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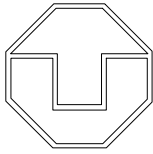
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TECHNISCHE UNIVERSITÄT DRESDEN

Fakultät Wirtschaftswissenschaften

**Dresden's Transition Into The Market Economy And The
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by

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Dresden's Transition Into The Market Economy And The Impact On Its Business Community

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I. Introduction

The transition from a centrally planned to a market economy that the countries of Eastern Europe underwent offers the chance to see the drawbacks of the former system and the ways in which they were/are being corrected. This project looked at the city of Dresden, Germany, to find out how the businesses are adapting to the new economy. The project focused on the changes that the businesses underwent in terms of the number of employees (within management and in general), in the hours of operation, in the budget for maintenance, in the condition of the shop (i.e., renovations), in advertising, in the source of suppliers, and in the amount of stress and problems encountered on the job. The employees of these businesses also shared their opinions on whether, if at all, the transition was good for them, for what reasons, and what circumstances are preventing the businesses from growing. Some

¹ I would like to extend my gratitude to the following individuals for making this project possible: Johannes Mönius (Kellogg Graduate School of Management), for giving invaluable help in the formulation of the research proposal, Marco Lehmann-Waffenschmidt (Technische Universität Dresden) for his hospitality in letting me use the facilities at TU Dresden as well as his help in carrying out the research, and many others at TU Dresden who have made contributions at various stages of the project.

businesses were unable to compete effectively in the new market economy, and they were forced to close. New companies set up shop to replace those that were no longer there, and facilities were built to accommodate the influx of new stores. With the introduction of advertisement, which was not allowed during the planned economy, businesses relocated. There are two theories in regard to this phenomenon. Sutton's work on sunk costs and market structure predicts that we should observe concentration processes. Tirole, on the other hand, predicts that businesses will locate equidistantly from each other. This project was carried out for two reasons: to observe the impact of the transition from a centrally planned to a market economy on the businesses of a city within Eastern Europe, namely Dresden, and to find out which of the theories, Sutton's or Tirole's, best describes the industrial organization process that is taking place in the aftermath of the transition. Comparing the before and after will enhance our understanding of the market economy as well as the correction mechanisms involved.

II. The Planned Economy

The general idea underlying socialist planning is that the market economy is a good system for ensuring micro-economic rationality, such as the efficient organization of production; nonetheless, it leads to problems within the macro-economy. These problems of laissez-faire capitalism - unemployment, poverty, inequality, pollution, and wars, are possible to avoid only if the state acts as an instrument to manage the national economy similarly to the way in which individual firms manage their own affairs (Ellman 13). The state would make decisions in such matters as where to build a firm, how many employees to hire, wages to be paid, hours of operation, where to buy supplies, etc. The government determines a quota, which a business is supposed to meet, and this is increased every year by a few

percentage points. This has the effect of making managers worry of doing too well in a given year; by setting a higher standard, they will have an even greater target the following year. “Since prices do not, in either theory or practice, reflect supply-and-demand relationships, relative scarcities or demand intensity, profitability cannot serve as a rational criterion for micro decision-making” (Nove 190-1). This type of an economy is inefficient. Problems are not immediately checked, and one must wait for permission from the government in order to make any necessary remedies, which could take months or even years. Also, since a firm need not be profitable to stay in business, there is much more incentive to keep the status quo. So long as one has a job, why should it matter whether his or her place of business is making money? Adam Smith’s invisible hand comes to the rescue in the market economy to take care of such inefficiencies, and though the effects of this may be the loss of jobs for some, it is responsible for keeping the overall economy running. No human or computer can calculate everything necessary to do this, and the inability of the government to foresee every problem that may arise in the economy was one of the main reasons why the planned economy did not work.

III. Why Dresden?

The collapse of the Soviet Union sparked an economic revolution in Eastern Europe. Economies, which were once run by a central government, had all of a sudden been abandoned to run on their own. The transition is a gradual process, but the situation in the former German Democratic Republic (GDR) is different in that it is able to garner the financial and political support that other Eastern European countries cannot. Western Germany has poured billions of dollars to support the transition, and in so doing the process took place at a much faster rate. It was for this reason that I chose to look at East Germany,

since the changes there are more profound and easier to witness than in other Eastern European countries.

