More Shock than Therapy: Why there has been no miracle in eastern Germany?, *Socialism and Democracy* (Summer).

Draft

Over the last few years a change of mood has affected German politics with regard to the country's 'eastern problem'.[1] Until recently it was generally addressed by politicians with bluff confidence, expressing a sanguine faith that the combination of marketisation and state subsidies would rapidly modernise the region. But to an increasingly sceptical eastern electorate, such affirmations of a swift and sure revival are beginning to sound as empty as the promissory slogans of a previous era. Some politicians now feel obliged to adopt a more cautious tone. Dissenting voices are becoming more outspoken. Perhaps the most notable of the latter is that of Wolfgang Thierse, deputy leader of the Social Democratic Party (SPD) and president of the German parliament, who created a furore last year with the publication of critical theses, followed by a book, on economic and social conditions in the East.[2] 'Any honest appraisal', Thierse warned (Die Zeit No. 2 2001), 'must establish that Eastern Germany's social and economic situation is approaching the brink.' The theses were indeed alarming; they drew attention to the decline in the economically active population, which had fallen below five million for the first time; to the unemployment rate, which had soared from 1.8 times that of the West in 1998 to 2.3 times in 2000; and to soaring levels of youth emigration and unemployment. 'The longer the catch-up process stagnates,' Thierse warned, 'the more quickly and clearly tendencies to decline will develop, even to the point of endangering what has, often at great cost, already been achieved.' The conclusion was sombre: 'East Germany is, in this light, no longer a region in transition but second rate in perpetuity.'

The contrast between such serious consideration of perpetual backwardness and the hopes and predictions of earlier phases of the 'catch-up process' could hardly be sharper. The revolutionaries of 1989, motivated by demands for democracy and

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[2] Thierse's case has meanwhile become a campaign, including, among others, unionists, academics, SPD, PDS and Green party members. It's website is www.thierse-hat-recht.de

self-determination, for honest government, for economic justice and prosperity, had turned in their majority to the Federal Republic for the realization of these aims. To a swelling number of easterners, unification came to be seen as the simplest and quickest means of securing these ends. West Germany's economy was efficient and prosperous. It had recently chalked up unprecedented successes on export markets, taking it, for a time at least, to the number one spot in the world. The Federal Republic boasted stable parliamentary democracy and a highly developed welfare system. And although some remained sceptical, for many, expectations were high. One placard at a Christian Democratic Union (CDU) rally in Leipzig said it all: 'Helmut, nimm uns an der Hand, zeig uns den Weg ins Wirtschaftswunderland!'[3] (Pritchard 1996: 167).

'Helmut' Kohl and other West German politicians fuelled these hopes during the election campaign of early 1990. Unification, they claimed, offered a sure-fire road to prosperity. Bonn would devote its vast resources to 'modernizing' the East. The western economy, powerful and precision engineered, would act as a role model as well as a source of advice and capital for ailing firms across the Elbe. Market competition would revive the East, with some even claiming that by becoming an 'innovative region of development' it would leapfrog the West. 'Blossoming landscapes' lay ahead, Chancellor Kohl promised. With unification, he insisted, 'nobody will face undue hardship'; 'none will be worse off than before — and many will be better off'. This promise became a pledge when the East German prime minister, CDU leader Lothar de Maizière, repeated it while signing the Treaty of Unification in October 1990.

In the years that followed, Bonn's optimistic prognoses continued to multiply. The finance spokesperson of the centre-right government told the business paper *Handelsblatt* (4.10.90) that per capita output in East and West was expected to equalize by 1994. A year later the Economics Minister Jürgen Möllemann predicted that equalization would take until 1995 (in Lange/Pugh 1998: 22). Even as late as the spring of 1992 government representatives, including Kohl, were predicting successful social and economic unification within 'three, four or five years'.

Optimism was not monopolised by politicians. Economists, though invariably more cautious, mostly shared the conviction that the East would swiftly gain ground. In an influential piece Rudiger Dornbusch and Holger Wolf (1992) argued that East-West

[3] 'Helmut Kohl, take us by the hand, show us the way to economic miracle land!'

productivity convergence within fifteen years was at least thinkable.[4] Eastern Germany, they pointed out, was in a more favourable position than the other transition economies. It could rapidly assimilate West Germany's financial, legal and social systems, and its stable currency and trade regimes; it would benefit from West German economic expertise and state transfers; and it would receive subsidies for infrastructural and business investment. These factors, coupled with its low-paid but skilled workforce, would ensure that the East would provide the logical location for the expansion of West German firms.

A similar, and even more influential, argument was put by Horst Siebert, one of the Federal Republic's 'five wise men'. Basing his argument on the neo-classical assumption that, given factor mobility, growth rates will tend to converge, Siebert predicted that eastern German GDP would follow a 'J curve' — a sharply inclined take-off out of an initial, transition-induced recession. 'From growth theory and from historical experience,' he reasoned, referring to post-war West Germany and Japan, 'we know that a country with a relatively low capital stock per head initially but with technical skills and innovative potential will have high growth rates'. Siebert warned that initial conditions in East Germany were less advantageous than had been the case in the post-war FRG, but insisted that these were problems *of transition* - acute, perhaps, but not chronic.

These were not lone voices. Other economists and the major economic institutions joined the chorus. Some, such as a group of economists at the University of Cologne, expected the East to catch up very quickly indeed. Their highly influential report of March 1990 predicted the following,: 'Once the border is open to free trade with the FRG, many bottlenecks will burst which have hitherto limited production [...] The motivation to work hard will revive, even before any assistance from the FRG or any sums of capital arrive [...], as will profit-making opportunities for small and medium-size enterprises [...]. The increase in productivity that can be expected at the outset of the reforms may be very high and can immensely increase the competitiveness of enterprises' (in Roesler 1993: 34).[5] Others, such as Helmut Wiesenthal, even expected the East to become the 'most modern, American part of Germany', thanks to its prospects of avoiding

4 Their discussion was at the time criticized for being overly *pes*simistic! — see Alexander (1992).

5 In his discussion of this report, which advocated shock transition and thoroughgoing privatisation, Jörg Roesler (1993: 23) reveals that politicians in Bonn proffered it to their East German counterparts 'as a primer, so to speak'.

the burdensome regulations of Rhineland capitalism (in Thierse 2001: 56).

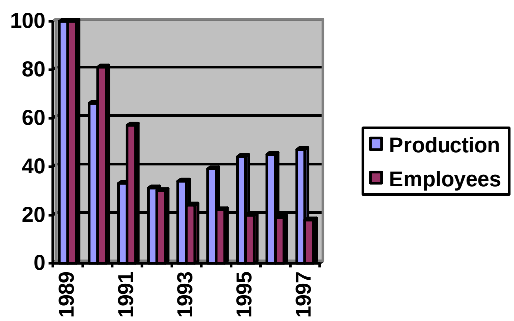
The confidence expressed in these predictions was rooted in the neo-liberal consensus that developed within the West German ruling class since the mid-1970s and which now viewed the end of Communism as confirmation of the sanctity of the market. The neo-liberal recipe was a familiar one. Opening up to the world market would enable inflows of urgently needed technology, capital, and managerial expertise. Liberalization and currency stabilization (in this case through the extension of the *Deutschmark* to the East) would set the stage for market-driven growth. Distortions of the market would be overcome through the privatization of nationalized industries and the abolition of subsidies on consumer goods. Although bankruptcies of existing 'dinosaurs' would undoubtedly ensue, market reform would facilitate the growth of small enterprises and a *Mittelstand* which would absorb much of the workforce shed from the state sector. Allowing market forces to punish the weak, though destructive in the short-run, would in the longer term release creative spirits by disencumbering those industries with stronger potential. Their advantage would lie with the size of the East German market itself (which for most western investors was a crucial factor), its proximity to Europe's largest markets, and the relatively low wages of a generally skilled workforce.

It is now over a decade since the implementation of these measures began. Although the surge of interest in transition studies is now waning, in many respects the more interesting task, assessing the record of marketisation, can begin. Here lies the concern of this article. Its guiding questions are these: Has the eastern economy prospered? Is Thierse's scepticism warranted? And, have the two halves of Germany achieved genuine unification; have they, in the German phrase, 'grown together'?

The J-curve Wilts

Although all of the economists mentioned above predicted recession, none foresaw the full-blown slump that was to come. Already by January 1990 industrial output had fallen by almost five per cent, due largely to labour shortages resulting from mass emigration, declining labour discipline, and the disintegration of managerial morale and administrative structures during the months of popular uprising. But from the middle of that year the descent became precipitous (see Chart 1). From June to July alone industrial output plunged by 35% and then proceeded to fall further. By 1992 industrial production had reached rock bottom, at 31% of its 1989 level, while the total number of hours worked in the economy per year had plummeted from nine billion to well under half that figure (Bideleux, 1996a: 229). If bottlenecks, as predicted, had 'burst', so too had the very vessels of production and exchange. A crash in industrial output of this rapidity is unprecedented. The figure of 31% can be usefully compared to the lowest point reached by German industrial production during the Great Depression — 59% of the 1928 level (Bosch/Knuth 1993: 295) — or to the 81% that marked the nadir of industrial production in Poland during its transition to the market. For sure, the picture was less severe in overall GDP terms. But even here, and despite massive injections of public funds, by 1991 a forty per cent decline had been reached, a greater fall than any other transition economy (Priewe 2001: 19).

Chart One. Selected data on Eastern German industry, 1989 = 100. (From Kehrer, 2000: 135)



It could of course be argued that the faster the fall in GDP the swifter would be its subsequent rise; that dead wood, cleared promptly, allows space for new growth. Certainly the slump of 1989-91 was followed by recovery. Remarkable productivity gains were made, partly due to the closure of relatively inefficient industries but partly also to technology transfer from the West. In some sectors such as automobiles, steel, and printing, productivity has overtaken the West German level. Some areas are displaying the potential to become, as promised, 'innovative regions of development'. The region triangulated by Zwickau, Leipzig and Dresden has seen major investments in the automobile and microelectronics industries (e.g. VW in Zwickau, BMW and Porsche in Leipzig, and Siemens in Dresden). The Berlin-Brandenburg region is now host to cutting-edge industries such as bio-technology and micro-electronics (e.g. Intel in Frankfurt an der Oder). Several other areas, particularly along the former border with West Germany, have attracted significant industrial investment (e.g. Opel at Eisenach and the technology park at Jena). Eastern Germany has not, as some have claimed (e.g. Petras 1992), slipped from 'Second' to 'Third World' rank.

