities, the backward tendencies of the economy and society. He admitted that for long the deeds and actions of the Party and Government lagged behind the needs of the times and of life.

*The inertness and rigidity of the forms and methods of management, the decline of dynamism in our work and increased bureaucracy - all this was doing no small damage.... The situation called for change, but a peculiar psychology - who to improve things without changing anything-took the upper hand in the central bodies...<sup>10</sup>*

---

9. Ibid., n.1, p.29.

10. Robert Maxwell, (ed)., *M.S. Gorbachev : Speeches and Writings* (Oxford: Pergamon 1986), p.2

It was a powerful statement from the highest leadership of the Soviet Union.

Realising that the economy would not be restored to dynamism and growth without adequate relaxation of social and political controls, Gorbachev in a speech at Krasnodar in September 1986 for the first time spoke of democratization of Soviet society as his main priority. The means adopted was of *Glasnost* or openness. The press was encouraged to focus public attention on the negative aspects of Soviet society in order to find and elicit solutions. There was a notable liberalization in cultural and literary life and there were hints of a tentative re-examination and reappraisal of Stalin's role in Soviet history and consequently of the very validity of the communist ideology.

*...functional communism failed to demonstrate its strength by implementing the tenets of economic egalitarianism, which it had claimed was its basic creed." The specific failures were that "it lacked the capability to compete with its rival mode of economic management ... Its mismanagement of economy turned it into one of the worst forms of autarky ... Unprecedented rigidity of the ideological dogma led to all forms of iron-clad censorship on political and civilian activities ... 11*

At a Plenary meeting of the Central Committee of the CPSU in January 1987, Gorbachev put forward potentially

---

11. H.S.Chopra, "Systemic Change In The USSR And Eastern Europe: Its Global Effects," Paper presented at Indo-EEC Seminar, (New Delhi, Nov 1991), p.6-7.



significant initiatives regarding the introduction of multiple-candidacy balloting for local government positions and more importantly for Party posts. There was however stiff opposition from within the Party.

Turning again towards the role of the Party, Gorbachev was to make again unprecedented observations:

"The Party can resolve new problems successfully if it is itself in uninterrupted development, free of the infallibility complex, critically assesses the results that have attained, and clearly sees what has to be done."<sup>12</sup>

Gorbachev in effect was making a powerful and critical gesture that the Party may not be always right in its conduct of the nation and the society. Making suggestions towards the purpose of restructuring Party Work, Gorbachev urged:

*the utmost promotion of democracy within the Party itself... the promotion of criticism and self-criticism, control, and a responsible attitude to the work at hand.*<sup>13</sup>

At a Central Committee meeting in 1988 Gorbachev then called for "radical reform" of the political system not just democratization and identified the "ossified system of govern-

---

12. Ibid., n.8, p.86-87.

13. Ibid., p.87.

14. Stephen White, "Rethinking the CPSU," *Soviet Studies*, (University of Glasgow, 1991), vol.43, no.2, p.405.

ment with its command-and-pressure mechanism"<sup>15</sup> as the main obstacle to perestroika. He pointed out that there had been substantially evident deformations and distortions in the party itself.

Critically scrutinising the supremacy of the Party in the governance of the nation, Gorbachev was attempting at delinking the total identification of the Party with the state.

Therefore, when Gorbachev spoke of electoral policies, i.e. competitively elected members and bodies, he was as was later shown in 1990, to abandon substantially the existing *nomenclatura* system, which inexorably led to the abandonment of the Party's "leading role".

At the XXVIII Party Congress 1990, introduction of a market economy and transformation of the Soviet State into a Union of Sovereign States was sought to be undertaken. Gorbachev initially opted in August 1990 for an alliance with Boris Yelstin on the basis of the Shatalin Plan which proposed a transition to market economy in 500 days. Later, under the influence of Ryzkov, Gorbachev settled for a Compromise Plan in October 1990 containing general guidelines "For the stabilisation of the economy and the transition to the market economy".<sup>15</sup>

---

15. Boris Meissner, "The Transformation of the Soviet Union," *Soviet Studies* (University of Glasgow) Vol.43, No.5, 1992 P.54.

On 24 September 1990, Gorbachev induced the Supreme Soviet of the USSR to give him special powers until 3 March 1992 to issue decrees relating to substantial sections of the economy. At the same time he aligned the structures of the state to the Presidential office and began reshaping the Soviet Union federally.

The powerful position of the executive President was substantially reinforced by his total assumption of government power. The government of the Union led by the Prime Minister was subordinated to the President. The Presidential Council was replaced by a Security Council. This was complemented by a Federation Council which became a decision making body.

The leader's power was now sought to be given the constitutional footing of the Presidency rather than basing it on the leadership of the Party as its General Secretary. The balance of power shifted away from the nomenclatura of the Central Committee and the Politbureau to state bodies and the executive Presidency.

Mikhail Gorbachev had masterminded a comprehensive reevaluation of ideology, consequent upon which monopolism had been discredited, communism had largely disappeared from public discourse, and a socialism which enunciated democracy in a western sense.

The Presidency was a counter to Party domination. In his opening address as the first President of the USSR he saw his task as being not to act on behalf of "some layer of political tendency but rather to be the "representative of the whole nation".<sup>16</sup> Relegating the Party to a separate political tendency, Gorbachev carried out a political revolution against the Party.

On the level of ideology and normative ideas and conceptions the aims of the transformation were clear. These were political pluralism, constitutional statehood and a differentiated party system; socially, integration and identification as a nation of all the different ethnic groups living within a particular state.<sup>17</sup>

Let us briefly summarise the causes for the monetary and fiscal imbalances of the Soviet economy. During the first three years of *perestroika* 1985-87, two major reasons emerged. First, the anti-alcohol campaign alone was sufficient cause for severe imbalances on consumer markets

---

16. Ibid, no.9, p.235.

17. August Pradetto, "Transformation in Eastern Europe, International Cooperation and the German Position, Studies in Comparative Communism, (London: Butterworth-Heinemann, 1982), vol xxv. no. 1, p. 276.

in this period. Second, the Gorbachev regime brought the state budget out of balance by raising investment and defence expenditure ignoring the fall of revenue from alcohol sales.

In the Second stage from 1988, the Soviet economy entered a severe crisis. The outstanding cause of imbalance has been the reform named in the Law of State Enterprises. First of all it made it possible for state enterprises to compete for scarce labour through excessive wage hikes, without allowing corresponding price increases. Second, social security and insurance benefits rose even faster than wages, initially for social reasons and eventually because of political populism. Third, the government conserved the inflationary budget deficit by limiting enterprise taxes, without cutting expenditures. The worst scenario on the expenditure side was the rising consumer subsidies. Fourth, an excess outflow of money from enterprise accounts worsened the imbalance on consumer markets and the growth of the money supply. By 1991, the Soviet economy was in the grip of such imbalances that it approached a breakdown.<sup>18</sup>

In the East-European states which were characterized by the classic Leninist model upto 1989, politics was inseparable from economics in its entirety. The economy was directly and supremely state-owned and state - directed.

---

18. Ibid., n.15, p.72.

The state itself was absolutely subordinate to the Communist Party. The systemic revolution carried out in the Soviet Union by Mikhail Gorbachev had a direct bearing upon Eastern Europe, for forty years under direct political, economic and military influence of the former.

Gorbachev's visit to Prague in 1987 set at perspective the newly evolving Soviet-East European relationship. Stating that the Soviet Union was in the midst of "extensive and tumultuous processes of restructuring, acceleration, and democratization"<sup>19</sup> he added that since every socialist country had its own specific features and national peculiarities, national parties were independent and responsible to their own nations.

Eastern Europe's response to Gorbachev's exhortations for change was revolutionary. Sweeping political transformations metamorphosed the once rigidly controlled East-European states by absolutist communist parties into free, democratic and non-communist nations. The revolutionary changes which occurred throughout East Europe during 1989-90 involved two related processes:

- i) Removal from power of the one-party rule of Sovietsupported political parties; and

---

19. Ibid., n.18, p.232.

- ii) Establishment of procedures for holding of broadly competitive elections.

The first process removed the major negative element, i.e. the East European communist parties, which had kept Eastern Europe the Soviet economic and political spheres of influence. The second process started with the states on the way toward establishing or broadening ties with the rest of the World, thus replacing those that held for more than four decades.<sup>20</sup>

### **GDR**

Let us now consider GDR. The peaceful revolution, the first of its kind in German history was the culmination of essentially three important factors and favourable external conditions created by Gorbachev's Perestroika. These were

- (i) The alienation between the East German people and the communist leadership had deepened and widened from year to year. Added to this was the glaring economic inefficiency, non-availability of consumer goods and the suppression of the human spirit which created a psychosis of pathological revolution against the Honecker regime.

---

20. Ibid., n.18, p.72.

(ii) From the late seventies rudimentary structures of a kind of parallel society had emerged providing for an alternative platform for public discourse. These fora were facilitated by Protestant Churches and artists and the literatti. For the first time in East German history, hundreds of thousands of youth met in human rights groups, environmental preservation groups, Third-World groups etc. to carry out a political dialogue and discourse independent of the official ruling elite. Defying fear of the apparatus of repression, these groups were to later found political parties and political organisations in the course of the year 1989.

