

## Conceivable lessons from the German unification miracle

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On October 9, 1989 about 70000 East German citizens participated in a peaceful demonstration in the centre of Leipzig. This demonstration was the terminal point of the German Democratic Republic (GDR). Many demonstrators feared a repetition of the Tiananmen massacre – leading public figures in Leipzig, among them three party secretaries, warned openly of such an outcome. Just before this was to have happened 5000 police troops which had been waiting at the railway station were withdrawn.

A few days earlier the GDR had celebrated the 40<sup>th</sup> anniversary of its foundation in 1949. Mikhail Gorbachev, the General Secretary of the Soviet Union, attended these festivities in Berlin. From the moment he set his feet on GDR soil he was celebrated like a pop star.

There existed an intimate relationship between these demonstrations – or to be more precise, the peaceful candle-light demonstrations that had taken place over several months – and Gorbachev. The political and functional elites and the common people of the GDR were enthusiastic about Gorbachev's project of liberal and democratic reform of socialism and of building the "House of Europe." They abhorred the stubbornness of Erich Honnecker and his confidants in the Central Committee of the Party (SED). They believed in democratic socialism, they wanted political freedom and they wanted to overcome the East-West confrontation of the post WW II era. In their eyes Gorbachev symbolised these ideas and that is why he was able to ferment reform in East German society and politics. Honnecker of course knew all this and fought against the reformist tendencies in the country. Therefore, although Gorbachev avoided any public confrontation, his mere presence was a threat to Honnecker's reign. Honnecker's discomfort was palpable to everyone.

After the demonstrations on October 9 things unravelled very quickly. On November 9 the wall and the border were opened – by a blunder by Günter Schabowski, member of the Central Committee, during a meeting with the press but, by then, Erich Honnecker had already been replaced. On November 28, Helmut Kohl single-handedly outlined his Ten Point Plan for the peaceful unification of the two German states. Margret Thatcher and François Mitterrand were furious. Gorbachev was not pleased either. In any event, cunningly Kohl outmaneuvered them all and Germany became formally unified on Oct. 3, 1990.

German unification came as a complete surprise to most people. Nobody at the candle-light demonstrations in Leipzig and elsewhere had anything like that in mind, not even in their wildest dreams. Because it was so unexpected, German unification was an "occurrence;" it just happened like an accident in history. It was a miracle.

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Historic occurrences, accidents and miracles are singular events. It is therefore near to impossible to draw any lessons from them. Yet, that is precisely what I was asked to do. How could I handle such a daunting task?

I will first dwell on some historical conditions without which this miracle would probably not have occurred.

Second, I will look at the process of unification itself and will offer some constructive criticism. I will ask myself what we might have done better, if we had known what we know now about the unification process.

## HISTORIC CONDITIONS AND CONTINGENCIES

### **The German problem**

Former French President François Mitterrand is said to have said about Germany “I love Germany so much that I am happy to have two of them”.

That is in a nutshell the so-called German problem. Germany became unified in the 19<sup>th</sup> century under Prussian rule. It became the largest and most populous country in Europe (except Russia) and quickly became an economic powerhouse through institutional innovation and the development of science. It acquired the resources to involve its neighbours in three major wars of unspeakable destruction and death. After WW II, West Germany again emerged as the economic powerhouse of Europe. Simultaneously East Germany quickly became the most successful economy of the Eastern block. No wonder that our neighbours in West and East asked themselves whether it really was such a bad thing that Germany had become divided at the end of World War II and stayed like that during the course of the Cold War.

The German people and German politics in the FRG and the GDR had given up any hopes of unification. In the West, we became the most fervent proponents of European integration – and thus gradually gained the trust of the other Europeans. We accepted the *status quo* as immutable and were quite happy with the policy of détente of Willy Brandt and Egon Bahr. This policy was a huge success, both economically and in maintaining relationships among divided families. We generously helped our cousins in the East, both privately and through official channels, while we cherished the idealisation of the West German economy and society and our own feelings of superiority, which we carefully hid in order not to disturb the harmony of our interpersonal relationship with our brethren in the East. Only through the process of unification did we come to realise (or not) that we had created rather artificial images of each other and that hidden resentments were plentiful.