Nonetheless, and despite benefitting from net transfers of some DM 150 billion per year - over a twentieth of total German GDP[6] - the eastern economy's overall performance has been far from impressive. In terms of GDP the 1990s was a lost decade: the 1989 level of output may, arguably, have been restored by its end, but by then other regions were ten years further on. If a 'J-curve' occurred it was one with a steep declivity succeeded by a relatively shallow acclivity (see Chart 2). Growth was concentrated in the 1992-5 period and faltered thereafter. Compare for example the 11% increase in GDP in the election year 1994 with the 0.7% in the next election year, 1998.[7] It is true that, initially, the share of GDP taken by *total* investment was very high, even relative to the West (Boltho et al. 1997: 253), per capita investment *in plant and equipment* was low: 50% of the West German level in 1991, 73% in 1992 and ca. 93% in 1993 (Priewe 1993: 103) and, from the mid-1990s, actually declined (Kehrer 2000: 138).

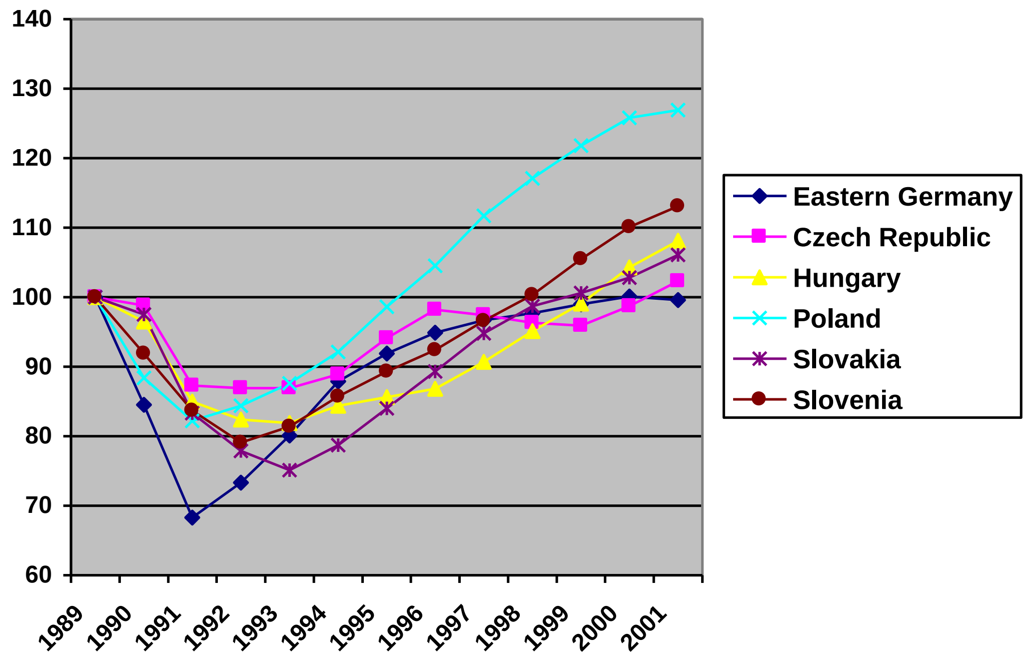
As a result, GDP per capita in the East relative to the West has now fallen back to its level of the mid-1990s - 57% - while output per employee has stagnated at a similar figure, and somewhat less if reckoned per working hour (Ragnitz 1999). Since 1997 GDP growth has averaged only 1.2% compared with 2.2% in the West. Most economic indices remain weak. Bankruptcies, for example, now exceed new starts for the first time since unification; the rate is almost three times that of the West (*Wirtschaftswoche* 26.06.01).This *widening* of the East-West gap, according to the economist Hans-Werner Sinn (*Leipziger Volkszeitung* 28.1.02), will continue until at least 2003, and if western Germany, which provides 40% of the turnover of eastern business, continues in its doldrums this will only make matters worse.

Nor has growth been impressive when compared to neighbouring economies in

6 To put the scale of public transfers to eastern Germany in perspective, they exceed total global public aid from all donor to all recipient countries by more than 1.5 times (W Schätzl, in Cséfalvay (1997: 32).
7 The election of that year, not coincidentally, saw the CDU's vote haemmhorage in the East, ending its sixteen year period in office.

Central Europe. According to United Nations data (2001: 162), as depicted in Chart 2, eastern German GDP growth in the 1990s was less than the average for its five closest ex-Communist neighbours.

Chart 2. Real GDP in eastern Europe *(1989 = 100)*[8]



[8] The 2001 figure is from the Institut fűr Wirtschaftsforschung, Halle.

If there is one core reason for this sorry picture it is the precipitous decline of manufacturing industry in the 1990-2 period. East Germany converted almost overnight from one of the most to one of the least industrialized regions of Europe. At 15% of GDP its industry lags far behind even Ireland (25%), Greece (28%), Poland and Portugal (both 32%), not to mention the Czech Republic (ca. 60%) (Kehrer 2000: 190). Whereas in 1989 East German industrial production made up 15% of the German total by 1998 that figure had fallen to 7%. The proportion of industrial workers in the West is now over twice that in the East - even rural areas of the West are now more industrialized than much of the eastern rustbelt. Company towns have become ghost towns, while rural regions such as Mecklenburg-Vorpommern suffer chronic stagnation (Junkernheinrich/Skopp 1995). Although the South of the country is, according to most indicators, less badly afflicted than the North, a belt of declining industry and high unemployment runs from the Southern Harz mountains, curving south, through Gera, then from the Vogtland along the flank of the Erz mountain range to Görlitz, and northwards into the Lausitz (Kehrer 2000: 197).

In essence the collapse has followed the predictably unforgiving logic of capitalist crisis. One firm after another went to the wall, shedding labour. The consequent reduction in demand for industrial inputs and consumer goods, in turn, drove even relatively viable firms into bankruptcy. However, a number of features stand out. One is the sheer scale of industrial implosion. With the destruction of distribution and supply chains between eastern firms the existing economic fabric disintegrated to such a degree that future industrial revival is endangered. Many parts saw whole complexes of industries close down, with skilled workers emigrating to the West. In such regions there is often little cause to invest anew.

Where new enterprise has arisen, it tends to be smaller and therefore less productive than in western Germany.[9] Average capital stock per employee is only 76%, and per capita investment in equipment only 88% of the western figure (Ragnitz 1999; Priewe 2001). Eastern firms tend to produce in lines where price is decisive and, because their products are rarely well-known abroad, have difficulty in breaking into wider markets – most sell mainly within their region (Ragnitz 1999: 180). Small firms using less advanced equipment to produce for relatively small markets can benefit less from scale economies. Many will therefore have difficulty in achieving western German levels of productivity except perhaps in the very long term.

A second distinctive feature is that industrial decline affected the high tech sector disproportionately. This development was already charted in 1991, in a prescient study by Ulrich Voskamp and Volker Wittke. They observed that R&D departments and other high value-added service occupations connected to manufacturing were being shut down wholesale. Observing a 'traditionalization' of the product spectrum they showed that a greater proportion of manufacturing industry would be pitted in direct competition with producers in low-wage countries. These processes, they warned, threatened to turn Germany into a ‘dual’ economy, with firms in the East compelling workers to work longer hours for lower wages, and dependent on the West for technical know-how and resources. The only eastern companies that might profit from this situation would be those that could find a western partner willing to invest and transfer technology. But these, they found, were thin on the ground (1991: 355).

[9] Explanation of the link between productivity and corporation size may be found in Harrison (1994).

Since 1991 the relevant data has borne out Voskamp and Wittke's predictions. The region's research infrastructure has been shattered. By 1997, the number of employees in R&D had fallen to 17% of the 1989 level. Per employee, West German firms invest twice as much in R&D (Berteit 2001: 91), and only 2.3 researchers per 1000 industrial workers are employed in the East as against 12.3 in the West. By way of illustration, the West German-based firm Bayer employs as many researchers as all of eastern German industry, and invests 10% more in R&D than is invested in the entire eastern economy (Berteit 2001: 92). No wonder then, that whereas in 1988 the GDR registered 34% as many patents as the FRG, now the equivalent figure for the region is only 9% (Kehrer 2000: 150-2).

Voskamp and Wittke's prediction of traditionalisation has also been borne out. Between 1991 and 1994 the proportion of manufactured goods produced with high-tech equipment fell from 37.2% to 30.6% (Horbach/Ragnitz 1995: 245). No adequate compensating strength in core industrial sectors such as chemicals, engineering, electronics and vehicles arose either: these comprise only 35% of industry as compared to 56% in western Germany. Rather, construction and associated industries (such as quarrying) as well as light manufacturing (such as food processing) prevail (Kehrer 2000: 140-1).[10] Such industries tend to sell a greater proportion of their output on local and regional markets, which helps to explain why total exports from the region in 1997 were only half the level of 1989 and why the export quota of its manufacturing sector was the same in 1997 as it had been under the 'trade averse' regime of Erich Honecker (Kehrer 2000: 136, 155).

This is an economic structure that reflects a high level of dependence on state transfers, with its disproportionately large construction sector (engaged in building and repairing public infrastructure and business locations at the taxpayer's expense) and its light manufacturing sector that thrives upon local consumer demand which, again, is paid for in no small measure by the state. Even today, every third Mark spent in the East comes from the West (*Wirtschaftswoche* 2.10.00). Germany may yet avoid becoming a 'dual' economy, with a relatively prosperous West and an eastern 'Mezzogiorno' dependent on continual fiscal transfers. But for the time being, as the

10 Equivalent figures for gross capital formation, given by Klaus Steinitz, are 25% for the industries Chemicals, Engineering, Electronics and Automobiles, as against 50% in the West <www.trend.partisan.net/trd0299/t030299.html>.

Federal Government itself concedes, ‘self-sustaining growth in [the East] has not yet been achieved’ (in Kehrer 2000: 160). In conclusion, with a small manufacturing base and little prospect of a rapid growth of service industries, such as tourism, that could generate significant revenues from without, the odds on economic convergence occurring within a decade or two are now lengthening to vanishing point. The promises made during the honeymoon phase of unification, of the East catching up with and even overtaking the West, now appear as unrealistic as those same promises announced by East German apparatchiks in the 1960s.