(iii) The third principal factor was the possibility of large scale migration of the East-German population into the West. As long as migration was effectively checked, East Germany could possibly sustain one of the more efficient communist systems. This control however had become impossible because of the opening of Hungary's border to Austria in August 1989, and the situation became unstable.<sup>21</sup>

---

21. JMC Rollo, (Ed), The New Eastern Europe : Western Responses, (London, Pinter Publishers, 1990), pp.31-32.



In fact, as many as three to four hundred thousand East-Germans had applied for migration and as a retribution for this had been deprived of many of their civil rights. From the beginning of 1989 protest activities of opposition groups had become more and more daring and challenging.<sup>22</sup>

The first serious and tangible pressure applied on the regime came in August 1989, when would-be-refugees poured into the East-German mission in Berlin and their embassies in Budapest, Prague and Warsaw. Migration then intensified and it was estimated that by the end of September 1989 over 100,000 mainly young and skilled workers would have left the country. This was a major destabilizing factor in East-Germany.

East German Churches were also in a ferment. Relations between the state and the majority Evangelical Church and the minority Roman Catholic Church had stagnated over the years. Nevertheless, there was a strong revival of interest in the Church among the ordinary East Germans.<sup>23</sup> There was

---

22. Thomas Meyer, "German Unification and European Integration", Paper presented at JNU: FES: ICRIER, International Seminar on "European Union in 1992: Its significances for India and South Asia", (New Delhi, 1990), p.3

23. Ibid., n.2, p.247.

a growing resurgence of interest in the Bible and a predominantly young crowd met at Church meetings and concerts. In fact, when the September demonstrations grew the Protestant Church gave a call for consultations about the country's problems. The Protestant Church provided a safe platform where political discussions could be held. Most of the important demonstrations began from Churches - the St. Nicholas Church in Leipzig and the Gethsemane Church in East Berlin, were amongst the notable ones. In early September 1989 there was an open meeting of the New Forum - a small group of intellectuals and Protestant clergymen. Their declaration exhorted all to join in a national debate as "communication between state and society has broken down".<sup>24</sup>

An examination of the official East-German reaction to, first, Gorbachev's call for reforms in East Germany, and second the above-mentioned peoples' movement for democratic reforms is in order.

### **2.1 GDR'S RESPONSE : HESITANT**

Right at the beginning East German leaders made it clear that they did not consider Gorbachev's attempts at domestic reforms relevant or applicable to their own situation. Counterpoised to an obvious and conspicuous silence on Gorbachev's calls for openness and democratization was abundant praise for GDR's own "achievements and successes".

---

24. Ibid., n.18, p.32.

The East-German communist Party leadership deliberately distanced itself from Gorbachev's policies of restructuring and democratization enunciated in the 27th CPSU Congress in February 1986. The Eleventh SED Congress in remarkable contrast to the self-critical Congresses across Eastern Europe was instead characterised by an eulogizing of the GDR's achievements as a "politically stable and economically efficient socialist state."<sup>25</sup>

The SED clearly avoided all references to electoral reform, criticism of the Brezhnev era and severe abuses of authority by party and state officials. There was scant coverage given to personnel changes made at the plenum.

Eric Honecker showed subdued enthusiasm for change within the Soviet Union and its effects on foreign policy particularly during the visit of the then Soviet Foreign Minister Eduard Shevardnadze and instead focussed on the good balance the GDR had built up for the year 1986 showing the way for the further dynamic development of the economy.

A former Director of the Academy of Social Sciences attached to the central committee of the SED in East Germany, Otto Reinhold asked : "What reason d'etre would a capitalist GDR have, next to a capitalist Federal Republic of Germany ?

---

25. B.V. Flow and Ronald Asmus, "The Eleventh Party Congress," Soviet-East European Survey, 1985-86 (Durham: Duke University 1987), pp.271-74.

Naturally none at all"<sup>26</sup>Political analysts felt that this analysis was the critical reason for the SED politbureau to dissociate itself from the proposed course of perestroika and instead denounce and criticize it.

It was also felt that where as the other communist countries such as Hungary, Poland and Czechoslovakia would retain a national identity even after a thorough going departure from their former communist identity, East-Germany possibly would not.

Observers even speculated that the East German leaders desirous of maintaining stability and political control may have been hoping that more conservative forces in the Soviet union would halt and reverse the policy of reform adopted by Gorbachev. <sup>27</sup>

Most importantly, the period that Gorbachev criticized as one of "ineptitude, corruption and stagnation in political life"<sup>28</sup> was the nineteen-seventies and eighties, the years of Honecker's political policies. Honecker would have delegitimised his political rule had he begun criticizing and dismantling the policies of that era.

-----

26. *ibid.*, n. 19, p.2.

27. *Ibid*, P.242

28. *Pravda*, October 7, 1989.

However, it was this very resistance and hesitation of the official East German regime to bring about reforms that eventually led to the collapse of communist rule and the resultant radical transformation of political and social life.

## **2.2 POPULAR UPSURGE FOR POLITICAL CHANGE : FALL OF BERLIN WALL AND GERMAN UNIFICATION**

Tracing back, soon after the appeal by the Protestant Church to conduct a debate across the nation, the authorities' first reaction was to clamp down on protest. Groups such as New Forum, Demokratischer Aufbruch and others conducted peaceful protest marches around the city of Leipzig in pursuance of their vision of a democratized and reformed GDR. The two 'block' parties - the Liberal Democrats (LDPD) and the Christian Democrats (CDUD) - showed signs of independence but they were ignored. The Catholic Bishops also expressed their dissent.

The 40th Anniversary celebrations of the foundation of the GDR were held amidst migrations and demonstrations. The visit of Gorbachev and his statements had made it clear that this time around the Red Army would not be available to protect the communist party rulers. It was here at Berlin that Gorbachev coined his famous sentence "Life punishes those who are late".<sup>29</sup>

---

29. *ibid.*, n.19, p.4.

Shortly after Gorbachev's departure, splits and dissensions appeared in the politbureau. Releasing the demonstrators the local Communist Party (SED) offered dialogue in Leipzig and Dresden. The communist regime made its first tentative proposals for openness in discussion. However, it was too late. Opposition and the desire for radical change cut across intellectuals and the middle class to the industrial workers.

On 16 October 1989 at the regular Monday demonstration at Leipzig which was attended by over 100,000 people, the slogan "The Wall Must Go" appeared for the first time.<sup>30</sup>

Around this time, 34,139 East Germans had left for the West via Hungary. On 18 October 1989, Honecker resigned and was succeeded by Egon Krenz.<sup>31</sup> On 20 October, travel was made unrestricted and all had the right to a passport and apply for a visa. Demonstrations continued and for the first time there was one at Rostock attended by over 10,000 people.

On 24 October, Krenz was elected President. A general amnesty was declared for peaceful demonstrators. However, demonstrations continued to grow alarmingly. On 30 October, 300,000 marched around Leipzig. Krenz announced concessions. On 8 November, a new Politbureau was formed. The

---

30. *ibid*, n.18, p.33.

31. *ibid.*, p.33.

following day was history revisited. The wall was opened.

In the first six days after the opening, about half the population obtained visas to visit the West. In all 776, 581 visas were issued and in the same period 13,579 emigration requests were approved.

### **THE DEUTSCHLAND REUNIFICATION WAS A MATTER OF TIME**

The December 1990 German general election was a watershed election in German history. When Germany's 60 million voters went to the polls on 2 December 1990 to elect 656 members of the Bundestag, they were voting in the first ever free elections since November 1932. It marked the culmination of one of the most extraordinary years in German history. Let us briefly recollect the series of events leading up to the election following Gorbachev's revolution; the collapse of the communist regime in the GDR, the first free elections of the People's Chamber in the GDR (March 1990); the absorption of the GDR into the Deutschmark zone (1 July 1990); the reunification of Germany through Article 123 of the Basic Law (3 October, 1990); free elections in the five new Eastern states (Laender) on 14 October 1990 and finally the all German general election on 2 December 1990. The election turned into an affirmation and referendum on unification.<sup>32</sup>

---

32. R.E.M. Irving and W.E. Paterson, "The 1990 German General Election", Parliamentary Affairs, (Oxford: 1991), vol.44, no.3, p.353.

By unification Germany has become stronger than ever before. The weakening of the German Mark caused by the establishment of homogenous conditions in Eastern and Western Germany is today balanced by the parity of convertibility and additional investments.

Already a number of currencies and economies of Central and Western European countries depend directly on the German economy and the German DM. The European market to be accomplished in 1992 will be to the best advantage of the strongest economies. The experiences associated with establishing a united social and economic area in the former GDR will be important when try to rebuild East, Europe and construct United Europe.

Apart from the advanced level of German capital technology, and scientific personnel, the German democratic system is considered to be the foremost in the region because of its administration, constitution, judicial system and political stability.

Germany is better placed to deal with problems likely to arise in transforming a centrally-planned economy to a market economy and making it compatible with Western market conditions. Germany was the microcosm of Europe when the continent was divided and Germany is the microcosm of Europe when the continent is united. Unification of Germany was the consequence and the symbol of the unification of Cen-



tral, Eastern and Western Europe.<sup>33</sup> Its location, its traditional relations with East Europe, its financial and economic power will again make Germany the predominant power in Central and East Europe.

---

33. Ibid., n.18, p.85.

## CHAPTER 3

### ECONOMIC COSTS OF UNIFICATION

The historic unification of Germany generated debate on the future of economy and industry in the former East Germany, and on the social consequences of the shift from a bankrupt, state-controlled socialist economy to a free market enterprise or system. Following questions were uppermost in the minds of the policy planners to be attended to on a priority basis do so:

- i) what will economic reorganization and restructuring cost ?
- ii) What will be the magnitude of unemployment, inflation and social costs ?
- iii) How should the establishment of new enterprises and re-training be reconstructed and restructured ?

There has however been tacit agreement on the question of what shape should the old East German economy take. It is broadly assumed that the reorganization in the east would produce an economy resembling that of West Germany.

