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MSc IN INTERNATIONAL NEGOTIATIONS

A Socioeconomic Inquiry into the German Reunification

Thesis

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Abstract

This dissertation explores the causes, the terms, and the consequences of the German reunification, that took place 30 years ago. The introduction, as well as the first chapter underline the history and the economic situtation of the two German states, presenting the strengths and weaknesses of each economic system up to 1989. The main body consists of the analysis of the “Monetary, Economic and Social union between the Federal Republic of Germany and GDR”, which is divided into separate unions, such as the political, economic, monetary and social union. The political and monetary union is based on three frameworks, whilst the economic and the social consist of three economic levels.

Furthermore, this thesis will be the basis of a future Ph.D. in European Integration and the main purpose of it is to understand one of the most important events in the second half of the 20th century, as well as to showcase the partial failures of the reunification, something that was either overlooked or deliberately ignored, since the historic event had overshadowed the economic consequences. The balance between the significance of the reunification and the sacrifices made due to economic mismanagement is still controversial, with both sides asking themselves the same question: Was it all worth it? In other words, at what cost the two economies and societies converged? Have they converged fully, slightly, or none at all?

This thesis endevours to answer the question, whilst examining facts and available data, based on an abundance of mainly German and English sources, from newspapers of the time, to research papers and books solely about the reunification.

Finally, I would like to thank everyone who helped me during the writing of the thesis, such as my friends and family, also I would like to thank professor Pagoulatos for the guidance he provided me, and special thanks to the Bundeszentrale für politische Bildung for the abundance of research material and charts.

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Introduction

There have been only just a few moments which instantly joined history and marked the beginning of a new era. Without doubt, the 9^{th} of November 1989 was one of these. The collapse of the Berlin Wall stated to the world that the Cold War was effectively over, since the Soviet Union was on the verge of social and economic collapse, while simultaneously its grasp on its puppet-states -the Eastern Bloc- was loosening. Indeed, for these countries, the USSR had been the command centre, supplying the communist regimes of Eastern Europe with capital, ideological direction, and dictating the foreign policy for the whole Bloc. Since the metropolis of Moscow deemed the Bloc to be dismantled, for the first time in 50 years the countries of Eastern Europe (Poland and Czechoslovakia just to name a few) could charter their own course with the first free elections taking place, and the people passing the mandate to the newly elected democratic governments across the Bloc.

With the Romanian exception, which ended in a violent coup and the execution of Nicolae Ceausescu broadcasted via national television, the former Bloc countries have transitioned peacefully into the last decade of the 20^{th} century. Yet, the German Democratic Republic (Eastern Germany)[1] was a made-up puppet-state, which was set free from the bonds of the Soviet Union and its future was completely unknown. The fact that there were two Germanies in Europe, was the status quo and a simple fact of life in the second half of the 20^{th} century. By the time the wall had been torn down, the people of Germanies (at least in the GDR) were out in the streets demanding one thing and one thing only, reunification. In less than a year, on the 3^{rd} of October 1990, the two Germanies were reunited into a single entity called Bundesrepublik Deutschland- The Federal Republic of Germany, with a single currency the Deutschmark, and 16 Bundesländer (federal states). At least that is what history wrote, with the German people cheering on the streets while politicians capitalised on the hard-earned historic compromise they had achieved.

The reunification process has been remarkably fast and successful, bearing in mind the socioeconomic consequences that followed, the blitz transition from a totalitarian state to free market, the geopolitical future of Germany (regarding NATO), and the disposition of the world towards reunification. The global powers especially France and the UK were outspokenly against a reunified Germany, which could easily surpass their economies and their influence on the continent, disturbing the status quo and effectively becoming the main powerhouse in Europe and the EEC. Indeed, the reunification was a great political and multilateral victory, setting the course of the European Community towards Maastricht Treaty and greater unification, forming the European Union. Yet, there has been a major loser in Europe, and that was the GDR.

[1] GDR from now on.

A Tale of Two Germanies

To start the analysis of the events that took place in the mid-90's reunified Germany, a historical timeline is needed to comprehend the structural differences between West[2] and East Germany, the global setting in which the events unraveled, and the impact of the reunification. The historic frame is defined from the end of WW2 in 1945 and reaches to 9th November 1989, discussing simultaneously the relations between the two Germanies, as well as the structure and economic capabilities of each nation.

West German history can be divided into 3 parts[3]. First, the Adenauer era and his successors 1945-1969, the second one is the socialist Brandt-Schmidt era 1969-1982, and the final one is the Kohl era 1982-1989 (and onwards to 1998). On the other hand, the history of East Germany will be divided into 2 parts[4]. The first one is centered around Walter Ulbricht and his predecessors 1945-1971[5], and the second one is the Honecker era 1971-1989.

In 1945, each Germany not only shared an economic inheritance, but also experienced occupation by outside powers, either from the Allies and the International Authority for the Ruhr (IAR) or the USSR. Besides the occupation, both countries were bombed to ruins and incapable of restarting their economy on their own without allied or international support. Even though the occupiers were different and their demands ranging from denazification to a complete economic or even social reorganisation, the result was the same. The next decades, regarding mostly the Adenauer and Ulbricht era for FRD and GDR[6] respectively, would be marked by sweeping reconstruction and reorganisation, as well as by an increasing rivalry between the two Germanies.

In the case of the FRG, which has been established in 1949 from the merging of the allied occupation zones, the Marshall plan in 1948 was the locomotive, on which the nation would be rebuilt. Still there was a major hindering in the industry of the FRG. That was the aforementioned IAR, since the organisation oversaw the regulation of coal and steel to the economy, thus safeguarding[7] the two essential resources for an arms industry[8]. Yet Konrad Adenauer overcame this problem, as he signed the Paris Treaty in 1951, establishing the European Coal and Steel Community (ECSC), thus replacing the international overseer with a European one. The ECSC is regarded as the predecessor of the ECC and later of the EU. Still, the major nuisance for the Adenauer cabinet was the denazification of the country[9].

[2] FRG from now on.
[3] Roesler, *Momente deutsch-deutscher Wirtschafts- und Sozialgeschichte 1945 bis 1990: eine Analyse auf gleicher Augenhöhe* 2006
[4] Ploetz, V. (1988). Die Deutsche Demokratische Republik - Daten, Fakten, Analysen.
[5] Grieder, P. (1999). The East German leadership, 1946-73: Conflict and crisis.
[6] Bundeszentrale für politische Bildung, *Geschichte der DDR: bpb* 2011
[7] Yoder, *The Ruhr Authority and the German Problem* 1955
[8] Kamps, *Economy: No more guns from the Ruhr!* 1949
[9] Fürstenau, *Analysis of Denazification Categories in the Western Occupation Zones (1949-1950)* 1969

On the other hand, GDR had not shared the same fate of the FRG, regarding occupation and war reparations[10]. By the time the war was over, the Red Army had orders to de-industrialise the country and ship whole factories back to the USSR as agreed in the Potsdam conference. The effects of this massive separation of the economy of East Germany is beyond repair. In numbers[11], it is estimated that 12 billion tons of industry equipment have been relocated, a huge aircraft factory capable of producing 600 aircraft engines per month, three powerplants, each estimated at 25mil pre-war marks, even a whole shipyard (Descimag Shipyards), a project worth of 12mil pre-war marks. Bearing in mind that this is but a fraction of the archive, it is clear why East Germany shifted to a mostly agricultural economy, with an important mining sector after the occupation, which formally ended in 1955 (actually in 1989-90). Furthermore, apart from capital diminishment, there was a mass exodus to the FRG via west Berlin, with some 3.5mil people leaving the country, amounting to one fifth of the total population of East Germany (18 mil)[12]. This was such an ever-expanding problem, that the Ulbricht regime, under the green light from Moscow, erected the Berlin Wall in 1961[13].

Industrial Capital Stock, Germany				
	1936	1944	1948	1950
West Germany	100	136	113	122
East Germany	100	138	69	72

Source: Sleifer, 2006, p. 72, Reichsmark prices of 1936.

Per-Capita War Damage in Germany until 1953		
	West	East
War Damage	839	686
Dismantling of Industries	60	384
Reparations	23	1,065
Occupation Cost	689	649
Total	1,611	2,784

Source: Sleifer, 2006, p. 73, Reichsmark prices of 1944.

Source: Blum, 2011[14]

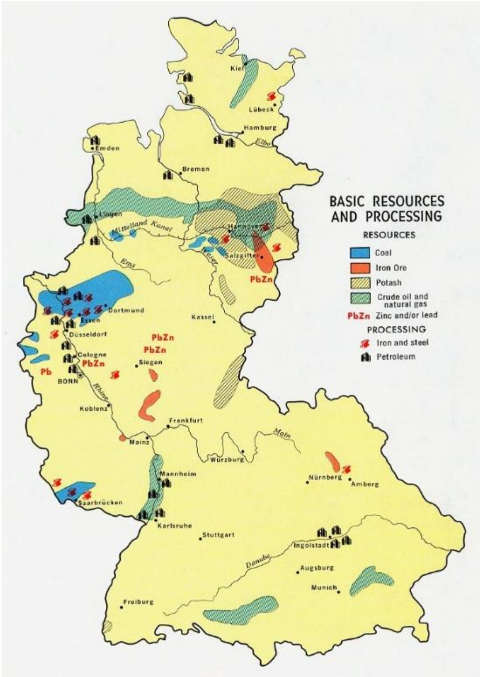
[10] Sleifer, J. (2006). Planning ahead and falling behind: The East German economy in comparison with West Germany 1936-2002.

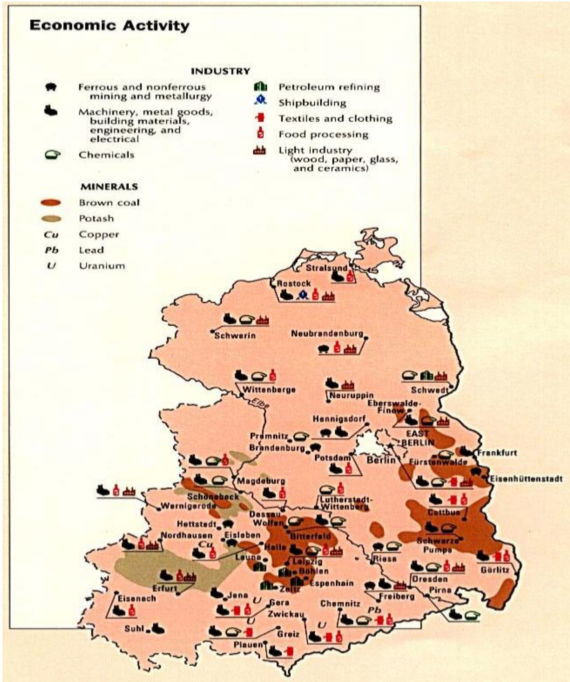
[11] http://images.library.wisc.edu/History/EFacs/GerRecon/omg1946n039/reference/history.omg1946n039.i0007.pdf

[12] Ross, *Before The Wall: East Germans, Communist Authority, And The Mass Exodus To The West* 2002

[13] Kempe, *Berlin 1961: Kennedy, Khrushchev, and the most dangerous place on earth* 2012

[14] Blum, Ulrich (2011): An Economic Life in Vain − Path Dependence and East Germany's Pre- and Post-Unification Economic Stagnation, IWH Discussion Papers, No. 10/2011, Leibniz-Institut für Wirtschaftsforschung Halle (IWH), Halle (Saale)





Maps: The University of Texas at Austin

Above there are two maps,[15] from 1972 and 1981 respectively, presenting the natural resources of each Germany, underlining the importance of industry, mining, and agriculture (food processing) sector to each country. Both are the results of the next phase, during the "golden years" of 1945-1973[16] and onwards, framing much of the Brandt/Schmitt and Honecker era, which coincides with a détente in the relations between the two states.