Due to time constraints it was only possible to look at the transition process in one German city. Dresden was chosen for a number of reasons. The city's commercial districts are limited in number, which makes the collection of data much easier. Dresden's transportation network is superb, and due to the amount of travel required during the project this was quite an asset. Finally, Dresden's size is advantageous in that it is large enough to offer enough input for my research, without being so large that the project is unable to cover a meaningful portion of the business community.

Dresden is the third largest city within the former GDR, with more than 450,000 inhabitants. Its strength lay in the heavy industry sector, which was dominated by mechanical and electrical engineering (30.7% and 36.4% of people working in industry in 1987 were employed in these two sectors alone, respectively, according to the data provided by the Kiel Institute for World Economics). After the collapse of the Soviet Union, trade in Eastern Europe became only a fraction of what it was previously. This had an immense impact on Dresden's export oriented economy, most of whose exports were geared towards Eastern Block countries ("Gesamtwirtschaftliche" 84). Dresden's industries began to close, and unemployment grew from 11.6% in 1993 to 17% in 1998, according to the data provided by Kiel University. This not only affected the industry sector, but the entire business community as well. Once the heavy industries closed, people's buying power diminished. They were no longer able to afford as many goods, and this caused even more businesses to fail. With the opening up of the borders, people now had the opportunity to go west and try their luck there. Many did so (over 100,000 people left Dresden in less than 10 years following the collapse of socialism) and this reduced the potential for Dresden's business community even further. This background should be kept in mind when reviewing the responses to the questions of the survey, since many of the subjective answers reflect this setting.

IV. The Effects of the Transition on Businesses

The survey consisted of sixteen questions presented to business employees on the two main commercial streets of Dresden – Kesselsdorfer Strasse and Hauptstrasse. These questions addressed the changes businesses underwent after the collapse of socialism (note: if the business was established after the transition, then only six questions of the survey were relevant). The response rate was 22.2% on Hauptstrasse (6 out of 29 businesses, of which 4 were founded before the transition) and 29% on Kesselsdorfer Strasse (29 out of 100 businesses, of which 11 were founded before the transition). The transition year used in this study is 1990 – the year in which the unification of Germany took place. The following are the questions put forth in the survey and the answers that were given. The first part of the answer gives the numerical quantity of firms out of the respective totals for the specific street (K = Kesselsdorfer Strasse, H = Hauptstrasse), and in the parentheses is the percentage amount. Also, a dash is used to represent a situation where an answer is not applicable, and N/A is used when no answer was given. The responses with a bold number are of business that were around during the socialist period. These were the six questions that were asked no matter whether the business was founded before or after the transition.

1. Is this business privately owned, publicly owned, part of a franchise, or a branch of a corporation?

	private	public	franchise	branch
K:	25 (86.2%)	1 (3.4%)	3 (10.3%)	0
H:	6 (100%)	0	0	0

2. What legal structure does the business have (e.g.: GbR, GmbH, KG, OHG, AG, self-proprietorship)?

	GbR	GmbH	KG	OHG	AG	self-proprietorship
K:	1 (3.4%)	6 (20.7%)	0	1 (3.4%)	1 (3.4%)	20 (69.0%)
H:	0	0	0	0	0	6 (100 %)

3. How many employees are at the firm within management and in general, and how many were there before the transition: management before, general before; management now, general now? When applicable, the changes in the number of employees will be given in parentheses: difference in management, difference in general.
4. If the firm was established after the transition, then in what year?
5. What was here before?
6. What is preventing the business from making more profit?