Most importantly the question of the time-frame for the transition has been considered at length. Recent studies and explorations by various economic research institutions in Germany have shown that the phase of unavoidable and necessary appropriate structural changes and adjustment

processes will last longer and prove more difficult than was expected.<sup>1</sup>

It should be appropriate to consider the nature of what is sought to be changed and examine the nature of the change itself. Political, economic and technological change is intrinsically bound up with social peculiarities inclinations and variables of the specific society where it takes place.

General insufficiencies of the "socialist command economy" and that of centralized bureaucratic planning apart, it was the way the production structure that organized the human and technological potential in a way that limited their effectiveness and created barriers to constructive and adaptive reform. Structures of production in the former German Democratic Republic were considerably the product of direct political intervention. The state itself controlled organizational and distributional modes and forms of production. As a result, there was an unsatisfactory and uneconomic division of labour governed by a high degree of vertical

---

1. Ulrich Voskamp and Volker Wittke, "Industrial Restructuring in the Former German Democratic Republic : Barriers to Adaptive Reform Become Downward Spiral, "Politics and Society, (Stoneham), vol.19, no.3, September, 1991), p.341.

hierarchical integration and autarkic firms: these constituted the overall general nature of the former East German industry and economy. These factors inherently led to barriers to adaptive reforms and downgraded the former GDR in international competition.<sup>2</sup>

However, to comprehend the future development of the erstwhile GDR economy in the now unified Federal Republic of Germany, it is crucial to note that the production pattern that existed in the socialist GDR continues to do so in the state controlled structures, "the power and interest constellations and the underlying orientation of the social participants."<sup>3</sup>

Formally, the GDR was a command economy. However, in practice and reality, the experience was different. The actual labyrinth of bureaucratic - administrative regulatory apparatuses and institutions were never really able to gain control over organization of the work on the shop floor. Plant Managers in the GDR above the level of supervisors and master craftsmen knew very little about what actually went on in various production halls in their plants.

---

2. Ibid., n.1, p.352.

3. Ibid., n.1, p.342.

*Our state is essentially, i.e. from the standpoint of its place in history, is in no position to enforce the same intensity of labour as Capitalism can ... From the standpoint of political economy under actually existing socialism the workers have a far greater opportunity to blackmail the entire society than do the trade unions under capitalism, and they do actually use this, against all surface appearance even if they do so only in an unfruitful way, i.e. by holding back their output.*<sup>4</sup>

The East German command system had therefore great difficulty in enforcing work discipline and enhanced production. This fact was reflected in the politicization of production.

The new market economy environment has created an entirely new framework of concerted action at the plant level. The question posed now is how will the enterprises deal with the situation.

*The hard line is obviously predominant and most of the enterprises want to dissolve the system of shop floor interest compromises in favour of a policy of enforcing productivity by means of stricter disciplinary measures.*<sup>5</sup>

Management experts and specialists however maintain that market pressures do not automatically produce appropriate market-rational behaviour. Managers, in addition, point

---

4. Rudolf Bahro, The Alternative in Eastern Europe, (London: Verso, 1979), p.207.

5. Ibid., n.1, p.365.

out that many people have still not grasped the gravity of recent changes. Therefore, to overcome and to compensate for their employees' backward attitudes, managers responded by tightening workplace discipline.

It may be observed that two factors emerge in the ongoing systemic reorganisation. First, because the current disciplinary strategy is being imposed on unwilling workforce, i.e. not agreed to or negotiated, it increases the risk that those who see opportunities for themselves somewhere else will leave the enterprises. Secondly, the current hard reorganisation measures being carried out by the management clearly come into conflict with the informal social structures that have for long existed within the plant.

Rudolf Bahro, a well known politicologue and economist aptly sums up the former East-German management and production set up:

*Taken as a whole in industry, the principle of reward according to work is no longer any general use as a stimulus for particular efforts for the common good, nor are the various movements of socialist emulation ... People do not know each other's norms. Bonuses are simply parcelled out."*<sup>6</sup>

---

6. Ibid., n.5, p.209.

### 3.1 METHODOLOGY OF ECONOMIC RECONSTRUCTION

Considering the foregoing analysis, it could be underscored that any reconstruction of the former GDR economy and industry would entail systemic and radical transformation of pre-unification institutions. The East European and East German experiences are somewhat similar. Broadly and briefly following institutional changes have been formalised:

- i) Dismantling and decentralization of the administrative planning system ;
- ii) Rights of disposal and use for the means of production to be effected through privatization;
- iii) Market orientation of production and price decontrol;
- iv) Limiting the function of the state and or formation of the state budget system;
- v) Reallocation of capital in money and capital markets through reform of banking system accompanied by reduction of money surplus;
- vi) Integration into world market and economy via elimination of foreign trade monopolies and gradual introduction of free currency convertibility.<sup>7</sup>

---

7. H. Jorg Thieme and Henning Eckermann, "Eastern Europe's Long and Winding Road to the Market Economy," Aussen Politik, (Hamburg), vol.42, 2/1991, p.187.

The GDR industry became increasingly uncompetitive during the 1980s. Ties and collaborations at most levels of technological development in the international economy broke down and production facilities became obsolete and outdated. It should be instructive to note that, besides the above, this stasis continued despite the following:

- i) Expenditures on research and development were high: 2.8% of its GDP as compared to 2.6% in the US, 2.9% in Japan and 2.9 in FRG - all capitalist countries. Excepting environmental technology, the R&D potential in the GDR had been concentrated in the same areas, viz. high-tech, as was the case with the outlays in the FRG.
- ii) The machine construction industry as well as the electro-technical and electronics industry, i.e. those sectors that produce technological infrastructure had an important role within the overall economy of the GDR. In the microelectronics production sector alone, 100,000 workers were employed.
- iii) The GDR also had a well-developed educational system that produced a large number of qualified persons required for successful technological innovation and development. In the production sectors alone in 1985, 64% of those gainfully employed had been trained as skilled workers and 14% had completed a university or



technical college education. Compare it with figures for the FRG, . 58% and 6% respectively.<sup>8</sup>

The following discussion considers the reasons for the contradiction between the considerable technological R&D and manpower input on the one scale and the grossly inappropriate output i.e. labour productivity, on the other.

According to a model calculation carried out by the Bonn Ministry for Intra-German Relations in 1987, the average contribution to the economy per employee in the GDR in all producing sectors is 49% (1983) of the corresponding net contribution per employee in the FRG. However, according to more exact information available today, this estimate of the average productivity of labour in East Germany has been lowered to between 35% and 40%.<sup>9</sup>

The difference in the levels of labour productivity in the FRG and the GDR was essentially on account of three reasons. First, there was an inherent tendency in the system for firms to 'hoard' and concentrate manpower disproportionate to the work involved in the expectation that it

-----

8. Ibid., n.1, p.343.

9. Spiridon Paraskewopoulos, "Employment problems in the GDR during the Transition to a Market Economy," Aussen Politik, (Hamburg), vol.42, 2/1991, p.346.

would then be easier to meet planning targets. At the same time, however, there was a lack of any incentive to reduce costs. This overmanning of production plants led to a substantial reduction in the productivity of labour.

A second factor which reduced labour productivity and output was the comparatively low productivity of capital (i.e. ratio of output to fixed assets). According to the Ministry of publication the corresponding figure in the GDR was only half the figure in the FRG. This was again due to obsolete and technologically backward plants, fixtures and stocks coupled with underinvestment and uncompetitive management.<sup>10</sup>

A third important decisive factor for the lack of requisite labour productivity was the lack of on-the-job motivation consequent upon lack of incentives and discipline at work. The poor supply situation meant that wages paid in East German works were an inadequate incentive for achievement for the employees.<sup>11</sup> Much debate has taken place on the whole range of reform measures to be undertaken on the transformation and reconstruction of economies. It has been seen that neither history nor economic theory could

---

10. Christopher Ferrands, "Prospects for Technological Competitiveness in the Five New Laeder," European Trends, (London), no.2, 1991, p.64.

11. Ibid., n.9, p.346.

possibly provide a clear guide to the optimal pace and sequence of reform measures. It is unlikely that a pre-conceived master blueprint for economic transformation could be found. The solution therefore is likely to be based on the special circumstances prevailing in the particular economy.

Moreover, recent research in economic history provides clear evidence that "successful cases of industrialization, (for instance that of 19th century Germany or 20th century Japan), were not direct replications of a dominant mode or standard of international efficiency. On the contrary, successful industrial development involved the development and adoption of exogenously developed models of industrial organization to local political and social conditions in markets, social structures, education system and mentality."<sup>12</sup> A number of ways of organizing production (i.e. technology and labour employment practices), the corporative and industrial sectors (i.e. dominance of large enterprises versus a strong role played by small and middle sized firms), the market (i.e. dominance of mass production

---

12. Ibid., n. 1, p.342. For details see David Friedman, The Misunderstood Miracle: Industrial Development and Political change in Japan, (Ithaca, N.Y: Cornell University, 1988).

versus job-lot production), and vocational training (i.e. skilled workers or unskilled workers) can be found in most of the advanced industrial states also.<sup>13</sup> However, the dominant mode adopted should be compatible with the indigenous factors.

Most economic reform programmes designed to transform a centrally planned economy into a market economy as in the eastern part of Germany, emphasise upon the removal of subsidies that distort the existing price structure. Special attention is usually paid to the consequences of wage indexation. This has been a major issue in most of the recent reform programmes. It has been shown and observed that a high degree of wage indexation has provoked micro-economic distortions causing macro-economic difficulties. Therefore, it is suggested that this must be taken into account in the design of domestic social safety mechanisms supporting the transformation efforts.<sup>14</sup>

---

13. Ibid., n.1, p.342. For details see, Michael Piore, Charles Sebel, The Second Industrial Divide: Possibilities for Prosperity, (New York: Basic Books, 1984).

