



Universidad de Valladolid



**ESCUELA DE INGENIERÍAS
INDUSTRIALES**

UNIVERSIDAD DE VALLADOLID

ESCUELA DE INGENIERIAS INDUSTRIALES

Grado en Ingeniería en Organización Industrial

**Compendium of Economic and
Industrial History of the German
Democratic Republic**

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1 – ABSTRACT AND KEYWORDS

The aim of this thesis is to show the evolution of the industry and the economy throughout the German Democratic Republic, its origins, development and transition after its dissolution.

In the thesis it's explained the creation of the economical and industrial model in the German Democratic Republic, the characteristics of its productive system and the governmental economic plans. It's also shown the dismantling of this structure after Germany's reunification.

KEYWORDS: Industry, Economy, German Democratic Republic

El objetivo del trabajo es mostrar la evolución de la industria y la economía en la República Democrática Alemana, sus orígenes, desarrollo y transición después de su disolución.

En el trabajo se explica la creación del modelo económico e industrial en la República Democrática Alemana, las características de su sistema productivo y los planes económicos gubernamentales. También se muestra el desmantelamiento de esta estructura tras la reunificación alemana.

PALABRAS CLAVE: Industria, Economía, República Democrática Alemana

2 – SOVIET OCCUPATION ZONE (1945 – 1949)

2.1 – REPARATIONS AND FIRST NATIONALIZATIONS

The situation in Germany during 1945 was quite complicated.

The end of World War II was near and the head of government of the United States, the United Kingdom and the Soviet Union knew it.

Then, they had an important meeting in Yalta held from 4 to 11 February 1945 (Crimea, Soviet Union), where they firstly discussed about Germany partition and the German reparations of war, which were partly to be in the form of forced labour and partly in industrial power transferred to the allied.

In 8 May 1945, the Nazi Germany agreed to unconditionally surrender.

After that, The Potsdam Conference was held from 17 July to 2 August 1945, in which Germany, and its capital Berlin, were divided respectively into four occupation zones, for instance the Soviet Occupation Zone included the former states of Brandenburg, Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt, and Thuringia (Appendix 1).

War reparations to the Soviet Union from their zone of occupation in Germany were also agreed, among other things.

The allies did not want German standards of living to exceed the average of other countries in Europe: they wanted to convert Germany into a light industry and agricultural economy.

Therefore they decided to dismantle the industry, as war reparation too. It was practically achieved at the end of 1948, when the Western Allies abandoned this plan in favour of the Marshall development.

In fact, there was a huge potential war industry, such as shipyards, aircraft factories and another industry with military capabilities, like chemical, machinery and metals.

Each occupation power took control of its zone. They originally wanted the restoration of a democratic German state, so they pursued a common German policy, focused on denazification and demilitarisation.

The Communist authorities used forced labour of Germans after World War II, like another allied countries. German prisoners were forced to clear minefields and to work in East Germany uranium mines.

The Soviets began explorations in the Ore Mountains Range, between Saxony and Bohemia in July of 1946. They wanted to support the Soviet atomic bomb development.

By the end of 1946, 25,000 Germans were forced to work in these mines.

With no mercy, thousands of Germans without mining experience were forced to work, in a stressful and dangerous atmosphere.

As the Soviets raised the work quotas repeatedly, they had to pull away criminals from jails and prisoners of war to work in the mines.

These mines, controlled by Moscow directly, were considered worse than a Gulag or a penal colony, and lots of Germans fled into other countries in the West to avoid it.

In the mid fifties, some Germans who were previously working in the mines formed a joint company with Moscow.

East Germany industry although it was already severely damaged after World War II, became extremely punished by the hard conditions imposed by the Soviet occupation as they used it as their main source for their war reparations.

German industry, 1945

	Distribution of industry	Destruction by war
West Germany	70%	20%
East Germany	30%	45%

Table 1. Source: GDR: Historical Compendium (1980)

The lack of manpower, the damage on infrastructures and factories (Table 1), the difficult post-war commercial situation were strongly restraining the German industrial capability. We could also add the strong sanctions imposed by the allied powers in their own occupation areas.

Soviet Union was the hardest in negotiations with the other allied countries: they wanted to reduce to the minimum the industrial capability in occupied Germany.

The allied wanted to reduce on 50% the capability of German heavy industry of its pre-war levels, which meant the destruction of about 1,500 factories. The maximum German steel production was set in about 6 million tons per year, 25% pre-war: Soviets claimed to reduce this amount to only 3 million whilst UK wanted an amount of 12 million per year, because the majority of steel factories were in the British sector. Car production was reduced to 10% pre-war level and, of course, the entire war industry was destroyed.

Soviets, who felt they were the most damaged in World War II, wanted to be tougher and they early made their own actions apart from the other allied powers.

The Communist authorities confiscated, after a plebiscite on 30 June 1946, about 9,300 enterprises, 4,000 of them owned by war criminals and Nazis, without giving them any indemnification. Among the expropriations, there were all large companies

and former armament factories in the Soviet occupation zone. The total confiscations amounted to 60% of the industrial production in this area and only the remaining 40% was in private hands.

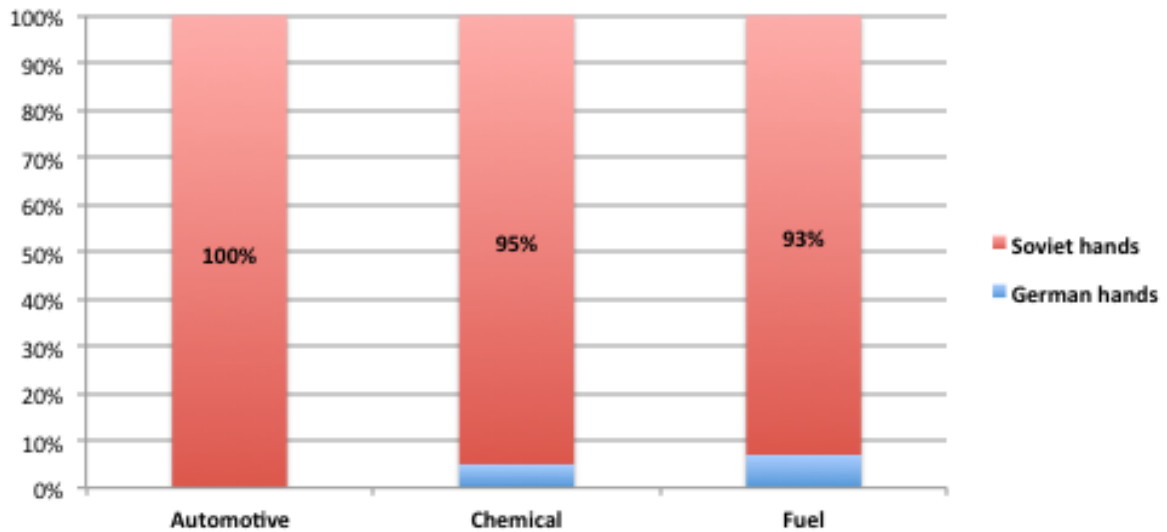
That confiscated industry was nationalised, in exception of the heavy industry, about the 20% of total production, which was transformed into a special joint stock company called Sowjetische Aktiengesellschaften (SAG), to be another form of reparations.

To this we must add the 10 billion marks that Soviets requested in reparations, which they extracted from East Germany and estimated in about 17,000 factories (Graphic 1). Soviets said in 1950 that only 3,7 billion marks were paid from East Germany.

The political tensions between the Bizone allies and the Soviet Union were increasing due to the divergence of their actions in each occupation zone: Western allied were focused in economic development, reconstruction... while Soviet Union refused to take part on Marshall Plan. Soviet authorities wanted to repair war damage and exploit their occupation zone without making investments.

Soviet Union took out about 6 billion marks in reparation costs and, in line with the above-mentioned expropriations, there were lots of key industries in Soviet hands. By the end of 1950 East Germany had paid \$3.7 bn of Russia's \$10 bn reparations demands.

Industries in GDR, 1949



Graphic 1. Official sources from GDR

Another way to collect reparations was by ordering ships and other materials for which Soviets only paid a small amount of marks and the other had to be absorbed by East Germany.

This tough situation developed into the Cold War and was determinant in trade deals with western countries, with whom it would be very difficult to compete economically.

Retail trade was absorbed too and in 1948 two controlled organizations were created: Konsum and Handelsorganisation, which were competing against each other until the end of the GDR.

In the beginning of 1949, a new economic plan of reconstruction was launched to reach about 80% of production level. It was expected to cut 30% production costs and raise general wage.

2.2 - VEBs

But it would be necessary to point out the peculiarity of the industrial sector that would mark the economy of the GDR until its disappearance: the Publicly Owned Operation (German: Volkseigener Betrieb; abbreviated VEB).

In the GDR, industrial sector employed about 40% of the working population and was formed by the industries that were nationalised between 1945 and 1960. They were called People's Enterprises and were the main legal kind of industry in the German Democratic Republic. VEB's incorporated about $\frac{3}{4}$ of the industry in 1950.

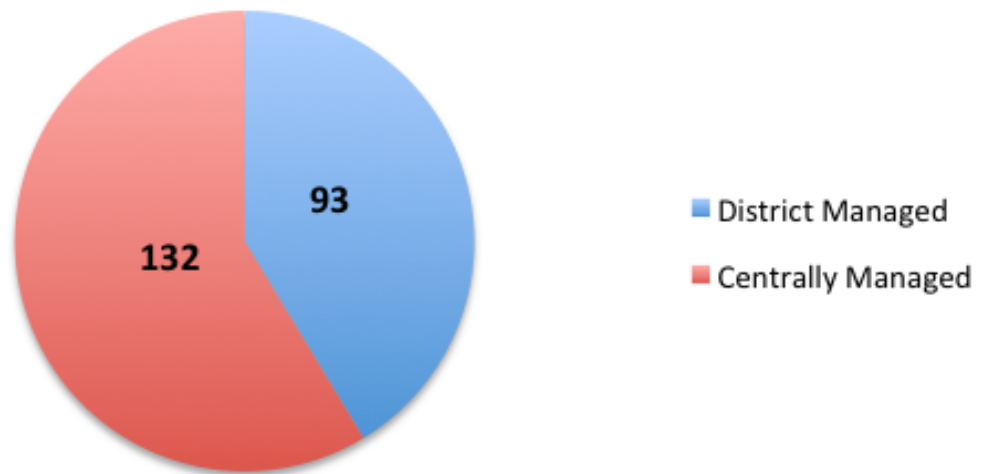
VEB's were publicly owned and had a managing director who was assisted by SED party members in order to achieve the objectives set by the government.

They were integrated into Associations of Publicly Owned Operations (Vereinigung Volkseigener Betriebe) or VVBs, a largely administrative organization that served as a link between the ministries and the individual enterprises. Later, VVB's were replaced in the late-1970s by centrally directed trusts called VEB Kombinate, a business group that combined different enterprises related to each other in a production sector or technological process. They were created in order to achieve greater efficiency in production process (Graphics 2, 3 and 4)

This Kombinate usually had an honorary name, as a type of socialist emulation incentive towards fulfilment and overfulfillment, for example, VEB Lokomotivbau Karl Marx Babelsberg (LKM).

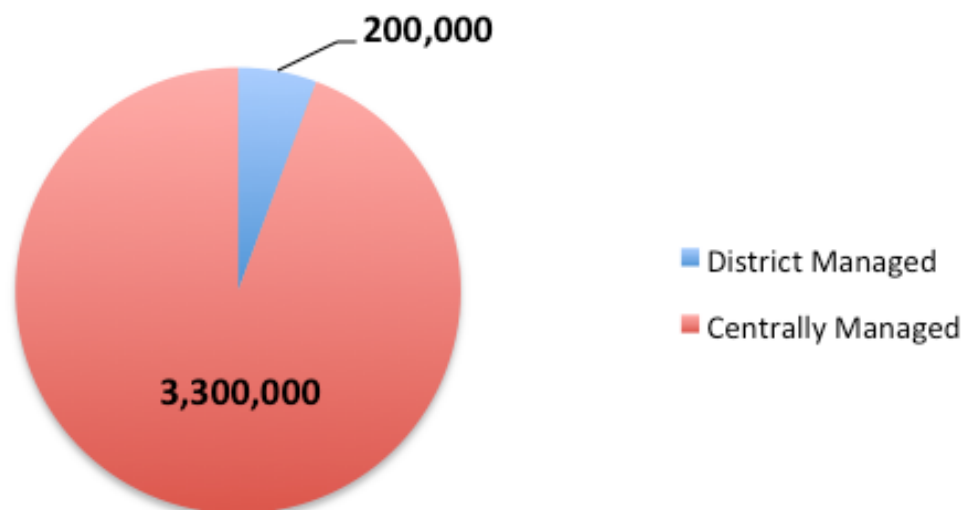
In 1989, VEBs employed 79.9% of the East German workforce.