Kesselsdorfer Strasse

- 1). Magazine and newspaper store: -, -; 0, 3. 1998. Pottery/art/spirits/cigarette. N/A.
- 2). Photo studio/shop: -, -; 0, 1. -. Nothing. Too much competition.
- 3). Butcher's shop: 0, 8; 0, 7; (0, -1). -. -. N/A.
- 4). Cafe: -, -; 0, 2. 1996. Nothing. Too new, people are not accustomed to such a variety of food.
- 5). Leather goods store: 0, 3-4; 0, 1; (0, -2/-3). -. -. Too many goods available at supermarkets and department stores.
- 6). Furniture store: -, -; 1, 3. 2000. N/A. Too new, people do not know about it.
- 7). Second hand clothing store: -, -; N/A (>10). 2001. Nothing. N/A.
- 8). Bank: N/A; N/A (>10). -. -. -
- 9). Clothing store: -, -; 0, 3. 2000. Department store. No parking.
- 10). Butcher's shop: -, -; 0, 7. 2000. Department store (same as #9). Too much competition, which forces the prices down.
- 11). Bakery: 0, 2; 0, 1; (0, -1). -. -. Competition.
- 12). Photo studio/shop: -, -; 0, 1. 2001. Department store (same as #9). N/A.
- 13). Cafe: 0, 4; 0, 1; (0, -3). -. -. People's buying power is lower (especially because of unemployment), middlemen charging more, utilities getting more expensive.
- 14). Pharmacy: N/A; 0,5. -. -. Too much help from the government in the form of health insurance.
- 15). Glassware shop: -, -; 1,1. 1999. Jeans store. Too few customers on street (note: this store went out of business 3 weeks after the interview).
- 16). Clothing store: -, -; 1, 1. 1996. Sporting goods store. No buying power of customers, rent too high.
- 17). Writing accessories shop: -, -; 1, 1. 1997. Apartments. Not enough customers, rent too high.
- 18). Pizza shop: -, -; 0, 9-10. 1995. N/A. The whole economy is bad – unemployment, unstable prices.
- 19). Money investment firm: -, -; 0, 2. 1994. Textile shop. Too few customers.
- 20). Flower shop: -, -; 2, 1. 1998. Electronics store. N/A.
- 21). Bakery: 0, 2; 0, 2; (0, 0). -. -. Not enough customers, high competition.
- 22). Keys shop: -, -; 0, 1. 1993. N/A. New houses already come with keys and locks.
- 23). Hair Stylist: 1, 4; 1, 0; (0, -4). -. -. People are leaving the city.

- 24). Clothing store: -, -; 0, 2. 1992. Fruits and vegetables shop. Too much competition, infrastructure (i.e.: not enough parking spaces).
- 25). Butcher's shop: 1, 15; 1, 11; (0, -4). -. -. Bad city planning/infrastructure, too much competition.
- 26). Photo studio/shop: -, -; 0, 2. 1994. Pharmacy. N/A.
- 27). Supermarket: -, -; 1,3. 1998. Food store. Not enough business, too much competition, people are leaving the city.
- 28). Pharmacy: 1, 8; 1, 5; (0, -3). -. -. Dead street, nothing being built, too much help from the government in the form of health insurance, people have no money.
- 29). Cafe: -, -; 0, 1. 1998. Nothing. Bad street – no business.

Hauptstrasse

- 1). Cafe: 0, 45; 0, 25; (0, -20). -. -. Bad weather.
- 2). Clothing store: -, -; 2, 12. 1991. N/A. Dead street.
- 3). Shoe store: 0, >20; 0, 10; (0, -10+). -. -. Customers have no money.
- 4). Antiques shop: 0, 3; 0, 3; (0, 0). -. -. Too few customers.
- 5). Electronics store: 0, 2; 0,2; (0, 0). -. -. High taxes.
- 6). Clothing store: -, -; 1, 2. N/A. Clothing store. Economy is getting worse, people do not have enough money.

The following ten questions, with their corresponding answers, apply only to those businesses that were present during socialism as well.

7. Did the hours of operation change; if so, how (per weekday, per week)?
8. How have the real salaries changed?
9. Would you consider the current job more stressful than during socialism, are the job conditions more adverse now than before? (a scale was used for both parts of the question: 1 = much less, 2 = less, 3 = same, 4 = more, 5 = much more).
10. Was anything renovated?
11. How has spending on maintenance changed?
12. Where is advertising/marketing done?
13. In terms of sales, is there more or less business than before?
14. From where are supplies obtained: suppliers/wholesale dealers or self-produced? If obtained from suppliers, are they mostly from the newly-formed German states (nG), from the old West German states (oG), from Eastern Europe (EE), or the European Union (EU)?