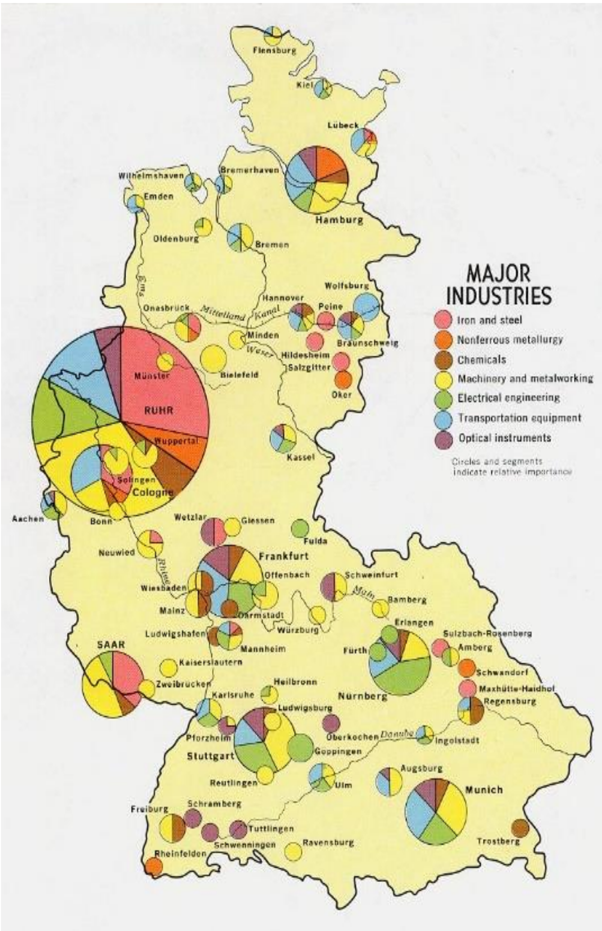
Both countries enjoyed economic growth, and especially the GDR, since the state was founded on much worse conditions than the Federal German Republic. Starting in 1963 the New Economic System[17] and its successor Economic System of Socialism in 1968[18] have replaced the old 5-year plans, to heavily invest on the chemical, electronic, and plastic sector. The goals were very high with Ulbricht stating a world class industry is in the making[19], but the neglected infrastructure of the state, the top-down planned economy, and the constant dependency on USSR's petroleum proved to be the key factors, for which the investment had partially failed[20]. Still, even after Ulbricht's fall in 1971, East Germany experienced an economic upswing and new industries to boast, becoming the most important economy of the bloc.

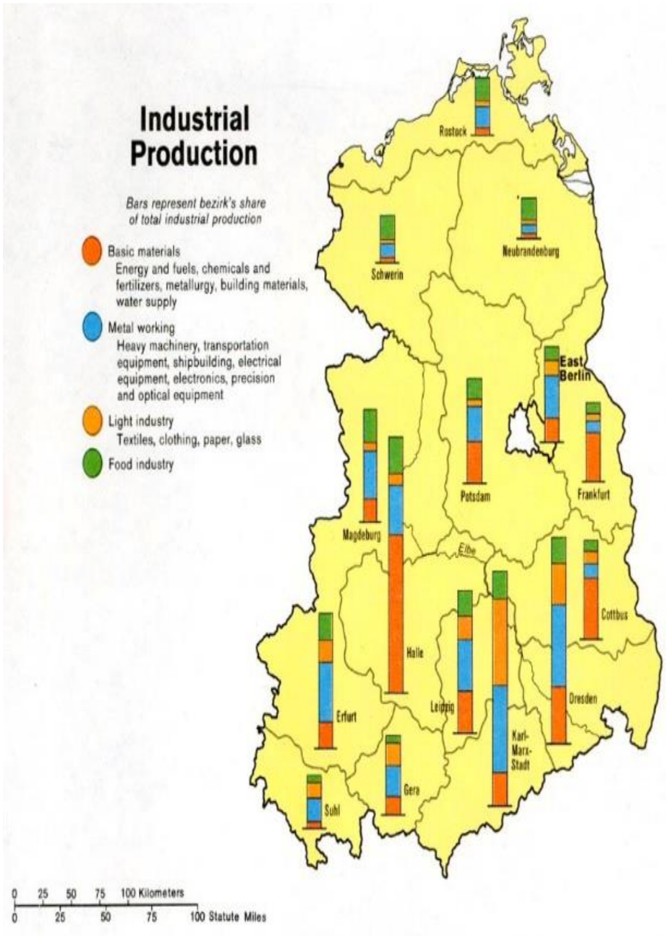
On the other side of the iron curtain, Willy Brandt was elected as the first social democrat[21] chancellor in 1969, and passed a variety of new reforms[22], such as a new pension system[23], on education, on voting (minimal voting age is now 18), and

[15] Maps: The University of Texas at Austin
[16] *Ludwig Erhard, Prosperity for All (1957),* GHDI Document
[17] Ulbricht, *Walter on the "New Economic System" of the GDR (December 16, 1965)* GHDI Document
[18] Steiner, A. (2007). Von Plan zu Plan eine Wirtschaftsgeschichte der DDR. Bonn: Bpb.
[19] Malycha, *Im Zeichen von Reform und Modernisierung (1961 bis 1971): bpb* 2011
[20] Walter, *The GDR's Failure to "Overtake without Catching Up" (July 30, 1970)* 1965 GHDI Document
[21] Bayerische Staatsbibliothek, *Die Sozialliberale Ära (1969-1982*) 2014
[22] Willy Brandt Biography.com, "Dare more democracy" – Domestic and social policy 1969–1974
[23] *Flora, Growth to limits. the Western European welfare states since World War II: Germany, United Kingdom, Ireland, Italy 1986*

expansion of civil liberties, such as a new marriage and family law supporting emancipation and the equality of women. Yet Brandt would remain in history for his Ostpolitik[24] (East Policy), which granted him the Nobel Peace Prize in 1971. Under his chancellorship the Basic Treaty (1972) took place, which stated that the two Germanies recognized one another as a state (a major success at that time), exchanged diplomatic missions, and invested in trade[25] and tourism, paving the way for their admission to the UN on year later. Finally, regarding the political scene, Brandt was the first chancellor to state in his inauguration that there are "two states, but one nation"[26] much to the criticism of the right wing of FRG.

Continuing with the economic overview of the time, there are two maps[27] below, which showcase the specialisation of each state on each sector, with both reforms (Brandt's and Ulbricht's) traceable on the charts and bars, as well as on the economic performance. In West Germany, which had pre-existing industries, the new social system, improved the work conditions, and thus boosted the growth of the economy, and on the other hand, East Germany established an important industrial sector, specialised in metal-working, chemistry, and optics among others (the results of NES and ESS are shown mainly in the blue bar on the map).



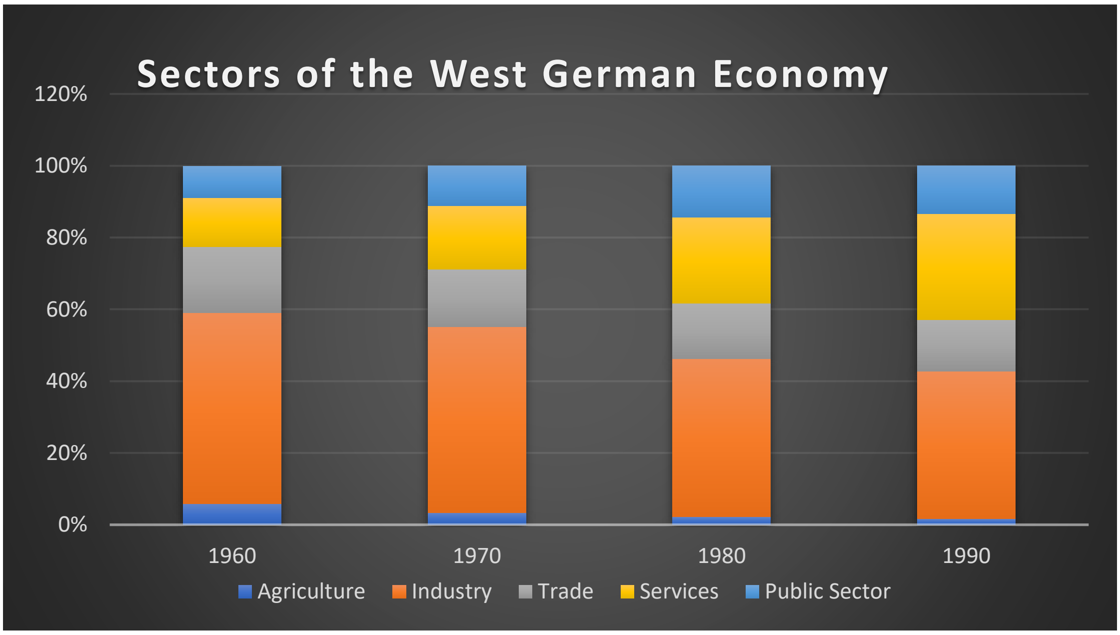


Maps: The University of Texas at Austin

[24] Fink, C., & Schäfer, B. (2010). Ostpolitik, 1969-1974: European and global responses.
[25] Pond, East-West German trade up 8 percent 1982
[26] Brandt, *Two States, One Nation (October 28, 1969)* GHDI Document
[27] Maps: The University of Texas at Austin

Zero Hour: 1989 West

After the 1973 & 1979 oil crises, the next whole decade West Germany focused in restabilising the economy, especially after the election of Helmut Kohl to the chancellorship. Kohl and his “Turn Policy”[28] was dedicated to tackling the rising unemployment (almost doubled from 1981 to 1983) by passing liberal economic reforms. Indeed, the socialist era of 1969-1982 left FRG with problems, which mostly plagued the economy directly, such as inflexibility of the economy, increase in labour costs, and an extensive and expensive social system[29]. The results of Kohl’s implemented policies are shown though the chart below, presenting a steady growth of the services sector (23.9% in 1980, 29.5% in 1990), instead of manufacturing, which shrunk considerably from 53.2% of the economy to 41.1%.



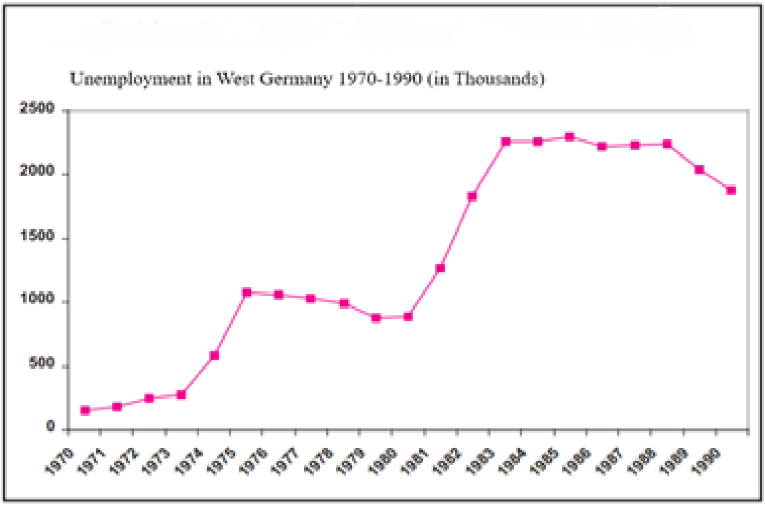
Source: Statistisches Bundesamt

This could be translated into:

- The maintenance cost of industry being too high
- The declining profit rate of industry (due to maintenance), which led to the de-industrialisation of the USA and the UK.
- Almost complete privatization of the state-owned post and rail services
- The federal government's privatization earnings amounted up to around 9.4 billion marks between 1983 and 1989[30].

[28] Wendepolitik in German.
[29] Zohlnhöfer & Zohlnhöfer, *Die Wirtschaftspolitik der Ära Kohl 1982-1989/90* 2001

Finally, Kohl's Wendepolitik has been successful, regarding unemployment and liberalising the economy, which is apparent in the next chart.