Number of *Kombinates*



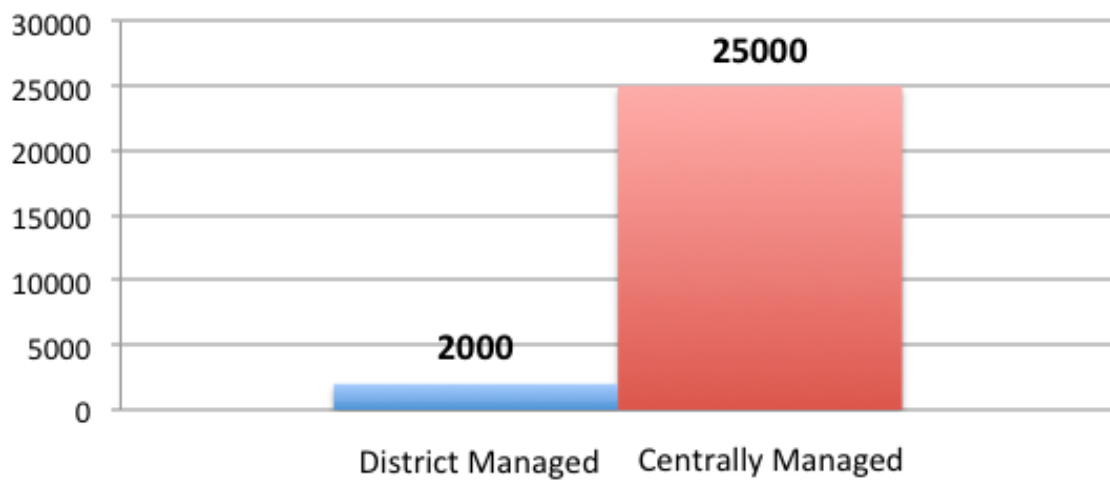
Graphic 2. Official GDR sources (1986)

Total workforce in *Kombinates*



Graphic 3. Official GDR sources (1986)

Average of employees per *Kombinat*



Graphic 4. Official GDR sources (1986)

3 – GERMAN DEMOCRATIC REPUBLIC

(1949 – 1990)

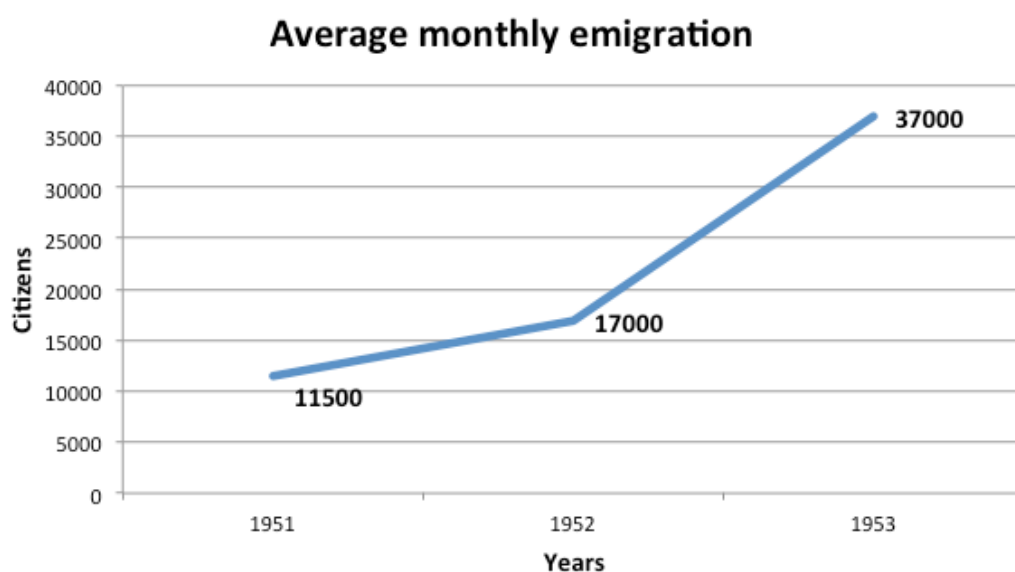
There were many political changes in Germany in 1949: in May, elections were held in the East, whose main objective was to draft a Constitution. At the same time, the Federal Republic of Germany was declared in Western Germany. Finally, on 7 October 1949, the German Democratic Republic was proclaimed (

This new Republic had a leading party, called Socialist Unity Party of Germany (Sozialistische Einheitspartei Deutschlands—SED), a large coalition of parties that even allowed NSDAP adherents to re-enter as part of a denazification plan.

3.1 – FIRST FIVE YEAR PLAN (1951 – 1955)

The principal obsession of SED members was to increase the industry production quotas in order to recover, as soon as possible, production levels prior to the war and be competitive abroad (Appendix 2)

This was the focus of the First Five Year Plan 1951 – 1955, which introduced the centralised state planning of the economy, as well as a considerable increase in production quotas in heavy industries. This pressure caused an increase in emigration to Western Germany (Graphic 5).



Graphic 5. West German statistics

After the death of General Secretary of the Central Committee of the Communist Party of the Soviet Union Josef Stalin, the government of the GDR announced the New Course, based on the new policy of the President of the Council of Ministers of the USSR, Georgy Malenkov.

This sought to improve the standard of living of workers giving more emphasis to the production and distribution of consumer goods over heavy industry, the reduction of quotas and taxes, the possibility of reopening old private business that were once closed by communist authorities and even emigrants to West Germany were invited to return.

But before these measures were implemented, quotas were still very high and even rose in May 1953, which triggered the June Uprising in many industrial centres. Strikes and demonstrations were hardly stifled by the Soviet Army and the Volkspolizei, leaving about 100 dead.

After that, the Soviet Union guaranteed the sovereignty of GDR, and the companies on soviet hands started to return to German hands.

It was estimated that about 33 enterprises had been previously taken by the USSR as war reparations.

3.2 – SECOND FIVE YEAR PLAN (1956 – 1960)

Already as a recognised country, member of the Warsaw Pact since 1955, in 1956 introduced its Second Five Year Plan (1956 – 1960), focused on, in the words of General Secretary of the SED Central Committee Walter Ulbricht, “modernization, mechanization and automation”.

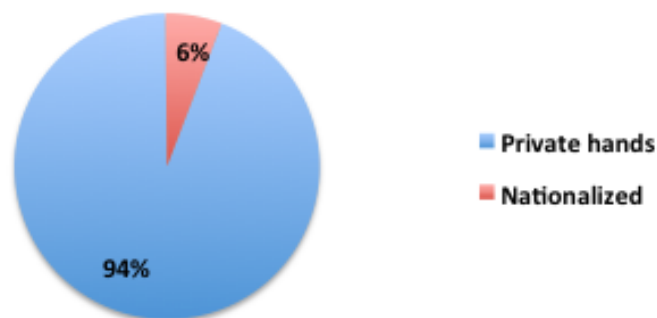
It focused its efforts in 3 areas: completing the industry nationalisation, make a first development of atomic energy in the GDR, with its first activated nuclear reactor in 1957; and speeding up the farming collectivisation.

The industrial production quotas were increased in a 55% and, ignoring Georgy Malenkov's thesis introduced in 1953's New Course, emphasis was put again on heavy industry.

The GDR government wanted to speed up the industry nationalisation and, for that purpose, entrepreneurs were offered 50% of the joint incentives that the SED was giving to transform this private companies into VEBs.

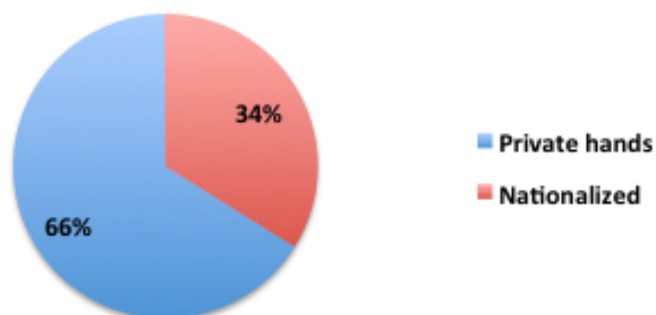
Thanks to those measures, by the end of the Second Five Year Plan, just about a tenth part of the industry was still in private hands. More moderate were the figures in the artisan sector (Graphics 6 and 7).

Artisan sector, 1958



Graphic 6. Official GDR sources

Artisan sector, 1961



Graphic 7. Official GDR sources

3.3 – VEGs AND LPGs

In this period was also addressed, as previously stated, the farming collectivisation that had already started in the beginning of the soviet occupation of East Germany.

There were two variants of farms: state owned farms Volkseigenes Gut (German for People-Owned Property; abbreviated VEG) and collective farms Landwirtschaftliche Produktionsgenossenschaft (English: Agricultural Production Cooperative), or — more commonly — its acronym LPG. They correspond respectively with the Sovkhoz and Kolkhoz models.

The land reform in East Germany made by the Soviets, and agreed in the Potsdam Conference in 1945, was quite hard: it expropriated all land to former Nazis and war criminals, limited property to less than 1km² and redistributed land in 5–7 hectare packages, without any kind of compensation given except for those who were active anti-Nazi.

Land from 500 Junkers or large estates as well as other 12,355 estates were confiscated and redistributed to 120,000 families of landless farmers, 80,000 refugee families and some 300,000 more families.

In the beginning of the 1950s, farmers still keeping large land estates up to 80 hectares were pressured and driven into bankruptcy, which made them join together and create new LPGs.

This kind of collective farms, even though they were controlled by the state, were not its property; they just remained legally as private property.

In 1954, 147,000 members controlled around 5,000 farms and 15,7% of the arable land, becoming 6,000 farms in 1958.

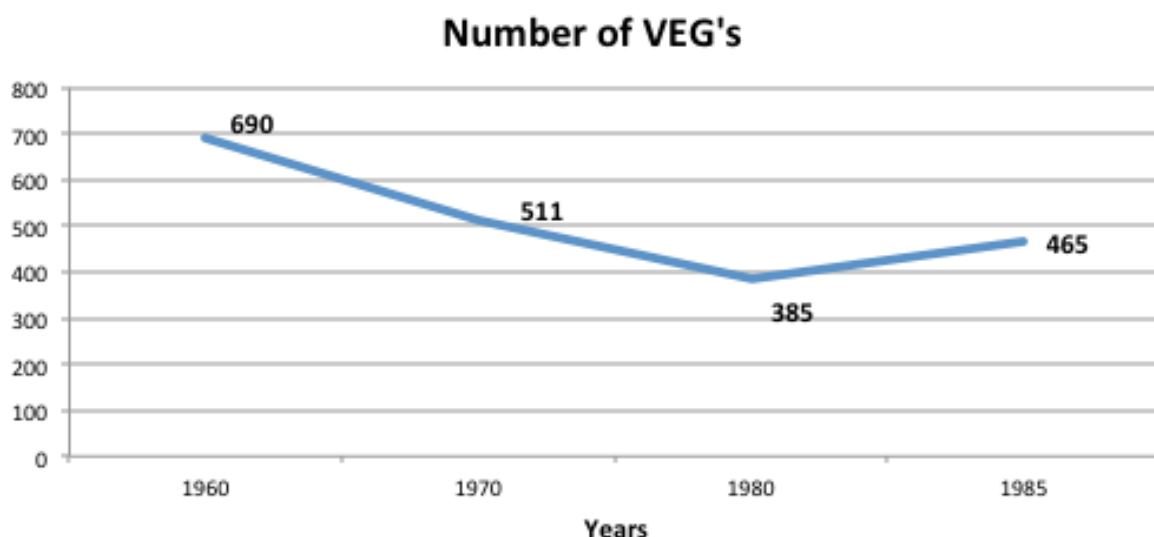
In that year, private farmers were pressed with high production quotas by the SED, which urged them to a voluntary collectivisation, with arrests also taking place by the Stasi, the secret police agency of the German Democratic Republic. Those private farmers, about 750,000, controlled 70% of the arable land.

Therefore, in 1960 a total of 19,000 LPGs had already been constituted, with approximately a 83% of arable land.

On the other hand, around 690 VEG exploited 6,3% of the arable surface in 1960, so the state controlled nearly 90% of the agricultural production.