German fervour for European integration was welcomed by her neighbours. We always took a back seat and basically left the leadership of Europe to France. We stopped to harbour nationalistic feelings, we were acquiescent and served as the paymaster of the emerging European Union. The policy of détente was a much more daring proposition. Initially it was not welcomed by our neighbours nor in Washington. Yet, already after the Cuban missile crisis the Cold War had become a matter of preserving the status quo. Brandt and Bahr were convinced that peace and prosperity under status-quo politics could only be achieved through honest and earnest dialogue and cooperation. This policy of détente was diametrically opposed to ideological confrontation, demeaning postures, aggressive haggling over minor or major issues or petty-minded retaliation. Because of our historic lega-

cies, it was not easy for our allies to swallow this policy of détente. That this initiative came from Germany was no accident as East and West Germany were bristling with arms and soldiers like no other place on earth.

Over the years, through the policies of European integration and détente, Germany gained the confidence of its West European neighbours and allies. In spite of many differences, confidence between the two German states had grown to considerable proportions through day-to-day working level contacts. If we had not gained the solid confidence of our neighbours, the miracle of German unification could not have occurred.

Where is the possible lesson for the Korean peninsula?

1. The good news is that there is no “Korean problem.” Throughout history, the Korean states were never a menace for their neighbouring countries. No neighbouring country could realistically feel menaced by a re-united Korea. Hence, a policy of détente or the perspective of reunification ought not to arouse the same fulsome fears and suspicions among Korea’s neighbours as it did in the German case. Even if it sounds preposterous, I would venture to say that if the two Koreas joined hands and seriously pushed for a policy of détente and eventual unification, opposition from neighbouring countries and allies could not present a serious obstacle, in particular if previous confidence building with neighbouring countries had been successful.
2. The clearest positive lesson from the German and European experience is the importance of confidence building across borders. Admittedly, because there is no “Korean problem,” Korea is under less pressure to follow a path of confidence building. Yet, confidence building is always a win-win strategy, and if it is enhanced by economic and political integration, all the better. Please note in this context that most of East German foreign trade with Western countries was with West Germany and with the EU. With respect to the EC/EU, East German trade fell under the same rules as West German trade. Hence, the East German economy had become part of the EU trade networks long before German unification.
3. What about confidence building between the North and the South?

Here we should note that Brandt’s policy of détente was absolutely honest. He accepted the existence of two German states and did not see his policy of détente as a means to undermine the regime in East Germany (or Eastern Europe) and eventually achieve unification. Such instrumentalizations and teleological constructions, even though they can be heard about frequently nowadays, were foreign to him. He and German politics in general refused to give support to opposition groups in East Germany and Eastern Europe – because this would have undermined the *status quo* and the very logic of the policy of détente. Hence, the policy of détente and cooperation with East Germany had no hidden agenda.

We should remember too that through the policy of détente, cooperation between the two German states became very close, wide-ranging, multi-layered and had become formalised in innumerable agreements. The West German Permanent Mission in East Berlin (*Ständige Vertretung bei der DDR*) came to have hundreds of employees. It greatly helped to solve day-to-day and acute problems in inner-German relations. An ever-increasing number of East Germans could visit West Germany and vice versa. Although it was unintended, most East Germans had access to West German television and radio programs. In areas along the inner-German border, West Germans could watch East German television. Quite a number of West Germans watched the East German “Sandmännchen,” an evening program for children. East German news and propaganda programs were primarily taken as absurd theatricalizations and played a role in the formation of clichés in West Germany.

Inner-German relations were fraught with many problems and frustrations, of course. Our

partners in the EU were informed about them. Because they had become appreciative of the policy of détente, they supported the efforts of the West German government in a spirit of solidarity. That too was a contribution to confidence building.