Source: Konrad Adenauer Stiftung

Despite the unemployment and some minor problems, by 1989 West Germany starts to resemble today's economic colossus[31], whose structure and trends approach those of a reunified, post-Cold War Germany, which emerges as the dominant economy within the ECC with a very strong currency. Even though East Germany has been between the 8th and the 10th largest economies in the world, West Germany still dwarfed the GDR economy by a large margin (FRG had almost 10 times the GDP of GDR), the exact numbers presented below:

Germanies (1989)	West	East
GDP (bn Marks)	2.236	230
GPD per Capita	36.200	14.000
Imports	513.7	49.2
Exports	649.1	48.3
Population (mil)	61.8	16.4
Workforce (mil)	27.6	9.3

Source: Statistisches Bundesamt

[31] Protzman, *West German Economy Continues to Strengthen* 1989

Zero Hour: 1989 East

East Germany by that time had a heavy industry composed mainly of electronics, chemistry and machinery, with elements of an auxiliary light industry and textiles. The macroeconomic prospect was stable (except the virtual inflation, which was controlled by the state), while unemployment was low. The main problem of the GDR was the inefficient centrally planned economy, and it started to look grave. Furthermore, 1989 marks the 40th anniversary of the founding of GDR, with an aging Erich Honecker stating to his people[32]:

"*Like the Soviet Union, which liberated us, and the People's Republic of China, which is also celebrating the 40th anniversary of its founding, the People's Republic of Poland, the Czechoslovak Socialist Republic, and other socialist countries, the GDR will also cross the threshold into the year 2000 with the certainty that socialism is the future*."

In hindsight, the Soviet Union was in an irreversible road to dissolution resulting in oil shortages in the GDR, crucially needed to run the industries. Except that the USSR has been an important trade partner, a potential dissolution would mean that the whole existence and purpose of East Germany would cease to be, since GDR was a mere puppet-state of the USSR, with no popular mandate, history, or any characteristic that would distinguish eastern from western Germans. That applies to the economy as well since East Germany was heavily dependent on the USSR, exporting as much as half of its foreign trade with the Soviet Union[33]. On the other hand, the GDR had the largest imports[34] within the Warsaw Pact (10.8%) from the USSR.

Socioeconomics may well have been the final nail on the East German coffin, since the population was steadily decreasing and aging (from 18.3 mil in 1949 to 16.4 in 1989), while the workforce has been stable at 9.3 mil. This is a concerning signal of any economy, indicating that the industrial productivity has been low, with marginal growth of the labour market almost reaching zero. With no labour growth and an unproductive planned economy, the impact of a potential crisis could be disastrous since there were no "economic brakes" to hold the unravelling pattern of recession.

Yet the statistics of GDR gave an embellished picture, that the industries were booming with certain sectors, such as the electronic manufacturing almost doubling their production in just a decade, and the rest having a yearly average 3% growth, amounting up to 30% in a decade. The table below confirms that the collapse of the GDR has not been necessarily an economic one, rather a combination of a socioeconomic Zeitgeist since the important industries were growing at a steady rate. The main problem was low productivity, which in turn stemmed from the structure of the GDR. Still, even after the reunification there was hardly any improvement in the East, even though free market economics have been introduced in East Germany, which underlines the fact

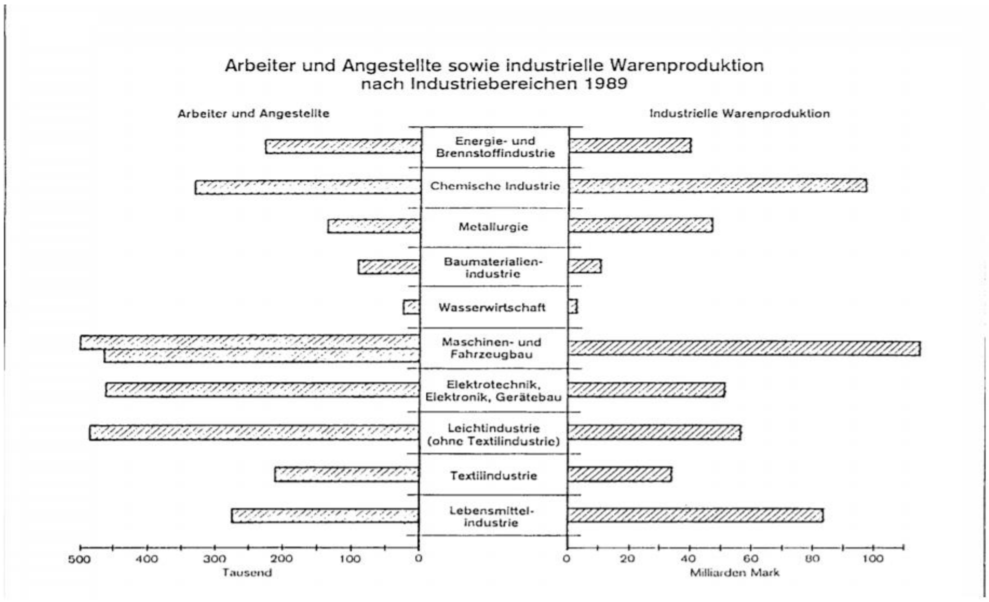
[32] Honecker, *on the 40th Anniversary of the GDR (October 6, 1989)*, GHDI Document
[33] Vale, M., & Bethkenhagen, J. (1982). The Development of GDR Economic Relations with the USSR. International Journal of Politics, 12(1/2), 232-260.
[34] Benson & Clay, Eastern Europe and the former Soviet Union: economic change, social welfare and aid 1992

that GDR suffered the same fate[35] as post-Cold War Russia[36]. The essence of this thesis is to showcase the lost potential of those sprawling and important industries, which were lost in the wind of ad-hoc and mass privatisation.

Industry Sector	**1980= 100**		**Average Yearly Sector GDP Growth (%) 1981-1988**	
	1990[37]	1989[38]	1990	1989
Energy	126	128	2.9	3.1
Chemistry	121	131	2.4	3.4
Metal Working	115	127	1.8	3.0
Construction	109	112	1.1	1.4
Water Management	112	112	0	0
Vehicles	137	142	4.0	4.5
Electronics	195	201	8.7	9.1
Light Industry	127	130	3.0	3.3
Textiles	120	123	2.3	2.6
Food	114	116	1.7	2
Total	130	135	3.3	3.8

Source: DDR - Statistik Grundlagen, Methoden und Organisation der amtlichen Statistik der DDR 1949 bis 1990

The sheer size of the East German industry can be shown from a chart taken from the yearly statistic book of the DDR (1990):



Source: - Statistik Grundlagen, Methoden und Organisation der amtlichen Statistik der DDR 1949 bis 1990

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[35] Hare, P., & Muravyev, A. (n.d.). Privatization in Russia. International Handbook on Privatization. doi:10.4337/9781781950951.00029

[36] Oldfield, *Structural economic change and the natural environment in the Russian Federation". Post-Communist Economies* 2000

[37] With data clearing

[38] Without data clearing

The middle bar shows the industry sector, left side presents the number of employed in each sector and right side the production (bn marks). Three notes are apparent in this chart. First, the East German economy is now fully industrialised and mirrors the effects of the NES and ESS back in the late 60's early 70's, which excludes GDR from the services sector in contrast with FRG. Secondly, only the chemical industry (second bar) is productive with the rate of production/labour being almost double than the rest of the industries. Thirdly, and most important is that the three cornerstones of employment machinery, electronics and light industry (6th ,7th and 8th bar respectively) are highly unproductive, especially machinery which employs almost 1 million people and yields "only" 120 bn marks. If the East German GDP is estimated around 230 bn (western marks), assume the stable[39] 1:5 West/East mark[40] exchange rate, and if the table above is to be trusted, the following results can be extracted:

- Machinery: Produces 9.56% of the GDP with 900 thousand workers. The productivity[41] is 0.13
- Electronics: Produces 4.34% of the GDP with 450 thousand workers. The productivity is 0.11
- Light Industry: Produces 5.21% of the GDP with 475 thousand workers. The productivity is 0.12
- Chemical Industry: Produces 8.69% of the GDP with 350 thousand workers. The productivity is 0.28

Thus, the low productivity shown above (productivity in the GDR was some 40% lower than in the FRG) combined with the factors that follow, explain why there has a major fall in GDP growth, a surge in the unemployment and another mass exodus to the western Länder of Germany after the reunification. 1) The current equipment in use was introduced in the late '70s- early '80s. resulting in high maintenance costs (table below). 2) The aforementioned maintenance cost, while the workforce and production remain the same, lowers the marginal profit of the industries even more. 3) The rising oil price (due to USSR's declining) led much of the industries to be unprofitable. 4) East Germany was constantly expanding its industries, effectively exponentialising the recession circle.

Age of industrial equipment in use (%) 1989	**GDR**	**FRG**
Less than 5 years	27	40.2
5-10 years	22.4	29.7
10-20 years	29.2	24.7
Over 20 years	21.4	5.4

Source: bpb, Die Wirtschaft in der DDR

[39] Rooks, *Picking up the pieces: The story of East Germany's central bank: DW: 29.06.2018*
[40] 1:10 in the black market, as there was no exact exchange rate
[41] Billion per one thousand workers

Political Union

Right after the fall of the Berlin Wall in a parliamentary speech Kohl sent a clear message to the world that the reunification process has started and will be delivered as soon as possible, to deprive the opposition at home and the global powers of much needed time to act.

The most notable objection within FRG came from the former chancellor and founding father of the German-German relations Willy Brandt, who was opposed to a rushed reunification and was an advocate of a federation between the FRG and GDR. In February 1990 Brandt gave an interview[42] in Der Spiegel, which in hindsight proved to be prophetic:

BRANDT: Whatever government is in Bonn will answer: "Friends, slow down. First, we have to see how fast the economy can adapt, how the currencies can be merged, how the social legislation can be adapted." […] There have been cases in the world in which good came of chaos, but there is no guarantee that good will come of chaos here. Only this is certain: what you are implying (that a swift reunification is dangerous) is possible and would also be highly undesirable. Such a scenario can only be averted if the people over there (in the GDR) are told: It will not take years for things to change; things will change this year and next year, and the change will be dramatic. Otherwise we will be in for a big sprint or a real mess. Perhaps it will happen, but I am in favor of preventing it. […] I have nothing against speedy unification. I am only saying that it will not solve any practical problems. A monetary union will not come simply because millions of people get up and move instead of thousands.

On the other hand, just a few days after his speech in 1989 Erich Honecker resigned due to health reasons[43], which was a fine façade covering what was really happening behind closed doors. Gorbachev's reforms and the Nonviolence movement has been the beginning of the end for the ailing GDR. Additionally, after Honecker's hasty removal the leadership of the country was tumultuous. The premiership was assigned to Hans Modrow, who intended to slow down the reunification project[44], aiming at a federal Germany composed of the former two states. However, in 18th of March 1990 when the first free elections[45] took place, the "Alliance" (a merge of parties, which the CDU was predominant) of West Germany has achieved a landslide electoral victory[46] of 49.8% and the CDU-aligned Lothar de Maizière became prime minister of DDR, who shared Kohl's vision and policy of reunification.

Finally, in May 1990 the "Monetary, Economic and Social union between the Federal Republic of Germany and GDR" was signed (1st of July into effect), thus uniting once more the two Germanies. Finally, the new Bundesrepublik Deutschland has received

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[42] Koch & Wirtgen, Die Einheit ist gelaufen" Willy Brandt Der Spiegel, February 5, 1990.
[43] Malycha, *Auf dem Weg in den Zusammenbruch (1982 bis 1990): bpb* 2011
[44]Schmale, *Treffen von Hans Modrow und Helmut Kohl 1990: Die Delegation aus Ost-Berlin fühlte sich gedemütigt*, Berliner Zeitung 2015
[45] Die Partei der Mitte, *CDU Election Promises (January 22, 1990)*, GHDI Document
[46] TAZ, *Election Victory for the "Alliance" (March 19, 1990)*, GHDI Document

the “blessing” of the former allies (USA, USSR, UK and France) in September in the form of the “2+4 agreement”.

The political union, namely what would be the internal structure of the future Germany, proved to be crucial for the rest of the aspects of the union and a catalyst of consequences, since each option would have different outcomes, not only for Germany but also for the European Community as a whole. Whilst Kohl’s 10-point programme indeed achieved a political union by successfully merging the two states, there was opposition not only from some of the GDR officials, but also from within the FRG, reason being that a federal state of Länder was not the only option, and not necessarily the right one. The main three (plus one) proposals follow:

1. Sovereign State: One central governmental entity to organise and administer the country. For example: UK, France
2. Federal State: The sovereignty and the administration are shared between the federal government and the member-states (Länder). For example: USA, Germany[47]
3. Confederation: There is no central government and each member-state has its own sovereignty. The only common policy is foreign affairs and security policy. For example: Switzerland.