These VEG derived mainly from the first expropriations during the soviet occupation in 1945 and 1946, and maintained a constant area of around 440,000 hectares.

At the end of 1960s, and following the Second Five Year Plan policies, the VEGs were split into animal husbandry and arable farming, and were also merged into larger units, in pursuit of specialisation and modernisation. Therefore, the number of VEGs was modified (Graphic 8).



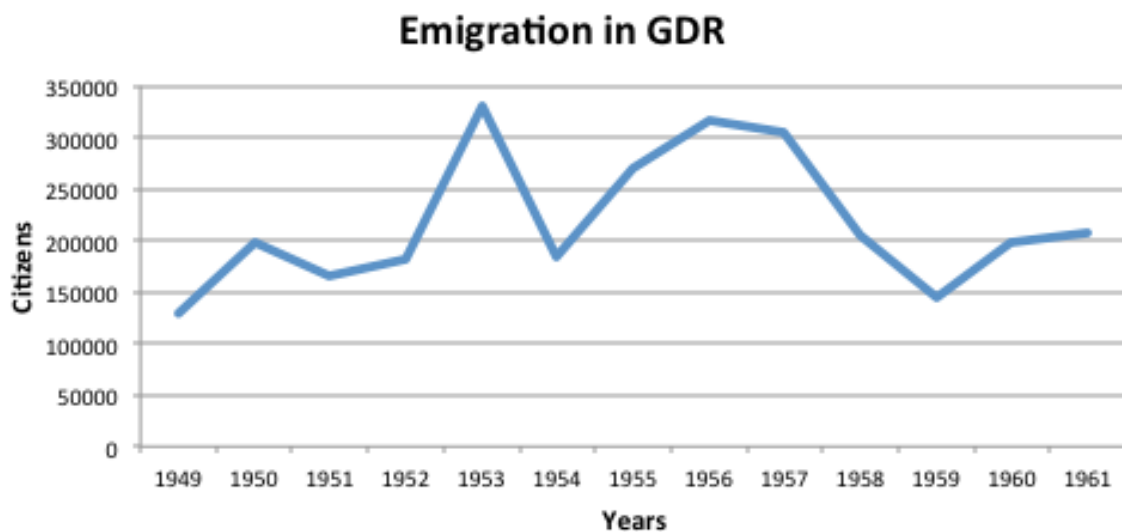
Graphic 8. Official GDR sources

A similar process also took place with the LPGs.

3.4 – SEVEN YEAR PLAN (1958 – 1965)

The Second Five Year Plan had to be prorogued in 1958 until 1965 due to difficulties in achieving the objectives. This Seven-Year Plan was quite ambitious: it wanted to reach Western Germany production per capita levels and increase labour productivity an 85%.

Such measures, suffocating for the workers, made emigration levels increase dramatically: approximately, 3 millions of citizens had fled the GDR until 1961, 20 per cent of total population (Graphic 9). This led to border closures and the construction of the famous Berlin Wall on August 1961, arguing that it was an antifascist restraining wall.



Graphic 9. West and East German statistics

During the decade of the 1960s, industries that were adapting better to technological progress in the RDA, and those that could make it more competitive abroad, started to be prioritised.

The main obsession of the leadership of the SED, with Walter Ulbricht on top, was to prove that the GDR could compete against the FRG, which was living its own economical miracle or *Wirtschaftswunder*.

The General Secretary of the SED was looking for a way to stabilize the regime, which was afraid of watching social problems increase after the construction of Berlin's Wall and the growing dissonance between slogans and reality. Also Ulbricht had a plan: to make the Federal Republic of Germany acknowledge that the German Democratic Republic's socialist system was economically superior and that a hypothetical German reunification could only take place under the SED leadership.

3.5 – NEW ECONOMIC SYSTEM (1963 – 1968)

Therefore the New Economic System or NES was launched following the soviet economist Evsei Liberman's reforms, which meant certain decentralisation of economical decisions, a bigger freedom for companies and, in the end, a consideration of market and performance criteria.

Even though the State Planning Commission and the National Economic Council were in charge of the central planning of the economy, many decisions were transferred to the Associations of People's Enterprises (in German, Vereinigungen Volkseigener Betriebe—VVB--), associated companies in a production area. They would decide their financial needs, utilisation of manpower and technology, etc. Leading the VVBs more technical profiles were positioned, instead of ideological ones.

Following this openness to certain market ideas, material incentives were given to productivity, the idea of economic success been measured also by profit and not only by fulfilment of the economic Plan was introduced, as well as emphasis was placed on technical sciences education, among others.

A new elite of technocrats entered the SED system, which was divided in political sector and this new economical sector, more professional and young: in 1967, around 14% of nearly 2 million SED members had higher education.

Thus, at that moment the SED had among them, on one side, old party members who were strict followers of the socialist ideology, and on the other side, better - educated technocrats for whom ideological reasons were not the absolute guiding principle when making decisions about the economy.

But the overthrow of Khrushchev in the USSR, the lack of soviet guidance and the shortage of oil and other materials from the Soviet Union made it very hard launching the model.

Also there was a strong inner opposing movement inside the SED that was against these laws of the market different to those of the Marxist – Leninist ideology.

This obstacle also was responsible of the government incapacity to act when taking certain decisions, such as the closing of loss-making companies or the price liberalisation of consumer products, for these political and prestige reasons.

By the end of 1960s, due to this situation, the state control over economy started increasing again.

During the NES implementation, supply of luxury and consumer goods increased, as well as wages.

3.6 – ECONOMIC SYSTEM OF SOCIALISM (1968 – 1970)

Ulbricht wanted to cut all criticism and to do so launched a policy called Economic System of Socialism (ESS) in 1968.

He led this recentralization of economy to high technology key areas such as chemicals, plastics and specially microelectronics, in search of a self-sufficient growth.

This made Ulbricht admit that it was impossible to catch up with the Federal Republic of Germany, but it could be possible with these selected industries.

Production quotas were imposed nearly a 3% higher for those sectors. But this situation caused shortages in other industries so it led to increasing complaints from even party members.

3.7 – HONECKER AND THE MAIN TASK (1971 – 1990)

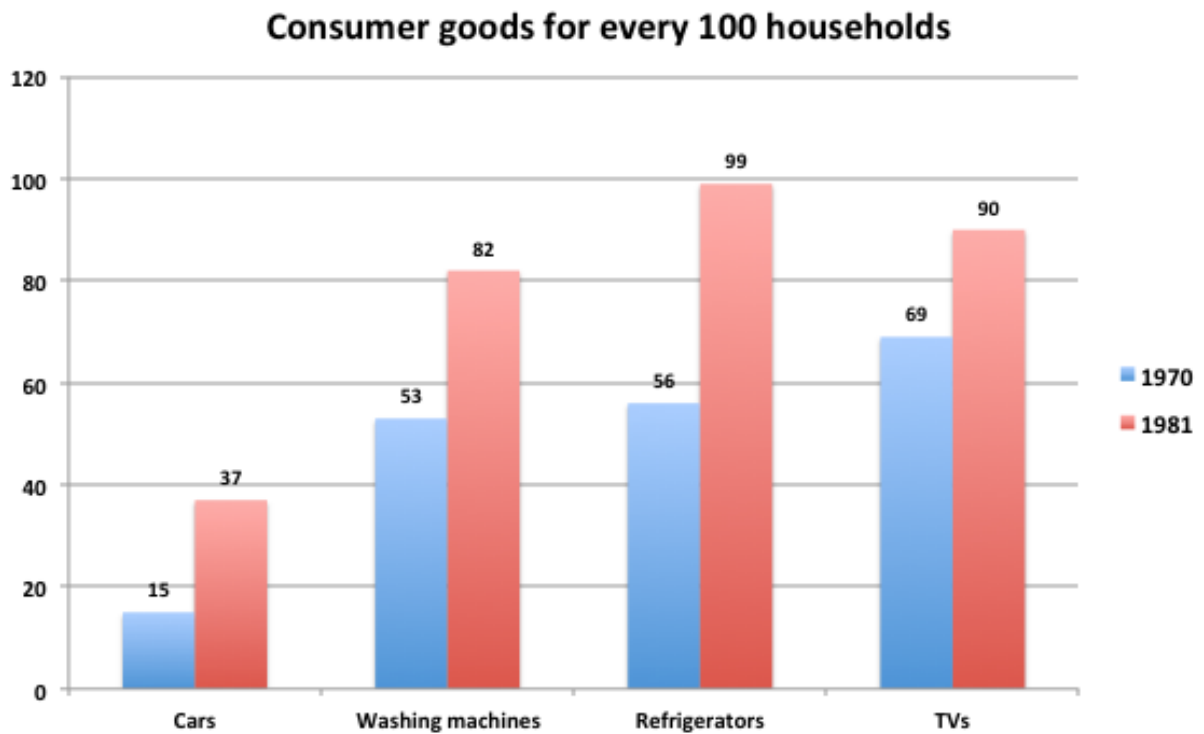
The apparent failure of the ESS forced Ulbricht to resign and was replaced, in 1971, by Erich Honecker who put forward a new economic program to re-emphasise the traditional Marxism – Leninism and the international class struggle.

This program was named Main Task (in German: Hauptaufgabe) and, literally, was aimed at "raising the people's material and cultural standard of living on the basis of a fast developmental pace of socialist production, of higher efficiency, of scientific-technological progress and the growth of the productivity of labour".

It was set to increase the access to consumer goods to maintain this way security and peace among the population, ensuring the ruling of the SED in the German Democratic Republic.

This reflected the communist ideals that Honecker had since his young days: access to utilities, cheap housing and basic foodstuff is more important than modern consumer goods or cars. Also, Honecker renounced the objective of a unified Germany that had been one of the big dreams of Ulbricht, and remained loyal to the USSR.

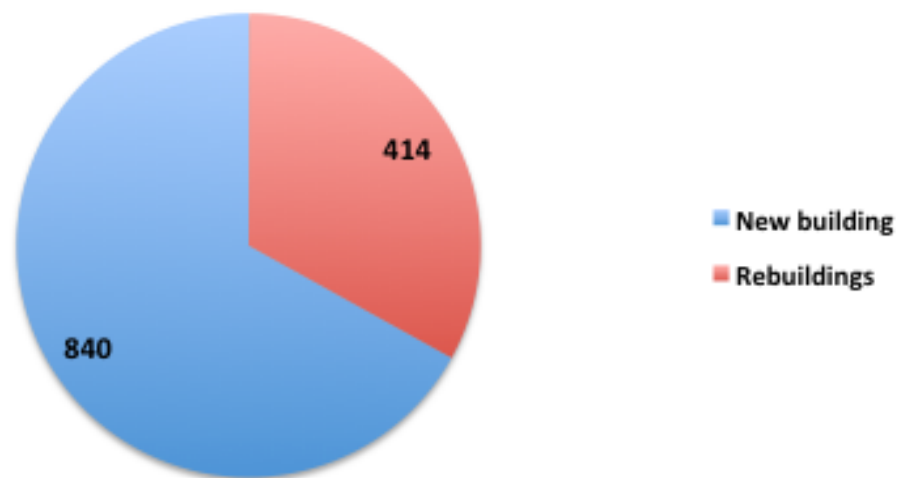
But this didn't make people stop craving these products, especially when they compared themselves with their neighbours in West Germany (Graphic 10).



Graphic 10. Official GDR statistics

These policies marked the economy in the 1970s and 1980s. Salaries, subsidies and pensions were raised so that people could have more money to spend in consumer goods. Many houses were also built and some others still damaged by the war were rebuilt too (Graphic 11).

Housing construction, 1971-1979 (thousands)



Graphic 11. Source: GDR: Historical Compendium (1980)

On the other hand, a lot of small companies providing consumer products and commodities were taken into public ownership. This was proved unnecessary as it caused shortages, and because of it the efficiency of certain enterprises decreased.

All this public expenditure was reflected in a growing budget deficit that marked the German Democratic Republic till its end. Exportations were not high enough to compensate for the component importations and other essential factors to keep that standard of living in the GDR, which required hard - currency.

It is also true that the Oil Crisis in 1973 benefited the Communist Bloc countries (specially the USSR), which could sell oil to western countries at a lower price, which reported them hard - currency. The GDR resold oil bought to the Soviet Union and could invest it in consumer goods and increasing the productivity and competitiveness of its enterprises.

These years were probably the most prosperous in the history of German Democratic Republic, with GDP growing 5% annually on average.

It should not be forgotten that the lack of hard - currency was a big problem that marked the latter years of the GDR. This situation caused episodes such as the Coffee Crisis of 1976 - 1979 in which a rise in coffee prices led to quadruple the amount of hard - currency needed to import coffee. Coffee consuming had to be limited, and even a new poor flavoured brew, called Mischkaffee (mixed coffee), which was fifty - fifty coffee and chicory was introduced.

