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A Chance for Change in East Germany

Thanks to months of steadfast and disciplined protest by the East German population, the decades-old monolith of party and government bureaucracy is now clearly beginning to crack. The new leadership saw itself forced to create an outlet for the growing pressure of the demands of the population by opening the border to the Federal Republic. Amidst the jubilation, though, the population of the German Democratic Republic (GDR) is unerringly and perseveringly pursuing its more ambitious goal of radically transforming the economic and social order.

In response to the reforms thus far, the Federal Republic has made a series of proclamations of assistance in stabilizing East Germany's economy. Above all the parliamentary opposition in Bonn has, however, precipitated a debate which was senseless from the very beginning on whether the planned aid should be made contingent on a basic reform of the economic system in East Germany or not. This is all the more astonishing considering that the business world, the government and the opposition concur in attributing the need for an economic and environmental overhaul, the magnitude and form of which still cannot be fully ascertained, to the highly inefficient economic methods practised in the GDR.

Since neither the German Federal Government nor the Lands invest in sectors reserved for private enterprise as a matter of principle it can hardly be their task now to intervene either directly or indirectly in the centrally planned economy of East Germany by investing West German tax revenue. The priority now should be to coordinate the potential assistance and the preparedness to engage in entrepreneurial activity in the East German economy, which exist in the West, i.e. to sharply demarcate the fields of activity of publicly funded programmes from those of West German private enterprise.

The expenditure on migrants from East Germany is clearly regulated by the law governing the state's obligations: these persons are entitled to the usual social benefits accorded in the Federal Republic (unemployment benefit, supplementary and sickness benefits, pensions). All other areas of support are matters of discretion. Bonn and the Lands should confine their attention to projects in environmental protection, transport and communications and the like. There will hardly be any money available for anything else anyway as raising the quality of the GDR's infrastructure and its damaged environment so as to even approach the standard in the West will probably require investment to the tune of some hundreds of billions of D-Mark. This task, which will take us up to the millenium, will call for vigorous cooperation between the Federal Republic and the GDR.

The implementation of these projects in particular should not be tied to any promises of radical reform. The hope of expediting the process of change, which appears at least to be beginning, must prevail over the fear of bolstering the old party and state system. Besides, the population of East Germany has come of age and will not tire of demanding radical reforms.

While prepared to deploy public funds in the short term to alleviate the supply bottlenecks exacerbated by the winter, the Federal Government will have to make it perfectly clear to its partners in East Berlin that it will not be possible to modernize and mobilize the East German economy effectively without the financial participation of Western private enterprise. Before the necessary amount of capital and of technological, managerial and organizational know-how can be transferred to the GDR, its Government will have to make fundamental changes in locational conditions: the socialist planned economy of the old type will have to yield to an essentially free market system.

The gradual transition to a new economic order is also the crucial prerequisite for raising the efficiency of GDR enterprises which would also be facilitated by exposing them by degrees to international competition. As to its persistent wish for closer cooperation with the European Community the Government of the GDR cannot expect enlarged access to the West European market for goods and services without subscribing to the rules of free enterprise.

A transformation of its economic system is thus in the basic interest of East Germany. Minimum individual conditions which would have to be created for such reform would be the abolition of the state monopoly over foreign trade and foreign exchange allocation, the establishment of different forms of property with the same rights and obligations, the introduction of market pricing for internationally tradeable commodities and the convertibility of the East German Mark.

So that some of the billions worth of West German capital at present invested abroad can be used to benefit the GDR's economy in the course of future reforms, the Federal Government is also prepared to implement flanking measures. These include not only governmental cover for capital goods supplies and investments, but also the opening up of funds to aid investment and the setting up of businesses in East Germany which have so far only been accessible to firms in the Federal Republic.

These reforms should be embarked upon without too much delay. Otherwise the euphoria over the opening of the inner-German border could well be stifled by measures to curb freedom of movement because the flood of labour, money and goods unleashed by the horrendous prosperity gap between the two Germanies would have to be stopped. More business cooperation and joint ventures in particular could have a beneficial effect in the short term. For this, bilateral accords on investment guaranties and capital and foreign exchange transfer are needed, but West Germany will also have to provide assistance in stabilizing the rate of exchange between the East German Mark and the D-Mark to avert a "sell out" of the GDR.

Granting funds before the rigid planning and management system has been tangibly relaxed would have only little effect and be largely futile. It is therefore now up to East Germany to make clearer commitments than hitherto. Until action is taken in this direction, support must be confined within the comparatively narrow scope of intra-German trade. Greater deregulation of GDR supplies in the industrial sector for example – in iron and steel, textiles, glass, ceramics – would only raise East Germany's earnings to a relatively modest degree. Other possible measures again presuppose changes in the GDR's economy. Generally allowing direct contacts to combines in East Germany and granting firms greater decision-making competence would, for instance, mean easing controls on foreign trade or a devolution of planning and management.

Hungary and, especially, Poland are apprehensive that the substantial aid pledged to East Germany and the broad commitment of the Federal Republic with regard to the GDR will distract its interest away from these countries and that support could be geared down. For the sake of a greater, free Europe, the fears of Poland and Hungary should be allayed. The EC summit in mid-November underscored anew that the Community is willing to help those countries which are branded by the failure of the socialist system of planned economy. Nevertheless, in future it may well be difficult to convince Poland that support provided to East Germany is not at the expense of its eastern neighbour.

Klaus Bolz