The fourth one could have been the Modrow proposal of a Federal State, composed of only two member-states (West and East Germany) and not the 16 Länder as member-states. In the end it was decided that the Federal State of Germany would be composed of Länder, and thus there has been the reintroduction[48] of the Länder system in East Germany (abolished in 1952), which now consisted of 5 Länder (6 with Berlin). In general, there are three frameworks to compare and analyse Germany:

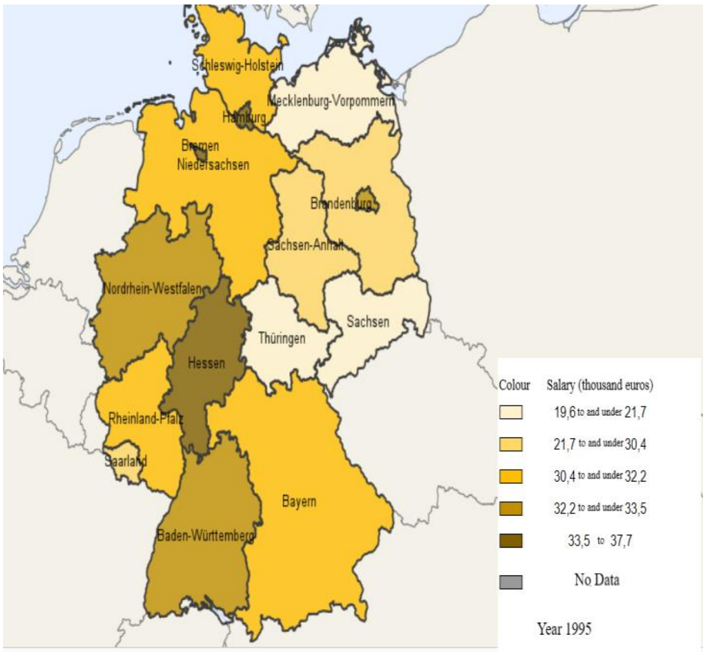
1. As a single entity, namely the Bundesrepublik Deutschland.
2. Each Land/ member-state on its own as a separate entity (Bavaria, Saxony and so on).
3. As a group of Länder, which form the former FRG and GDR.

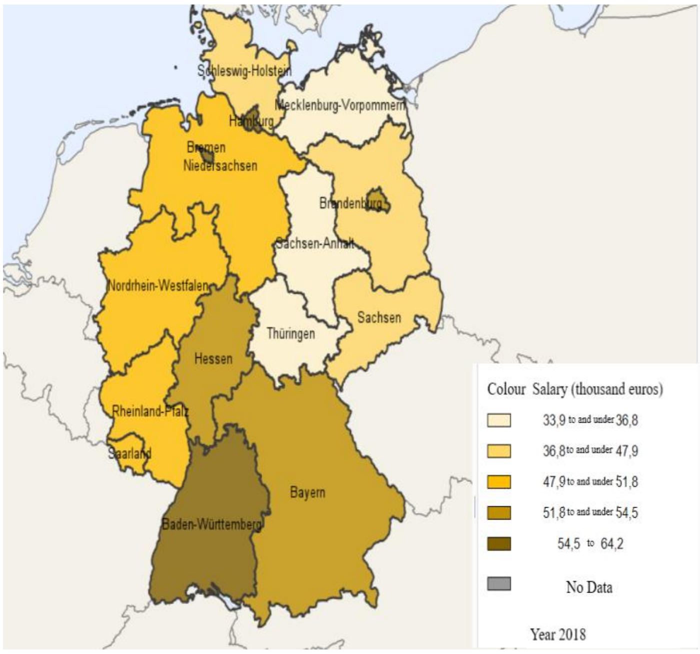
The first and the second comparisons cannot fully detect and indicate the aftermath of the reunification, since Germany as a single entity remains an economic powerhouse and the locomotive of the European economy. Länder-wise, the economic capabilities of each member-state vary by a large margin. For example, there are the small and symbolic city-states, such as Bremen, Hamburg and Berlin, but on the other hand there are some member-states of Germany, such as Bavaria, Nordrhein-Westfalen and Baden-Wurttemberg, who are richer and more populous than current member-states of the EU.

[47]Decided to be a federal state in the Monetary, Economic and Social union between the Federal Republic of Germany and GDR

[48] Rudolph, *The Reestablishment of the Länd*er (*April 19, 1990*), GHDI Document

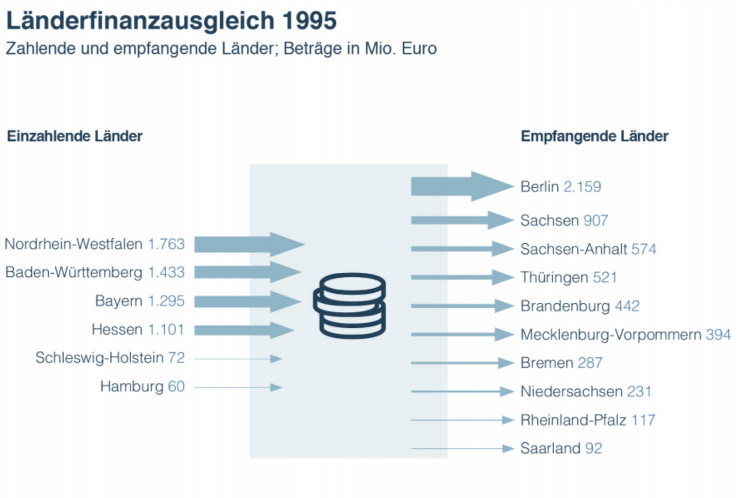
Yet, if there is a comparison between two groups of Länder (3rd framework), which automatically leads up to a West vs East divide, one can easily observe that even today the impact of the reunification, which took place 30 years ago, is still present, since the is a distinct economic divergence between the former FRG and GDR. The essence is that in the three decades that have passed, the reunification equilibrium has a positive sign, and regarded as a “win-win” outcome. Indeed, the first framework presents that after a turbulent decade Germany as a single entity has reaped the benefits of reunification. The second framework is no exemption, since virtually all Länder have experienced in absolute terms an economic upswing. Yet as stated above, the third framework is the indicator of the partial failures of the reunification. The two tables below showcase the average salary in Germany in 1995 and 2018 respectively.

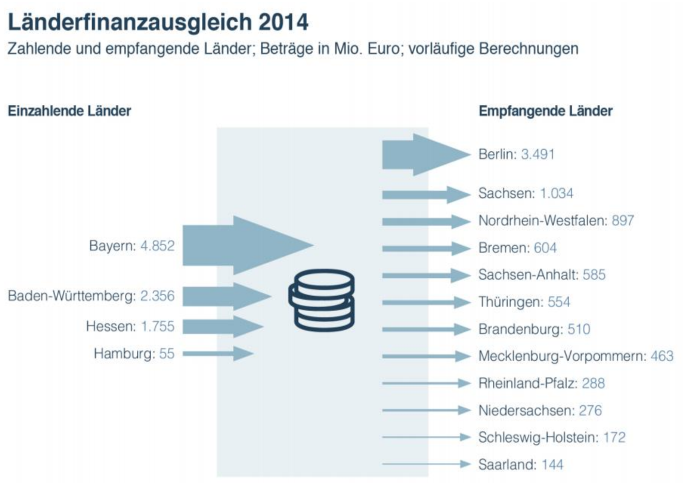




Source: Statistisches Bundesamt, GENESIS-Online

In absolute terms the prosperity of each Land has increased considerably and especially in the East, due to the expansive funding it received from the Bundestag. The financial capabilities and inequalities between the two states have just reached a new level and height, but the distance between East and West still exists, and by no means is shrinking. Furthermore, the three frameworks which compose Germany will be further used as a scale to compare the monetary, economic, and social convergence or divergence of the two former states today and composes the core of this thesis.





Source: Bundeszentrale für politische Bildung [49]

The table above is the equalisation payments scheme, which depicts contribution (in mil) of the member-states to the federal budget in 1995 and 2014, with Länder on the left contributing, and withdrawing on the right. It is no wonder that in 1995 there is not a single one ex-GDR Land in the contribution column, since the whole country was going through a phase of rebuilding, but still the gap between the first and the second place in the amounts withdrawn is striking. The balance of 2014 is illuminating, and three conclusions can be made. Firstly, neither of the new Länder have contributed to the federal budget even after the immediate effects of the reunification. Secondly, the needs of each withdrawing Land have increased slightly over the years. Thirdly, there is proof, combined with the two tables above, that in terms of economic inequality and dependency, far too little has changed for far too long. Even if there has been a convergence tendency of the two former states at some points, the gap between them has not been bridged, and the socioeconomic divergence is stagnant.

Apart from theory, the political union of Germany was not accomplished in one day (just as the building of Rome), since each and every sector, service and union that has been separated, had to merge homogenously, efficiently, and swiftly. Bearing in mind that the turbulent times from the fall of the Berlin wall to the reunification had disturbed irreversibly the status quo, fierce negotiations commenced in virtually all aspects of German life. It is no coincidence that the first actual union between the two Germanies was the union of the western and eastern branches of the IG Metall[50], the German union of steelworkers, which boasts 2.27 mil members today (nearly 7% of the total workforce) and is the largest workers union in Germany and Europe. IG Metall mainly represents the automobile industries and the steelworks of the Rhine. The blitz reunification of this enormous institution indicates that besides the romantic perspective of the historic moment, economics, interest, and social contracts remain even after the passing of the 3rd of October 1990.

[49] Bundeszentrale für politische Bildung, Die Frage nach den Kosten der Wiedervereinigung: bpb 2015
[50] *Unions in a Reunified Germany*, (June 20, 1990), GHDI Document

Monetary Union

Although it is a considerable task to isolate the economic, monetary or social aspects, this chapter will attempt to address the monetary consequences of the Wiedervereinigung and its impact on the economies of the FRG and the newly integrated 5 Länder. The monetary union had not only changed the currency of the GDR from East Mark to D-Mark, but also has ignited the fuse of the GDR's economic implosion. For example, the monetary-social link can be traced in the demonstrations that called for reunification in the GDR: If the D-Mark comes then we will stay, if it does not, we will go to it. This was a "blackmail" of the people threatening to mass emigrate to the West if their demands were not met.

And the demands were met indeed. On the 1st of July 1990 one could go to the bank[51] and exchange East German marks for the much-desired D-Mark at the exchange rate of 1:1 or 2:1 (mostly). The exact exchange rate was a herculean task, as a miscalculation could drive the Staatsbank (East German central bank) on the run or it could be the end of the East German industries if the 1:1 exchange rate was adopted, since the average salary would be multiplied by seven overnight[52]. The Staatsbank advocated for a catholic 7:1, yet the government has deemed necessary that the conversion had to be flexible according to certain criteria, since even with an exchange rate of 1:2 most East Germans would still fall below the poverty line. The final exchange rate table[53] follows:

- **1:1**
    1. For people up to 14 years of age for up to 2.000 marks in the GDR account balance
    2. For people up to 60 years of age for up to 4.000 marks in the GDR account balance
    3. For people over 60 years of age for up to 6.000 GDR bank accounts
    4. Wages, salaries, pensions, rents, and lease costs
    5. On average, the conversion rate, based on all accounts receivable and payable of the money and credit system of the GDR, was 1.8:1

- **1:2**
    1. If the credit (above) exceeded the amounts to be preferably converted, the conversion took place at a ratio of 2:1
    2. Bank balances of natural and legal persons domiciled outside the GDR, which arose before December 31, 1989
    3. The balances of legal persons or other bodies

- **1:3**
    1. Credits accrued after 31/12/89
    2. Bank balances created after 31/12/89

[51] Baum, A. (2015, June 29). Währungsunion vor 25 Jahren - Als die D-Mark in die DDR kam.
[52] In 1990 the exchange rate was 1:7
[53] Mdr.de, *Mark für alle* 2020

One can observe particularly easily that virtually all conversions took place on-the-counter and there is no mention of any date after 1989. Because there was none that is. Those who did not manage to convert their marks from 1st to 6th of July 1990, saw their deposits rendered to just paper whether it was a piggy bank or life-long savings, with the movie “Goodbye Lenin (2003)” being an exceptional example. As mentioned above, Kohl preferred a blitz process of unification whatever the consequences might be, than a steady and safe course.