14. Buillermo A. Calvo and Jacob A. Frankel, "From Centrally Planned Economy to market Economy," International Monetary Fund staff Papers, (Washington D.C.), vol. 38, no.2, June 1991), p.270.

It may be suggested that Germany could marshall and adopt relevant experiences of privatization and restructuring from the rest of Eastern Europe. A broad and brief survey of initiatives in privatization carried out in some East European countries may be pertinent.

In Romania for instance, the privatization law of August 1990 transformed the state enterprises, except those in strategic industries such as defence, energy and infrastructure, into commercial companies, i.e. joint stock and other forms of limited liability corporations with 30% of their capital being transferred to the National Agency for Privatization. By September 1991, a free stock exchange market would have started trading in enterprise shares.

In Poland, the main initiative for privatization was taken in July 1990 when the Polish Parliament passed a legislation with an overwhelming majority authorising the government to undertake privatization of the industrial sector. The proposal being currently developed divides the process of privatization into several categories and time frames.<sup>15</sup>

---

15. Eduardo Borenzstein and Manmohan S. Kumar, "Proposals for Privatization in Eastern Europe," International Monetary Fund Staff Papers, (Washington, D.C.), vol. 38, no.2, June 1991), pp.317-318.

In Czechoslovakia, the process of privatization falls in three phases. First, restaurants, shops and the small service outlets will be sold to the private sector. Individuals whose property was confiscated after the communist take over in 1948 will have the right to claim restitution of their property within a limited period. The remaining will be auctioned off to the public. The second phase, that of large scale enterprises: vouchers held by citizens will be exchanged for shares in these enterprises. The state retains 20% to 30% stakes. Third, hiving off a group of state-run enterprises and transforming them into joint stock companies.<sup>16</sup>

In Hungary a law passed in 1989 established the State Property Agency in operation since March 1990 to oversee privatization of the enterprises which will be sold through public or private placements through spontaneous privatizations (i.e. managers of the enterprises selling off the assets they are managing depending upon market conditions) or through employee stock ownership schemes.<sup>17</sup>

In a comprehensive privatization programme two predominant elements may be considered however, and given

---

16. Ibid., p.318.

17. Ibid., p.320.

due importance and priority. First, it should create management-structures conducive to profit maximisation. Fulfilment of this condition is necessary to ensure the price and market reforms needed to achieve an optimal and effective resource allocation in the economy. Second, the initiative should avoid potentially serious fiscal problems and imbalances for the government.<sup>18</sup>

These problems could arise either because of the loss of the incoming dividend flow or as a result of a sharp reduction in the direct tax revenues from enterprises. However, the first issue of the creation of an efficient structure for the supervision of management is perhaps the most complicated issue any privatization proposal can deal with.<sup>19</sup>

In addition, in carrying out the methodology of reconstruction of an economy, in this instance that of East Germany, the pre-unification local and internal dynamic forces have to be considered for an exogenous industrial development and restructuring from without<sup>20</sup>. In the tran-

---

18. Ibid., n.14, p.320.

19. Ibid.,

20. For details see, Gary Herrigal, Industrial Organization and the Politics of Industry: Centralized and Decentralized Production in Germany, (Cambridge : Mass., 1990).

sitional phase of radical restructuring of the East German system it is important that a combination of the economically reasonable with the socially imperative factors may have to be adopted. This should contribute toward the stability of the newly created and introduced market economy. Many economists feel that the former GDR's economic system can be successfully transformed into a market economy if certain constituent and inherent regulatory mechanisms and elements are applied simultaneously.<sup>21</sup>

Employment constituting an enormously significant social dimension must together with the general economic aspects be given high priority during the transitional phase. In addition to independence of business enterprises, a whole range of social measures should be legislated and carried out relating to social insurance and to the entire genre of retraining and advanced training. In fact, the process of privatization did have a positive impact on the labour market, since new employment opportunities were created in the crafts and services sectors.<sup>22</sup> It is generally felt that employment problems developing in a dynamically growing economy could be expected to be resolved after a very short period.

---

21. Ibid., n.9, p.342.

22. Ibid.,



State intervention may possibly be required for social policy reasons in the labour market. It was estimated that there were already 250,000 unemployed persons in East Germany at the end of July 1990<sup>23</sup>. With a total of approximately 9 million gainfully employable persons, the unemployment rate was therefore less than 3%. Under normal market economy conditions this would be determined full employment. The unemployment figures will however continue to rise during the transitional phase.<sup>24</sup> The figure had nearly doubled at by the end of 1990-91 thereby posing considerable political strain. Calculations of how many jobs will exactly be lost will however be speculative. However as per one source, unemployment at present is around 30% of the workforce in the GDR. According to a study by a consulting firm Mc Kinsey, half the workforce could be unemployed by the end of 1992, i.e. Some 4 million people.<sup>25</sup>

The transformation and restructuring will mean that a large number of previously employed persons will be retrenched and firms will begin to function cost-consciously. Work motivation and consequently labour productivity will

-----

23. Ibid., n.9, p.351.

24. Ibid.,

25. "A year after Unification : Economic and Social Evaluation of the former GDR", Social and Labour Bulletin (Geneva), nos. 3-4, 1991, p.222.

increase substantially since the remuneration of the workers has been in D-Marks ever since the monetary union was introduced. However, even if wages in eastern Germany are much lower than that of western Germany, the value of the D-Mark wage in real terms is much higher than before. Furthermore, lower wages in eastern Germany will act as an incentive for investments for Western companies.

Initially, during the process of renewal and modernization of plant and fixtures, there will be comparatively lesser retrenchment. However when the market economy becomes fully functional, 50% of the workforce in the GDR would have to be made redundant to maintain the previous volume of production level with the same level of labour productivity as in the FRG. The process of dismissal of labour will however be counteracted by a hiring of labour, in turn appreciably decelerating the increase in unemployment. In spite of this positive development, an unemployment rate of 10 % can be expected for a certain period until the process of transformation has been completed.<sup>26</sup> As the dynamic process accelerates and unemployment develops the persons affected will vary. It has to be clearly grasped by policy planners that the economy will have to cope with roughly one million unemployed for a longer period. Growing unemployment therefore must be seen as a painful yet essential process.

---

26. Ibid., n.14, p.321.

The initiative for a comprehensive systemic overhaul and build-up of an entire infrastructure and productive network it is argued should be accomplished by a carefully conceived and targeted governmental policy. It should aim for a new foundation of an economically and socially self-sustained growth based on internationally competitive technological strengths.

It is also argued that such a technologically based growth policy would not run into one of the questions of restructuring, namely, the reluctance of corporations in the West to move their headquarters or to enlarge their East German facilities in eastern Germany because they wish to avoid in house competition or closing down of plants in favour of the East.<sup>27</sup>

### 3.2 THE GERMAN ECONOMIC AND MONETARY AND SOCIAL UNION

On 1 July, 1990 the German Economic and Monetary Union came into force. The German monetary union was certainly one of the great unexpected events of 1990, because the possibility of this shock approach of coalescing two entirely different economies with such differences in economic

---

27. Eckart Arnold, "German foreign policy and unification", International Affairs, (London), vol.67, no.3, July 1991, p.456.

structures was totally unforeseen at the end of 1989. The union meant converting a socialist command economy which adds 10 per cent of West German GDP and about 26 per cent of West German population to a unified Germany as soon as possible.<sup>28</sup> This approach was unique and extraordinary in the German economic history.

West German currency became legal tender in East Germany. In contrast to former East German Mark, the Deutsche Mark is fully convertible. The East German Mark was placed at par with the West German Deutsche mark of 1:1 conversion rate.

The foregoing conversion allows the East German mark full freedom of exchange with the D-Mark and then with the rest of the world. Controls on foreign exchange and the earlier state monopoly of transborder monetary transactions have been entirely abolished. Trade barriers were lifted,

---

28. Rolf J. Langhammer, "EC Integration Deepening And Widening: The External Dimension of the EC 1992 Program and of the German Monetary Union", Paper presented at the JNU:FES:ICRIER International Seminar on "European Union in 1992: Its Significance for India and South Asia, (N.Delhi, 1990), p.8.

legal, tax and social security and insurance systems were harmonized and all existing barriers to capital and labour movements were removed.

The Deutsche Mark Bundesbank in Frankfurt has been completely authorised to regulate the quantity and circulation of its money in East Germany.

Consequently, three major dangers to the East German economy were eliminated: the danger of government induced inflation (especially through deficits financed by the Central Bank), of floating exchange rates relative to the Deutsche Mark and of currency convertibility.<sup>29</sup>

The introduction of the D-Mark has addressed the Eastern Germany's old problem of repressed inflation which had both a monetary and a market aspect. In response to the repressive inflation, the monetary union provides a deflationary squeeze.<sup>30</sup>

Economically the monetary union means a substantiated transfer of purchasing power from the West to the East in order to prevent further exodus of East German employees.

---

29. Hans Willgerodt : "German Economic Integration in a European Perspective", Aussen Politik, (Hamburg), vol.42, no.2/1991), p.328.