SED leaders wanted to increase hard - currency income, and therefore in 1977 they had to reintroduce Ulbricht's ideas of industry growing, focusing on semiconductor and microprocessor industries. In fact, the GDR became the leading computer producer in Eastern Bloc (Table 2).

This sector grew an average of 11.5% in the 1970s and a 13% during the 1980s.

Production costs of microchips (in marks)

	40 kb	256 kb
West Germany	1,5	4
East Germany	40	534

Table 2. Source: *The Economist* (1977)

The largest factory dedicated to microelectronics was set in Dresden in 1961: VEB Forschungszentrum Mikroelektronik Dresden and later the combine Robotron. It employed 68,000 people and was the origin of the actual German cluster in semiconductor technologies Silicon Saxony, with about 40,000 employees.

3.8 – KOKO

During the German Democratic Republic, there was a secret commercial enterprise called KOKO (Kommerzielle Koordinierung), focused on smuggling. It was created to bring GDR the necessary foreign currency,

KOKO was run by Alexander Schalck-Golodkowski, a Stasi officer, but it had a triple subordination: in economic matter with Günter Mittag, Secretary for the Economy of the ZK (Central Committee of the SED); in security issues with the Ministry for State Security Erich Mielke; and with the General Secretary of the Central Committee of the Socialist Unity Party of Germany Erich Honecker.

KOKO operated nearly two hundred companies in the West, where one of the best Schalck's partners was Franz-Josef Strauss, Prime Minister of Bavaria.

This enterprise was involved in many illegal deals, including arms exports to Third World regimes with Imes Import-Export GmbH, located near Rostock; deals with CIA officers selling war prisoners and easing of travel restrictions of citizens from the East (near 1 billion DM were provided from western banks); imports of hazardous waste from German Federal Republic, luxury items for SED members, exports of art and cultural relics...

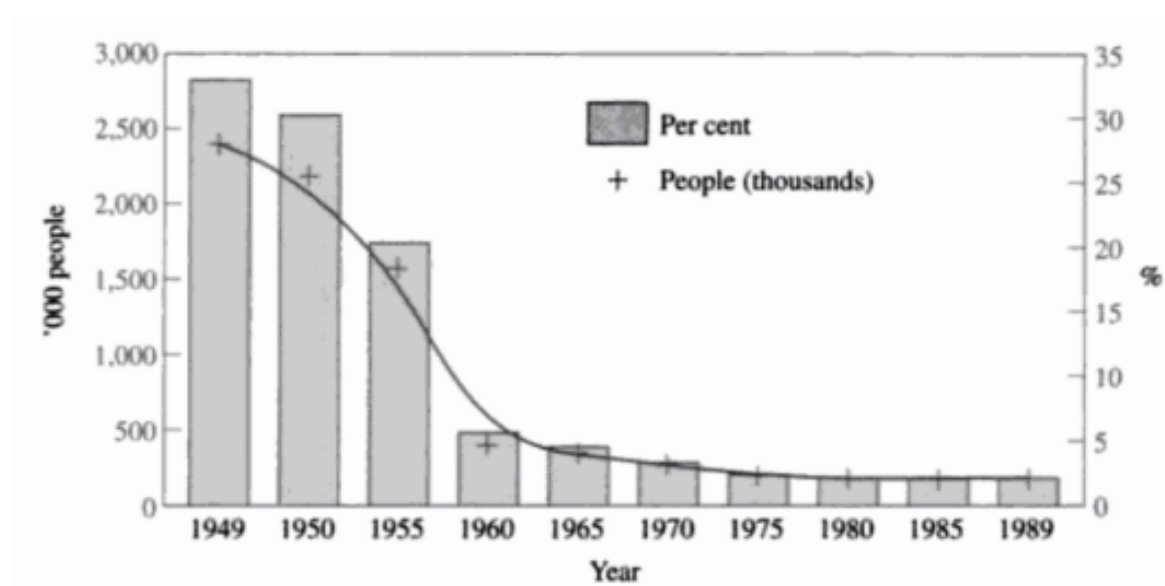
All that dark deals are estimated to have brought between mid 1960's until the end of the German Democratic Republic and important amount of near 30 million DM.

3.9 – PRIVATE SECTOR

As we could see, private sector in the GDR was reduced to an insignificant part of what it used to be, after successive nationalisations carried away in several waves, in industry as well as trade and agricultural sectors.

The ratio of private entrepreneurs to employers in East Germany was higher than the average in post-war Germany, but this rate decreased dramatically to 6 times lower than the one in the Federal Republic of Germany at the end of 1980s: 2.2 per cent to 11.2 per cent in West Germany.

This decrease is reflected in total entrepreneur figures, which went from 2.5 million by the end of the 1940's to not more than 185,000 by the end of the 1980's (Graphic 12).



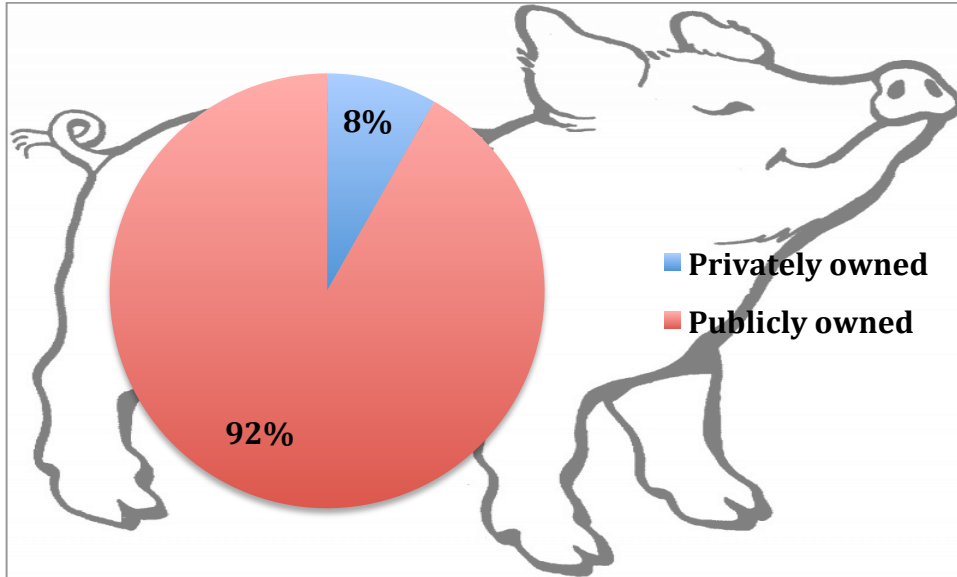
Graphic 12. Percentage of entrepreneurs in the East German labour force. GDR statistics.

In the latter years of the German Democratic Republic, the mainly trade - focused private sector tried to develop and increased slightly its results, but had a minor impact. In fact, this sector barely represented a 3 per cent of the net national product.

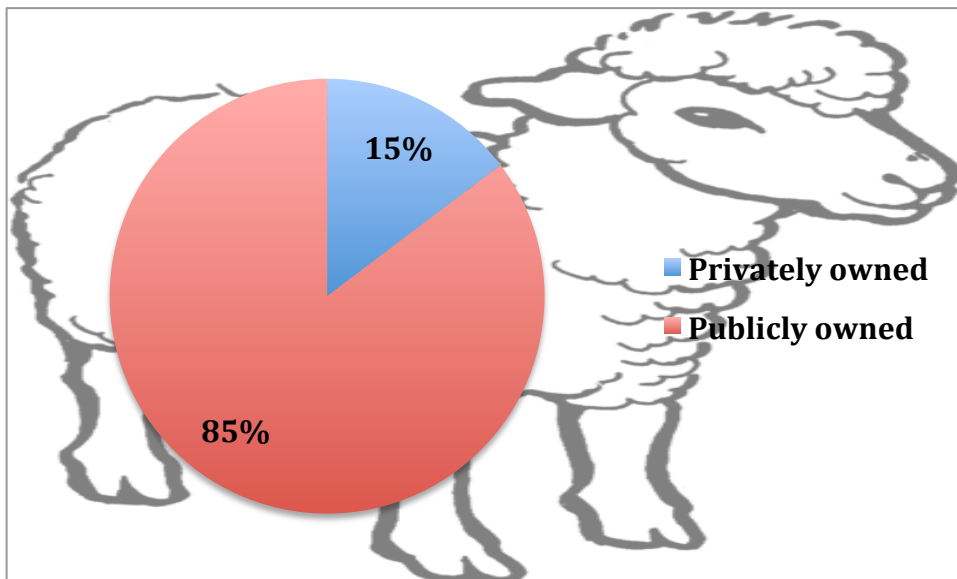
Despite its small size, the SED encouraged private initiative as they considered it could help to improve the access of consumers to better services.

In addition to trade and freelance activities such as writers, artists and others, a big part of this private economy laid on those people working in collective farms but

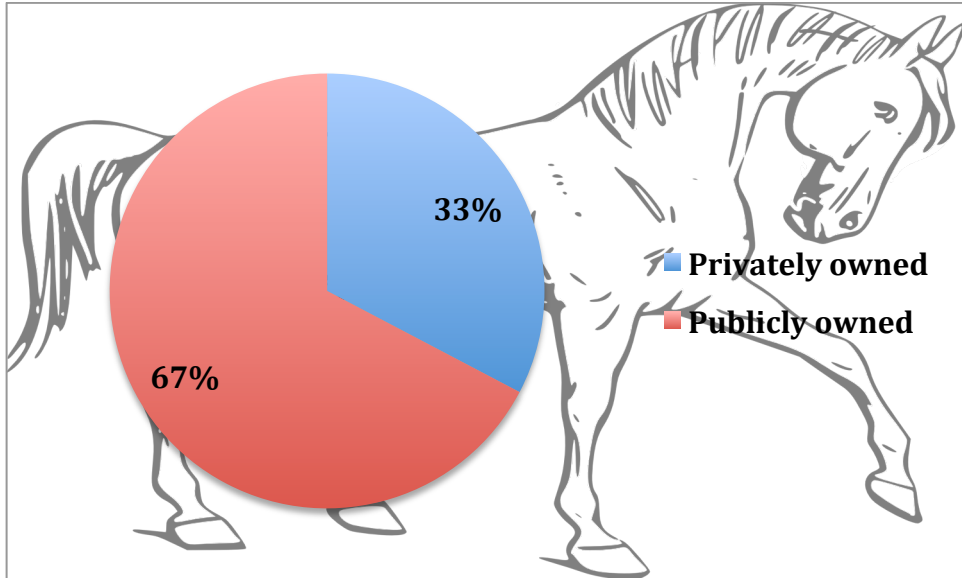
were also cultivating the remaining private plots. Their contribution in some areas was significant (Graphics 13, 14, 15 and 16).



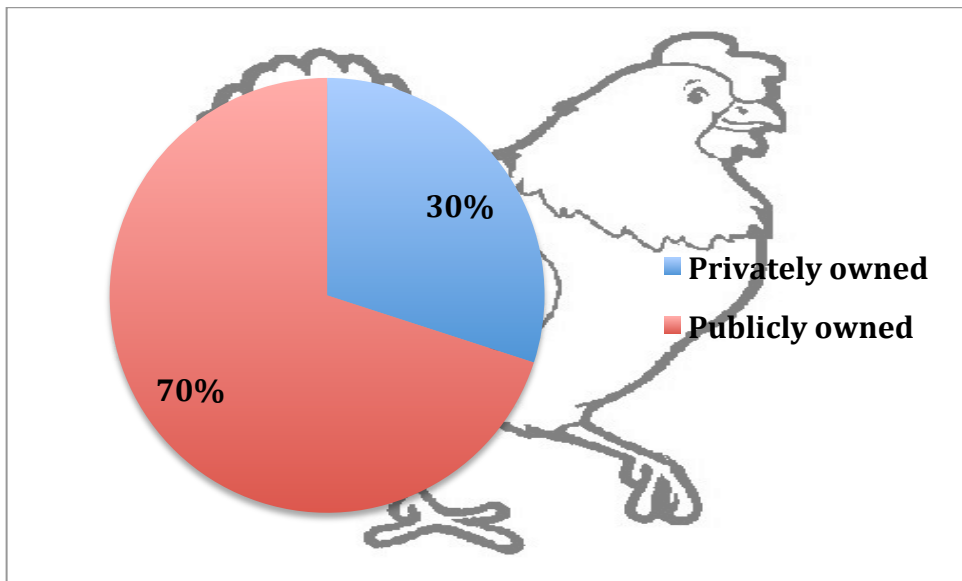
Graphic 13. Official GDR statistics (owned pigs, 1985)



Graphic 14. Official GDR statistics (owned sheep, 1985)



Graphic 15. Official GDR statistics (owned horses, 1985)



Graphic 16. Official GDR statistics (owned laying hens, 1985)

4 – GERMAN REUNIFICATION

4.1 – POLITICAL CHANGES

At the end of the 1980s, political turmoil in Eastern Bloc countries raised considerably. Signs of openness given in the USSR by General Secretary of the Communist Party of the Soviet Union Mikhail Gorbachev through his Perestroika were leaving the GDR without that soviet support that had influenced its political and economical operations.