All in all, after the monetary union[54] a total of 431 billion East German marks were exchanged for the deutschmark, 62 billion at a 1:1 exchange rate and the rest for 2:1. Still, the single currency system was not complete, since all the East German coins weighing about 450,000 tons and nominally worth 640 million marks were simply melted down right away for their metal — mostly aluminum. East Germans jokingly named these coins “Alu-Chips”, since they were very light and similar to toy coins. Most of the metal was handed to the automobile industries[55], so its highly possible that a common german car still bears a fraction of the history of the reunification. Initially, the GDR banknotes were laid to rest in an abandoned tunnel only to be found by a company of teenagers, causing amok in the KfW, the successor of the Staatsbank, which decided in 2002 that the rest of 3.000 tons of banknotes to be funneled in the incinerator.

The instant transaction led to a black market surge[56] and mysterious accounts of prominent East German politicians suddenly started vanishing into thin air. A Vienna-based company named Novum was set up by the East German government in 1951 to oversee all business transactions with the West. In 1990 all Novum's holdings became the property of the FRG. When East Germany collapsed the CEO transferred millions from Vienna to Zurich and then made 51 withdrawals to drain the accounts. The fund was worth €168 million. In another case[57] in which the Stasi was involved, a Berlin-based decoy company, FC Gerlach transferred close to €75 million to an Austrian bank (Schoellerbank) in the account of the fictitious company Anstalt Fortintakt, registered in Liechtenstein. It was controlled by Alexander Schalck-Golodkowski, a special officer of Stasi. Schoellerbank initially refused to release the funds from the Fortintakt account. But following the ruling by Austria's Supreme Court, the bank has transferred the full amount plus interest, totaling €146.5 million. Only the second lawsuit has been won and the sum was delivered to Germany.

Yet, the real impact of 1:1 or 1:2 on the GDR economy was devastating for the industries. There were concerns[58] even from the Staatsbank, which advocated for a 1:7 all-purpose exchange rate, since anything lower than that, would rend a large percentage of the East German industries uncompetitive, since the labour costs would skyrocket. The 1:1 salary conversion[59], the mass exodus to the West, the influx of not

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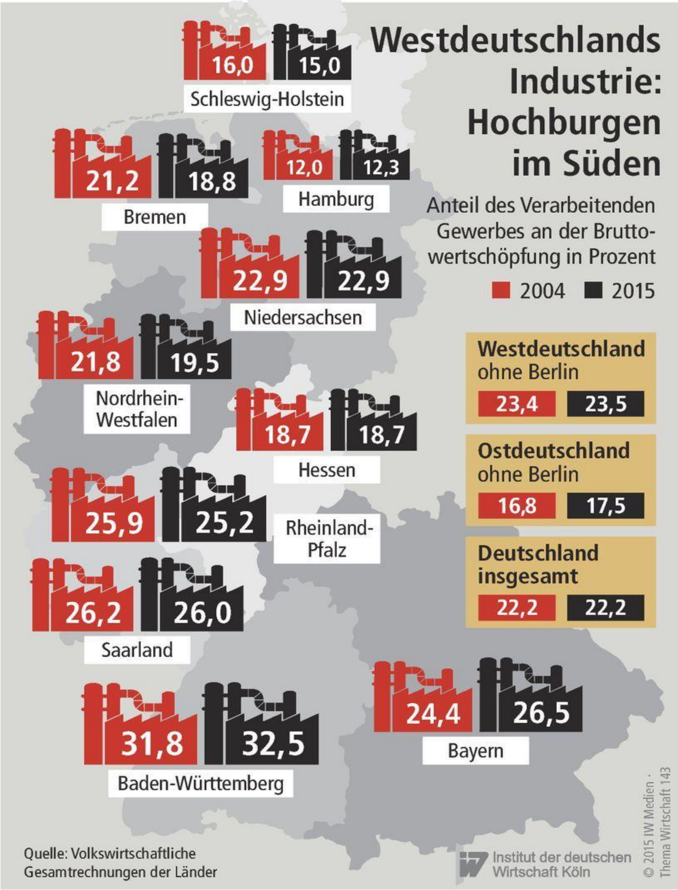
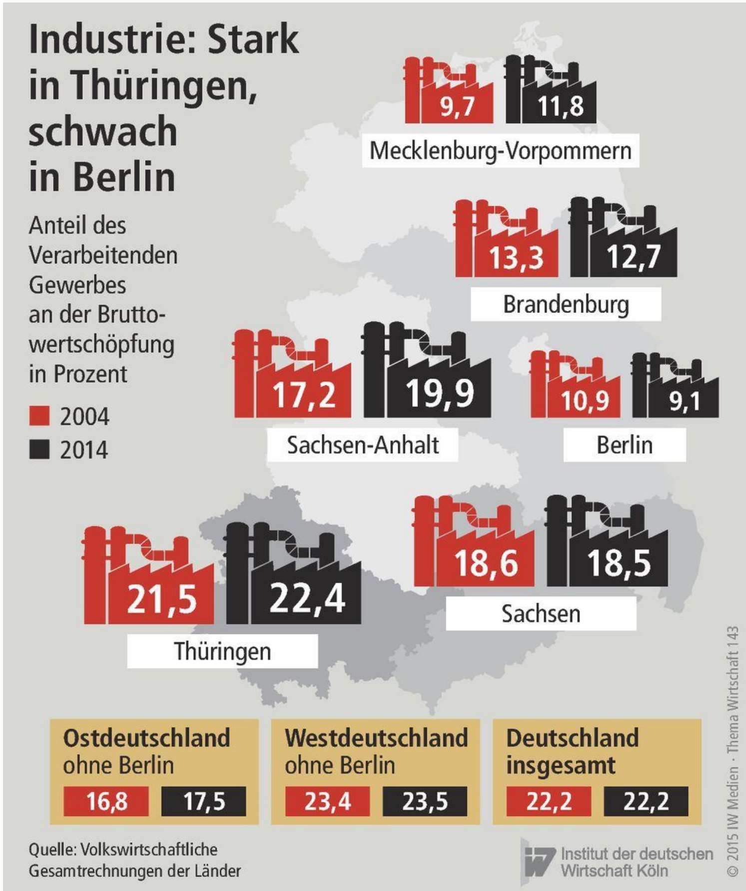
[54] Rooks, *Picking up the pieces: The story of East Germany's central bank* 2018
[55]www.dw.com, *East Germany's phantom banknotes: DW:* 2014
[56] www.dw.com, *Swiss court denies Berlin's attempt to retrieve lost East German millions: DW:* 2018
[57] www.dw.com, *The Hunt for East German Money: DW:* 2004
[58] Ther, *Preis der Einheit* 2020
[59] Pötzl, *"Halleluja D-Mark"* 2020

only West German, but also EC products, were some of the causes of the collapse that ensued[60].

The monetary damage to the industries can be deducted from the two tables below, which present the share of the manufacturing industry in gross value added in percent. Even though in the 21st century the services sector is taking over as the main body of the economy, the imbalance between the eastern and western industry is still noticeable since the difference between Baden-Wurttemberg and the rest of the new member-states exceeds 10%.





Source: Volkswirtschaftliche Gesamtrechungen der Länder

Furthermore, on the banking sector the situation has been far worse. For example, one of the immediate results of the single currency was that nearly 4.4 million private East German bank accounts holding 900 million marks, and 74.000 business accounts holding 3.2 billion marks were not converted, either because the proper applications were not filled out, or they were simply forgotten, or the owner was deceased. Apart from the fact that the exchange rate surely benefitted the employees and doomed the employers, the monetary union had various aspects, such as the fate of the aforementioned Staatsbank.

In 1994 the Staatsbank has been incorporated in the Frankfurt-based Kreditanstalt für Wiederaufbau (KfW), a government-owned development bank which supervised the

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[60] Baum, *Währungsunion vor 25 Jahren - Als die D-Mark in die DDR kam* 2015

rebuilding-Wiederaufbau of East Germany. According to the KfW[61] archives, the bank has provided a total of around €104 bn for the commercial economy of Eastern Germany within 25 years. €73 bn of this fund was used to support start-ups and business investments, while €31 bn was used for commercial and climate protection. Still, due to the flexible exchange rate, the banking system of the GDR faced a new crisis, since the assets of the banks converted to 2:1, but the liabilities were converted to 1:1, resulting in the reduction of the net worth of the banks. Finally, a market-based banking system was introduced in the GDR with unrestricted capital flows and freely determined interest rates.

An IFM paper[62] in 1990 reports that two measures had to be adopted to deal with this problem. Firstly, the balance administered by Staatsbank, which derived from the difference between the official exchange rate, and the commercial exchange rate on hard-currency trade, was written down to zero. Secondly, it was decided that after adding up all the assets and liabilities of each banking institution and converting net worth into D-mark at 1:1, each institution's assets would be increased to the extent necessary to balance the books by issuing equalisation claims. This clearing method has indeed saved the banks from defaulting.

Regarding the transition from Mark to Euro may well have further consequences for the post-reunification eastern Länder since the currency was revaluated once more, whilst there has not been given enough time for the economy to cool down after the events of 1990. Observing the Eurozone today[63], only a handful of the former eastern bloc countries and soviet republics have adopted the Euro as their currency, with the first one being Slovakia in 2009, given the poor state of their economic and financial structure. Yet Germany adopted the currency in 1999 and so had East Germany, who in just a decade had two revaluations similar to each other, with D-mark/ Ost-mark exchange rate at 1:1 or 1:2 and the Euro/ D-mark at 1:2 (0.51 to be exact).

[61] Volk, *25 Jahre Deutsche Einheit* 2015
[62] Lipschitz & McDonald, *German Unification: Economic Issues Occasional Paper No. 75* 1990
[63] *Convergence Reports of the EU* (1998-2014)

Economic Union

The European Commission in a report[64] in 1992, states the following:

“The chosen approach to unification was to expose the East German Economy to there “big bangs”: (I) The immediate abolition of protectionist instruments as a consequence of economic and monetary union, (II) The sudden and complete integration of the East and West German labour markets as restrictions on migration were lifted and (III) The imposition of the legal and institutional framework of a developed market economy as a consequence of political unification.”

The statement above summarises the economic dilemmas which occurred immediately after the reunification of Germany, and these three points can be divided to three economic levels. The micro level can be translated into the liberalisation of the GDR market, the meso level regards the integration of the labour markets of West and East, in a homogenous entity. Finally, the macro level consists of a joint framework between those two entities, as well as their future common development. Previously, a set of three comparisons/frameworks has been introduced towards the reunification, and the third one (comparison in groups of member-states) will be the main axis of analysis of the economic outcome.

The first economic dilemma, namely the micro level regards the role of Treuhandanstalt[65] (Trust Agency) in the privatisation and liberalisation of East Germany, as well as the implications which the agency ushered. The second dilemma (meso level) dwells into the efforts of the Kohl government to combat the recession of the East with expansive fiscal policies (German Unity Fund and the Solidarity Pack later on) and filling the void that Treuhand left in its wake. The third economic level will be merged with the next chapter, which will examine the aspects of the social union of Germany and the impact of the Wiedervereinigung in recent years, as it is far more vague than the first two dilemmas and cannot be specified directly.

The Treuhand period started in 1990 just before the reunification treaty took place and ended in 31st of December 1994, when the government abolished the agency, due to economic deficits and pretty much the hatred amongst the East German people[66]. The main goal of the agency as stated above, was to oversee the transition from state-planned to free market economy, and thus all the assets of the state were merged into a single portfolio to manage, liquidise and distribute. The catch is that nearly all of the enterprises were either state owned or under direct control of the government, meaning that a single agency ended up bequeathing a whole economy in its briefcase.