Dinosaurs and the Meteor: Orthodox Explanations

If the severity of the deindustrialization of 1990-2 explains the East’s structural weaknesses and enduring malaise, accounting for the severity of that slump is crucial. Explanations usually begin, naturally, with the 'legacy of Communism'. East Germany partook of the general crisis of the Soviet system. Its enterprises were increasingly handicapped by an inability to internationalise their sales and operations; the technology gap with the West grew remorselessly, and as growth rates declined so the burden of arms spending grew ever more onerous.[11] No amount of repression, or exhortation of the workforce in the form of productivity ‘campaigns,’ could compensate. By 1989 the East German *Kombinate* were in a decrepit condition: plant and equipment were, on average, old, and used outdated technologies, markets were small, production runs short, and the quality of many goods and services was poor. Under such conditions average output per employee had fallen to between a third and half the West German level by the late 1980s (Priewe/Hickel 1991: 61; Sinn/Sinn 1994: 63).

Secondly, the crisis sweeping the Soviet Bloc in the late eighties, accompanied by the liberalisation of trade and capital flows, led swiftly and inexorably to the collapse of Comecon’s politically orchestrated trading and payments systems. By the end of 1990 all intra-Comecon trade was conducted in hard currencies and at world market prices. By 1991 it had slumped to less than half its previous level (Bideleux 1996b p.200). For the *Kombinate* this meant in particular the loss of secure, 'soft' markets for manufactures

[11] For fuller analysis of these rather condensed points see Callinicos (1991), Klenke (2001), Dale (1998, 2002).

and of cheap raw materials and energy imports from the USSR. Given that the Comecon area made up around 70% of East Germany's trade, the consequences were serious indeed.

A third factor was the GDR's hasty adoption of the *Deutschmark.* Had economic crisis proceeded without interruption from the masses and with the reins of policy firmly in the grip of the Communist Party, East Germany might have existed for years as a sovereign polity, its enterprises increasingly integrated into the economy of the FRG but still settling their major costs in East-Marks. In the autumn of 1989 this was certainly an option viewed favourably by company directors and politicians on both sides of the Wall. Even in early 1990, when the eastwards extension of the *Deutschmark* was clearly inevitable, this was typically conceived as a medium-term project, to be approached cautiously. Advocates of gradualism included powerful establishment figures, notably the head of the Bundesbank, Karl-Otto Pöhl.

Such calculations, however, did not reckon with the consequences of the 1989 revolution. Mass emigration and the uprush of a culture of popular protest could not be called off at will. By early 1990 East Germans were vociferously demanding a rapid improvement in living standards through introduction of the *Deutschmark*. A March 1990 survey, for example, showed 91% of easterners in favour of rapid currency union (Dennis 1993: 64). Many, meanwhile, were preparing to emigrate to the West. The prospect of a renewed exodus and political instability pushed Helmut Kohl's hand. Currency union was introduced hastily, in July, as a concession aimed at stifling protest and stemming the flow migrants. 'Kohl and his advisers,' as Charles Maier describes (1997: 234), 'were rushing to stay ahead of an economic and political momentum that might otherwise overwhelm their own control of events.'

Something similar can be said of the calibration of currency exchange. The original plan for 'German Economic Monetary and Social Union' (GEMSU) had envisaged an exchange rate of 1 DM per 2 East Marks. Although this rate flattered the value of the East Mark, it was seen as insulting by East Germans, many of whom had participated in the recent uprising with the aim of achieving equal valuation *of their labour-time* with their Western counterparts. A furious coda to the previous winter's revolution resulted. Newspapers published letters and editorials favouring exchange at parity. Trade unions, including the West German IG Metall and the formerly Communist East German

FDGB — now seeking to profile itself as an autonomous body — organized demonstrations for parity that were attended by around a million. Fearing that it would, in the words of a leading CDU politician (Christ/Neubauer 1995: 81), 'face a storm of protest that would sweep it away', the government in Bonn was forced to capitulate, and, against the wishes of the Bundesbank, granted a 1:1 exchange rate for wages, pensions, grants, and for savings up to DM 4,000.

For Helmut Kohl's short-term popularity in the East, and for the narrow goal of currency stabilization, GEMSU was a success. For East German capital, however, it was destructive. The strength and stability of the D-Mark was not an innate property but was, in Rudolf Hickel's words (1993: 109), 'the expression in currency-political terms of an economy that had, through crises, become hardened for international competition.' Its transfer to an economy that had for decades been shielded from 'hard' competition was therefore devastating. With its adoption the East German market was, at a stroke, opened to unfettered competition from the EU and to relatively unprotected competition, at least in manufactures, from elsewhere. The *Kombinate* saw their domestic market evaporate as consumers — including themselves — switched to Western goods.

To have had any chance of expanding their presence on domestic and world markets the more viable *Kombinate* required a devaluation of their major inputs through currency depreciation. In fact the opposite occurred. The terms of GEMSU represented a 300-400% revaluation of the East Mark, i.e. a massive *ap*preciation of the currency circulating in the East. Profitability could be maintained only if costs were reduced accordingly, but this was impossible, for the prices of raw materials and components from the domestic economy, as well as overheads, were themselves subject to the currency revaluation. Wages were affected similarly, and began to rise thanks to the imminent prospect of a unified labour market. The gap between West and East German nominal wages — which had stood at approximately 2:5 in 1989 — began to close rapidly in 1990, and grew a further 77% in the 1991-5 period (Priewe 2001: 20).[12]

Another cost that weighed particularly heavily on the *Kombinate* was borrowing.

12 Real wages, however, did not rise by the degree usually assumed. For many workers the rise did little more than lessen the fall in income that came with redundancy, for the size of unemployment benefit is related to final salary. For a significant minority a part of any rise was simply compensation for the demotion in salary grade that occurred due to East German qualifications being undervalued in the new regime (Hitchens et al. 1993: 58, 62). It should also be borne in mind that nominal wages did not correlate with living standards, given that prices were rising rapidly too. As a percentage of average western rent, that in the East soared from

Under the old regime average company debt had been high, approximately double that of West German firms, but with stable and low interest rates such levels were sustainable (cf. Stephan 1999: 62). The transition to the market, however, saw a sudden collapse of demand, forcing companies to increase borrowing simply in order to meet existing commitments. Yet at the same time interest rates soared from 3% to 9%. The *Kombinate* were badly squeezed; their net indebtedness rose from 18% before GEMSU to 37% thereafter (Dennis 1993: 71). Even relatively successful firms found themselves saddled with enormous interest payments. Worse still, the terms of currency union imposed tight budget constraints on the *Kombinate*, cutting them off from the usual sources of credit. By the summer of 1990 5,000 of the *Treuhandanstalt's* (THA's – see below) 8,000 firms were insolvent. The THA was able to ameliorate some of this problem through liquidity credits, but their supply fell far short of demand. Whereas the terms of currency union had supposedly been designed to ensure adequate liquidity for the East German economy, in fact a liquidity crisis ensued, obliging the German state to provide billions of DMs simply to enable the continued payment of wages.

Currency union, in any form, would have forced extensive restructuring upon the *Kombinate* in the face of intense competition on world markets, but its timing and terms dealt them a knockout blow. Given the prevalence of the notion that the 'legacy of Communism' was to blame for their impending collapse, it should be noted that the timing and terms of GEMSU are perceived as destructive not only by radicals but also by establishment figures in Germany. Karl-Otto Pöhl, for example, described GEMSU as a 'disaster', and as 'a shock that no economy could survive' (Sinn and Sinn 1994: 51; Kehrer 2000: 117). The head of a western commercial bank described it in more graphic terms (*Spiegel* 16/1991: 127): 'It is as if somebody lying seriously ill in intensive care was placed in front of a window where the temperature was below zero.' With similar bluntness, the editor of Germany's leading business magazine penned the following (in Falkner 1994: 57):

> Let us imagine that Germany and Austria were to unite and that the conversion rate of the Schilling to the Deutschmark in wage packets was 1:1. Austria's highly efficient industry would collapse within weeks. That is precisely what occurred in

29% in June 1990 to 62% in July 1992 (Pilz/Ortwein 1992).

> the GDR. ... The conversion at 1:1 ... gave industry in the East no chance of survival whatsoever. The legacy of socialism bears no responsibility for this.

The economist Horst Siebert has provided a suggestive metaphor for this process. Giving a twist to the tediously common analogy between the *Kombinate* and dinosaurs, he compares GEMSU to the meteor that led to that genus's extinction (1992: 29). The *Kombinate* were relatively unproductive, inflexible, and ill-equipped to adapt to a market environment, but even the opportunity for evolutionary adaptation to the new circumstances was obliterated by the brutal force of the meteor hit. If recovery has proven difficult, that is to a significant extent due to the 'shock' nature of the transition.

The Meteor's Trajectory

Orthodox explanations generally wrap up at this point. They account for the slump in terms of the relative inefficiency of the East German economy, a problem which was exposed when trade restrictions were broken down and compounded by the terms of currency union, the evaporation of Comecon markets for East German goods, and rising wages in the East.[13]

Accounts of this sort, naturally, contain many grains of truth. However, they are more remarkable for what they overlook, assume and omit. Take, for example, the question of wages. Although many economists focus obsessively on the costs to industry of rising wages, these were only one cost among many. The wage bill rarely if ever exceeded 25% of an East German firm's total costs. And even if eastern workers had been supine, the hopes of industrialists and liberal economists that low wages and flexible labour markets would give eastern business a decisive advantage were never realistic. If a company were looking for a low-wage site to invest why should it consider, say, the East German town of Schwedt when wages in Szczecin, a few miles down river, were always bound to be considerably lower? And if this was apparent a decade ago, how much more so in the 00s, with low-wage economies lining up to join the EU and further undermining this supposed competitive advantage of eastern

13 For an example of such reasoning see e.g. Bracher (1992: 329-50).

Germany? Conversely, companies such as Airbus, for whom the wage bill is less decisive, are more likely to site new investments in high-wage Hamburg than in Halle. It is no surprise, then, that a recent study by the German Institute of Economic Research shows that it is precisely those sectors with *more rapid wage equalization* that have created the most new jobs (*Neues Deutschland* 10.5.01). As to labour flexibility, this is indeed greater in the East, where the costs of shedding labour amount to only a fifth of those in the West. But rather than stimulating rapid growth this has served to ensure that during recessions big businesses prioritise eastern workplaces for closure.