15. What was the main reason for layoffs?

16. Do you prefer the current market system; why or why not?

Kesselsdorfer Strasse

- 2). Photo studio/shop: Yes; (+1, +5). Same. 3, 3. New building. N/A. N/A. Less. Suppliers: nG. N/A. N/A.
- 3). Butcher's shop: No. Same. 3, 3. Almost everything. N/A. N/A. Less. Suppliers: nG. N/A. Indifferent.
- 5). Leather goods store: Yes; (+1, +5). N/A. 4,4. New building. Less (smaller facility than before). Horse racing track. Less. Suppliers: oG. High social taxes, smaller shop. Before; supplies were self-produced, more customers, had a repair shop.
- 8). Bank: No. Same. 3, 3. New building. -. N/A. Now; more freedom.
- 11). Bakery: Yes; (+1, +6). N/A. 4, 4. Almost everything. N/A. N/A. Less. N/A. Employees quit mostly because of the new requirement to work on weekends. Now; more modern.
- 13). Cafe: Yes; (+3, +21). N/A. 4, 5. Everything. Much more. Sign outside. Less. Self-produced (50%) and suppliers: nG (50%). Less business. Before; more business, Safety under socialism, less crime.
- 14). Pharmacy: Yes; (+2, +10). Same. 3,3. Everything. More. Newspapers, bags, fliers. More. Wholesale dealers: oG. Not enough business. Now; more freedom, better service.
- 21). Bakery: No. Same. 3, 3. Nothing. Same. Nowhere. Less. Self-produced. N/A. Before; people were friendlier.
- 23). Hair Stylist: No. Same. 3, 4. Nothing. Less. Nowhere. Same. Suppliers: oG. Less business. Indifferent; more freedom now but fewer customers.
- 25). Butcher's shop: Yes; (+2, +14). More. 3, 3. Almost everything. Less. Signs. Less. Self-produced. N/A. Now; more job freedom (i.e., no price setting).
- 28). Pharmacy: Yes; (+3, +15). Much more. 5, 5. Almost everything. Less. Newspapers, windows, fliers. Less. Wholesale dealers: oG. Incompetent workers. Now; work was better before: was a specialist but now works in pharmacy, but more freedom

Hauptstrasse

- 1). Cafe: Yes; (+3, +24). N/A. 3, 3. Everything. Same. N/A. N/A. Self-produced. Computers replaced workers. Indifferent.
- 3). Shoe store: Yes: (+2, +10). More. 3, 3. Everything. N/A. Newspapers, state fair. More. Wholesale dealers: N/A. Smaller shop. Now; more products, more job freedom.
- 4). Antiques shop: Yes; (+1, +7). N/A. 3, 2. Everything. N/A. Newspapers. Less. Suppliers: oG. N/A. Before; more supplies, more business.
- 5). Electronics store: No. N/A. 3, 4. New building. More. Newspapers, fliers. Less. Suppliers: oG. Less business. Now; products are better.

The businesses surveyed have a lot in common. Almost all are private, without any legal structure. The vast majority has ten or fewer employees (K: 26/29; H: 4/6). Out of those companies that were around during socialism, half experienced layoffs after the

transition, while the other half kept the size of its workforce the same. Indeed, not a single company surveyed experienced an actual gain in the number of employees after the transition. There were 20 companies surveyed, which were established after the transition, and 19 of them were able to specify the date. The mean year in which the new companies were established is 1998. This suggests a high level of instability, since the majority of these new companies replaced businesses that failed (12/16; 4 were unable to provide an answer, therefore, only 16 were used in this statistic). For a more graphic illustration, please consult the maps found at the end of this paper. What types of businesses failed/were replaced most often? Which types were the most common to be founded? For these questions, more data is needed. The following gives a list of all businesses found before and after the transition on the two streets of interest (d.s. = department store, f&v = fruits & vegetables shop). The maps in this paper were drawn from this data.

Kesselsdorfer Strasse		
address	before	after
2-6	nothing	jewelry, bakery, butcher, clothing, café, shoe, magazine, tattoo, sport accessories, hair stylist, children's playhouse, café, travel agency, pharmacy, photo, café.
12	nothing	bank
13	candy	candy
	nothing	dry cleaner
14a	nothing	furniture
14b	butcher	café
16	nothing	bank, glasses, clothing
17	nothing	bank
21	hair stylist	hair stylist
	textile	textile
22	nothing	bank
23	flower	flower
	f&v	house accessories
	bakery	bakery
24	textile d.s.	pharmacy, butcher, f&v, bakery, clothing, flower, supermarket, travel agency, phone, café, café, clothing, magazine, cosmetics, photo, textile.
25	food	supermarket
28	butcher	bakery, photo
	clothing	clothing