This claim might indeed seem exaggerated to some, but the balance accounts show otherwise, since Treuhand managed from sprawling industries[67], accounted for the

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[64] Kröger & Teutemann, *The German Economy after Unification: Domestic and European Aspects* 1992
[65] Treuhand from now on
[66] Breuel, B., & Burda, M. C. (2005). Ohne historisches Vorbild: Die Treuhandanstalt 1990 bis 1994: Eine kritische Würdigung. Berlin: Bostelmann & Siebenhaar.
[67] Roesler, *Privatisation in Eastern Germany—Experience with the treuhand* 1994

main bulk of the East German economy, to small cinemas and restaurants. In total[68] the companies amounted up to 37.162, from which 25.000 were small businesses, such as pharmacies, bookstores, restaurants, cafes, and cinemas. The rest 12.162 were enterprises and industries, out of which Treuhand privatised 6.546 businesses, liquidised 3.718, and the rest were either placed under community ownership or simply rebought by the previous East German owners.

This massive sell-out of the GDR economy by only one institution could never deliver efficiently the desired goals, since not only the sheer size of the task was unnerving, but also Treuhand could not systematically sell or liquidate each one at the time. The only viable method was to bundle most of the together, selling them at any price (far below the fair market value) and simply cross out in this method hundreds each month just get rid of them. The unpopularity of the agency was without question high and led to the assassination[69] of its first director general by the RAF[70], a radical-left terrorist group in West Germany, who incidentally was their last victim. This assassination proves that the aspects of politics, economics and social stability were tightly linked together.

Furthermore, the majority[71] of the formerly state-owned companies – 80% of the GDR production assets were sold to West Germans until mid-1994, 14% to foreigners, and only 6% to former GDR citizens. In addition, by 1993 at the latest, almost all management positions and advisory posts in the agency were occupied by managers from West Germany who were responsible for numerous corruption scandals[72]. Their strictly economic approach undermined the industrial base of the East German economy for years and left people unemployed and without prospects. Finally, the Treuhand closed in 1994 with a disastrous legacy, composed of political and social division, economic mismanagement and numerous nepotistic scandals. The last ledger of the fund follows:

- **Income of around 40 billion euros.**
- **Expenditure of over 166 billion euros.**

In autumn 1990 the Treuhand evaluated the whole portfolio to 650 billion Deutschmarks, which proved far lower than the actual value, for example Hans Modrow and finance minister Christa Luft estimated that the value of the portfolio was around 900-950 billion Deutschmarks. Through company sales, 30 billion euros has been achieved added some 10 billion euros from loan repayments, rental and interest income. The high cost is attributed to the assumption of old corporate debts, as well as for the elimination ecological contaminated sites, and for redevelopment, so East German companies could be privatised. Calculated in D-Marks, the trust also earned 66.6 billion in the end, just over a tenth of the amount that was originally estimated by the West.

[68] Bundeszentrale für politische Bildung, Das Vermögen der DDR und die Privatisierung durch die Treuhand: bpb 2015
[69] Bachner, Schmidt, Haselberger, & Schmidt, *Das letzte Opfer der RAF* 2009
[70] Red Army Faction
[71] Bundeszentrale für politische Bildung, Das Vermögen der DDR und die Privatisierung durch die Treuhand: bpb 2015
[72] Karlsch, Die Leuna-Minol-Privatisierung: Skandalfall oder Erfolgsgeschichte?: bpb 2020

At this point a pause is needed to clarify and line-up the causes of collapse of the East German industries, bearing in mind that most of these events and policies (monetary, economic or social) took place simultaneously, on an already “exhausted” economy due to the petrol shortages, high maintenance upkeep, inflexible labour market and political turmoil. These factors plagued the economy in 1989. Finally, in 1990 there is the addition of: 1) the influx of competitive West German and ECC products by early 1990, 2) the monetary union and the introduction of the D-mark, 3) the privatisation of the whole economy, 4) a second mass exodus to the West. All these factors combined, without any surprise, scaled up to complete chaos, not only in the market, but also in the society as a whole.

Was Treuhand inevitable? As always it leads up to one of the classic dilemmas in economics, regarding the question (especially in this scale) between privatisation and nationalisation. By effectively choosing privatisation, the government had not to deal with the collapsing economy and let the free market find a balance (not a perfect one, since billions went down the drain) between the two states that have been just merged. Yet, nationalisation would save indeed the doomed economy, millions of jobs, and the potential of the industries for the future, but would temporarily turn into a fiscal black whole, and as seen before Germany had already enough of them.

Adding the dilemma of nationalisation with the aforementioned third framework of comparison (federation of FRG and GDR), then a transfer union would be practically established between the western and eastern counterparts, since at first the West would financially stabilise the East and then would subsidise the post-communist state, to rebuild, adopt a modern free market adjusted to the demand and supply, and further unlock its potential. That in turn would lead up to a loosened political federation of FRG and GDR with strong economic bonds and would eventually turn into a functional political union with a restructured East German economy. Yet, that would be an obvious power share and no politician would risk funding and strengthening the East, while the West acquired nothing out of this transfer. This is the main difference between the federalisation and the incorporation of the eastern member-states.

The last proposed draft[73] from the East German officials was a colossal loan from the FRG to revitalise and reconstruct the economic system into a free market model and enough time (2-4 years) to implement the laissez faire reforms[74]. The proposal was made by Christa Luft, who advocated for a slow and financed process, to ensure that by the time of the reunification the GDR economy will be able to absorb the economic shock[75]. This meant that West Germany had to finance a backwater, defunct system, whilst having no say on where the proposed capital would be invested. Thus, the proposal was downright rejected by federal finance minister Theo Weigel, who was willing to fund the reunification and the reconstruction of the East, but under certain conditions, which were drafted by himself and the Kohl cabinet.

[73] Orlow, *Socialist reformers and the collapse of the German Democratic Republic* 2015
[74] Winkler, Germany: the long road West. 1933-1990 2007
[75] Jarausch, *The rush to german unity* 1994

In lieu of the conditions which included Treuhand, the federal government has greenlighted a massive fiscal stimulus named Fonds Deutsche Einheit[76], which was exclusively for the newly admitted member-states to reshape and rebuild their economies within the four first years of the reunification. The funding amounted to 115 bn[77] to address the needs of each sector, mainly the neglected infrastructure and the labour market, which sunk[78] from 4.1 to just 1.5 million employed in just three years. Additionally, in 1991 and 1992 another 24 billion D-marks flowed[79] into the eastern member-states through the package " Gemeinschaftswerk Aufschwung Ost[80]".

The federal and member-state governments have invested large sums of money in building an interconnected infrastructure[81]. The supra-regional road network in Eastern Germany has grown by 10.000 km since 1990 and modern railway companies are converting railway tracks and stations so that modern high-speed trains can fit on. The Federal Ministry of Transport has been investing in 17 "German Unity Transport Projects" since 1991, in order to intertwine the old and new federal states closer. The total cost is estimated to be around 40 billion euros to date. Apart from infrastructure, the telecommunications network is also being modernised and expanded. Finally, renovations, refurbishments and construction of new buildings took place, thus reforming the cityscape of East German communities.

In the course of the last 30 years the economic structures in Eastern and Western Germany only slightly approximated[82] one another. The massive state funding has led to a renewal and modernisation of East Germany companies and thus to a technical level comparable, to western german companies. As a direct result of the technological advance the productivity gap is reduced in the East, always a thorn in the side of the specific economy. However, certain contemporary structural differences between East and West have still an impact on the proximity between the two counterparts regarding productivity. In particular, the varying proportions of large companies with strong investment, innovation and exports.

Even under FRG conditions, this daring venture was covered by a veil of mistrust, since West German citizens were not by any means eager to pay from their own pocket[83], either the reunification process or the entire restructure of the GDR. This was expected from a traditionally frugal-minded people witnessing one of the most expansive fiscal projects in history, with reunification funds succeeding one another up until 2019. The first fiscal aid wave was from 1990 to 1995 in the form of Unity Bonds and the Joint Venture Eastern Upswing. 1995 is a crucial year for the unified German state, since Treuhandanstalt had closed its doors, the fiscal programmes expiring, whilst the

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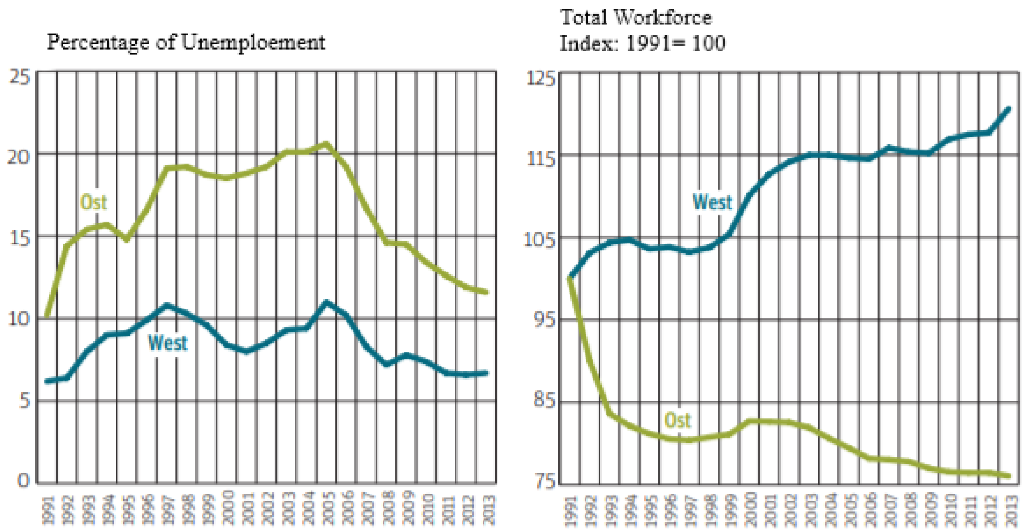
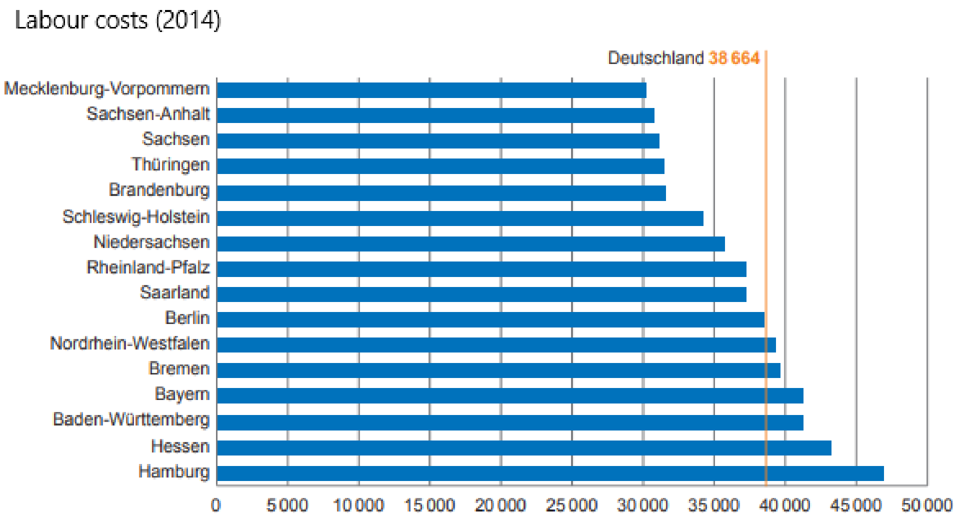
[76] German Unity Fund
[77] Die Bundesregierung, *Vertrag zur Währungsunion unterzeichnet*
[78] Fricke, Ostdeutschland und Mauerfall: Ist doch alles super gelaufen - oder etwa nicht? - Kolumne - DER SPIEGEL - Wirtschaft 2019
[79] Treusch, Vor 25 Jahren - "Gemeinschaftswerk Aufschwung Ost" wird beschlossen 2016
[80] Joint Venture Eastern Upswing
[81] Stiftung Deutsches Historisches Museum, Gerade auf LeMO gesehen: LeMO Kapitel: Infrastrukturmaßnahmen
[82] Bechmann, Dahms, Fischer, Frei, & Leber, 20 Jahre Deutsche Einheit - Ein Vergleich der west- und ... 2010
[83] Protzman, GERMANS IN ACCORD ON A 'UNITY FUND' 1990

reunification process approached the estimated deadline, that Kohl set up five years ago.