The case against orthodox explanations, however, rests less on such questions of detail than on their tendency to ignore dynamics of regional polarisation. That capital accumulation is a radically *uneven* process tends to be taken for granted, and yet is, I would argue, fundamental to understanding the crisis in question. There are two relevant aspects to this unevenness. The first concerns the inherently uneven nature of competition. Capitals operate in different sectors, possess different degrees of mobility, and are organized in different forms. Firms of various sizes and with different technologies produce at different levels of productivity. All these factors change, continually and at varying rates. Given that capitals are connected together within a framework in which the behaviour of each is governed by coercive comparison with that of others, innovation in one centre threatens the viability of extant forms of production elsewhere; the accumulation of value at one moment engenders devaluation at another. 'Far from establishing a harmonious equilibrium', John Weeks suggests (1997: 105),

> capitalist competition disrupts, eliminates the weak and challenges the strong, to force upon industry a new standard of efficiency and cost. The movement of capital to equalise profits across industries is the process of generating uneven development: equilibration in exchange (a single price in a market) hides the generation of uneven development in production.

This unevenness, secondly, is manifested spatially. Market competition will, depending upon circumstances, reward both spatial expansion and agglomeration – but in a highly uneven manner. The mechanisms by which unevenness is intensified are commonly described using a simple concept: vicious and virtuous circles. Paul

Krugman, for instance (1995: 3), summarizes a core insight of economic geography, that investment decisions tend to vary with the size of the local/regional market, in these terms:

> the division of labor is limited by the extent of the market, but the extent of the market is in turn affected by the division of labor. The circularity of this relationship means that countries may experience self-reinforcing industrialization (or failure to industrialize), and that regions may experience self-reinforcing agglomeration.

Similarly, Gunnar Myrdal bases his understanding of the tendencies towards regional polarization on the concept of 'cumulative circular causation'. Based on the hypothesis (1957: 32) 'that in the normal case the changes in other factors which are called forth as reactions by a change in one factor always tend to move the system in the same direction as the first change,' he reasons (1957: 26) that 'the play of the forces in the market normally tends to increase, rather than to decrease, the inequalities between regions.' For example, if one industry locates in one area, multiplier effects expand the local market, encouraging industries to cluster. Economic expansion in one area also creates external economies favourable to its continuation, e.g. with capital and skilled workers migrating to the area, widening the local market, and, in turn, attracting further investment and immigration. Such processes have a counterpart in declining regions, characterized by the emigration of skilled labour and economic stagnation.

Krugman, Myrdal, and other theorists of regional unevenness do not argue that spatial polarization is destiny. Tendencies to polarization are counteracted by at least two processes. Myrdal calls one of these 'spread effects': the spill-over of expansion from stronger to weaker regions. If the expansionary momentum is strong enough, centres established in this way can themselves become new centres of growth. A second set of counteracting processes are those associated with state expenditure, whether that be on transport and communications, on welfare and the military, or on education, most of which tend to be spread relatively evenly. It also refers to regional policies, which are designed precisely to encourage 'spread'.

Any serious attempt to explain the East Germany's slump and ensuing difficulties will have to get to grips *both* with the intrinsic unevenness of capitalist competition – the elimination of relatively unproductive East German capitals and the conquest of their markets by Western rivals – *and* with the various mechanisms of spatial polarization and equalization that accompanied and issued from that crisis. Without developing such a case in detail, the following paragraphs summarize the major points.

Deindustrialization was brutally swift due essentially to the relative inefficiency of much of East German industry upon its exposure to direct competition from the world's most efficient producers, and exacerbated by various 'downward spirals' such as those mentioned above, under the heading 'The J-Curve Wilts'. A crash programme of closures and 'downsizing' savagely reduced domestic demand, damaging the prospects of all supplier firms regardless of their productivity. Crisis in the East spurred further mass emigration, with over two million Easterners, disproportionately young and skilled, exiting to the West, to the benefit of its skills-thirsty businesses.

As to 'spread effects', firstly, expanding Western firms have invested in the East. However, such operations have all too frequently taken the form of branch plants, which are intensively linked to western capitals but only weakly integrated into the regional economy (and which are therefore known in the critical literature as 'cathedrals in the desert'). Secondly, the state has 'spread' resources on a vast scale, in the form of investment subsidies, infrastructural spending and welfare. Indeed, by the mid-1990s over half of *private* investment in East Germany consisted of *public* subsidies (Pickel/Wiesenthal 1997: 117). However, the effects on the East-West 'production gap' have been ambiguous. Transfers to East German consumers, given their preference for western products, have tended to disproportionately benefit Western-based firms.[14] And because firms have an incentive to supply from a single location (in industries characterized by increasing returns to scale) these generally supplied the new eastern market from existing plant rather than risk investing in a region with such an insecure future.[15] Moroever, this tendency to industrial agglomeration in the 'core' actually benefits, paradoxically, from state spending on the East-West transport infrastructure.[16]

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[14] This was exacerbated by THA decisions (see below). All the GDR's wholesale trade organisations were handed to western buyers which, of course, meant an even greater dominance of western products.
[15] Cf. Brakman/Garretsen for insightful discussion.
[16] For the theory behind this cf. Krugman 1991.

Increased demand in the East, due largely to state transfers, combined with tax cuts to stimulate a 'unification boom' in 1990-2. Many major Western firms such as Volkswagen, Allianz and Deutsche Bank posted record profits in these years. Some sectors achieved astounding increases in turnover — for example the food and drink industry which increased turnover in 1990 by over 11%. There were companies such as Siemens which, operating at close to capacity in their West German plants and with skilled labour in short supply, found it rational to build new plant in the East. But more typical of the geography of supply and demand were those sectors with significant spare capacity in the West, such as the automobile industry. East Germans spent ca. DM 70 billion on West German cars in the three years following unification, during which time West German automobile firms invested only DM 5 billion on production in the East (Kehrer 2000: 118). Other industries, such as brewing, simply approached the eastern market as an ideal opportunity to dump surplus stock and knock out eastern rivals.

From this sketch of some of the main processes of polarization and spread it is apparent that the growth-spreading capacities of even large-scale state intervention have been limited in comparison to the polarizing (and spread) effects of the market. To inquire into the role of the state, moreover, requires attention as much to motives as to capacities and constraints. Although Myrdal's model is useful as a starting point it suffers from a tendency, perhaps reflecting his epoch and political orientation, to assume that the state's interest is in 'spread' rather than polarization. For although states in the age of 'national economic development' may have promoted 'balanced growth' across their territory, that age is long gone. In a recent survey of West Germany's political geography, Neil Brenner (2000) has shown how the 'national development' model began to unravel from the mid-1970s. Whereas in the previous period comprehensive regional industrial policies were developed to organize the restructuring of depressed regions such as the Saar and Ruhr valleys, in conditions of economic slowdown the central state began to press regional and local administrations to 'fend for themselves', to manage the local consequences of economic restructuring, and to compete for financial resources and external investment. Although the unravelling of the official commitment to relatively balanced growth began several decades ago, with a series of *ad hoc* accommodations to crisis, in the 1990s a general framework of neoliberal regionalization was implemented.[17] The new model welcomes unevenness as a spur to 'inter-regional competition'. It privileges profitability over redistribution, cost-cutting over regulation, labour discipline over class compromise, and efficiency over democratic accountability. In the East it provides intellectual cover for companies breaking national collective bargaining agreements, and for the CDU's recent proposal of establishing a *maquiladora* belt along the German-Polish border (*die tageszeitung* 22.5.01). As such it is the regional-scale twin of the neoliberal *Standort* argument – the push to cut wages and welfare in the face of intensified global competition.[18]

To suggest that sections of the state may have an interest in spatial economic polarization should not be taken as implying that the politicians' constant talk of East-West equalization is hypocrisy. However, scepticism towards the claim that federal government's priority has been to 'modernize' the East is warranted. Indeed, a strong argument can be made that the Kohl regime's essentially *laissez faire* approach to deindustrialization in the East, contrasting with its mercantilist support for West German business, ensured that the former was exacerbated in the interests of the latter.

Consider, first, the close resemblance of the East German experience to the 'shock therapy' measures advocated elsewhere in Eastern Europe. A number of *substantive* differences notwithstanding, the East German experience, as Andreas Pickel has argued (1997), demonstrates a striking similarity to 'shock' strategies in its *procedural* nature, notably the emphasis upon rapid, comprehensive and simultaneous reform. Within the space of three months, completely new monetary, economic, fiscal and legal frameworks were erected, under the supervision, increasingly, of external elites.[19] After this sort of 'shock' a reversion to a gradualist approach was inconceivable.

Arguably, these reforms accorded with the desire for unification of a majority of East Germans. But it would be naïve to perceive them as the imprint of the general

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[17] See also Caéfalvay (1997).

[18] It is also in line with the now widespread idea that the region is the crucial scale at which competitive success is shaped.

19 Even before unification most major issues were dictated by Bonn. For example, East German prime minister de Maizière argued in vain for legislation to protect weaker industries; for the previous owners of nationalized property to be dealt through compensation instead of restitution in order to encourage new investment; and for the purchase of real estate to be restricted in order to permit the development of an independent East German real estate sector. These proposals were all abandoned during the 'state treaty'

will. Timing and strategy speak volumes. It is widely recognized that a ‘shock’ agenda is best implemented in a period of political ‘honeymoon’. The World Bank, for example, has put the case in the following terms (in Dasgupta 1998: 37):

> When new economic teams or governments have come to power and the policies of the previous team or government have been discredited [...] [o]ften the strongest political asset of the new teams and governments is people's dissatisfaction with previous policies and their willingness to try something fresh (the honeymoon effect).

The 'honeymoon effect' means that swingeing reforms that might otherwise provoke resistance may be implemented quickly, at a time when a large proportion of the population greets the new order with sympathy and when potential defenders of the old or opponents of the new lack morale or organization. There can be little doubt that policymakers in Bonn and Berlin understood the advantages of launching wholesale reforms during such a period. Popular faith in the FRG was exploited in order to rapidly impose its legal, political and economic structures.