30. Ibid.,

This transfer at non-market conditions is through conversion of savings deposits at a privileged exchange rate, through public investments into the East German infrastructure and through short-term full coverage of public deficits in East Germany by the West German savers and tax payers.<sup>31</sup>

A monetary union cannot work without the free movement and transfer of goods and labour, free capital transactions and payments, free markets and prices. . The treaty establishing a monetary, social and economic union between the two Germanys stipulates a social market economy marked by private property, effective competition, freely determined prices and as a rule free movement of labour, capital goods and services.<sup>32</sup>

However, the 'critical' points are the "obsolete capital stock, the low labour productivity and the pressure to increase wages rapidly inspite of low productivity."<sup>33</sup>

Environmental protection (which has become a decisive factor in the course of privatization of investments), a labour market compatible with the new economic order and a comprehensive social security system are further aspects of the treaty. Prices of most non-tradeable goods are artificially low and in the currency union most of them are

---

31. Ibid., n.26, p.9.

32. Ibid., n. 27, p.332.

33. Ibid., n. 26, p.9.

bound to rise. Rents, fares, land prices and the like must be raised to free market levels to ensure the economic use of capital and land neglected for more than 50 years. Although political and social considerations will prevent the raising of the prices, the introduction of the hard Deutsche Mark will at least increase the real value of the prices that are being paid.<sup>34</sup>

What are the gains and losses of the German Monetary Union for the eastern part of the country? The most immediate and striking consequence of currency union was a depression in East Germany without precedent. By December, 1990 production of goods was about 46% of the 1989. A substantial part of it was in July, 1990, the first month of the union. During this month, industrial output in East Germany plunged to 35% of that in 1989. Decline in output was considerably widespread affecting every major industrial sector and virtually every commodity.<sup>35</sup>

Produce prices were approximately halved following currency union, but the average of consumer prices remained almost unchanged through the end of 1990. There were two main reasons: first, heat, energy and transportation prices

-----  
34. Ibid., n. 27, p.342.

35. George A. Akerle, Andrew K. Rose, Janet L. Yellen, Helga Hessenina, "East Germany in from the Cold: The Economic Aftermath of Currency Union", Brookings Papers on Economic Activity, (Washington).

in the consumer price index (CPI) were frozen; and second, retail food subsidies were removed. In January 1991, subsidies on energy and transportation were also ended.<sup>36</sup>

Though East Germany was not a high inflation country prior to liberalization, it was quite possible that the economic liberalization process would have been inflationary should it have been accompanied by sustenance of the East German economic sovereignty. It is now generally recognized that a pre-requisite for a successful economic liberalization is macro-economic stability particularly price stability.<sup>37</sup> East Germany's monetary union with the monetarily much stronger West Germany is expected to create a stable macro-economic environment. In addition, the German currency is strong in terms of stability and convertibility. The D-Mark is also independent of government, (though not of law) and therefore cannot be an instrument of power politics. The Deutsche Bank's policies aim at blocking out destabilising political forces as much as possible.<sup>38</sup>

---

36. Ibid., p.10.

37. Paul De Grauwe, "German Monetary Union", European Economic Review : Papers and Proceedings of the Sixth Annual Congress of the European Economic Association, August 31 - September 2, 1991, Cambridge, (Cambridge :North Holland, vol.36, nos. 2/3, April 1992), p.450.

38. Ibid., n. 27, p.332.



In this sense, it is maintained that the monetary union is likely to be beneficial for East Germany because the process of economic liberalization is carried out in a stable macroeconomic environment.

The inflationary pressures in Poland and East Germany are a remarkable affirmation of the above theory. In Poland the inflation rate in 1990 following the first year of the liberalization programme approximated 250% whereas the East German inflation rate was more or less equal to that of West Germany i.e. close to 5%.<sup>39</sup>

However, in the short run, the German Monetary Union has aggravated the short term costs of the economic liberalization in East Germany. It was clearly shown in the drastic decline of output and employment as also a sharp drop in demand for Eastern goods after currency union. Total investments also declined. And in 1991 exports to the Council for Mutual Economic Assistance Countries would also have declined depressing demand further.<sup>40</sup>

In addition, one year after the Deutsche Mark's takeover of East Germany the balance sheets reflect sheets

---

39. Ibid., n. 35, p.451.

40. Ibid., n. 33, p.10.

reflect serious concern. West German transfer payments (DM 153 billion in 1991) to the east may have to continue for several years. The result will be a reduced growth rate in West Germany. Growth is expected to drop from 4.6% in 1990 to 3% in 1991 and to 2% in 1992.<sup>41</sup>

On the other hand, "money can now resume its functions"<sup>42</sup> Economic transactors and entrepreneurs can be expected to show enhanced motivation to achieve profits. As the law enabling right to private ownership of the means of production has been enforced, the activation of the money and capital markets is also expected to be dynamic. The German Economic, Monetary and Social Union endows both parts of Germany on all integrated and comprehensive fiscal system crucial for absorbing regional shocks.<sup>43</sup> It has also enabled the eastern part to benefit fully from the low inflation reputation of the Bundesbank. At the moment, planning and thinking about strategic reorganization is dominated by the desire to cut costs. West German economists argue that "the individual units and sectors of a combine should become organizationally independent", adopt and assimilate western structures and cut down on production and administrative costs.<sup>44</sup>

---

41. "German Oil Prospers In Lands Old and New", Petroleum Economist, vol.58, no. 9, September 1991, p.15.

42. Ibid., n. 9, p.344.

43. Ibid., n. 35, p.452.

44. Ibid., n.1, p.352.

Economists advocate the creation and promotion of small and medium-sized enterprises and the entrepreneurial initiative of independent craftsmen and other suppliers as the most decisive factors for economic success in East Germany.<sup>45</sup>

However, uncertainty about ownership rights for land and business enterprises is consistently referred to as a major obstacle to western investment. Within a few weeks of the monetary union, according to information of the Chambers of Industry and Commerce in Hilesheim 100 purchase offers were submitted by western firms to the Leipzig office of the Treuhandanstalt<sup>46</sup> the government trustee agency entrusted with restructuring and modernization of plants and property in East Germany. In East Berlin alone, 400 firms were still trying to clarify ownership rights. This has been compounded by a lack of personnel, inadequate office technology and obscure archives, and therefore land registry offices were unable to expedite ownership clearance and claims.

Another factor that East German industry has to contend with is that of migration of skilled employees from the R&D

---

45. Ibid., n. 9, p.355.

46. Ibid., n. 9, p.355.

departments, qualified lathe operators, and mechanics from the rationalization workshops have been lured away to high paying, more-stable and attractive jobs in the west.

As stated earlier, the agency set up to execute the privatization initiative and reorganisation of East German economy as well as to check the above problems is called the Treuhandanstalt.<sup>47</sup> It is deemed a government trustee agency. The Treuhandanstalt was set up to privatize the 8000 state owned enterprises and decide on their restructurability. Its functions include granting liquidity loans to restructure firms with good survival prospects in specific cases. The Treuhandanstalt has become the decisive executor of the system of transformation. It shapes the time schedule for the process of restructuring and identifies market opportunities and forward restructuring proposals.<sup>48</sup>

However, a year after unification, the privatization process has been observed to be sluggish. The Treuhandanstalt has so far sold only 1500 out of 8000 enterprises entrusted to it for privatization. The West German firms were discouraged by the enormous investments needed to adopt

---

47. For details see Interview with Biurgit Breul - President of Treuhandanstalt, European Affairs, (Amsterdam), vol.5, no. 6, December 1991, p.22.

48. Hans-Heribert Derix, "A Bureaucratically Regulated market Economy between Inertia and Liquidation", Aus-  
seen Politik, (Hamburg), vol.4/1990, p.359.

corporate infrastructure to market demands and to upgrade industrial plants.<sup>49</sup> The Treuhandanstalt is now encouraging employees to take over their own enterprises to speed up privatization.

In addition, East German industry and agriculture do not reach up to Western environmental, health and safety standards. Emission of sodium dioxide and nitrous oxide are high; streams and rivers have high levels of contaminants including mercury, cadmium, lead, copper and zinc. The soil contains unacceptable levels of wastes, including toxins and residues from the use of pesticides.<sup>50</sup> The Trust finds it difficult therefore to attract Western firms to invest. But certainly the process is not going to be stopped.

### 3.3 UNEMPLOYMENT, WAGES, PRODUCTIVITY AND GOVERNMENT SPENDING

After the currency reform of 1990 in East Germany, industrial production fell by 50%. This was due to the introduction of the Deutschmark of 1:1 conversion rate. While this conversion rate precipitated a consumer boom it hurt the production system. Before 1 July 1990, by the measure of the competitiveness of East German exports to

---

49. Ibid., n.25, p.224.

50. Ibid., n.33, p.65

Western Germany, one East German Mark was valued at 23 pfenning. In addition, East German wages rose by more than a third in 1990 alone to reach roughly 50% of comparable West German wages. These wages are bound to rise further with projections in the range of 75% - 80% by 1994.<sup>51</sup>

According to Mr. Madhavan, India's former Ambassador to Germany :

"The effects of GEMU have been ruinous in the short run, but it is misleading to paint a picture of unrelieved gloom. Treuhand, the holding agency set up to dispose of the 8,000 companies which were over from the GDR public sector, has been able to privatize 3,400 of these through German and foreign investors ... The Service sector has picked up in the east. 2,00,000 new units have been started. The influx of refugees from east to west, amounting to three million since 1989, has largely been absorbed."<sup>52</sup>

With a converging wage level, the new net investments in the five Lander will be of the order of 2 trillion DM corresponding to five to six times German gross investment or more than the entire German GNP. Distributed over ten years, this would imply investments of 200 billion DM yearly as compared with overall net investments in the Western part of Germany of the order of 100 billion DM.<sup>53</sup>

---

51. Ibid., n. 25, p.456.

52. A. Madhavan, "Between 'GEMU' and 'EMU'", World Focus, (New Delhi), April 1992, p.8.

53. Ibid., n. 25, p.457.

Wages would constitute a substantial chunk of Western investments. It has been suggested that there has to be a greater rationalization of wages, that is, an imperative for a greater and stricter differentiation of wages is needed to increase achievement and accountability motivation.<sup>54</sup> It may be argued, also that to slow down rationalisation measures and to sustain a long term retrenchment protection may not attract western and private investment in the long run.