Furthermore, Hungary's opening of borders with Austria on 2 May 1989 allowed lots of East Germany citizens flee to the West through those countries.

Inside the GDR, uproar increased and Monday demonstrations (German: Montagsdemonstrationen) spread through countless cities.

Erich Honecher's rejection of reforms and immobility gave his Politburo comrades the impetus they needed to replace him. On 18 October 1989, regime's 2nd most powerful man, Egon Krenz, was unanimously elected as his successor as General Secretary.

On 9 November, government's spokesman Günter Schabowski unexpectedly announced on a press conference permission to cross borders between both Germanys, which meant the beginning of Berlin's Wall fall on the same night.

From that moment a quick integration process of the German Democratic Republic into the Federal Republic of Germany took place, or rather a takeover of the state structures of the GDR by the FRG, a process also known as Die Wende.

Legislative elections on 18 March 1990 to the GDR's Volkskammer ended in a victory of Helmut Kohl's CDU Christian Democrats, FRG's Chancellor, and his allies.

Lothar de Maizière was appointed Prime Minister and started Germany's reunification process, which was made official on 3 October 1990, making the GDR the first Eastern Bloc country to join the European Union.

GDR's liberalism implementation and Germany's reunification process wasn't going to be an easy task as both countries were very different politically, economically, socially and culturally, as it was proved in the following years.

4.2 – ECONOMIC AND FINANCIAL UNION

On 1 July 1990 both financial systems were merged by the implementation of the "Treaty Establishing a Monetary, Economic and Social Union between the German Democratic Republic and the Federal Republic of Germany", and through it, the GDR replaced the East German Mark by the Deutsche Mark.

Negotiations for this currency and finance merging agreement, even though they could be achieved in a short time, were quite difficult because of the differences between both economical systems, socialist and capitalist.

Furthermore, the FRG was about to absorb an unprofitable economy with a barely competitive economical structure, which meant it had to make countless reforms and large investments.

Several exchange rates between both currencies were introduced according to quantity, citizen age, type of financial asset, etc.; but in the end it involved a 300 to 400 per cent appreciation of the Ostmark.

This generated an increased demand for western goods at the expense of eastern ones, which further plunged East Germany's economy, leading to an economical recession and a rise in unemployment.

The GDR's domestic demand overpassed its own production and the difference was compensated through FGR subsidies, which transferred billions of marks as public funds. According to the OECD, transfers reached about 4.1 – 5.4 per cent of Western Germany's GDP between 1991 and 1998.

These transfers were made in the beginning without a rise in taxes and without searching for additional revenues; they came mainly from the federal budget. Later on surcharges were implemented and a so called "solidarity surcharge" in corporate and income taxes of 7.5% from 1995 to 1997 and 5.5% from 1998.

Germany's currency union and the crisis that faced during that time affected the rest of European countries, whose currency rates experimented big fluctuations and could also contribute to 1993 Crisis.

4.3 - TREUHANDANSTALT

All the old German Democratic Republic's structures disappeared and had to be adapted to the new political and economical circumstances. The vast corporate and industrial public structure now had to comply with market economy rules.

Thus, a privatisation public agency was created as a Trust Agency or Treuhandanstalt (THA), which started operating on 17 June 1990.

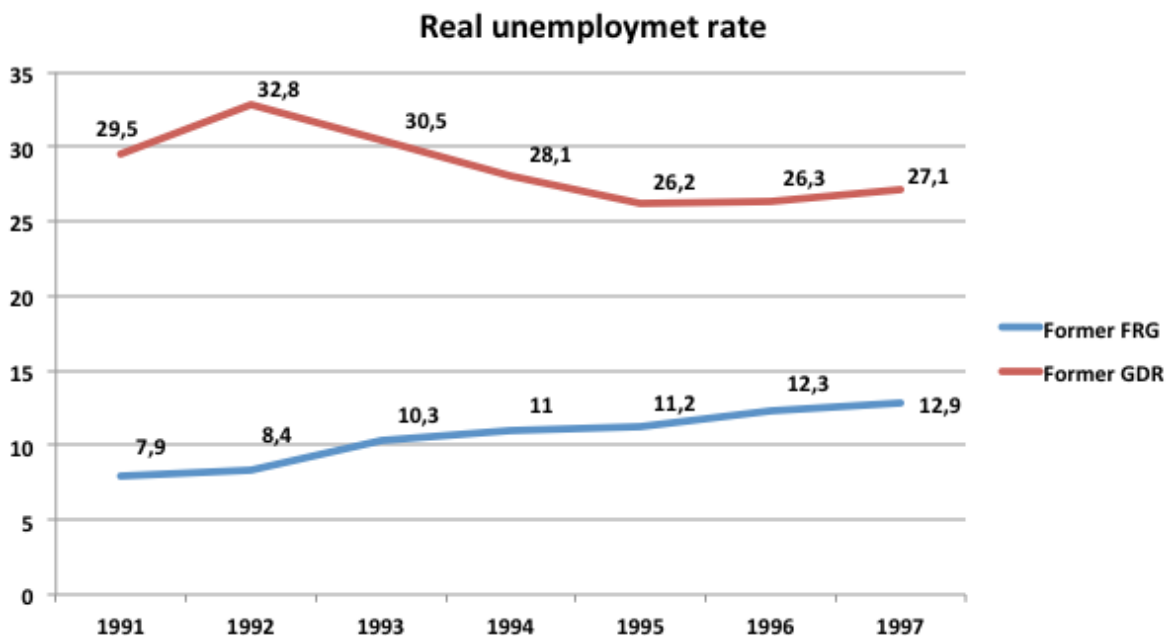
This Treuhandanstalt managed former GDR's public companies, former Kombinate or VEB, 2,5 million hectares of arable land and forests, as well as properties from the army and the Stasi.

It tried to prevent companies from falling into the hands of their old managers or foreign hands for a ridiculous price as it had happened in other ex-communist countries.

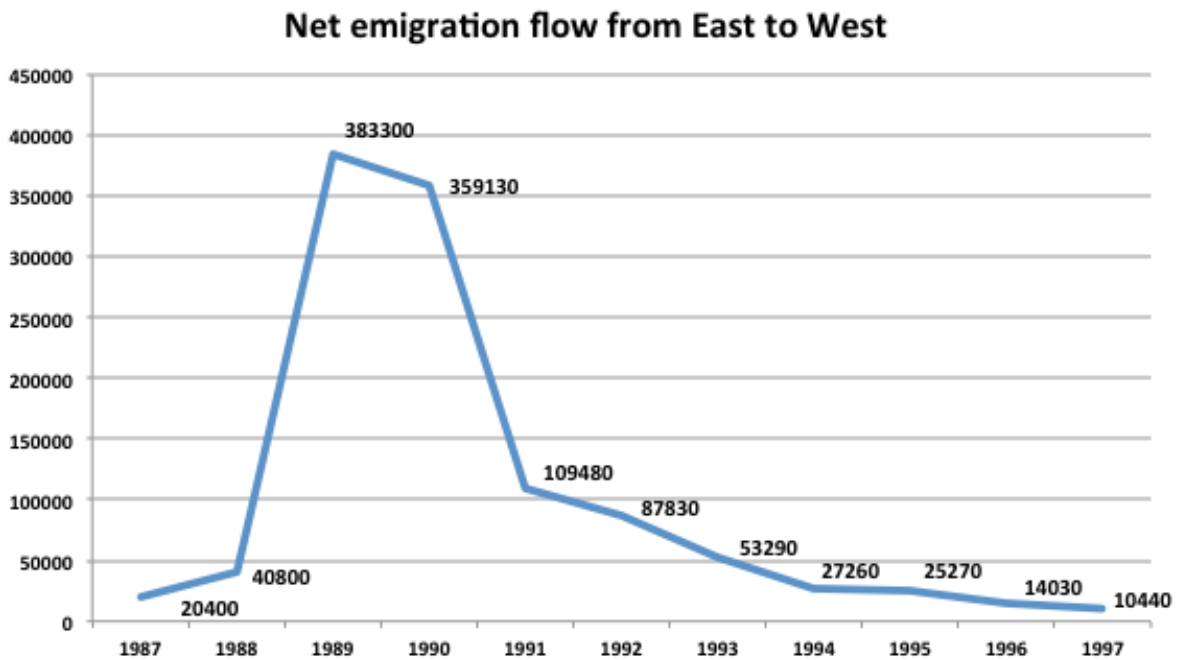
This agency managed 23,500 enterprises of which 15,000 were privatised, 4,500 were returned to their former owners (most of them from the massive nationalisations carried away by the soviets till 1949), 500 were absorbed by the state and 3,500 were liquidated and closed.

It was in charge of about 4 million jobs. One of the goals of the Treuhandanstalt was to maintain those jobs, but it failed miserably as out of those 4 million jobs just 1.5 million remained by the end of 1994.

That was the main reason for going from full employment to a 30% unemployment rate in a few years (Graphic 17). This unemployment rate could have been even bigger if emigration rates weren't as high (Graphic 18); if these Germans had remained in the area, unemployment would have exceeded 37%, according to some estimation.



Graphic 17. Source: Sachverständigenrat, Jahresreport 2000 - 2001



Graphic 18. Source: Federal Bureau of Statistics

Approximately a 75 per cent of Treuhandanstalt privatised companies ended up in foreign hands, which increased further unrest among the population in the East. For instance, VEB Robotron was liquidated and the divisions converted into corporations. In the 1990's some of these companies were sold to Siemens Nixdorf or also closed.

Accumulated unease among the population was evident, as they could see how unemployment was growing as never imagined in former GDR and countless companies were closing or being sold to big foreign corporations. Unrest was so severe that one of the Treuhandanstalt managers, Detlev Karsten Rohwedder, was assassinated in Düsseldorf on 1 April 1991.

The Treuhandanstalt ceased operations on 31 December 1994.

4.4 – PRODUCTIVE STRUCTURE

All these changes in East Germany's industrial and productive structures were reflected in their products too, which were modernised and more focused on services, in order to embed in global trade (Table 3).