In this light it appears that the rapidity of political transformation, though justified with reference to popular opinion in the East and its ‘return’ to its supposedly natural condition of liberal democracy, was bound up with the perceived need for a swift imposition of authority, by the FRG, over its crisis-ridden and unpredictable neighbour. Similarly, to explain ‘shock marketization’ simply in terms of easterners’ aspirations or the ‘natural’ subordination of a less efficient economy is inadequate. The 'chill wind' of economic competition was not automatic or neutral. It involved the *political management of economic crisis*, largely in the interests of West German business. This applies even to the ‘meteor’ of currency union. Far from being a natural event charting a pre-determined arc, it was the result of deliberate decisions taken, above all, in Bonn. And although these were in large part determined by the twin threats of protest and exodus, it would be mistaken to neglect the manner in which the response to these challenges dovetailed with a neoliberal strategic commitment to prioritize financial discipline on capital in general, and to enhance the strength of West German business

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negotiations (Pickel 1992: 195).

even where its interests conflicted with those of industries in the East. As Elmar Altvater has argued (in Gransow/Jarausch 1991: 206), West German business was to profit from the terms of GEMSU, for 'stable enterprises are harder to take over than bankrupt ones'. This, surely, is what lies behind the nonchalance with which policymakers, including architects of GEMSU itself, are willing to concede their awareness that its timing and terms would cause the wholesale bankruptcy of otherwise viable *Kombinate* (e.g. Köhler 1994: 200). More importantly, it is consistent with subsequent economic policy in the East, above all the dismantling and restructuring of the *Kombinate* under the aegis of the *Treuhandanstalt*.

The Treuhandanstalt

In its original incarnation under East Germany's final Communist-led government in early 1990, the Treuhandanstalt (THA) was intended to function as a semi-autonomous but state-owned holding company that would facilitate marketization and the restructuring of ownership. During this fledgling stage the prevailing assumption was that nationalized industries would be transformed into a diversity of property forms, including private and public-private enterprises and workers' cooperatives. As to the mechanism by which state property would be dispensed with, various methods were discussed, including the disbursement of shares in the *Kombinate* to the East German population.

With the coming to power in March 1990 of a CDU-led government the agenda changed. The new government drew more strongly on neo-liberal ideas, and was encouraged in this by its mentors in Bonn.[20] With the *Treuhandanstalt* law of June 1990, the agency was given the mandate to act 'decisively' in the *sanieren* [a term which means 'restructuring and restoration'] of East German industry, 'to establish the competitiveness of as many enterprises as possible and thereby secure and create jobs,' and was promised provision of funds to this end. Its remit was also to privatize.

At this point in time the THA, having taken over nearly an entire national economy, was by far the largest holding company in the world, equivalent in terms of the number of its constituent firms and their employees to the twenty-five biggest

[20] See fn. 4.

corporations listed on the New York stock exchange (Roesler 1993: 19). Its first CEO, Rainer Maria Gohlke, a former IBM manager and protegé of Kohl, seems to have believed that the THA's emphasis should be the restructuring and preservation of East German industry, and suggested that only 35 of the THA's 6,000 firms were 'not worth maintaining' (Köhler 1994: 77). Taking restructuring so seriously, however, seems to have indicated a misunderstanding of the remit; Gohlke was swiftly replaced by Detlev Rohwedder, a manager of Hoesch notorious for 'downsizing' that firm's workforce.

In his initial period of office even Rohwedder believed it to have been self-evident that the THA's tasks would not be completed until the 'next century,' and that a 'great mountain of state involvement in firms' would be inescapable (in Kehrer 2000: 126). But this gradualism rapidly gave way to the 'shock' agenda. The climate of opinion amongst economists and policy-makers was stridently in favour of privatization. Not only had the Cologne report (see above) advocated breakneck privatization, even the 'five wise' economic institutions argued that 'what cannot be quickly privatized cannot be made profitable and has no right to exist' (Priewe/Hickel 1991: 170). The THA was quickly re-positioned onto this track. In October 1990 it issued guidelines committing itself to privatizing '*as fast and as fully as possible*', and that *Sanierung* should take place 'wherever possible, through private owners' (in Dininio 1999: 42). To expedite what Hickel and Priewe (1994: 70) have termed 'a tonnage ideology of privatization,' THA employees were rewarded with substantial bonuses for rapid privatizations. By early 1991 one THA employee could report that it was now seen as 'almost heretical to talk about *Sanierung*' (in Roesler 1993: 43).

In an infamous message to all his employees Rohwedder insisted that the THA be governed by the axiom that '[p]rivatization is the best means of *Sanierung*' (1993: 55). The agency's subsequent record suggests that it was in fact the best means of deindustrialization. Numerous criticisms have been raised of the privatization strategy. For one thing, the imperative to privatize as rapidly as possible clashed with the THA's proclaimed interest in selling firms at the highest possible price. With the fire-sale of almost the entire East German economy — at a time of world recession — the market value of THA firms plummeted. 'There is no doubt that a consequence of the THA's rapid and mass sell-off,' argued the economist Hans-Werner Sinn (*WirtschaftsWoche* 7.1.1994: 36) 'was that buyers were only able to mobilize limited means of finance, sending prices through the floor.' Similarly, a CDU MP complained that 'This overhasty privatization has driven the value of firms to rock bottom' (in Kehrer 2000: 123). Given the resulting imbalance of supply and demand, potential buyers could and did hold back in the expectation that prices would continue to fall. In its pricing policy the Treuhand exacerbated the problem. One firm worth DM 220 million, for example, was sold off for DM 1 (Hickel/Priewe 1994: 70). If this is an extreme example, a comparative study of revenues raised through privatisation in Estonia and East Germany by the Hungarian economist M Kaser (1996) concluded that 'the Treuhand's valuations and price remissions were rather generous to buyers.' It is against this background that the precipitous decline in the value of East German assets should be understood. Thus the de Maizière government in mid 1990 put the figure at DM 800 billion; later that year Rohwedder's estimate was DM 600 billion; in 1991 Kohl's government put the figure DM 280 billion; and in 1992 the THA's assets were valued at only DM 260 billion (as against DM 520 billion in liabilities).

Aside from the fire-sale method, the plummeting value of its assets reflected the fact that the THA, despite its mandate, never developed a systematic strategy for restructuring. It was very reluctant to invest in its firms lest that complicate the privatization process. For this reason, as Jan Priewe has argued (1993: 97), the 'absolute prioritization of privatization became a brake upon restructuring'. Two additional factors discriminated against restructuring. The first was that state-owned companies were saddled with outstanding debt from the previous regime (see above), whereas when privatized their debts were cancelled outright.[21] The second, less explicit, was that the THA tended to inflate the costs of restructuring (cf. Gerhard Christ 1995: 161). Where this occurred, the predicted futility of restructuring state-owned companies became a self-fulfilling prophecy. Managers of such firms became ever more demoralized, their business strategy geared towards little more than waiting for a private suitor (cf. Priewe 1993: 97). In the meantime wages and overheads continued to be paid, amounting to a drain on the public purse which the postponement of active investment only served to perpetuate.

A further problem with the strategy of breakneck privatization was that in order to hasten the process companies were obliged to reveal all internal information — including

21 Heilemann and Jochimsen (1993) see this as a particularly 'grave mistake'.

technical know-how, patents, R&D, and customer lists — to any interested party. Given that much of a firm's value is contained in this accumulated knowledge, its exposure entailed a blunting of the firm's competitive edge and therefore substantial devaluation (cf. Hickel/Priewe 1994: 72). Although the process of exposure may have encouraged suitors to reach for their wallets, its overall effect was indubitably detrimental to eastern industry and the German taxpayer. There are well-documented cases of Western managers visiting rival eastern firms that were on the market, examining the product range, perusing the client list, then taking the information home and offering their own products to their eastern rival's clients at lower prices (cf. for example Hildebrandt 1993: 74). In such cases a potentially successful eastern firm could have the rug pulled from underneath it even as it waited hopefully beside its 'for sale' sign. In other cases the process was yet more straightforward: the western firm would buy an eastern counterpart, acquire its know-how, and then allow it to go under.

A final consequence of breakneck privatization was that it encouraged the THA to sell its firms in the form of ‘fillets,’ as small units rather than as the major part or as a whole. The advantages of selling a company as a whole include the possibility that the more profitable parts are able to fund the investment required to upgrade less efficient sections, and that in the process existing supply relationships are far more likely to remain intact. Filleting brings advantages, but largely for the (predominantly western) buyers. Already in the early period of privatization West German firms had cherry picked the most lucrative sectors, those that were relatively sheltered from international competition such as savings banks, insurance, energy, and hotels. The filleting of remaining firms enabled the choicest parts to be carved off and inserted more easily into the structures of — you guessed — the western buyer, leaving the remainder to face liquidation. Critics of the THA argue that as a result the ratio between sales for non-productive purposes such as land speculation or asset stripping and those that promised productive investment was tilted more sharply than necessary towards the former.

Fire-sale privatization was not simply a quicker route to the same end. It meant the sacrifice of otherwise viable firms (cf. Kehrer 2000: 124). Take the case, for instance, of *Jenoptik*, successor to the GDR’s most prestigious *Kombinat,* Carl Zeiss Jena. In 1992 *Jenoptik* was facing certain bankruptcy when massive protests by its workforce forced the THA to take over most of its assets. In the wake of this (temporary) renationalisation the firm's finances improved, and by 1997 turnover had reached an impressive DM 2 billion. 'Today's technologically capable and successful Jenoptik firm', the authors of the tale of this turnaround observe (Kogut and Zander 2000: 186) 'would probably have become a victim of neoliberal shock therapy if the therapy had been strictly enforced.' With this exceptional story in mind it is worth recalling that early on in the transition process a representative of the THA itself estimated that only 10% of enterprises had no chance of surviving, while 70% stood a good or very good chance (Nötzold 1994: 83). The THA bears responsibility for the fact that so many of these viable firms were broken up and bankrupted, and that relatively few privatizations led to long term industrial investments (Wendel 1995: 149). It allowed the *sanieren* of the *Kombinate* to be subordinated to the profit margins of western businesses.