At the end of 1990, there were 1.7 million state and local employees in East Germany of whom 3,00,000 were in "Wartestand" and or in a state of waiting. By the end of 1991, it is estimated that 1.1 million would have been employed. These cuts are in keeping with the German labour ministry's projections of a decline of 700,000 public employees or civil servants. In addition, the army will be reduced from its 178,000 troops in 1989 to 50,000.<sup>55</sup>

If however, the migration continues it will constitute a significant reduction of eastern unemployment. In January 1991, there were about 2.6 million unemployed short-term workers in the East. With migration at its peak 1989 annual rate of 344,000 and with 64.4% of the migrants employed it would take over eleven years to eliminate the current

---

54. Ibid., n. 45, p.359.

55. Ibid., n. 33, p.28.

unemployment in the eastern part through migration alone!<sup>56</sup>  
In its 1990 Annual Report, the Bundesbank reckons that some  
--- 300,000 jobs have been created for new arrivals from the  
East. An increasing number of East Germans prefer to com-  
mute to work in the West. Around 400,000 workers cross the  
"border" everyday financial transfers to the East in 1991  
would have reached unprecedented heights of DM 160 billion,  
making up over 80% of estimated GNP of the eastern part. In  
addition, the cost of unification has turned out to be  
higher than expected, i.e. 150 billion D-Marks according to  
latest estimates (1 US \$ = 1.8 Deutsche marks). The Kohl  
government then announced a tax increase with effect from 1  
July, 1991, exactly a year after the monetary union. This  
measure was the greatest single increase in taxation record-  
ed in West German history.<sup>57</sup>

Taxpayers are required to pay a "solidarity tax" as  
7.5%, the effects of which will be smoothed by wage in-  
creases averaging 7%. This exceptional levy bringing in 22  
billion Marks would have been abolished by 30 June 1992.  
However, West Germans will have to pay more for fuel, elec-  
tricity, automobile insurance, telephone and postal serv-  
ices.<sup>58</sup>

---

56. Ibid., n. 33, p.45.

57. Ibid., n. 46, p.222.

58. Ibid., n. 46, p.223.



It is however felt that these measures may not be sufficient to cover Germany's budget deficit. Apart from the cost of unification, there is also the expenditure associated with the decision taken by the Bundestag on 20 June 1991 to transfer the government and Parliament to Berlin. In the fiscal year 1990-91 Germany kept up a growth rate of 3%. However, this is slowing down under the Bundesbank's tough monetary policy and the recession in the eastern part of the country.<sup>59</sup> Deputy Economics Minister Otto Schlecht commented in late 1991 :

*If the intended consolidation of the federal budget cannot be accomplished to a sufficient degree, economic growth may suffer and employment and fiscal problems will arise ...*

He proposed tighter budgetary goals to accumulate reserves in case of adverse economic developments."<sup>60</sup>

For business investment, unification helped Germany in shaking off the Eurosclerosis of the mid 1980s and the

---

59. Christopher Johnson, "The European Economy Faces Up to Convergence", European Affairs, (Amsterdam), vol. 5, no.6 December 1991, p.34.

60. Werner Zwick, "German Unification - now for the bitter fruits", Multinational Business, (London), Spring 1991, no. 1, p.15.

Western Laender increased real business investment by 9%.<sup>61</sup> Investment may continue to expand at around 5% a year in Germany's western laender partly to respond to the increasing demand in the east.

The demand effect of unification though partly absorbed by a sharp rise in imports has nevertheless increased the domestic inflation rate. The indirect tax rise to pay for it is also raising the consumer price level.<sup>62</sup>

### 3.4 CURRENT CAMPAIGN FOR ADVANCED TRAINING

Drastic shortage of skilled workers in erstwhile GDR has made the transition to a market economy to run behind schedule set by the German authorities. The German government has therefore allocated with the support of the EEC and private enterprises, significant amounts of aid for the eastern Laender for workers' vocational and retraining programmes.<sup>63</sup> It has been found that western enterprises have to rework the employees' mentality not used to acting on their own initiative. It may be fairly assumed that a reorientation of East German workers attitudes to work will certainly require a transitional phase of its own necessitating external aid.

---

61. Ibid., p.35.

62. Ibid.,

63. Ibid., n. 46, p.20.

According to the Ministry of Labour Personnel, the annual government and enterprise training expenditure on some 500,000 workers will have to run for 3 years before it can be authoritatively established that the workers' capabilities fulfill the needs of the market. The aid programme for training consists of :

- i) A government allowance of 6.7 billion DM to be spent on 128 vocational centres in the new Laender.
- ii) A job creation programme costing 5.2 billion DM aimed at improving the infrastructure in eastern Germany. The expected result would be 280,000 jobs.
- iii) Enterprise funded training programmes for workers recently recruited in the east.
- iv) EEC aid worth 1.8 billion DM over 3 years for employment and vocational training.<sup>64</sup>

It has been observed that workers have been somewhat hesitant initially to take advantage of the retraining programmes. Many of them avoid taking time off work for retraining for fear of losing jobs.

---

64. Ibid., n. 46, p.22.

What however is involved is a thoroughgoing systemic overhaul of the East German economic system on an unprecedented scale. Alongside there is the question of an intangible aspect, that of human nature - a reshaping of attitudes and psychological approaches of workers. The coming years in East German historical reconstruction will demonstrate a close interaction between the two.

## CHAPTER 4

### CONCLUSION

#### PROBLEMS AND PROSPECTS

Kurt Sontheimer, soon after German unification remarked : "Through reunification Germany has once again resumed its oneness with itself." The well known German political scientist asserted that Germany had "regained unlimited sovereignty."

Located in the heart of Europe, with 79 million inhabitants unified Germany is Europe's most populous country west of the River Bug. Most major north-south and east-west links lead through the country. Germany continues to be central to European history and politics.

Both German unification and German aspirations to become an equal member of a unified Europe were identified as fundamental goals in the Preamble to the 1949 Basic Law. In the emergent unified Europe, Germany is not alone in its quest for a collective identity, national character and purpose - a quest which is integral to every modern democracy and internal political dialogue and discourse. Germany seeks or attempts to seek a convergence of ideals and aims, and compatibility with European political and economic dynamics. Now that Germany emerges as an independent actor in the international system, its role has yet to be perceived and evaluated.

1990 was the year of Germany. It witnessed the long awaited unification of both the divided Capital and the nation-state, the most objective and 'conspicuous' expression and manifest articulation of the 50 year old cold war and an ideologically divided Europe.

Recall German Chancellor Helmut Kohl's statement at the annual meeting of the World Economic Forum in Davos, Switzerland on 9 February, 1990 :

*In the centre of Europe, in Germany, we are witnessing the first peaceful revolution in our history .... Indeed, 200 years after the French Revolution a historic change is taking place in Europe. The people of this continent are again becoming masters of their own fate .... People are recalling their national and cultural traditions and affinities, and they are becoming increasingly aware that Europe's historical and cultural unity transcends political boundaries and ideological divisions.*

The political, social and economic unification of the two German states represented this transcendence rooted in a sort of historical inevitability.

Contemporary history bears testimony to Mikhail Gorbachev's initiative at *Glasnost* and *Perestroika*, venturing a thoroughgoing systemic change within the erstwhile Soviet Union, a phenomenon which triggered revolutionary upheavals in Central, Eastern and Southern Europe, as well as in the former GDR. The collapse of the Berlin Wall opened up the vistas for metamorphosis of the whole system of political

totalitarianism in the former Soviet bloc into one of political democracy and free market economy. The result was an implosion from within i.e. a shifting of power from the monolithic nomenklatura to the pluralistic constituents of a democratic body polity.

Political reform has however, to address problems created by the central planning, particularly excessive centralisation, and absence of flexibility and innovation stifling technological progress.

The economy of the former GDR has for decades experienced chronic excess demand conditions reflected in shortages of consumer goods and repressed inflation. The Central Bank had no effective control on the money supply but was automatically and rapidly making available increasing credit to the public enterprise sector. This had a distorting effect on the macro-economic equilibrium of East Germany.

The immediate task for unified Germany is to grapple with the whole set of basic economic problems, as of unemployment, social security and insurance including pensions and housing, inflation, banking and industrial restructuring and wages in the former GDR. However, the unification with West Germany has provided East Germany with a strong and stable macro-economic environment. The change over from the state directed political and economic structures to demo-

cratic and market-based system is based upon a close inter-relationship between macro stabilization of the economic regime with democratic pluralism. Success of the east German economic may not be round the corner. But, then, there is a determination in both parts of Germany, that economic deficiencies have to be overcome in as short a time as possible. That is the sound basis for hope that east Germany may sooner than later find itself nearly (if not completed) integrated into the mainstream of the German economy.

Apropos, convertibility of the currency as it has been realized through the German Monetary Union prices and wages to be determined by the interplay of market forces are doubtlessly pre-requisites to the market operations. As seen earlier, the GEMU has brought about currency union, with the Ostmark convertibility on 1:1 with D-Mark in limited specified fields, such as wages and pensions, and to a limited extent for savings as well. There is, however, a different convertibility rate for business enterprises.

Systemic change would require not merely a pricing system but also rights of property and ownership and of the transfer in addition to civil commercial laws guaranteeing contracts. Substantial progress remains to be made by the privatization agency the Treuhandstalt in this regard. Privatization can be used to build up domestic capital markets and financial stock exchanges in conjunction with



foreign capital and international stock exchanges. In eastern Germany, this would, however, depend a great deal on western and foreign investments. Therefore, in the immediate future there could be two priorities : One, to develop small and medium-sized firms in the domestic market and two, to attract foreign capital in takeovers and joint venture investments.

The realization of the afore-cited objectives may be predicated upon two factors to be expedited. One, immediate clearance of title deeds and transfer of properties and probable and business premises, and two, improvement of environmental protection technologies in eastern Germany.