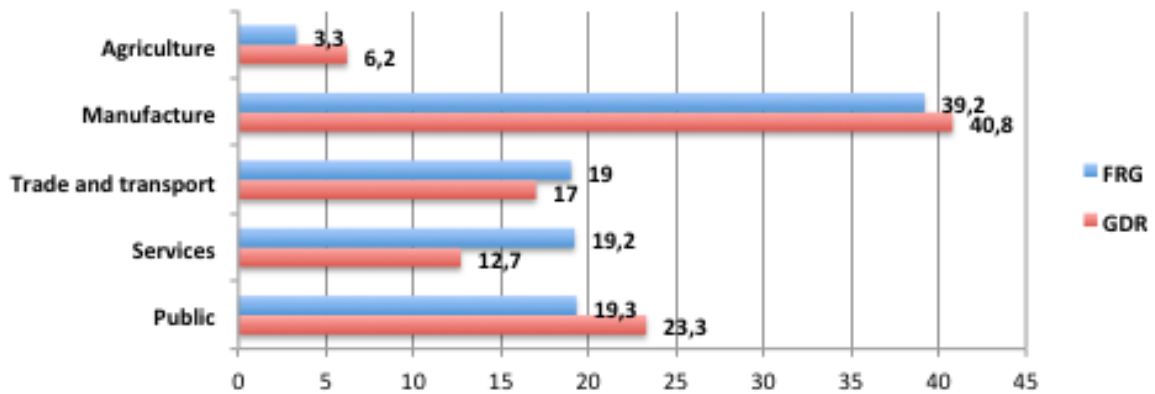
	1992	1993	1994	1995	1996	1997	1998	1999	2000
Mining and quarrying	145,8	127	126,5	100	91	84,8	75,5	75,8	76,7
Coal mines, peat, oil industry and gas	169,8	146,5	120,5	100	91,6	82,8	71,6	71,9	79,3
Quarries and other minerals	101,4	90,7	137,6	100	90,1	88,5	82,7	83,1	72
Manufactures	79,1	81,5	91,3	100	105,9	115,6	127,6	138,3	154,9
Food and tobacco	68,7	75,8	88,4	100	112,8	123,6	126	134,5	140,6
Textile and clothing	80,8	76,2	88,1	100	102,7	105,7	118,1	122,3	133,3
Leather	151,5	108,8	114,7	100	89,4	90,3	101,4	89,7	93,7
Wood	39,2	54,4	77,7	100	113,1	121,9	148,4	168,2	180,1
Paper, editorials and printers	58,5	62,7	82	100	106	117,9	130,1	138,2	147,9
Coke	80,4	81,2	84,3	100	94,4	81,3	107,2	122,8	129,4
Chemistry	114,1	93,7	93,5	100	98,2	99,9	114,8	129,6	172,5
Rubber and plastics	57,7	64,7	92,8	100	108,4	122,2	133,3	147,9	166,8
Glass and ceramics	53,3	69,4	94,7	100	104,4	108,4	110,6	118	115,1
Metal	56,5	64,4	82,5	100	106,4	117,7	131,3	141,7	156,8
Machinery	144,3	129	91,5	100	103,4	111,4	118,8	120,8	129,6
Office machinery, computers, electronics, precision and optics	73	74,2	94,9	100	116,3	140,3	158	183,8	223,7
Cars	89,2	103	112,9	100	94,3	100,7	129,2	139,6	164,6
Manufacture of furniture, jewellery, musical instruments, sports equipment and toys	69,3	77,2	86,1	100	104,6	116	128,1	130	137,7
Energy	105,3	104,9	105,3	100	102,9	100,9	101	102,1	103,5
Building	61,4	74,4	95	100	96,6	92,2	85,3	84,8	75,6

Table 3. Source: Statistisches Bundesbank

For example, chemical and automotive industries increased its presence in a long industrial tradition länder as Saxony – Anhalt.

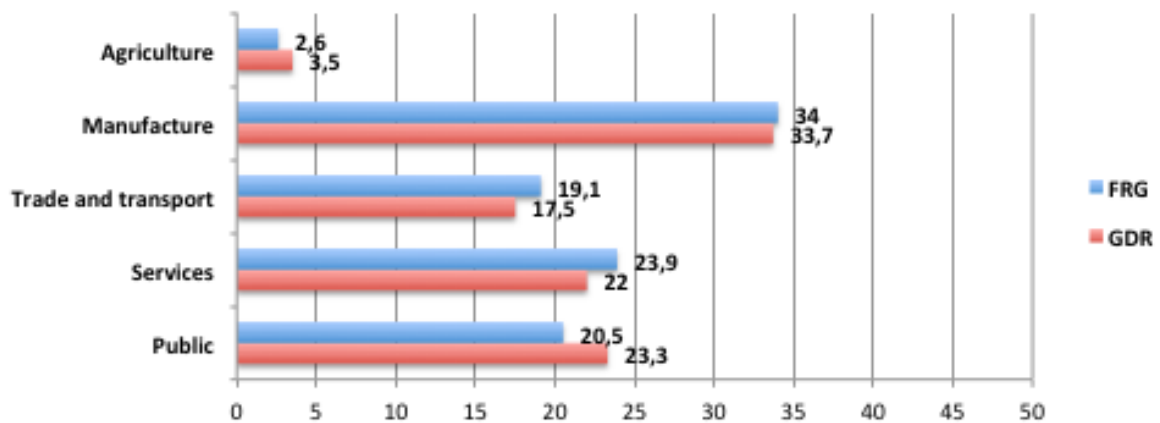
Therefore, service sector was the one that increased the most its relevance in the employment structure, getting close to the FRG figures (Graphics 19 and 20).

Employment structure, 1991 (per cent)



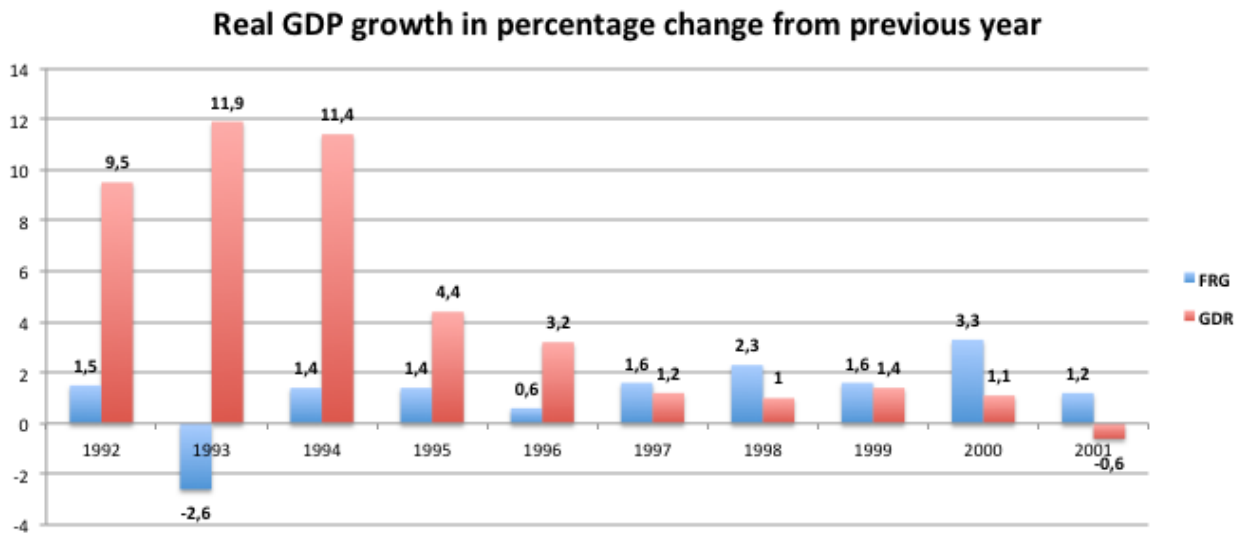
Graphic 19. Source: German Statistical Yearbook, various issues

Employment structure, 1997 (per cent)

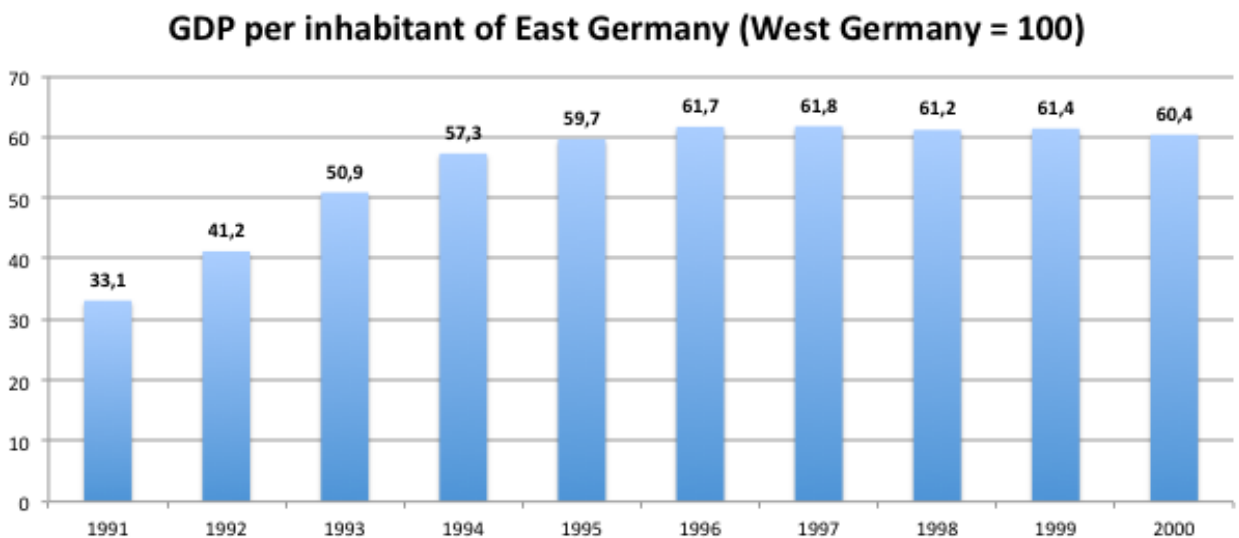


Graphic 20. Source: German Statistical Yearbook, various issues

Nevertheless, GDP in former German Democratic Republic increased in the first reunification and change years as a consequence of the liberalization of the previous production system. However, at the end of the 1990's, the situation came to a standstill and growth was even lower than in the FRG. (Graphics 21 and 22).



Graphic 21. Source: German Ministry of Economy



Graphic 22. Source: Federal Bureau of Statistics

Even nowadays economical and social differences between both areas of Germany are still big and evident. (Appendix 3)

4.5 – OSTALGIE

Former GDR inhabitants could see how their country for the last 40 years was disappearing in a very short time.

Besides the industrial and labour structure dismantling, they could also see how some aspects of their society and culture were being replaced by the ones from the Federal Republic of Germany, as they were expected to be the reference model for the new reunified German society.

In the beginning, inhabitants from former East Germany, rushed by the enthusiasm of reunification, quickly adopted the new culture, products and values coming from the West.

Yet, culture shock and misunderstandings due to stereotypes between both societies was pretty evident. Eastern Germans considered themselves second-class citizens because of the obvious contempt for the GDR achievements in social welfare, education, sports; because their salaries were way lower than the Western ones, the increasing unemployment...

Furthermore, western German society was individualistic, opposite to the eastern one, in which the importance of belonging to a certain group (family, co-workers) prevailed, and personal success was linked to the group's success.

This sense of nostalgia for the way of living in the GDR resulted in a feeling known as Ostalgie, or Eastern nostalgia.

Nowadays this collective feeling of Ostalgie is considered as marginal and lots of Germans from both sides deny the existence of any cultural divides.

Nevertheless, lots of German companies have realised the potential of this movement and have started recovering products that disappeared after the reunification and used to be part of former GDR inhabitants daily life.

An example of this is Vita Cola, whose factories started closing right after Berlin's Wall fall, in favour of western brands Coca Cola and Pepsi. But popular demand made them re-launch the product in 1994, and now it's the most consumed beverage in the länder of Thuringia.

The Ampelmännchen or traffic light's little man is another example of how daily life elements have remained still in reunified Germany by popular demand. A ubiquitous symbol in every souvenir shop in East Germany, especially in Berlin, it still does its original function in traffic lights on this side of Germany.

Some others like the GDR Trabant car have turned into cult items and tourist attractions.

Museums, city tours, films...are now part of a new industry that serves as a tribute to the friendly face of the two Germanys era.

5 – CONCLUSION

As we could see, in this thesis it's told the economical and industrial history of a country from its origins until its disappearance.

A productive system strongly controlled by the state where unemployment was inconceivable, with countless social achievements, but whose flaws were also noticeable.

It's the image of a planned socialist economy that, besides being the most developed and industrialised economy among the Eastern Bloc countries, revealed its weaknesses before and after opening to the global market right after German Reunification.