The THA: Ideology and Reality

As a quasi-governmental organization committed to such a major experiment in economic and social engineering, the THA carried a pronounced ideological agenda. Private ownership is in all respects superior to public, the market to the plan. The market is not only superior in efficiency terms, but fairer too. Rather than bureaucrats allocating resources this task would devolve to the price mechanism. It is this 'neutral' mechanism that would make the pivotal decisions as to which enterprises would survive and which would fall by the wayside. Mass privatization would enable the market to perform an audit of eastern enterprises, picking out the strongest for immediate sale, the potentially viable for restructuring, and the remainder for closure. The withdrawal of state interference would have the additional benefit of reducing possibilities for corruption — one of the key issues that had inflamed protest against the previous regime. A final element of the THA's economic philosophy was that the market would enable demonopolization and the replacement of the gigantic, overcentralized *Kombinate* with a differentiated structure that favoured small and medium-sized enterprises. The result was to be a fair and competitive market, an ideal framework for the rebuilding of the eastern economy.

On every one of these points the 'really existing market' in general, and the THA in particular, bore little resemblance to the ideal. The wind of market forces, supposed to blow down the dead trees and leave more room for healthy survivors, appeared in reality to have an interest in knocking down relatively *viable* enterprises, too. A number of major closures were of companies and parts of companies with relatively good prospects. Their Western rivals could buy them up in order to shut them down (Kehrer 2000: 133).[22] The steel producer Kugelfischer was one such example, but the most notorious was the Bischofferode potash mine; protest against its closure became a *cause celèbre* for critics of the market.[23]

As these examples suggest, the market danced largely to the tune of West German capital – and at times the choreography was only too visible. The fate of East German firms was determined above all by THA departmental heads, committee members and other 'experts'. The overwhelming majority of all of these groups, along with the management boards of THA-owned companies, were seconded from West German firms (Dininio 44-54). Conflicts of interest were legion. Managers from Osram, for instance, helped to determine the future of its direct rival, Narva (Wendel 1995: 148). Rohwedder himself was a director of the West German giants Allianz and Ruhrgas. Was it mere coincidence that these firms were able to make two of the most audacious (and highly controversial) purchases of Eastern firms? Allianz insurance took over the GDR's state-monopoly insurance company *in one piece* (Roesler 1993: 28). Ruhrgas, meanwhile, acquired the gas network, one of the choicest parts of the eastern economy. Similarly, a manager from Bayer, of which AGFA is a subsidiary, sat on the committee deciding the fate of AGFA's rival, ORWO (Heimbrecht 1993). In this example, the eastern firm's equipment had been recently imported from the West, its products had been selling well on western markets, and two independent reports had recommended that a suitably restructured firm would be viable. And yet the THA 'displayed astonishingly little interest in marketing the new ORWO colour film' (Heimbrecht 1993: 63). Against the advice of the reports the THA committee pulled the plug on further independent production: privatization or liquidation were the only choices allowed.

Dubious practices such as these represented a legal route for managing the crisis in the East in the interests of Western capital. But legitimate malpractice was

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[22] With competition heavily regulated at the EU level, acquiring East German firms and then shutting them down in some cases allowed West German firms to increase their overall quota, and thus enhance their position vis-à-vis European rivals.

[23] For a trenchant exposé of this case see Otto Köhler (1994: 7-43).

also accompanied by law-breaking and corruption on a grand scale. In some cases the desire to drive eastern competitors into the ground led to violations of competition law. AGFA, for example, insisted that its retailers in the East sign contracts which, illegally, obliged them not to stock ORWO films (Heimbrecht 1993). Equally common, if better publicised, were numerous cases of fraud and palm-greasing. Some of these were low-level, such as the exploitation by con-men of legal loopholes and East Germans' illusions in and unfamiliarity with market society. Some were more spectacular, notably the case of Jürgen Schneider, a West German property magnate who invested heavily in Leipzig real estate. In 1994 Schneider, who had been hailed as precisely the type of canny investor that the East required, declared bankruptcy and absconded, leaving debts of US $3 billion and a trail of evidence that revealed systematic and extensive fraud.

If corruption flourished on business ‘overambition’, as with AGFA, and on the secrecy of the market, as with Schneider, it also found propitious conditions in the nexus of market and state, notably the THA. Already in the spring of 1991 the so-called 'Treuhand scandal' came to light, revealing that eastern company directors had deliberately undermined their firms' prospects in order to lower their market price, to be rewarded with cash and/or position by western buyers. But this was only the tip of the iceberg. Hundreds of deals involving the THA involved corruption and law-breaking (cf. Köhler 1994 ch. 7; Wendel 1995: 152). The most notorious of these involved Chancellor Kohl (or ‘Don Kohleone’ as he has since been known), the first chancellor in the history of the FRG to have been shown to deliberately and knowingly engage in illegal financial activities. Given his prominence, and the revealing nature of the case, Kohl’s corrupt activities deserve to be outlined in detail. They first came to public attention in the form of an illegal party financing scam involving, amongst other things, the funneling of undeclared contributions, including DM one million from arms dealers (allegedly as gratitude for arms export decisions), through secret accounts into the coffers of Kohl’s CDU.[24] Ironically, the party funding laws that Kohl (and other senior party members) transgressed against had been introduced by his own government in the mid-1980s in response to previous scandals involving the sale of political favours. In a naked cover-up disguised as SPD magnanimity, further investigation into Kohl’s involvement in

[24] The CDU succeeded in turning a DM 43 million deficit in 1989 into a 23 million surplus in 1991.

this scandal has now been blocked. But thanks to the greater assiduity of French prosecutors, more light has been shed on some of the Chancellor's other unsalubrious affairs, particularly his involvement in the acquisition of a THA-owned chemicals giant (Leuna) and a monopoly petrol distribution company (Minol) by the French corporation Elf.

Elf paid over £30 million in 'commissions' to smooth the purchase, according to Roland Dumas, part of which probably ended up in the CDU's coffers (Guardian 19.6.01). Although much of the detail of who paid how much to whom have still to be revealed, the fact of large-scale corruption is clear, as are a triad of underlying causes. The first of these was an increasing concern in governing circles that the THA's strategy was devastating eastern industry, at the social consequences thereof, and at a wave of industrial protests rising in the East. Despite the government's commitment to 'laissez faire mercantilism' (acting to laisser the nation's most powerful businesses faire as they pleased), and despite overproduction in the chemicals industry, Kohl felt obliged to promise, in 1991, that Leuna would be saved. Although a necessary condition, this was not sufficient to explain the decision to sell Leuna-Minol to Elf. Indeed, that company was judged by independent experts to be the *worst* option (Die Zeit 52/1999). It was also an expensive one, costing the state DM 5.6 billion in subsidies - DM 560,000 for each job saved (Hertle 2000: 44). To explain why this option was nevertheless chosen, two further factors are necessary. One was geopolitical. Bonn and Paris were concerned that the crisis shuddering into Western Europe from the East, the sharpest expression of which was the FRG's absorption of the GDR, represented a threat to EU stability and integration. In this context Kohl and Mitterand were at pains to cement further their special relationship - the Maastricht Treaty was the most important outcome of this, but French investments in a troubled zone of Germany may have been explicitly welcomed too. Implicit encouragement for Elf's corrupt bid probably came from this top level, and was readily passed on to Elf itself which had, after all, been set up by a senior member of the French secret service and had traditionally functioned as an undercover arm of the French state. The final factor in the equation was Elf's own interests. These have been described by a top Elf manager, Le Floch, with the insight and honesty that only an indicted insider could bring, in an interview which illuminates the methods and motivations of bribery with unsparing clarity (Die Zeit 24/2001). Le Floch's explanation of his firm's behaviour centres on a hand-wringing description of his dismay at having been excluded from a previous bid – for a company in Schwedt with very good prospects – by the THA's nationalist bias. If Elf was obliged to bribe legions of German officials and politicians in order to stake its claim on future profits in this new economic territory, he complained, it was not only because of its (arguably) inadequate bid, or indeed because of the massive subsidy it demanded (and received). It was also because the THA's laissez faire policy tended to 'faire' for German firms and 'laissez' for foreign rivals: its offices abroad were too small to engage in actual sales (as opposed to information) and its committees were stuffed with managers of German companies. The THA invariably approached West German companies first. Not surprisingly, most privatization entailed mergers with West German firms (Drost 1993: 470). To trump legitimate mercantilist self-interest foreign companies perhaps had little resort but to appeal directly and illegitimately to personal self-interest.

Laissez Monopoliser

If the THA tended to favour big *West German* capital it also tended to favour *big* West German capital, despite its insistence that it would 'give particular encouragement to the privatization and *Sanierung* of small and medium-sized enterprise' (Frier 1998: 33). The difference between rhetoric and reality need not point to simple hypocrisy. Large firms benefit from scale economies during the phases of research, tendering and bargaining as much as in production and marketing. They are more adept, for instance, at navigating the rapids of transition – the economic and legal intricacies, the uncertainties over property rights, etc. As *The Economist* noted, referring to Eastern Europe in general (18.11.95), 'Only large foreign companies with real clout, such as Volkswagen, Siemens and General Electric, have been able to move through this thicket with any ease.' A parallel principle also operated in reverse, as Phyllis Dininio has observed, from the vantage point of the THA. 'Since it took about as much effort to evaluate alternatives and negotiate contracts for a small company as for a large firm,' she writes (1999: 41), 'the overtaxed officials could push more economic activity into the private sector in a compressed time frame by focusing on large firms.' The THA's 'interest in expediency,' she concludes, 'became, in effect, a bias in favor of large firms.' Far from being a friend of small and medium-size business, the THA's favouritism towards large corporations was blatant enough to prompt the head of the Federal Cartel Agency to complain that it was actually retarding the emergence of a *Mittelstand* (Roesler 1993: 31, 51).

These details exemplify a more general point, namely that German unification, although widely presented as an opportunity for economic decentralization, in fact presented a rich opportunity for centralization. This was already obvious in 1990, when the FRG's largest corporation swallowed the eastern German *Kombinat Schienenfahrzeugbau.* 'Was it not a priceless irony,' Michael Schneider observed at the time:

> that it was the bosses of that West German super-conglomerate named Messerschmidt-Bölkow-Blohm-AEG-Dornier-Daimler-Benz, which has now purchased a monopoly of the production and distribution of railway carriages for the entire Comecon area, who had preached tirelessly to the directors of the GDR *Kombinate* of the need to embrace the liberal market economy?