Yet, even by that time (just four years after the reunification) the constant reforms and the impact of the Treuhand has changed the former GDR economic landscape for good, especially the labour market, since some 3[84] mil East Germans left unemployed, and thus deepening the gap between the two economies of West and East, with no sign of macroeconomic convergence. On the other hand, this affects the labour cost of the member-states even today, with the gap widening each year:





Source: Statistische Ämter des Bundes und der Länder. (2015). 25 Jahre Deutsche Einheit.

The second expansive fiscal policy[85] can be traced from 1995 to 2019 with the introduction of the Solidarity Pack I ("Soli" as known in german), the same year the eastern member-states were incorporated into the republic's equalisation payments

[84] Source: Der Spiegel, Ist doch alles echt super gelaufen

[85] Die Bundesregierung, Verständigung auf Fonds „Deutsche Einheit"

scheme[86]. The main goal was to stabilise the East and to converge the two economies closer together into a homogenous and balanced economy, by readjusting the inequalities and differences discussed and shown above. To finance the new package, the government contributed a bigger share of the sales taxes it collected and also agreed to compensate those states with sub-par financial resources through a special fund. Up until 2004, €20.6 billion were transferred annually to the eastern states through the Solidarity Pack I. Those states' economies grew quickly in the 1990s thanks to the post-reunification construction boom, but since the year 2000 they have been stuck at only about 75 percent of their western counterparts' average economic output.

During the second wave of fiscal expansion, the government officials now under the Schröder (SPD) administration (1998-2005) had eventually realised, that the reunification aftermath has not been just a temporary issue of five years, but a lifelong process of absorbing the shock and recalibrating the balance between the two former states. In 2001, the federal government and states agreed to continue special financial support and so, in 2004 a second Solidarity Fund (Solidarity Pack II) was greenlighted, since it became apparent that additional funding was needed[87]. In simpler words, a blitz reunification was never a plausible scenario.

After long negotiations between the federal government and the member-states it was agreed, for the funding to resume for additional 15 years and to deliver a total of €156.5 billion[88] in total. Two-thirds were supplied through the equalisation payments scheme, and the rest directly by federal coffers. One of the clauses stated that the now "well-incorporated" eastern member-states have to provide annual accounting of how they used the funds, since were intended mainly for investment purposes only. Critics pointed out that some states were using the money to plug their own budget deficits and according to accounting reports, only one member-state (Saxony) has used all its funding as intended.

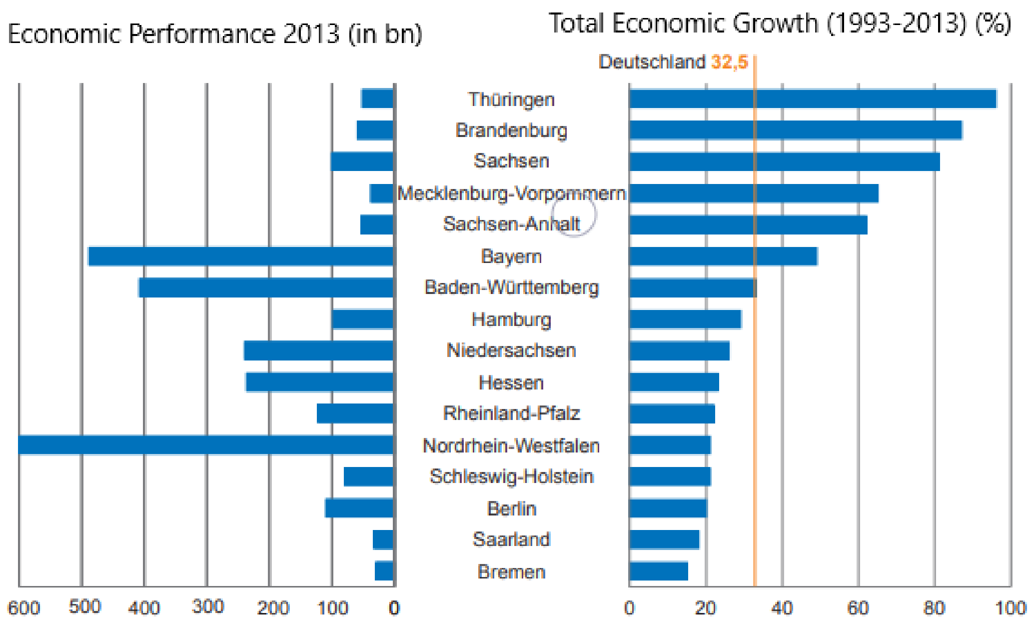
[86] The chart of transfer payments in Political Union chapter
[87] von Dohnanyi, *The Economic Rebuilding of the East under Fire (June 28, 2004)*, GHDI Document
[88] Locke, The Solidarity Pact that provided cash and financial stability to the Eastern German states following reunification is about to expire 2020

Social Union

The term "Social Union" can be interpreted as the everyday life of a German (eastern or western) after the events of the Wiedervereinigung took place. The three last chapters have examined the political, monetary, and economic union between the two states and now it is time to adhere what this meant for the public. How did life change after the events of 1989-90? What were the social implications of the Union, which still stand today? How did the GDP gap affected eastern and western Germans alike, and how did they adapt to the new reality? As already established, this chapter will consist less of economic policies, grandiose quotes and debates, rather will focus on macroeconomic figures, showcasing everyday life, population figures, household items, etc.

As presented above, there are three main frameworks of comparing the Union (Single entity, Member-States, Group of Member-States) and three economic levels (Micro, Meso and Macro). This chapter will mainly focus on the third framework and will examine the Macro effect of the Union, namely the joint cooperation between the new and the old member-states after the reunification.

The following charts and images are mainly based on two major inquires by Die Zeit in 2014 and 2019 (with auxiliary charts from the German Statistic Agency[89]) about the inequalities between the peoples[90], and the mass exodus[91] to the West respectively.



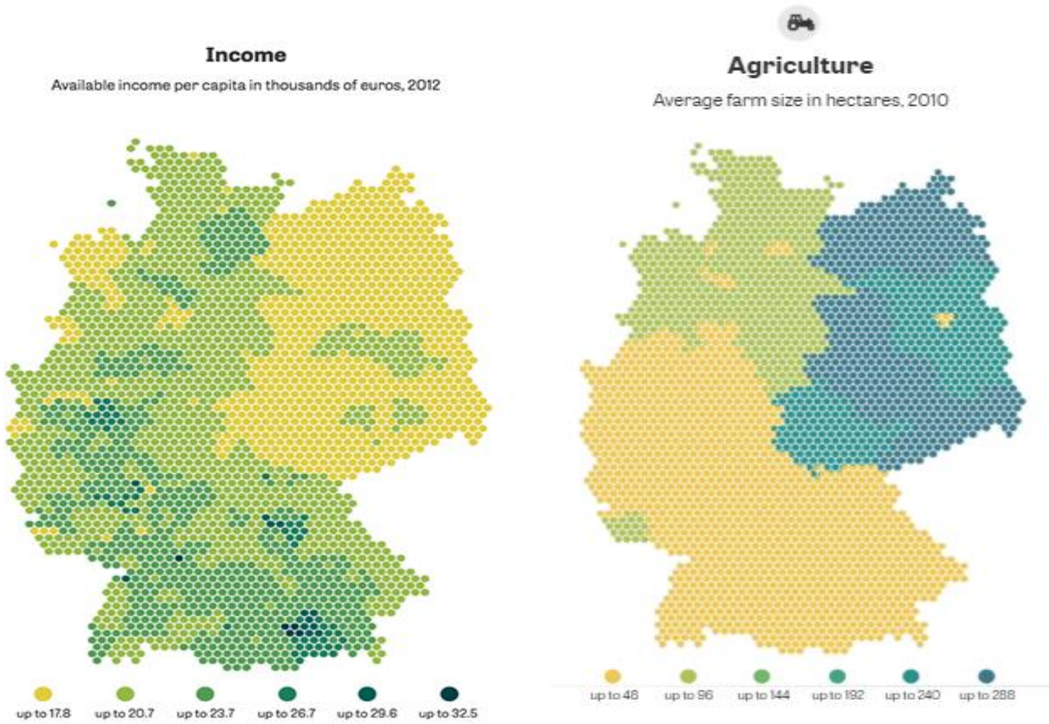
Source: Statistische Ämter des Bundes und der Länder. (2015). 25 Jahre Deutsche Einheit.

It should be noted, that despite the enormous fiscal costs of the reunifications and the stagnant divergence that exists between the two former Germanies, the new member-

[89] Statistische Ämter des Bundes und der Länder. (2015). 25 Jahre Deutsche Einheit.
[90] Die Zeit, *A Nation Divided* 2014

[91] Bangel & et al., *East-West Exodus: The Millions Who Left* 2019

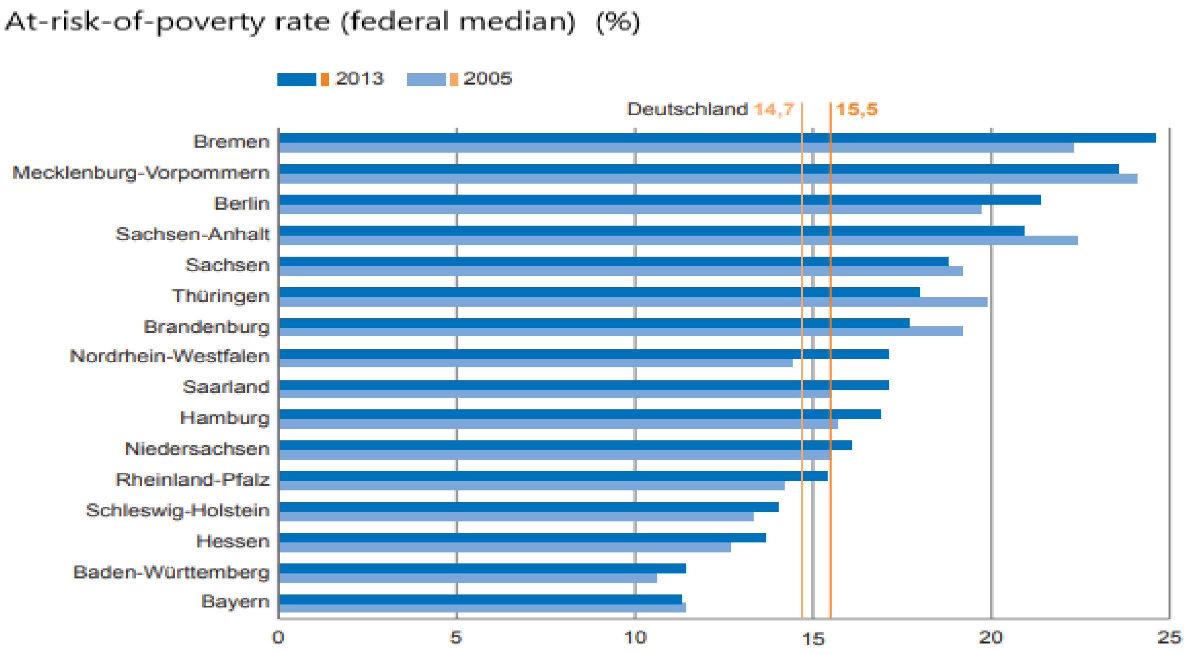
states have enjoyed an unprecedented economic growth, with some even doubling their GDP in just two decades. Yet, with the passing of the second decade from reunification, these Länder still do not reveal their potential to match the performances of the old member-states. Furthermore, income inequality is still a major division between the old and the new member-states. However, it appears another factor is linked with economic inequality, the average farm size of each member-state, which follows:



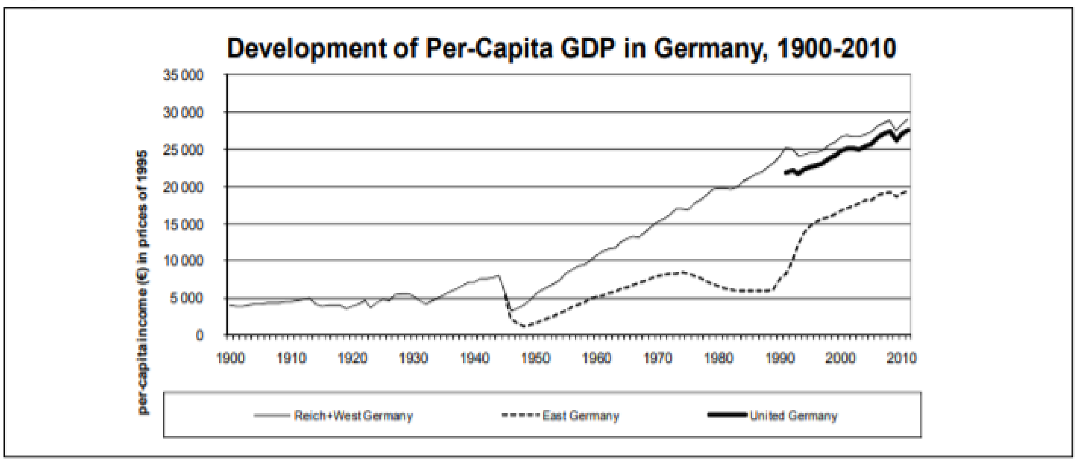
Source: Die Zeit, A Nation Divided

The effects of the collectivisation under the GDR regime are still relevant, depicting an economic notion stuck in the 20th century (with the exception of Berlin), which in turn has a clear impact on the available income, as presented on the picture on the left. With basic knowledge of German geography, one could easily distinguish Munich, Stuttgart, Nuremberg and the Ruhr valley, since these cities rank in the richest scale (deep blue). On the other hand, the former GDR region of occupies the lowest rank, with the exception of Berlin, Potsdam (the upper-middle green dots), Dresden and Leipzig (lower-middle green dots).