6 – APPENDIX

6.1 – APPENDIX 1: Administrative division of GDR

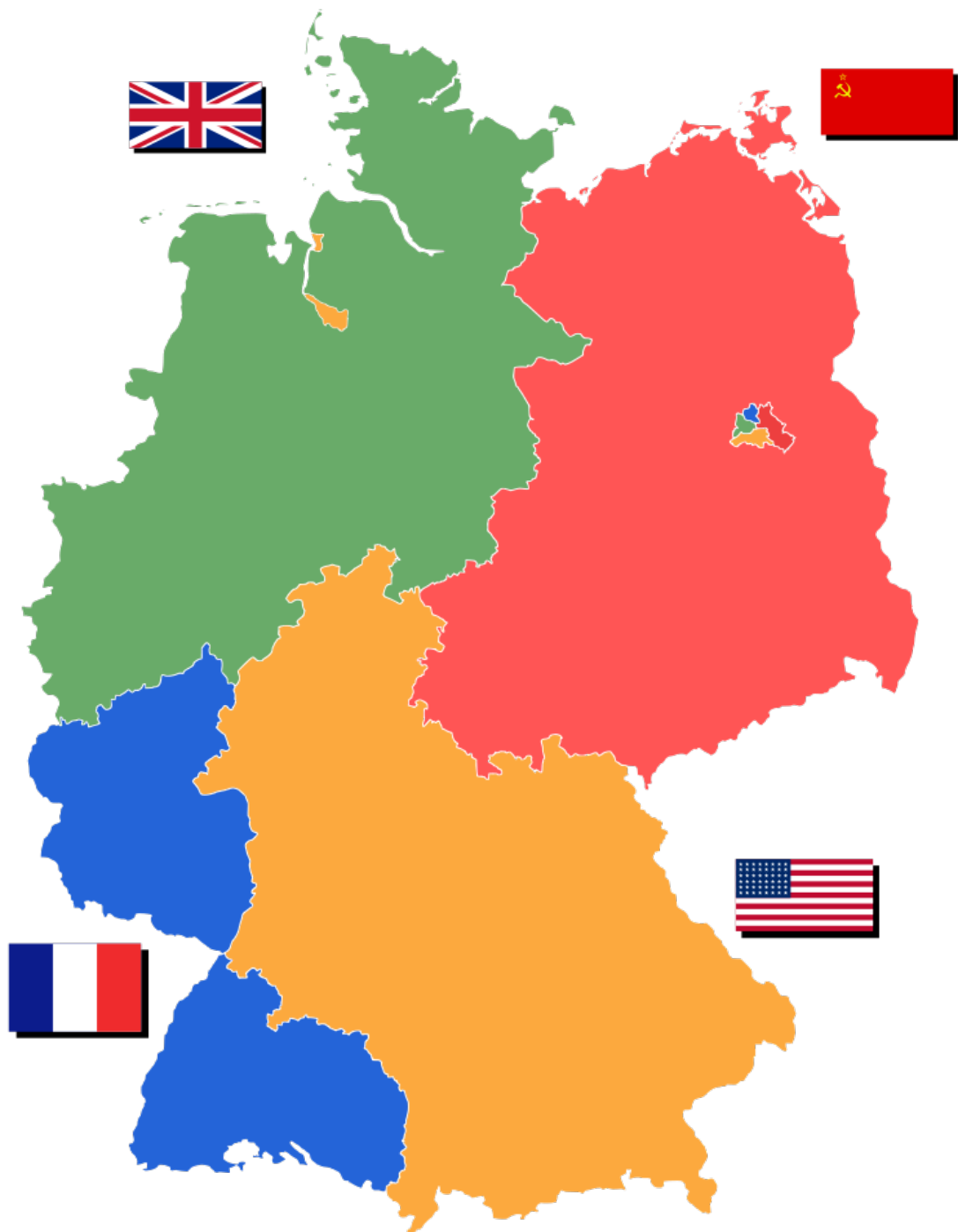


Image 1. Occupation zones in Germany, 1947



Image 2. The districts of the German Democratic Republic, 1952



Image 3. GDR territorial division

6.2 – APPENDIX 2: GDR statistics

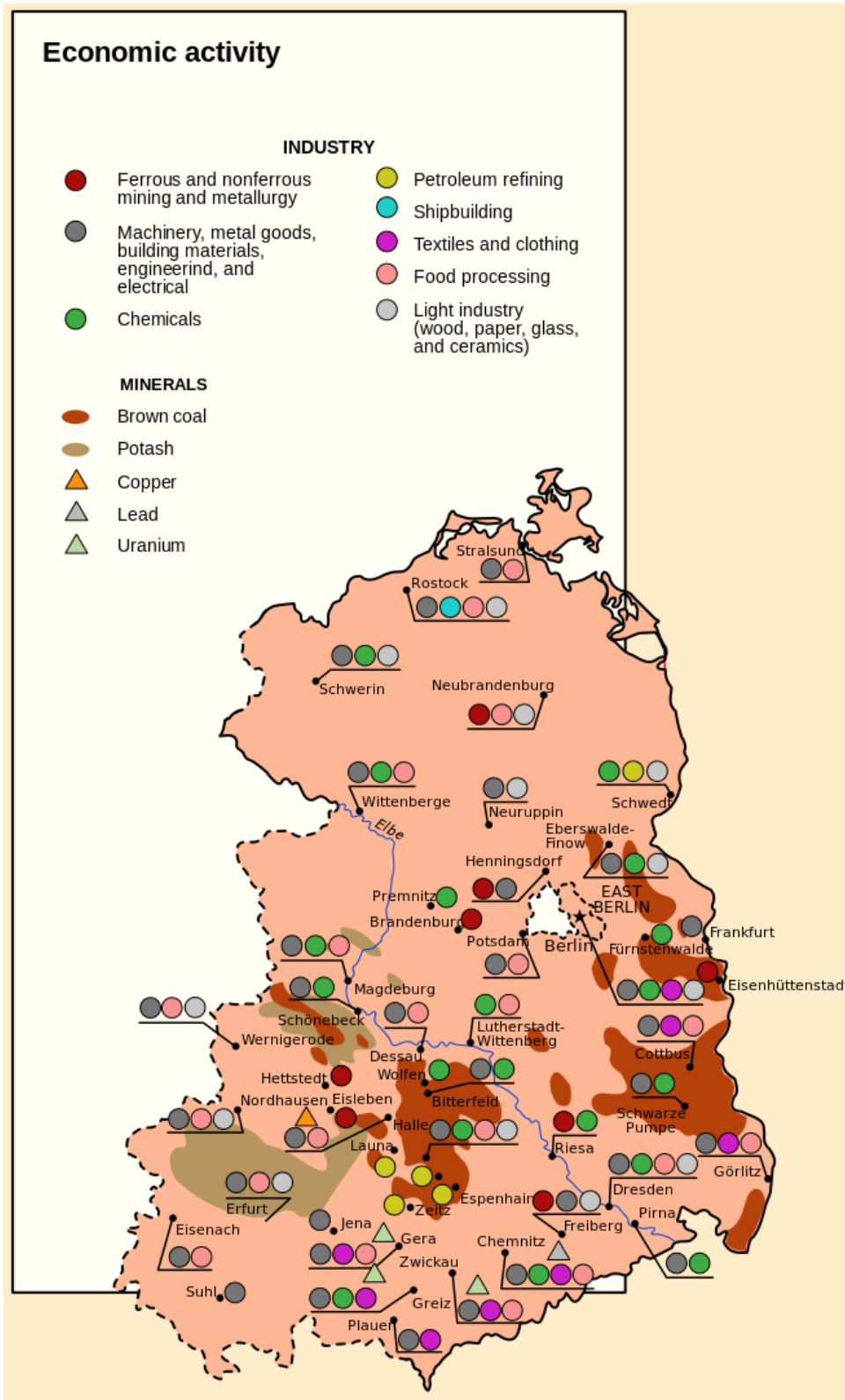
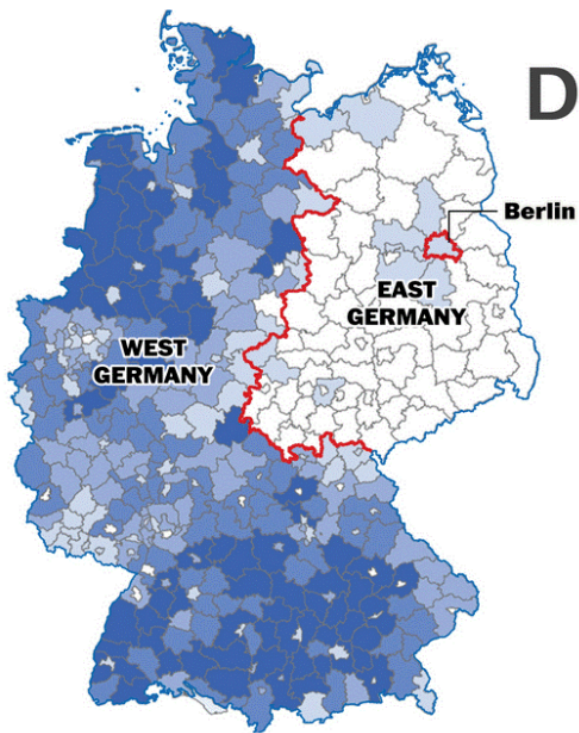


Image 4. Map of the East German economy

6.3 – APPENDIX 3: Statistics in the current Germany



Image 6. Current division of Germany



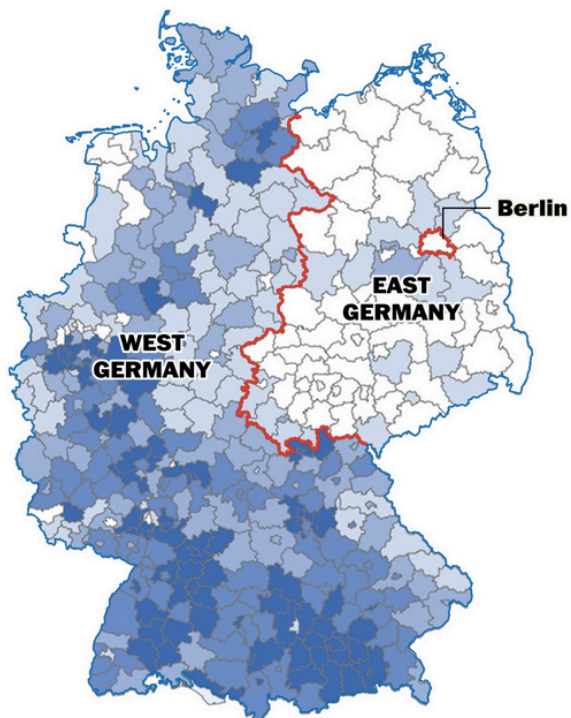
Demographics

Percentage of young people among total population

Data: 2011

Higher Lower

Image 7. Source: German statistical office



Disposable Income

Data: 2011

More Less

Image 8. Source: German statistical office

Unemployment rate

Data: 2013

Higher Lower

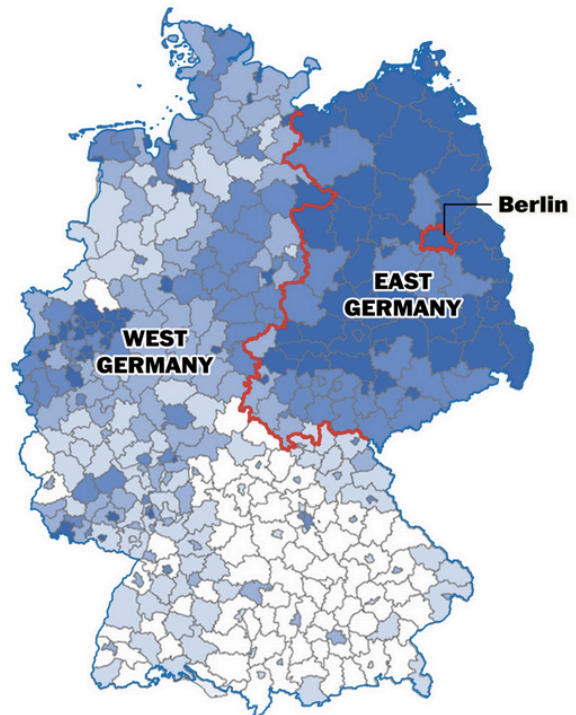


Image 9. Source: German statistical office

Size of farms

Data: 2010

Bigger Smaller

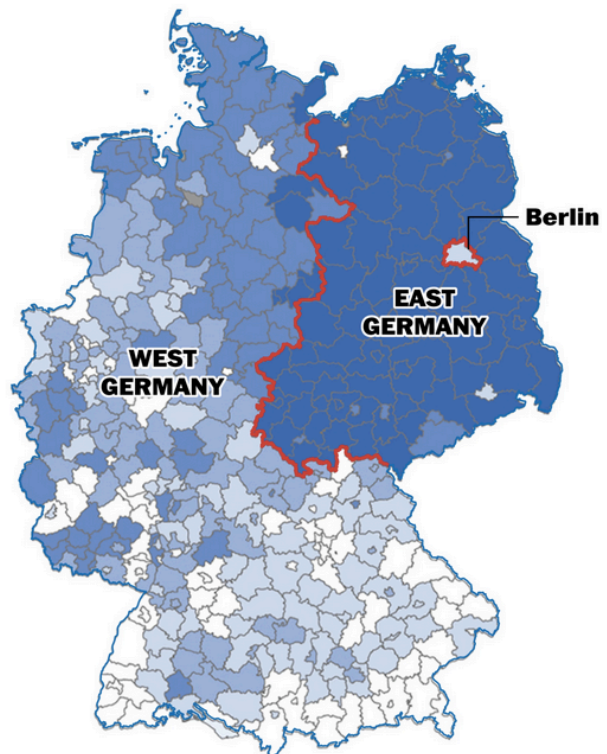


Image 10. Source: German statistical office

Unemployment in the federal states of Germany (Sep 2013)