## **Contingencies and leadership**

History is not only a matter of structural conditions but also of processes influenced by unforeseen events. The rise of Gorbachev to the zenith of power was just such a contingency. His two predecessors were sick and died early. His well-intended reforms unintentionally led to the demise of the Soviet Union, the Soviet empire, the Warsaw Pact and of COMECON. Thus, the destruction of the old order too was such a contingency. Gorbachev was the larger accident that made German unification possible.

Willy Brandt had been such a contingency too. He was the right man at the right time to take the Cold War *status quo* to the level of détente.

Helmut Kohl too was such a fortunate contingency of sorts. His government had run out of steam and was quite unpopular when the Berlin Wall was opened on November 9, 1989. He recognised quickly that his government could be salvaged by betting his luck on the peaceful unification of the two German states. His Ten Point Plan was put forward just three weeks after the fall of the Wall. He formulated this plan without consulting any of his allies. He knew he had to act quickly because the demise of Gorbachev himself could be expected at any time, as the unpalatable results of his reform policies had made him dangerously unpopular in Russia. Helmut Kohl cunningly steered through turbulent waters – and won.

The lesson from contingencies is as clear as it is unspecific: On the one hand, one needs a keen awareness of relevant historical conditions and, on the other, of the windows of opportunities as they come along. It is then the role of leadership to push the “art of the possible” beyond the limits of the perceived possibilities. Alas, there is always the spectre of failure, most dramatically, as we know now, in the case of Gorbachev.

## CONCEIVABLE LESSONS FROM THE GERMAN UNIFICATION PROCESS

### **The merits of unification**

It is often said that the costs incurred in the process of German unification were excessive. Indeed, the yearly net transfers from West to East Germany amounted to roughly 4 percent of West German GDP. That certainly is a lot. Yet, considering the outcomes, one must also say “*Never mind the costs – German unification was a huge success and hugely beneficial*”.

- \* We used to be in the frontline of the Cold War. Now the curse and the miseries of war are a very remote possibility. Unlike former Yugoslavia we were very lucky to end the Cold War peacefully.
- \* The East German citizens live in a state of law, enjoy political rights and liberties and elect their governments.
- \* East Germany has become An attractive place where the majority of the people enjoy a standard of living not far below that of West Germany.

- \* West Germany had been on the eastern fringes of Western Europe. Now Germany lies right in the middle of Europe and greatly benefits socially, culturally, scientifically and economically from the intercourse with its 10 neighbours and beyond. All Germans now can travel freely and without permits or harassment anywhere in Europe.
- \* Last but not least, the Cold War had been expensive. After unification, one component of the peace dividend was a significant reduction of military expenditure. That made it easier to support East Germany financially.

Unification descended upon us as a miracle or, as some people might say, like a thunderstorm. Therefore, we were not prepared and had no time to prepare ourselves for an orderly unification. That was a bitter experience, because Germany as a state in the Prussian tradition has a penchant for orderliness and control. However, during the first months after the fall of the Wall things had become quite chaotic. The East German people were torn between democratic socialism and national unity. The West Germans were mostly confused and worried, while West German firms and adventurers immediately started conquering the new territory. Chancellor Kohl showed leadership and was rewarded with another term in the election in March 1990. The parameters of change were set and the West German net of institutions, laws and organised interests etc. was cast over East Germany. Gradually, orderliness and control were re-established.

Under the initial anarchic conditions, mistakes were unavoidable. Of course, we could have done better, if we had known what we know today. I cannot go into a detailed discussion of all the mistakes we made. I will concentrate on two issues: the lack of an adequate modernisation strategy for the East German economy and the lack of involvement of our East German brethren in the reconstruction of the East German economy, society and politics.

## **Economic policy mistakes**

The most basic problem was that we did not have an industrial development strategy for the East German economy. Instead,

1. We pushed the privatisation of as many enterprises as possible in as short a time as possible. This corresponded to the reigning neoliberal paradigm of those years and was equivalent to shock therapy.
2. For the same reason, we proved to be completely unwilling to interfere in management decisions of enterprises in East Germany and to give them sufficient time for re-organisation, re-training and re-capitalisation.
3. We entirely neglected the transfer problem described by J.M. Keynes just after WW I: The country obliged to pay war reparations experiences an economic boom, while the country receiving them suffers an economic slump. To the satisfaction of West German and other European firms this was exactly what happened: They experienced a boom – while the East German economy was driven into a deep slump by the huge transfers and credits it received from West Germany and elsewhere.
4. We never took into serious account that East enterprises suffered from a deadly competitive disadvantage, as their productivity was around one third that of West German enterprises, while their labour costs were in the order of two thirds of West German levels.