Although that particular mouthful of a conglomerate later divided once again, one part of it went on to merge with Chrysler during a year of merger and acquisition frenzy, when German companies were involved in over 2,000 major takeovers worth over DM 400 billion. This was a crowning achievement of a decade that had witnessed the most massive concentration of capital in German history, leaving Germany with a commanding thirty-one of the EU's top hundred companies.

The purchase of Schienenfahrzeugbau is not simply of interest as an example of how the takeover of the 'centralized' East German economy by the 'liberal' FRG accelerated processes of capital concentration and centralization. As indicated in the quote by Michael Schneider, it also touches on the question of monopoly. With the acquisition of Schienenfahrzeugbau, 'AEG-etc.' became the biggest producer of railway carriages in the world, with a near monopoly position in Central and Eastern Europe. The Federal Cartel Agency (FCA), gallant defender of market freedom, faced the choice of putting a spanner in the works or letting the deal go ahead. It is telling that a crucial argument that helped to swing the FCA in favour of the latter, ‘laissez faire’, decision was that of the 'national interest'. Let my German company take over this choice portion of East German industry, insisted Heinz Dürr, the director of AEG (in *Spiegel* 12/1990: 140), or else 'the foreigners will come'!

The Schienenfahrzeugbau acquisition was not an isolated case. A paper by the Hamburg World Economy Archive points to another such: 'In the case of the energy industries (electricity and gas), the West German companies attempted to secure an anti-competitive strategy. Unfortunately they were largely successful in this' (in Ebermann/Trampert 1993: 179). Since then, regional monopolization has been furthered through the ‘elephants’ marriage’ of two West German-based energy giants, VEBA and VIAG (*Junge Welt* 4.9.99). In the oil distribution sector in Saxony Anhalt, similarly, a West German company was barred by a (probably bribed) regional government from building a pipeline in order to ensure a regional monopoly for Elf’s Leuna refinery (Dininio 1999: 97, Die Zeit 24/2001). This latter case does not simply exemplify the subordination of competition to monopoly but also reminds us that one of the major selling points of many eastern firms — including those in the energy, media and retail sectors — was precisely their regional monopoly status. Where West German market leaders acquired such firms a pan-German monopoly or oligopoly situation was approached. Yet the THA and the FCA usually gave these acquisitions the green light (Roesler 1992: 217). To my knowledge the FCA only intervened once to prevent a monopoly arising from a West-East acquisition.

Poles Apart

If, as outlined above, the eastern German economy has failed to shake off its dependence upon state transfers, and if the THA contributed to further devaluing East German capital in the interests of West German buyers, it becomes difficult to see the process of unification as the bailing out of a troubled country by a generous relative. An alternative would be to conceptualise the East German economy as a national capital in receivership, with the state playing the role of receiver, supervising the asset-stripping of the East. As Andreas Pickel has put it, ‘given the dismal record of economic transformation and the dominant role of the state, one might be tempted to speak polemically of a peculiar

German model of "state-led underdevelopment"' (Pickel/Wiesenthal 1997: 116). Unification can be viewed from this angle as the annexation of values and, more importantly, claims to future values in the eastern economy by the West German state, which promptly pumped them into the hands of (largely western) property owners and institutions.

This operation took several forms. First, former owners of property nationalized by the East German state, or their scions, 're-gained' property worth tens of billions of *Deutschmarks*. Previous owners of non-returnable property received reparations. Meanwhile, unification ignited an explosion in German property prices - by over one hundred per cent in many areas in a matter of months - which netted gigantic windfalls for property owners.

Second, THA policies helped to ensure that new owners gained land and plant at bargain basement prices. Purchases and investments in the East, moreover, received massive subsidies from the state. The beneficiaries were primarily Western businesses. These bought 94% of THA-owned assets; its final balance sheet showed that 80% landed in West German hands, with only 6% going to East Germans (*Wirtschaftswoche* 19.8.94 p.18). That a fictional representation of the THA, in Günther Grass's novel *Ein weites Feld,* is named the 'Handover Agency' says it all.

Third, the East German market was opened up to western firms which, in the 'unification boom' detailed above, experienced a profits surge. Demand was funded largely by the state, whose mushrooming debt – combined with the 'unification boom' - sent interest rates soaring, mainly to the benefit of West German banks and financial institutions. And this was in addition to the DM 48 billion netted by these bodies, together with the Bundesbank, as a result of currency union (Sinn und Sinn 1994: 71-4).

Underneath the chatter of German nationalism, the pickings of unification were taken by the rich. It is no coincidence that the number of German millionaires rose by almost forty per cent between 1990 and 1992 (*Junge Welt 4.3.00*). Needless to say, 'it is chiefly in West Germany that the greatest gainers of unification are to be found,' as Peter Christ and Ralf Neubauer wrote at the time (1991: 239), 'and it is above all the relatively small group of owners of monetary and productive assets who are creaming off the profits of unification'. East German households, representing 19% of the German population, own barely 7% of the nation's assets (Pickel/Wiesenthal 1997: 119).

Along with the transfer of ownership went a transfer of authority. Despite the widely trumpeted ideology of meritocracy at the time of unification– that every East German should begin at 'year zero' with equal opportunities, as Egon Bahr put it (Berliner Zeitung 13.5.1991 p.3) – the process was managed primarily by westerners. According to André Brie (Financial Times 4.11.99) the latter occupy 75% of the top civil service jobs in the east, 90% of professorships and 99% of top jobs in industry and the armed forces.[25] Equally arresting are the findings of researchers at Potsdam University: that in 1995 there was not a single eastern German in the 426 top positions of Germany's economy, justice and military, while in the 474 top administrative positions only 12 were found (Thierse 2001: 51).

For most East Germans any perceived experience of 'colonisation' has at least been significantly ameliorated by rising living standards. Average wages, at 60% of the western level in 1991, have risen to 91% (although if the longer working week, and sundries such as holiday pay, are included, the figure is closer to 75%). The rise, however, has occurred much more slowly than the 'parity within five years' that was promised at the time of unification, and although some well-organized workforces (such as VW Zwickau) have achieved parity, elsewhere wages can be 30% or more below the level for comparable work in western Germany (www.diw.de, editorial 3/2001). Alongside longer hours, conditions in the East are generally inferior and 'management by stress' is rife.

But if there is one word that belies the promise, explicitly stated in the GEMSU treaty of 18.5.90, that the 'social market' would ensure that 'the living and working condition of the East German population will be constantly improved' (in Glaessner 1992), it is unemployment. Between 1989 and mid-1991 some 5.1 million East German workers, more than half the workforce, were laid off (Buechtemann/Schupp 1992: 99). By 1994 the industrial workforce had fallen to 0.6 million from its 1989 level of 3.2 million, while the total workforce is predicted to have halved by the middle of this century, according to the Institute of Demographic Studies at Bielefeld University (Jungle World 25.4.01). Despite economic growth from 1992 onwards, the official rate

[25] These figures, however, conceal the large numbers of members of the former Communist elite who succeeded in gaining powerful and lucrative posts, if rarely those at the very top, in the new Germany.

of unemployment has stuck at over 17%, almost two thirds of whom are women. This figure, however, is misleading, as it ignores those who have withdrawn from the workforce (notably married women and early retirees), the 300,000 East Germans who commute to the West, not to mention the many hundreds of thousands on short-time work and on government training schemes. If these groups were included the rate would be closer to 40%.

The social consequences of mass unemployment cannot be adequately addressed in the confined space of this article, but a summary would include the plummeting of the birth rate by 60% between 1989 and 1992, mass poverty, and rising crime. Net emigration has risen steadily since 1996 and seems set to continue unabated, with one third of easterners aged 18-29 seeking to move West (Thierse 2001: 23, 76; *The Economist* 12.5.01). And, in spite of the swelling ranks of the homeless in some regions, depopulation has prompted the wholesale demolition of housing in numerous towns (such as Schwedt), as well as of rural services such as village schools and kindergartens. With economic prospects dim, living standards relatively poor, social inequality at record levels and corruption rife, easterners can be forgiven for asking how much has changed since unification.

Inferior conditions for eastern workers have not, however, led to improvements for their colleagues in the West. Quite the opposite. Low pay there has enabled the norm of nationwide equal wages within branches, a guiding principle of the German trade union movement, to be undermined. High unemployment has encouraged employers in the East to experiment with practices that trade unions in the West would block. As Lowell Turner has noted (1998: 80), some firms have 'quite explicitly used eastern Germany as a greenfield from which to influence work organization at [their] western plants.' National collective bargaining agreements have been ripped up in the East, resulting in a greater regional differentiation of industrial relations. Meanwhile, the subsidization of investment and consumption in the East has resulted in higher taxation and a huge public debt. Rising debt has benefited the wealthy, as indicated above, but has also been used to justify austerity measures, including the axing of public services, East and West. Taxation, meanwhile, falls ever more heavily, both absolutely and relative to capital, on workers, West and East. The share of income going towards the special taxes for unification in 1991-2 was, for the top 5% of the population, 43% lower than for the bottom 75%, a discrepancy which subsequently widened (Hickel/Priewe 1994: 169). Under the current red-green government the percentage of wages and salaries in total German GDP has plunged to a record low while company profits and incomes from property hit a record high (Linksruck 13.12.00; Steinitz 2001: 151). Growing income inequality of this sort, moreover, was already occurring under the CDU government of the 1980s. As Colin Randlesome puts it (1994: 5) 'As far as business interests were concerned, one of the most positive aspects of Helmut Kohl's Chancellorship up to 1987 was probably the redistribution of wealth it achieved. Taking into consideration taxes, social security contributions and the rate of inflation, the incomes of employees actually fell in the period from 1982 to 1985 by DM 17,5 billion […]. Over the same period the incomes of employers rose by DM 100 billion.' If the period from 1980 to 2000 is considered, we find that real wages have risen by 30% while incomes from capital have risen by 230% (Bayer/Nolle 2001: 216). In this light, the deindustrialization of the East and the state-directed transfer of wealth and property to the already well-heeled may be seen as one moment within a general process of class polarization in Germany (not to mention the world) as a whole.