The erstwhile GDR has high debts, a hard currency deficit on the current account of the balance of payments, suppressed inflation, low productivity and a distorted production structure. It is in this background that the currency unification will be helpful. Based on a strong macroeconomic equilibrium, East German debts would be absorbed in the West German net credit position and its balance of payments deficit would be absorbed by the West German surplus. It is interesting to note that unified Germany's balance of payments declined from 105 \$ billion surplus in 1990 to 6.5 \$ billion surplus in 1991. But then is expected that it may again witness an upswing and reach \$ 20 billion in 1992. In other words, unified Germany (despite its budgetary deficit) continues to be a surplus

power, even if to a limited extent. Furthermore, the anti-inflation credibility of the Bundesbank and exchange rate stability would attract foreign capital. It would also give free access to West German capital markets. Already, unified Germany has initiated major economic reforms, and slowly results are becoming visible. However, it is difficult to fix a definite time frame within which liberalization and privatization of economy in the eastern part will be at par with that of the Western Germany. Perhaps, it may be prudent to immediately shift resources to the internationally traded goods sector and to impose competitive pressure on domestic enterprises.

The lower economic activity and consequent higher unemployment in the short term will certainly reduce tax revenue and enhance the demand for expenditure. However, it may not be expected of the current privatization programme in East Germany to produce increased revenue in the short term.

It would be beyond the scope of this study to estimate the total cost of restructuring of the East German economy. It may however be noted that unified Germany's economy suffered a grievous set back in 1991. As is presently estimated it may not pick up again in 1992. But, then, also as the German economists predict the German economy may be able to cope with high interest rates, but prospects in

construction industry and exports may not be encouraging owing to worldwide recession. There is, however, something exceptional in the case of Germany that despite the gargantuan challenges of economic reconstruction in East Germany, there is hardly any known economist who does not predict that in the medium to long term eastern Germany would be integrated into unified Germany's vibrant economy.

## SELECT BIBLIOGRAPHY

### PRIMARY SOURCES

#### DOCUMENTS AND OFFICIAL PUBLICATIONS

*Documents on International Affairs, 1951.* (Nine Volumes), London : Oxford University Press (for the Royal Institute of International Affairs), 1954-1962.

*Germany 1947-1949: The Story in Documents* (Department of State Publications, Washington), 1950.

*Selected Foreign Documents on Germany and the Question of Berlin : 1944-1961* (HMSO, Cmnd 1552 of 1961).

*United States Documents on Germany : 1944-61*, Committee on Foreign Relations, US Senate Government Printing office, Washington, 1961.

United States Department of State, *Documents on German Unity*, 4 volumes, US HICOG: Frankfurt, 1951-1953.

*The Quadripartite Agreement of Berlin of 3 September, 1971* (Bonn : Press and information Office of the Federal Government, 1972).

### BOOKS AND MEMOIRS

BRANDT, Willy,

*The Ordeal of Co-existence* (Cambridge : Harvard University, 1983).

BRZEZINSKI, Z.

*Alternative to Partition: For a Broader Conception of America's Role in Europe* (New York : Mc Graw Hill, 1965).

- CHAMBERLAIN, William Henry, *The German Phoenix* (New York : Duell, Sloan and Pearce, 1963).
- CHURCHILL, Winston S. *The Second World War*, 6 vols (London : Cassell, 1948-1954).
- CLAY, Lucius D. *Decision in Germany* (London: Heinemann, 1950).
- KENNAN, George F. *Memoirs:1925-1950* (Boston : Little Brown, 1967).
- KISSINGER, Henry, A. *The Necessity for Choice : Prospects of American Foreign Policy* (London : Chatto and Windus, 1960).
- *The Troubled Partnership* (New York: Mc Graw Hill, 1965).
- TRUMAN, Harry, *Year of Decisions 1945* (London: Hodder and Stoughton, 1955).
- GORBACHEV, Mikhail S. *Perestroika*, (London : Fontana, 1988).

## SECONDARY SOURCES

### HISTORICAL AND BACKGROUND WORKS

- BOSSENBROOK, William J. *The German Mind* (Detroit, Wayne State University , 1961.)
- CARR,Edward Hallet, *Nationalism and After* (New York: Macmillan, 1945).
- CRAIG, Gordon A. *From Bismarck to Adenauer : Aspects of German Statecraft* (Baltimore : The Johns Hopkins Press, 1958).
- DEHIO, Ludwig, *Germany and World Politics in the 20th Century* (New York: Knopf, 1960).

- DILL, Marshall, Jr. *Germany : A Modern History* (Ann Arbor : University of Michigan, 1962).
- EPSTEIN, Klaus, *Germany After Adaneur* (New York : Foreign Policy Association, 1964).
- FLENLEY, Ralph *Modern German History* (New York : Dutton, 1964).
- JAKSCH, Wenzel, *Europe's Road to Potsdam* (New York : Praeger, 1963).
- KERTESZ, Stephen D. *The Fate of East Central Europe* Notre Dame : University of Notre Dam, 1956).
- KOHAN, Hans (ed.), *German History - Some New German Views* (Boston : Beacon, 1954).
- LAQUEUR, Walter, *Russia and Germany - A Century of Conflict* (Boston : Little Brown, 1965).
- MEINECKE, Friedrick *The German Catastrophe* (Cambridge, Mass : Harvard University, 1950).
- MORGENTHAU, Henry, Jr. *Germany is Our Problem* (New York, Harper, 1945).
- SNELL, John L. (ed.) *The Meaning of Yalta - Big Three Diplomacy and the New Balance of Power.* (Baton Rouge : Louisiana University, 1950).
- *Wartime Origins of the East West Dilemma Over Germany* (New Orleans:Hauser, 1959).
- STRAUSS, Harold *The Division and Dismemberment of Germany* (Geneva, 1951).
- DENNIS, Mike, *German Democratic Republic : Politics, Economics, and Society* (London : Pinter, 1988).
- DAVISON, W. Phillips, *The Berlin Blockade : A Study in Cold War Politics* (Princeton : Princeton University, 1958).

- EPSTEIN, Klaus, *Germany After Adenauer* (New York : Foreign Policy Association, 1964).
- ERNST, Fritz, *Germans and their Modern History* (New York : Columbia University Press, 1966).
- FEIS, Herbert *Churchill, Roosevelt, Stalin : The War they Waged and the Peace they sought* (Princeton : Princeton University, 1957).
- FELD, Werner, *Reunification and West German-Soviet Relations* (The Hague, Nijhoff, 1963).
- FREUDD, Gerald, *Germany Between Two Worlds* (New York : Harcourt, 1961).
- FRIEDMAN, David, *The Misunderstood Miracle : Industrial Divide and Political Change in Japan* (Ithaca : Cornell University, 1988).
- GABLENTZ, O.M. von der, *The Berlin Question in its - Relations to World Politics - 1944-1963*, (Munich : Oldenbourg, 1964).
- GLENNY, Misha, *The Rebirth of History : Eastern Europe in the Age of Democracy* (London : Penguin, 1990).
- GROSSER, Alfred *Germany in Our Time - A Political History of the Post-War Years* (London: Pall Mall, 1971).
- GOLAY, John F. *The Founding of the FRG* (Chicago : University of Chicago, 1958).
- GOTTLIEB, Manuel, *The German Peace Settlement and the Berlin Crisis* (New York : Paine-Whitman, 1960).
- HNRIEDER, Wolfram F., *West German Foreign Policy 1949-1963* (Stanford : Stanford University, 1967).
- HANKISS, Elmer, *East European Alternatives* (Oxford : Clarendon, 1990).

- HAZAN, Baruch A., *Gorbachev and His Enemies : The Struggle for Perestroika* (Oxford : Westview, 1990).
- HERRIGAL, Gary, *Industrial Organization and the Politics of Industry : Centralized and Decentralized Production in Germany* (Cambridge : Mass, 1990).
- HILLENBRAND, Martin, J. (ed.) *The Future of Berlin*, (Montclair : Allanhold Osmun Publishers, 1980).
- LEPTIN, Gert and Manfred Melzer, *Economic Reform in East German Industry* (Oxford, 1978).
- HASTNY, Vojtech, *Soviet-East European Survey 1986-87* (London:Westview, 1988).
- MAXWELL, Robert, *M.S. Gorbechev : Speeches and Writings* (Oxford ; Pergamon, 1986).
- MICHLER, Olfried, *Innovation and Division of Labour in State Socialist and Capitalist Enterprises - The Introduction of New Technologies in West and East Germany, Hungary and Poland* (London : Macmillan, 1991).
- PIORE, Michael and Charles Sebel, *The Second Industrial Divide : Possibilities for Prosperity* (New York : Basic Books, 1984).
- PLISCHKE, Elmer, *Government and Politics of Contemporary Berlin* (The Hague, Martinus Nijhoff, 1963).
- Richardson L. Janes, *Germany and the Atlantic Alliance* (Cambridge : Mass, 1976).
- SOWDEN, J.K. *The German Question 1945-1973* (London : Bradford University, 1975).
- STAAR, Richard, F., (ed.) *24th edn. Yearbook on International Communist Affairs 1990 : Parties and Revolutionary Movements* (Stanford, Hoover Institution, 1991).