This was a result of the opening of the East-West German border. Once it was open, people could move freely and this meant that there was a natural limit to the wage gap between East and West Germany. Thus, the wage-productivity gap had nothing to do with monetary union

and the exchange rate between the East German Mark and the West German Mark.

5. Where the exchange rate mattered was in the case of enterprise debt. In the former GDR, banks were used by the planning authorities to provide firms with money for current payments. How much they owed to the banks was of little concern to managers. Yet, in the course of German unification these nominal accounting debts of enterprises all of a sudden became liabilities to the newly privatised former state banks. To make things worse, these accounting debts were converted at a highly overvalued exchange rate and made the competitive position of East German firms after unification even more untenable.<sup>†</sup>

As we know, most firms went into bankruptcy. Yet luckily, the new banks, all of them branches of West German banks, had received an interest payment guarantee by the government. That became an excellent business for them, as the value of these liabilities was roughly ten times higher than what they had paid for the whole East German banking system!

6. We insisted on the principle of “*Rückgabe vor Entschädigung*”, i.e. properties could not be put to economic use before they had been returned to their former owners. It would have made much more sense to put them to economic use first and then find their owners and their heirs (which proved to be quite difficult).

Under such conditions, which were compounded by the simultaneous collapse of the COMECON, the main export market for the GDR, most East German firms directly and speedily went into bankruptcy. The East German economy collapsed during 1990. The only relief came from the construction industry, which was driven by huge investments in physical infrastructure as well as by the modernisation of the inner cities and housing. It lasted only about ten years. Basically, the interest of West German firms was limited to certain branches (the former state banks, for instance) and to the right to exploit internationally valuable patents of East German companies.

Only when it was already too late did the government offer direct subsidies for private real investment. Unfortunately, most of the money went into capital-intensive industries with very limited effect on employment.

As a result of these policies (or rather the lack of them), employment suffered a catastrophic decline, while open and hidden unemployment rose to catastrophic heights. Before unification there were 11 million jobs in East Germany, nowadays there are a mere five million, many of them subsidised and non-regular.

Relative to its population, East Germany had more engineers and technicians than West Germany. Unification involved a huge destruction of human capital and many lost opportunities to employ, train and re-train the working population. The best-qualified workers moved in large numbers to the glorious West – weakening the East German economic potential further. As a result, the net population loss of East Germany through migration since 1989 amounts to more than 10 percent of its former population. Many cities suffered a decline in the order of 20 percent of their former inhabitants. The government has embarked on a vast programme (called *Stadtumbau Ost*) to demolish apartment blocks, houses and even entire town districts, a boon of sorts for the (de-)construction industry.

The collapse of the East German economy is the main reason why unification became such an expensive affair. Most transfers from West Germany were and are social transfers in order to cover

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<sup>†</sup> An overvalued exchange rate was set politically in order to protect the savings of East German citizens.

the deficits of the social security systems (unemployment, pension, health, old-age care, public assistance) in East Germany.

What are the perceivable lessons for Korea?

1. Even with the border intact, it would seem highly recommendable to do everything in South Korea's power to support the modernisation of the Northern economy and to improve its international competitiveness. If the German unification problems are to be avoided in the future, the North Korean economy would have to be brought onto a *path of self-sustaining accumulation and growth* similar to that of the other East Asian countries.

This will require – in particular as the COMECON, formerly the main destination for North Korea's exports and the main source of its imports, has long disappeared – access to world markets, modern technology and international banking.

Judging by the German experience, it can be surmised that South Korean firms would be among the biggest beneficiaries of the reconstruction and modernisation of the North Korea economy.