Politikverdrossenheit

Objective processes of deindustrialisation and wealth transfer have been accompanied by widespread disenchantment with the unification process and alienation from the political establishment ('politikverdrossenheit'). It is barely a decade since East Germans overthrew Communism, in favour of an alternative system which, it was generally believed, promised economic success, social justice, and unity with West Germans.[26] It has been a decade of steadily declining satisfaction with the progress made on all of these fronts. Whereas in 1990 77% of East Germans expressed faith in FRG-style market capitalism, by 2000 the figure had slumped to 26%, with only 38% believing that the economy should be dominated by private business (*WirtschaftsWoche* 27.9.00). Over three-quarters now believe that the new system treats them as second-class citizens (Yoder 1999: 193) and two-thirds, according to an earlier survey (Liedtke 1993: 77), feel

[26] The role of economic justice as a motivating demand has been ignored by many commentaries. In my view it was central to the radicalization of protest in late 1989. Cf. Dale (1996: 100-1), also Fukuyama (1992: 178-9).

that East Germany has been ‘colonized’. Conversely, only twenty-one percent now consider the nationalistic slogan of 1989-90 – ‘We are *one* people!’ – to describe reality (Yoder 1999: 204). Those who hold that wealth is justly distributed in Germany are, at 2%, even thinner on the ground (*Junge Welt* 4.9.98).

These several disappointments are, of course, interconnected. ‘Really existing’ Western capitalism revealed a more self-interested, polarizing and destructive character than even the most sceptical had feared at the time of unification. Far from promoting economic justice the policies of unification are perceived by most easterners, according to Jennifer Yoder’s extensive research (1999: 156), as in fact divisive, as ‘serv[ing] western business interests at the expense of eastern social and economic interests.’ Acting as a magnet for this bitterness, the ‘Handover Agency’, according to the head of the Allensbach institute of public opinion research (interviewed in *Wirtschaftswoche* 27.9.00), ‘even today, attracts very strong resentment, with a widespread belief that numerous factories were demolished as West German enterprises’ means of dealing with competition.’

The imposition of (largely West German) business interests through unification could only occur, moreover, by clipping the wings of a fourth demand of the 1989 revolution: democracy. Although commonly referred to as a ‘democratic revolution’, democracy meant different things to the various actors involved. The emphasis for the millions involved in protests was popular participation in the political process. For the *nomenklatura* and for the West German establishment liberal democracy offered a means, among other things, of *containing* revolt, of demobilizing collective action and limiting participation essentially to voting in parliamentary elections and membership of parties whose activities are geared to parliament and other institutions of state. As Yoder has shown for the case of East Germany (1999) ‘the institutions of representative party democracy do not necessarily encourage active support’ but have effected instead the ‘demobilization of the eastern German electorate’.

The dispersal by electoral means of a mobilized public, in turn, enabled structural change to be rammed through with little reference to public opinion or even parliament. Unification itself was accomplished by fiat, under the ‘annexation’ paragraph (§23) of the Federal constitution. Wholesale privatization occurred with strict disregard to the overwhelming preference of East Germans for a mixed economy (Flug 1992: 13), and under the auspices of an authority that was deliberately distanced from parliamentary scrutiny. This was not, of course, due to any innate Bismarckian strain in the German character, but in order to facilitate the asset-stripping of the East. As Birgit Breuel, Rohwedder's successor as head of the Treuhand, put it herself (in Kehrer 2000: 227), 'No cabinet would be able to make the kind of decisions that we are obliged to because it would be immediately voted out.'

This relegation of East Germans from participants in the political process to passive observers has attracted considerable research and comment. Survey data shows that already by November 1990 only 10% saw themselves as 'Co-producers of German unity' (Adler, in Reiβig/Glaessner 1991: 204). Symptomatic of the disenchantment, participation in elections slumped as did membership of the four main parties. *Politikverdrossenheit,* however, is not Made in East Germany alone. It has melded with a similar syndrome of the West. Far from being a Wunder-economy, as some easterners had believed, the FRG had in fact been growing more sluggishly than its rivals since the early 1970s (Funk, 1992: 20; Brenner 1998), and from 1992 slowed further to an average annual GDP growth rate of only 1.5%. Social polarization has increased remorselessly, as outlined above. Meanwhile German politics has witnessed a diminution of what Pierre Bourdieu (1998: 1) calls 'the left hand of the state' (notably the spending ministries) and a strengthening of a 'right hand' (notably the Ministry of Finance) which has played straight to the business community, according to neoliberal rules, with raft after raft of privatization, the deregulation of capital and labour markets, and the placing of what Gerhard Schröder (1998: 15) likes to call 'implacable budgetary obstacles' in the way of any expansion of public services. As an exception proving the rule, when a Minister of Finance, Oskar Lafontaine, suggested different priorities in the form of higher corporation tax he was, thanks in large part to pressure from business, forced out of office. These long-term developments have not been lost on voters: an opinion poll taken just after the putsch against Lafontaine showed 83% agreeing with the statement that CEOs are society's chief powerholders as against only 17% who accorded that role to elected politicians.

With contemporary Germany commonly seen as a corporate dictatorship it is no surprise that in the East there has been much talk of the similarity of parliamentary democrats with the previous pack of liars who had called their system a 'people's democracy'. '[M]any easterners', Yoder has observed (1999: 207), 'perceive that, in place of the old GDR regime, there is a new, postcommunist political class (one occupied with preserving the transferred status quo).' This new class appears 'as far removed from the people and their interests as the old communist elites.' It is therefore 'not surprising', she concludes (1999: 20), 'that some eastern Germans believe not much had changed: it is still "them up there and us down here".' A pertinent example of such a view was given by Sebastian Pflugbeil, a leading member of New Forum (Philipsen 1993: 319), when asked whether 'citizens are again effectively divorced from political decision-making processes'. 'Yes. Absolutely,' he replied. 'The degree of powerlessness toward what is being done "up there" is now very comparable to what it was before.' The only problem with this position is that, despite the fragmented nature of the electoral process and the controlled nature of participation, opportunities for extra-parliamentary protest are far wider than in the previous system. Critique may be voiced in the media, through the ballot box or on the streets. The 'powerless' can begin to re-establish and exert their power through trade unions, campaigns, and community groups. And they have done. To give but three prominent examples, 1991 witnessed a huge wave of occupations and trade union-led campaigns; 1993 was rocked by major strike waves in the East;[27] while in 1996 the labour movement in East and West organized the largest demonstration in Germany since World War Two.

Conclusion: Of Cream and Spilt Milk

Shortly after German unification the leading SPD theorist Martin Gorholt claimed (Gorholt/Kunz 1991: 242) that 'the bankruptcy of the command economy has led to an ideological and real revitalisation of capitalism'. In Germany this claim is beginning to seem risible. Certainly, the GDR was in severe and terminal crisis in 1989, but its problems were immediately conjoined with those afflicting the FRG: slow growth, rising unemployment, social polarization, and miserly public policy. Unification occurred during the most protracted world recession of the post-war epoch (1990-2), and was closely followed by the most severe recession in the FRG's history (1992-4). The euphoria of

[27] The proportion of strike days to total workforce in the East in 1993 was well over thirty times that of the West (Pritchard 1996: 169). See also Turner (1998).

unification quickly turned sour as much heralded investment plans - such as Daimler Benz's HGV factory near Ludwigsfelde - were postponed, while other West German companies reoriented their strategy towards shutting down potential rivals in the East, assisted by the THA with its medicine of 'deindustrialization through privatization' (Roesler 1993: 52).

Given that the optimistic prognoses of the early 1990s now appear absurd, the fall-back positions for the 'sanguine' voices of the German establishment mentioned at the start of this essay are, broadly, twofold. One is a Hayekian defence of the devastation of East German industry: it is conceded to have been damaging but defended as unavoidable. More common, however, is a 'third way' position which sees it as in parts unnecessary but *already history*, an unfortunate case of spilt milk. One of the more celebrated exponents of this position is former SPD chancellor Helmut Schmidt (*Die Zeit* 41/2001). Like most of us, Schmidt concedes that a series of 'serious psychological and economic mistakes' were made in 1990-1. His own version of the list includes: the false promises made to East Germans, the rate adopted for currency exchange, the refusal to cancel *Kombinate* debts, the granting of property to Western descendants of its one-time owners, and the prioritising of punishing wrongdoings of SED members and not those of other 'block parties'. Unlike some of us, however, Schmidt insists that these were simply human errors, upon which it would be wrong to dwell. Instead of crying (whether from sorrow or rage), Germans should pull together and make the best of a botched job.

What this argument fails to address is the considerable amount of evidence, some of which is mentioned in this essay, which suggests that these mistakes were not simply matters of human (or even technocratic) error. For is it not curious that, like those of shopkeepers or taxi drivers, the 'errors' of Germany's businessmen, bankers and politicians all tended in one particular direction: the prevention of resistance to unification-by-fiat, the devaluation of East German industries, the transfer of assets to a select few? Given the facts presented in this article, does it not look as if the 'spilt milk' has been creamed off by those in control of the unification process: businessmen, bankers and politicians? For this class, the 'development' of the East has been highly profitable. As shown above, for many West German businesses unification meant annexation: the elimination of rivals by acquisition.[28] Thanks to the timing and terms of currency union and the THA's strategy of 'shock' privatisation, East German industry was sharply devalued. The buyers could acquire their rivals for a song. The securing of profits for business in this manner on occasion involved corruption, but for the main part was above board, in the form of corporate welfare or simply the establishment of conditions that allowed firms to gain assets cheaply. As such it demonstrated liberal capitalism's glorious capacity of skimming value from every possible source into the wallets of the rich on a scale that makes actual cases of corruption seem child's play.

The state-guided transfer of value from the German taxpayer and Eastern property to (largely West German) capitalists and proprietors should not therefore be taken as a sign of corruption, conspiracy, or plutocracy, although elements of all three may have been present. It attests rather to the normal mercantilism of the capitalist state, its concern to help especially those capitals most linked to it become more powerful European and global players. 'Modernization' of the East may occur, in part as a spin-off of this, and in part due to pressure from workers, the streets, and the electorate. But, rhetoric and promises notwithstanding, it is patently not the priority.

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28 As Quentin Peel puts it (Financial Times 4.11.99) 'It has been more a process of colonisation than unification, more like a hostile takeover than a merger of equals.'

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