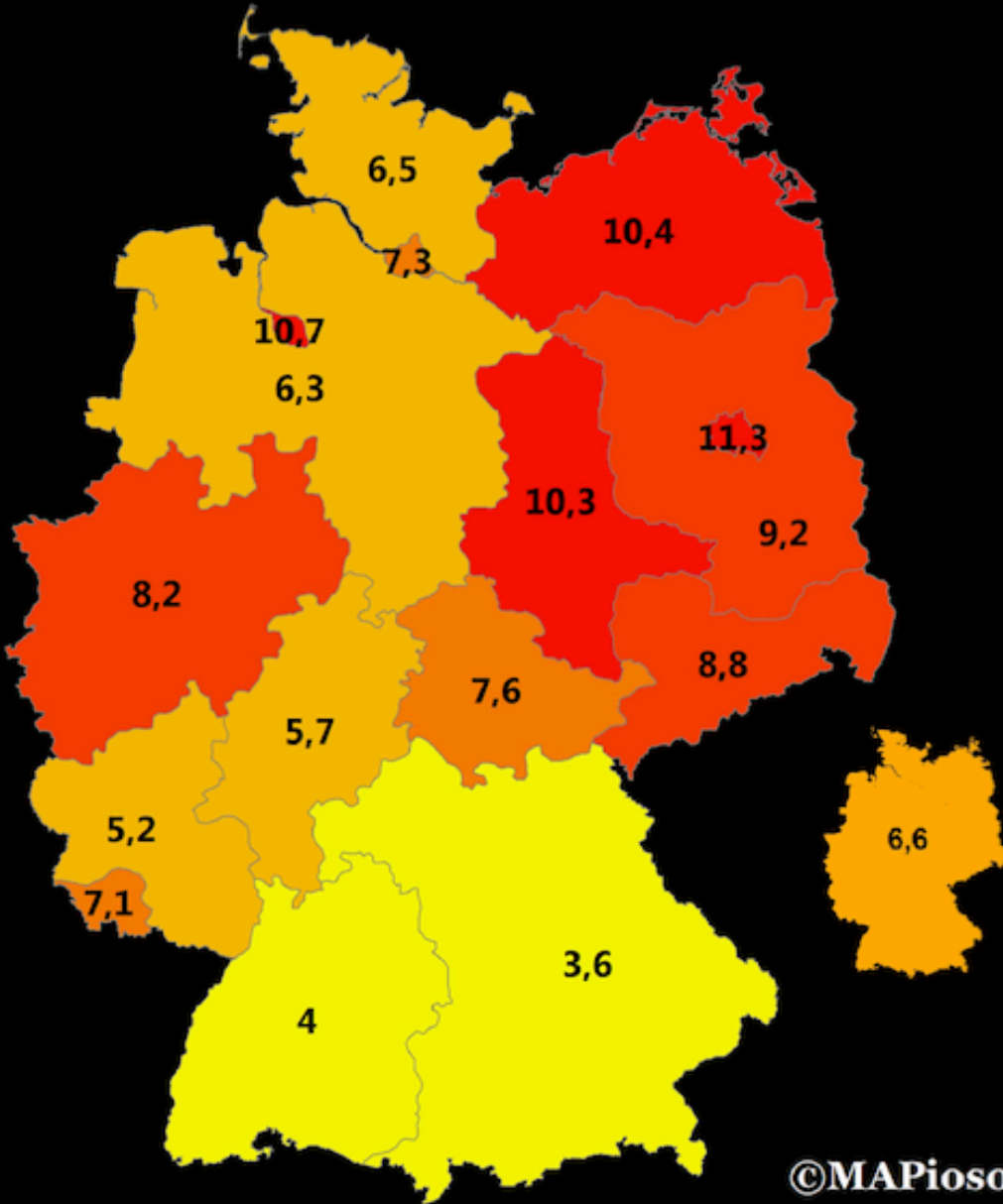


Image 11. Source: German statistical office

Federal states of Germany by €GDP per capita (2010)

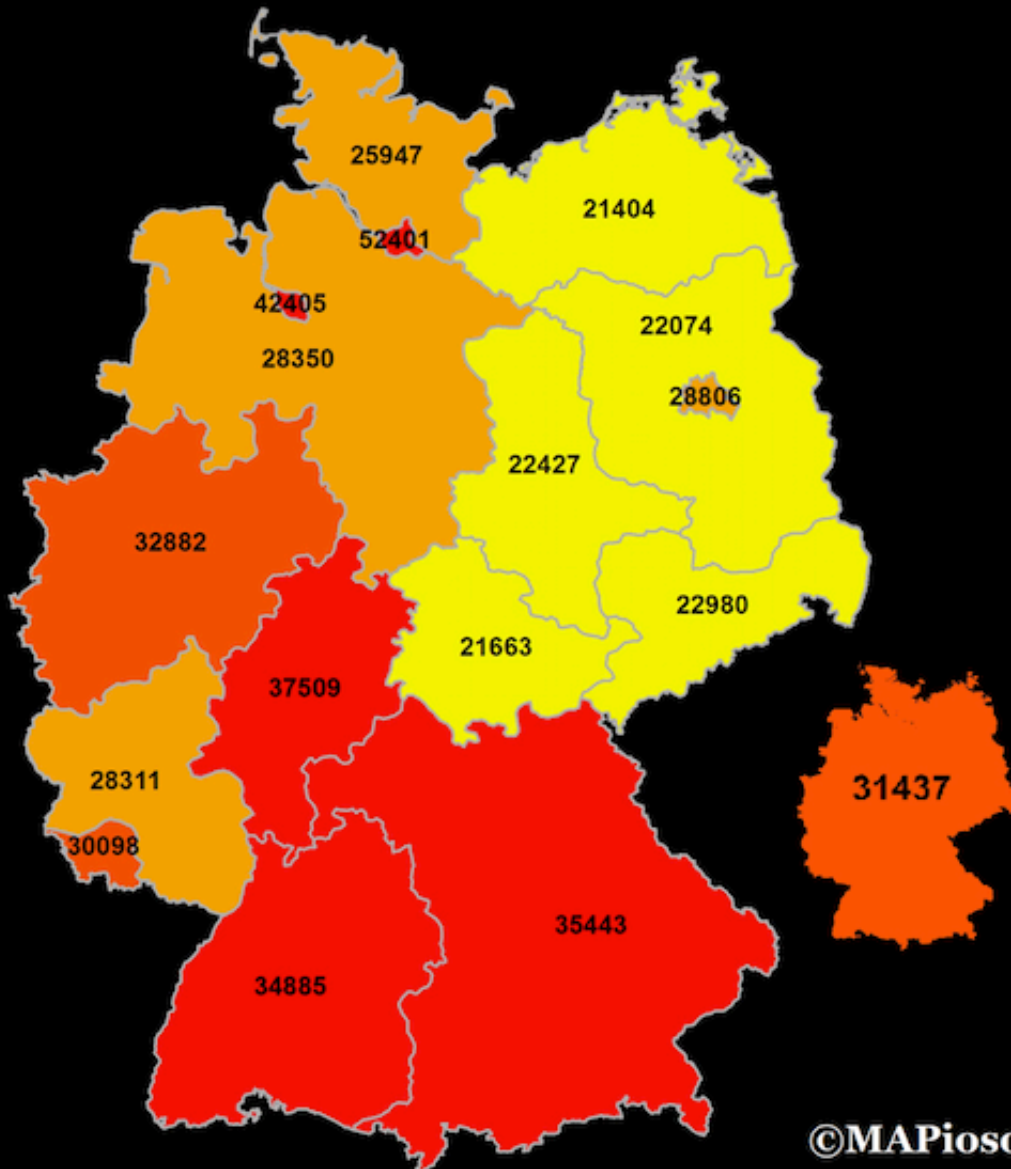


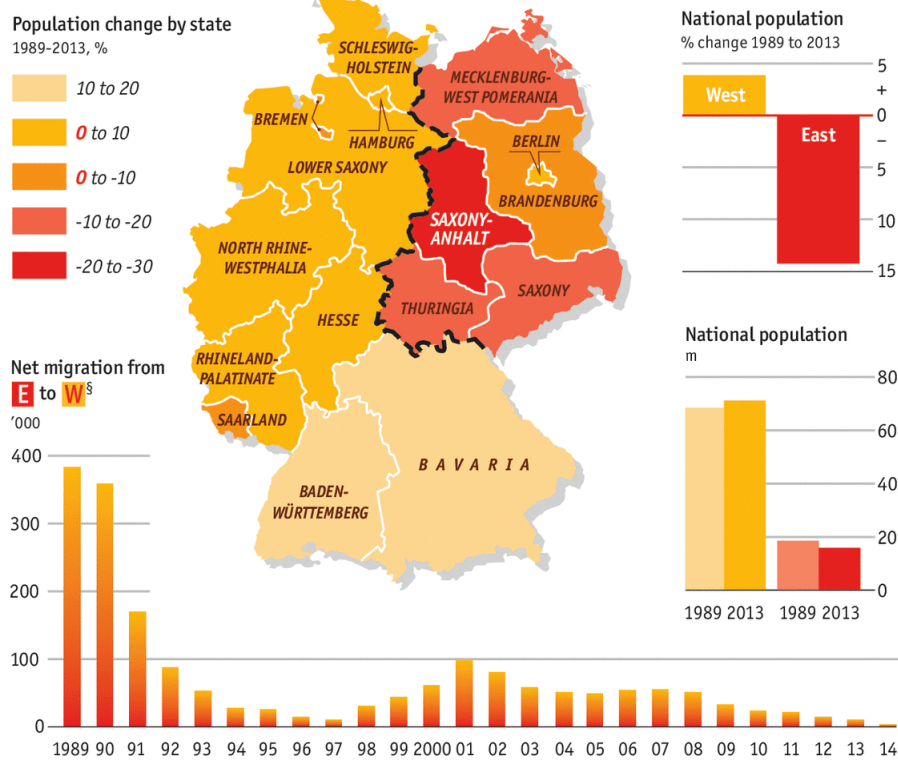
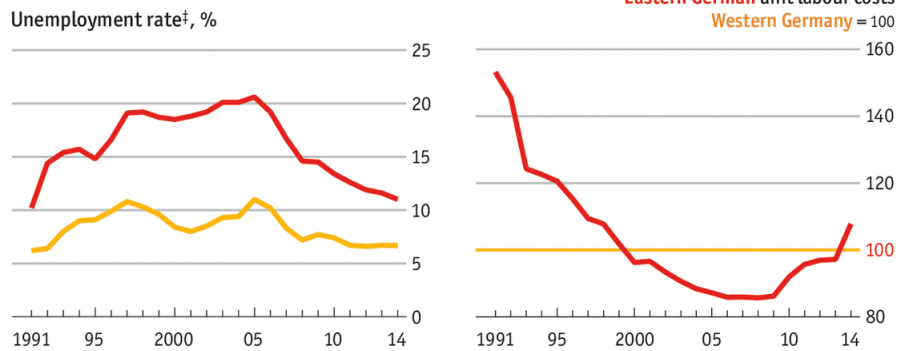
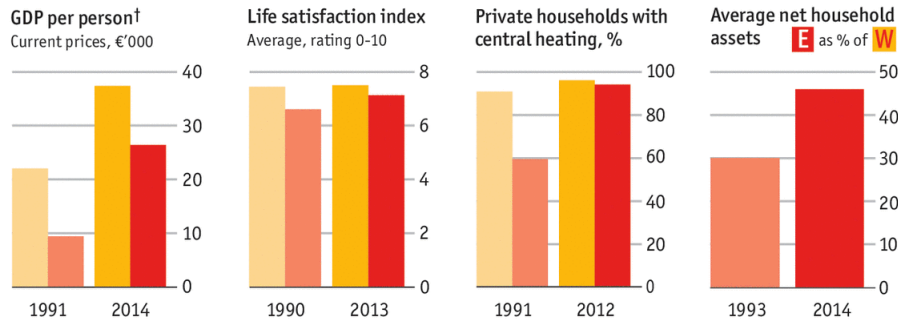
Image 12. German statistical office

Bundesbalances

Eastern and Western German fortunes since reunification

PRE-REUNIFICATION* vs EASTERN STATES
 POST-REUNIFICATION/TODAY WESTERN STATES

*Or immediately following



Sources: DIW Berlin; Federal Statistical Office; The Economist
 †Eastern states include Berlin ‡Not including self-employed or freelance
 §Not including West Berlin to 2000, not including Berlin from 2001

Economist.com

Image 13. Sources: DIW Berlin, Federal Statistical Office and The Economist

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