The same would be true of other countries in East Asia. Their strongest incentive to participate in this process would however be the *peace dividend* to be expected from a “normalisation” of the North Korean economy in terms of East Asian economic dynamism. For these reasons and as a form of cost sharing, it would make much sense to actively win the support of other countries.

2. Once labour can move freely, things will become much more complicated. Then the main challenge will be to prevent a collapse of the Northern economy. Then it will be absolutely essential to have a coherent and sustained strategy of economic and industrial development. Labour mobility induces an upward pressure on wages. This pressure could fatally damage North Korean firms as they already suffer from a productivity gap. Under such conditions, only the destructive forces of free markets can flourish. Therefore, these destructive forces will have to be harnessed. North Korean firms will need 5-10 years at least for organisational and technological modernisation. As long as a wage-productivity gap exists, one way to solve this dilemma is to pay wage subsidies. This would prevent the emigration of the best and most talented as well as of the less talented to the South.
3. The organisational and technological modernisation of enterprises (and other institutions) is a process of learning by doing. It can be beneficial to have a teacher, yet in the final analysis learning is a process that requires the autonomy of the learner. Mistakes are part of all processes of learning. Therefore, it is better to learn from one's own mistakes than to be confronted with the mistakes of others. In East Germany, the learning-by-doing processes of individuals and enterprises were cut short by the collapse of East German industry. The mistakes made were the mistakes of West German actors, while the East Germans suffered their consequences. Furthermore, it would be important to prevent South Korean companies from cherry-picking the most valuable assets in the North and to give incentives for a sustained engagement in strategically important sectors.
4. An important question is the restitution of properties to former owners. If it is deemed that they have valid claims, one should take care not let their claims interfere with the economic modernisation effort. Compensation appears to be a much better option than restitution. Restitution makes sense only when it is associated with further investment and a serious modernisation effort.

## Asymmetries

As has been mentioned earlier, West German citizens frequently complain about the continuing financial support for their brethren in the East and wonder why the latter do not get down to working and providing for themselves. The Wessi (West Germans) tend to attribute the weaknesses and failures of the unification process to the innate character of the Ossi (East Germans) and their GDR socialisation. The Wessi look down upon the Ossi and might indulge in feelings of superiority. The Ossi feel that and call them the *Besserwessi* (the *better Wessi*, the *Wessi who pretend to know better*). Thus, sadly, we observe that old clichés and stereotypes cultivated during the Cold War form part of new mental constructions of the *other* and *ourselves*.

Unsurprisingly, the East German perspective differs from the West German one. The sudden surge of widespread and persistent unemployment was a traumatic experience for the East German citizenry. They find it demeaning not to be able to provide for themselves and to depend instead on unearned money, i.e. government transfers. Many feel that their enterprises were ruined in the interest of West German firms. They feel that they themselves and their qualifications and abilities have become useless rubbish and that they cannot make any meaningful contribution to the economy and to society. This undermines human dignity and furthermore runs counter to the socialist ideology they grew up with.

More than 70 percent of East Germans are unhappy with their economic situation. Almost as many people do not expect any future improvement. About 80 percent complain about the lack of social justice. More than half think that the levels of social security and medical services were higher during GDR times. More than 50 percent of citizens are unhappy with their newly won democracy. Only 22 percent feel that they have become full citizens of the Federal Republic. Sixty-four percent feel like second-class citizens, 73 percent feel disadvantaged; while 75 percent opine that West Germans are not sufficiently appreciative of their accomplishments.‡

This is a depressing and worrisome panorama. As they say: “The Berlin wall has gone. The new wall runs right through our minds.”

If the miracle of the fall of the wall in 1989 had been followed by an economic miracle in East Germany, East German citizens probably would see themselves and their new country in a different light. Yet, as it were, only the miracle of the wall was their work, while the unification process that followed was under almost complete control of the dominant political forces in West Germany.