## ARTICLES AND JOURNALS

- AKERLEF George A., Andrew K. Rose, Janet L. Yellen, Helga Hessenina,  
"East Germany in from the Cold: The Economic Aftermath of Currency Union", *Brookings Papers on Economic Activity*, (Washington).
- ARNOLD Eckart,  
"German foreign policy and unification", *International Affairs*, (London), vol.67, no.3, July 1991, p.456.
- ASMUS, Ronald D.,  
"United Germany". *Foreign Affairs* (New York), vol.69, no.2, Spring 1990, pp.63-76.
- BAUER, Tamas,  
"Perfecting or reforming the economic mechanism?", *Eastern European Economics* (New York), vol.26, no.2, Winter 87-88, pp.5-34.
- BAYLIS, Thomas A.,  
"East Germany's economic model", *Current History* (Philadelphia), vol. 86, no.523, November 1987, pp. 377-87.
- BOHLEY, Babel and others,  
"Germany after the Wall : Interviews by Michael Lucas and Adrienne Edgar", *World Policy Journal* (New York), vol.7, no.1, Winter 1989-90, pp.189-214.
- BORENZSTEIN, Eduardo and Manmohan S. Kumar,  
"Proposals for Privatization in Eastern Europe, " *International Monetary Fund Staff Papers*, (Washington, D.C.), vol. 38, no.2, June 1991), pp.317-318.
- BURLEY, Anne-Marie,  
"Once and future German Question", *Foreign Affairs* (New York), vol.68, no. 5, Winter 1989-90, pp. 65-83.
- CALVO Buillermo A. and Jacob A. Frankel,  
"From Centrally Planned Economy to market Economy", *International Monetary Fund staff Papers*, (Washington D.C.), vol. 38, no.2, June 1991), p.270.

## BOOKS

- AUGUSTEIN, Rudolf *Konrad Adenauer* (London ; Secker and Warburg, 1964).
- BAHRO, Rudolph, *The Alternative in Eastern Europe* (London : Verso, 1979).
- BALFOUR, Michael, *West Germany* (London : Pinter, 1982).
- BIRNBAUM, Karl E. *East and West Germany : A Modus Vivendi* (Dordrecht : Saxon House, 1973).
- CHARLES, R. Planck, *The Changing States of German Reunification in Western Diplomacy 1955-1966* (Baltimore : Johns Hopkins, 1967).
- CHILDS, David (ed.) *Honecker's Germany* (London:George Allen and Unwin, 1978).
- H.S.Chopra, "Systemic Change In The USSR And Eastern Europe: Its Global Effects," Paper presented at Indo-EEC Seminar, (New Delhi, Nov 1991), p.6-7.
- COLLIER, David S, and Kurt Glaser (eds.) *Berlin and the Future of East Europe* (Chicago: Regenary, 1963).
- CONLON, William H. *Berlin, Beset and Bedevilled : Tinderbox of the World* (New York : Fountainhead, 1963).
- COHEN, Stephen F., and Katrina van den Heuvel, *Voices of Glasnost : Interviews with Gorbachev's Reformers* (New York : Norton, 1990).
- DERIX, Hans-Heribert, "A Bureaucratically Regulated market Economy between Inertia and Liquidation", *Aussen Politik*, (Hamburg), vol.4/1990, p.359.

- EISENSTADT S.N., "The Breakdown of Communist Regimes", *Daedalus*, (Cambridge: 1992), vol.121, no.2, p.29.
- FERRANDS, Christopher, "Prospects for Technological Competitiveness in the Five New Laeder," *European Trends*, (London), no.2, 1991, p.64.
- FLETCHER, Roger, "History from below comes to Germany : The new history movement in the FRG" *Journal of Modern History* (Chicago), vol.60, no.3, September 1988, pp.557-68.
- FLOW B.V. and Ronald Asmus, "The Eleventh Party Congress," *Soviet-East European Survey*, 1985-86 (Durham: Duke University 1987), pp.271-74.
- GRAUWE Paul De, "German Monetary Union", *European Economic Review : Papers and Proceedings of the Sixth Annual Congress of the European Economic Association*, August 31 - September 2, 1991, Cambridge, (Cambridge :North Holland, vol.36, nos. 2/3, April 1992), p.450.
- GRESS, David, "The Politics of reunification", *The New Europe* (New York), vol.38, no.1, 1991, pp.140-152.
- HILL Ronald J. "The CPSU: from Monolith to Pluralist?", *Soviet studies : A Journal on the USSR and Eastern Europe*, (University of Glasgow, 1991), vol.43, no.2, p.27.
- IRIVING R.E.M. and W.E. Paterson, "The 1990 German General Election", *Parliamentary Affairs*, (Oxford: 1991), Vol.44, no.3, p.353.
- JACOBSEN, Hanns D., and others "Political and economic framework conditions of East-West economic relations", *Aussen Politik* (Hamburg), vol.39, no.2, 1988, pp. 138-49.

- JOHNSON Christopher, "The European Economy Faces Up to Convergence", *European Affairs*, (Amsterdam), vol. 5, no.6 December 1991, p.34.
- LANGHAMMER, Rolf J., "EC Integration Deepening And Widening: The External dimension of the EC 1992 Program and of the German Monetary Union", (Paper presented to the JNU: FES: ICRIER International Seminar, New Delhi, Sept. 1990).
- LEEBERT, Derek, "Gold Rush in Eastern Europe", *Orbis* (Philadelphia), vol.34, no.4, Fall 1990, pp.547-64.
- MADHAVAN A., "Between 'GEMU' and 'EMU'", *World Focus*, (New Delhi), April 1992, p.8.
- MCADAMS, A. James, "Towards a New Germany? Problems of Unification", *Government and Opposition* (London), vol.25, no.3, Summer 1990, pp. 304-16.
- MEISSNER Boris, "The Transformation of the Soviet Union," *Soviet Studies* (University of Glasg w) Vol.43, No.5, 1992 P.54.
- MEYER, Thomas, "Towards Unification and European Integration", (Paper presented at JNU-FES-ICRIER, International Seminar, New Delhi Sept., 1990.
- PARASKEWOPOULOS, Spiridon, "Employment problems in the GDR during the Transition to a Market Economy", *Aussen Politik*, (Hamburg), vol.42, 2/1991, p.346.
- PELIC-Rakic, Vera, "Vital Changes pending in the German Democratic Republic," *Review of International Affairs* (Moscow), vol.4, no. 956, 5 February, 1990, pp.23-4.

- PETER, Jerryl L., "Economic Reforms in Socialist economies, an evolutionary perspective", *Journal of Economic Issues*, vol.24, no.1, March 1990, pp.1-16.
- PRADETTO August, "Transformation in Eastern Europe, International Cooperation and the German Position, *Studies in Comparative Communism*, (London: Butterworth-Heinemann, 1982), vol xxv. no. 1, p. 276.
- PREGL, Zirko, "Basic aims of the economic reforms and measures for its implementation", *Review of International Affairs* (Moscow), vol.41, no. 956, February 90, pp. 6-12.
- SCHMIDT, Helmut, "Germans and Europe", *Review of International Affairs* (Moscow), vol.41, no.95, 20 January, 1990, pp.1-4.
- TARZECIAKOWSKI, Witold, "Reforms, Restructuring, indebtedness", *East European Economics* (New York), vol.27, no. 3, Spring 1989, pp.5-23.
- THIEME H. Jorg and Henning Eckermann, "Eastern Europe's Long and Winding Road to the Market Economy," *Aussen Politik*, (Hamburg), vol.42, 2/1991, p.187.
- TIETMEYER, Hans, "Reunification and Beyond *European Affairs* (Amsterdam) vol.5, no.4, Aug/Sept 1991, pp.6-11.
- TURNER, George, "The Unification of Germany - Background and Facts, Beyond Statistics", *Aussen Politik* (Hamburg, vol.42, no.2, 1991, pp.194-9.
- VAN, Bergeijic, Peter AG., and Oldersma Henry, "Detente, market-oriented reforms and German reunification : Potential consequences for the World Trade System," *Kyklos* (Basel), vol.43, no.4, 1990, pp.599-610.

- VANHAM, Peter, "Western economic statescraft in an era of communist reform : How can the West help?", *Bulletin of peace Proposals* (Oslo), vol.21, no.2, 1990, pp.227-38.
- VOSKAMP Ulrich and Volker Wittke, "Industrial Restructuring in the Former German Democratic Republic : Barriers to Adaptive Reform Become Downward Spiral, " *Politics and Society*, (Stoneham), vol.19, no.3, September, 1991), p.341.
- WAGNER, Wolfgang, "Pace of German Re-unification", *Review of International Affairs* (Moscow), vol.41, no. 958, 5 March, 1990, pp.3-8.
- WEILEMANN, Peter R., "German contribution toward overcoming the division of Europe: chancellor Helmut Kohl's 10 points", *Aussen Politik* (Hamburg), vol.41, no.1, 1990.
- On the special issue - " Problems of German Unification", *Aussen Politik* (Hamburg), vol.41, no.4,1990, pp. 315-413.
- WHITE Stephen, "Rethinking the CPSU, " *Soviet Studies*, (University of Glasgow,1991), vol.43, no.2, p.405.
- WILLGERODT HANS "German Economic Integration in a European Perspective", *Aussen Politik*, (Hamburg),vol.42, no.2/1991); p.328.
- ZWICK Werner, "German Unification - now for the bitter fruits", *Multinational Business*, (London), Spring 1991, no. 1, p.15.
- "German Oil Prospers In Lands Old and New", *Petroleum Economist*, vol.58, no. 9, September 1991, p.15.

-----  
"Opening up Capital markets in Eastern Europe", *European Economic Review* (Amsterdam), vol.33, nos. 2-3, March 1989, pp.427-71.

-----  
"The Economic situation in Germany" by the Association of German economic Research Institutes, *Intereconomics*, (Hamburg), vol.26, May/June 91.

PRESS CLIPPINGS

The Hindu (Madras),  
Times of India (New-Delhi),  
Statesman (New Delhi)  
Deccan Herald (New Delhi)  
Observer (London),  
Times (London),  
International Herald Tribune (Paris).

1724