Finally, the economic performance and available income rate can be compared with the At-risk-of-poverty rate, revealing that despite the enormous growth experienced by the new member-states, the economic inequalities and the divergence between the former FRG and GDR economies still exist today.



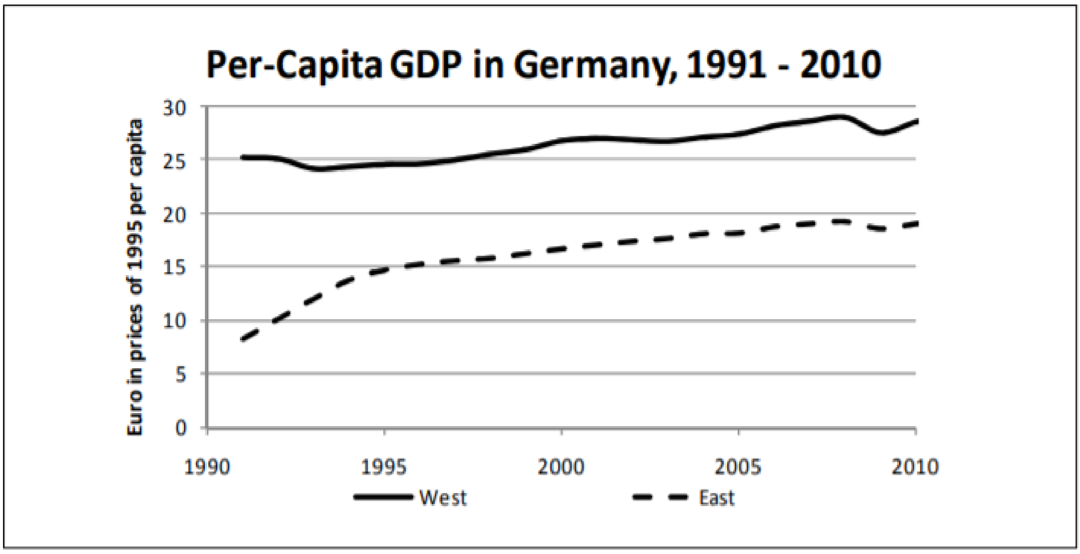
Source: Statistische Ämter des Bundes und der Länder. (2015). 25 Jahre Deutsche Einheit.



Source: Destatis

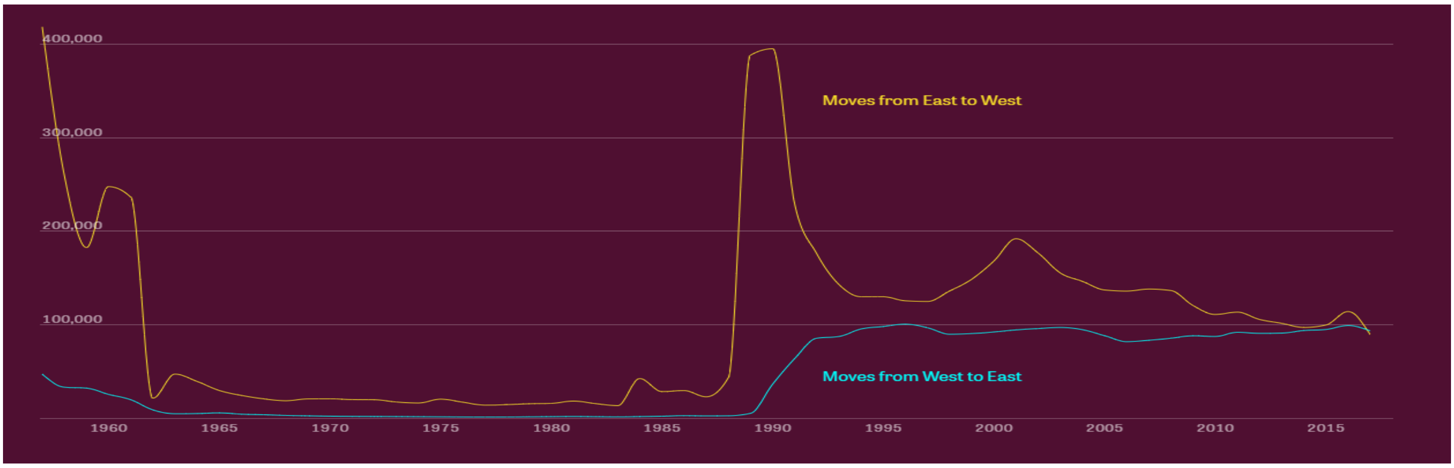
This is apparent in the total Per-Capita GDP of Germany, since the chart below presents that despite the upswing of the East in the early 90's and well beyond, there is by no means converge between the two former states. The main problem is that the unified

Germany rate is still behind the West German rate, thus perpetuating the inequalities and differences between the two states. More specifically:



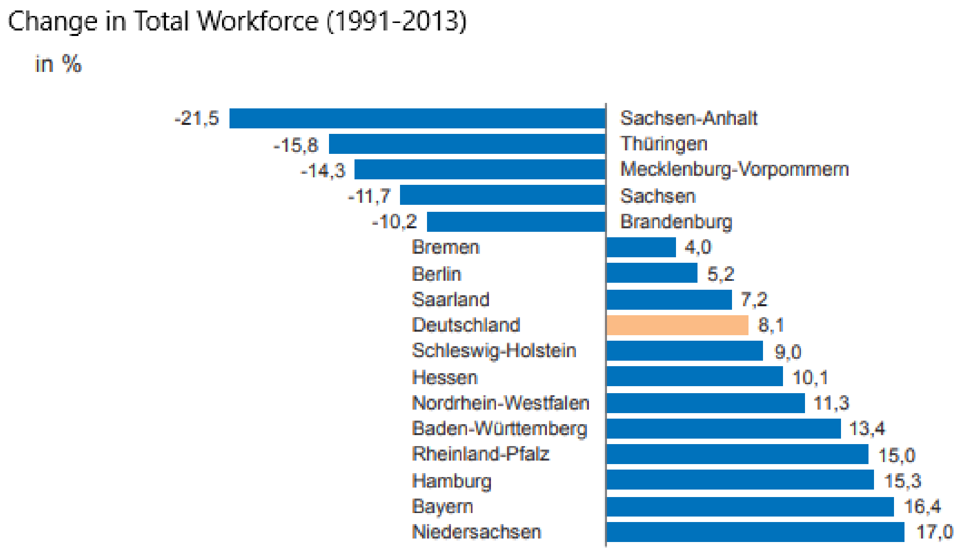
Source: Volkswirtschaftliche Gesamtrechnung der Länder, File R1B1, Destatis.

From chart to chart it is apparent that GDP Per Capita, available income, occupation, available consumer goods and services are interconnected together and with certain regions. All of these factors determine the life quality in West and East, and much more importantly reveal the cause of the mass exodus, which is no revelation. Grass was greener on the other side.



Source: Bangel & et al., East-West Exodus: The Millions Who Left 2019

The diagram shown above depict the mass waves of local migrants, eager for a better tomorrow during the tremulous years, before and after the Wiedervereinigung. East Germany has seen a mass exodus prior to the construction of the Berlin Wall (1961-1989), as 3.5mil East Germans (nearly one fifth of the total population) fled to the West. Then follows the reunification exodus, which formed thanks to border removal between the two states and to the millions left unemployed due to the work of Treuhandanstalt. The third migration wave in contemporary Germany is in 2001, clearly smaller than the previous two, but still the main group that migrated from East to West was mainly composed of young skilled workforce. Finally, if one can zoom close enough, observes that 2017 is considered a landmark year, since for the first time after the reunification more West Germans moved to the East than East Germans moved to the West. Indeed, the wave after the fall of the wall was expected, yet the third and final migration to the West were quite unexpected, since by that time stability has been achieved, partially at least, and the reconstruction was well on its way, with fiscal packages flowing from West to East. All in all, after three migration waves in less than a century left the East deserted, exponentialising even further the divergence between the two former states.



Source: Statistische Ämter des Bundes und der Länder. (2015). 25 Jahre Deutsche Einheit

Source: Der Spiegel, Ist doch alles echt super gelaufen

Finally, the following picture is drawn from the International Space Station and was the cover of the Die Zeit: A Nation Divided. It is Berlin in 2012, and it is remarkable that West Berlin (light green) has moved to LED streetlights, while East Berlin and the surroundings of the metropolis still use lightbulbs (orange), thus West and East are once again separated, only this time not by a wall, but by economic inequality. A picture is worth a thousand words indeed.

Source: Die Zeit, A Nation Divided

Conclusion

Having examined the history of the two Germanies, the crucial events of 1989, and the multiple unions between the two states, it is feasible to attempt to find a balance between the importance of the historic moment of the reunification and the economic mismanagement, whose consequences influence cotemporary Germany, well into the 21st century. One has to remember the frameworks and economic levels discussed above, in order to evaluate the convergence or divergence of the two states, since this thesis has focused on a comparison between the old and the new member-states of the Federal Republic of Germany, regarding the long-term growth.

On one hand, history makes no providence for economics, since the sheer operation of the reunification was an enormous task and especially on such a short period of time, with Kohl knowing that given excess time, the superpowers or the former Allies would intervene to delay or even disrupt the Wiedervereinigung. Margaret Thatcher made that clear, when she encouraged Mikhail Gorbachev to send in the Red Army to cut the movement at its roots and stop the reunification process. Finally, Kohl had the mandate of the people of both Germanies to pursue such course, stemming from the demonstrations after the fall of the Wall and from the landslide electoral victory in 1990.

On the other hand, there have been warnings from both sides, that not respecting the existential and structural problems of the GDR economy would prove disastrous for the local region, widening the inequality gap further than the period Germany was divided. Still, the early stages of the reunification 1990-94, as insufficiently planned as they were, were simply a matter of economics and eventually a transfer union was established to attempt to bridge the economic divergence. Financing the new member-states up to 2019, with the total cost of the Wiedervereinigung[92] was estimated in 2015 between 2.8 and 5.2 trillion Euros[93]. However, the gap still exists after 30 years and in some cases, such as Population or Total Workforce/Labour Market is even widening.

The partial success of the reunification is that the new member-states of Germany, if not compared with the old, each year achieve a steady high growth and they expand their economic capabilities, thus following the median trend of united Germany. The partial failure of the reunification is that the crisis was not contained, first of all within the new member-states, effectively burdening the West much more than originally planned. Secondly within Germany, since some crucial factors of the economies of the two former states are diverging (such as population growth), and the rest show no potential of converging significantly in the near future.

[92] Ther, P. Preis der Einheit. *bpb* 2020

[93] Bundeszentrale für politische Bildung, *Die Frage nach den Kosten der Wiedervereinigung: bpb* 2015

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