The East German people had very little say in the decision making and the dynamics that followed. We bequeathed the FRG Constitution (*Grundgesetz*), our laws, institutions, political and administrative procedures etc. to them. We wanted to create a perfect copy of ourselves in the East. Therefore, we sent legions of experts and gave them the best jobs. We destroyed East German enterprises in the name of free market ideology. We gave West German firms privileged access to the East, allowed them to cherry-pick its most valuable assets and to occupy its most promising markets. We purged the old establishment and we readily produced accusations of collaboration with the Stasi, the state security service of the GDR-regime. We did not feel the need to listen to and incorporate

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‡ Sources: Data bases of SFZ/leben; Institut für Interdisziplinäre Konflikt- und Gewaltforschung, Universität Bielefeld; Friedrich-Ebert-Stiftung.

former reformist groups. We marginalised the civic groups, which had organised the candle-light demonstrations and had brought down Honnecker's regime.

In a word, the whole process of economic and political unification was riddled with asymmetries. The high levels of dissatisfaction among the East German citizens are a natural corollary of these asymmetries, as they had very little ownership and control of the processes of change. In most areas (with the exception of the economy and employment) they benefited greatly from these changes (political rights and liberties, freedom of expression, economic situation, unrestricted travel etc.), yet even in these areas there remained a nagging feeling that these were not the result of their own efforts.

Are there any lessons from this experience?

The policy of détente by its very nature had relied on equality and mutual respect. In contrast, the process of German unification was largely a one-sided affair. The West German players, rightly or wrongly, played the tune and assumed almost complete control of the process. These asymmetries and the corresponding marginalisation of East German actors certainly did not help to improve the quality and the outcome of the unification process. In East German perceptions, these weaknesses and failures are attributed to the dominance of the West German establishment. Thus, East German citizens see themselves as victims and harbour much resentment against their West German brethren and their leaders. The high levels of right-wing extremism, in particular among youths, are attributed to these resentments and the lack of viable prospects of work for them. At the same time, there is a tendency to glorify the former GDR among East German citizens.

All in all, the message is clear: In spite of the other side's weaknesses and failures, it is preferable to maintain a relationship of equality and respect and to allow the weaker partner a similar amount of ownership and control of the process. This is likely to improve the quality of decision making and reduce the potential for unintended outcomes, future misunderstandings, resentments and bipolar identity constructions.

## **Final remarks**

From almost every point of view, German unification has been a resounding success. The only major failure – understandable because things happened so fast and nobody and nothing was prepared – was the lack of a coherent modernisation strategy for the East German economy. Twenty years ago, unfortunately, very few people realised that, once the labour market of East and West Germany had become one, East German enterprises were doomed to failure – unless the government took effective steps to protect them during a transitional period of organisational and technological modernisation from West German and world competition. Employment collapsed along with the enterprises and never recovered. The costs of this collapse were borne by the social security systems (unemployment, health, pension, old-age care) as their payouts rose way beyond the social security contribution they could collect under such depressed conditions. That is why German unification became such an expensive affair for West German labour (social security contributions) and taxpayers.

If we had worked with a realistic and effective strategy for modernising the East German economy, our success would have been complete. The East German economy would have been “normalised”

in the sense of a self-sustained process of growth and accumulation, while the West German taxpayer's burden and social security contributions would have been limited to the transition period.

If our major mistake was a lack of an adequate economic strategy, then our major weakness was that East Germans did not have sufficient ownership and control of the unification process. It could have been much improved by cooperating in a spirit of mutual respect and confidence, sharing our knowledge, our experience and our hopes, all of which after all and in spite of our common cultural heritage, had been formed under quite different social, political and economic circumstances.

In spite of this weakness and the many problems we face, we observe nowadays that some of our East German brethren are making successful careers. Isn't it amazing that our chancellor Angela Merkel, now in her second term, is of East German origin? Some very popular newscaster and anchor women too are from the East. Then there is Michael Ballack, a household name even in Korea. The list could be expanded. Yet, the best part of the East German success stories is that in talking about them, geographic ascriptions like "East German" lose importance and drop out of consciousness, in particular in the case of young people. Hence, inner-German normalisation has begun to come to a point where we do not feel pressure for negative or positive discrimination. That is the point where the unification process comes full circle – to the point that there is no more need to talk about it.

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