30	pharmacy	phone, café
	furniture	f&v
	book	bag
33	bakery	bakery
36	pharmacy	pharmacy
38	butcher	butcher
39	N/A	travel agency
	N/A	toy
42	book	textile
	shoe	food
44	writing supplies	flower
45	bakery	bakery
46	N/A	tanning studio
47	N/A	heavy equipment
	N/A	clothing
48	clothing	clothing
	children's playhouse	bank
50	pharmacy	pharmacy
56	clothing	clothing, glassware
57	N/A	clothing
60	apartments	writing supplies
61	wood	photo
	shoe	shoe
	N/A	antiques
	food	electronics
62	N/A	café
	hair stylist	hair stylist
64	pharmacy	bakery, money investment firm
	electronics	phone, flower
65	bakery	bakery
67	N/A	restaurant
68	N/A	glasses, key
69	hair stylist	hair stylist
70	f&v	house accessories, clothing
71	butcher	butcher
74	pharmacy	photo
77	food	supermarket
79	pharmacy	pharmacy
80	nothing	bar, flower, security services
82	watch	watch
84	glasses	glasses
Hauptstrasse		
address	before	after
1	N/A	toys
2a	café	café
3	N/A	clothing
5a	magazine	magazine

6	shoe	shoe
10	cosmetics	pharmacy
14	restaurant	restaurant, f&v, bakery
16	butcher	butcher
18	flower	flower
21	newspaper	newspaper
22	house appliances	house appliances
24-6-8-30	clothing	shoe, clothing, book, clothing
25	N/A	clothing
27	N/A	toy
29	electronics	electronics
31	N/A	clothing
36	f&v	café
38	N/A	bag
40	clothing	clothing
42-4	N/A	phone
44-6	clothing	clothing

The question of which types of businesses failed most often can now be answered. The food industry (butcher, f&v, food shops; interesting to note that no bakeries failed) suffered the largest number of closures, with a total of 7 between the two streets (2/7 being themselves replaced by another type of food store; i.e., small/medium-sized food store replaced by a supermarket). The categories with the next highest casualty rate were the clothing stores (including shoe stores) and pharmacies, both of which suffered 3 closures each (though 2 of the 3 clothing stores were themselves replaced by clothing stores, but the new stores were smaller than the original – unlike the case of food stores).

What types of businesses were the likeliest to be founded/replace those that went out of business? Here, the food stores are once again in the lead with 14, 2 of which replaced another type of food store (see paragraph above, also, the type of food shop most often founded was the bakery – 5/14). Cafés, bars, and restaurants came in second with 10, though 1 replaced a larger restaurant with a smaller one. Also, out of the 9 new eat-out establishments, 8 were cafés and 1 was a bar – no restaurants were opened. While it is beyond the scope of this paper to go into the details of why certain types of businesses failed

more than others and why certain types were founded, just by observing this data it is possible to come to a hypothesis. No restaurants were founded – only cafés, clothing stores became smaller, while food stores became bigger; it seems that most of the expansion took place in the types of businesses which offer less expensive services/goods, whereas those whose products are more expensive experienced little or no growth, if not outright downsizing. This fits well with the answers given for question #6, which will now be examined.

Interviewees were asked to share their opinion on what is preventing their business from growing; 28 gave a response. The two main complaints were that there are too few customers (10 responses) and the competition is too high (10 responses). The next most common answer was that the buying power of customers is too low (6 responses). However, the complaint of not having enough customers is related to the low buying power, since a higher buying power would encourage people to shop more. Keeping this in mind, the main problem is then the low buying power of the populace. This result is not surprising, considering the high unemployment rate and low wages that are typical of the former GDR.

It is now time to examine the changes that businesses experienced with the transition from a planned economy to a market economy. What were the changes in the hours of operation? The majority of businesses (10/14) increased their hours of operation by an average of 1.9h/weekday and 11.7h/week, with cafés experiencing the largest increase (3h/weekday, 22.5h/week). Did the real wage go up after the transition? Two thirds (6/9) of those who replied to this question said that the real wage stayed the same, while the other third (3/9) said the real wage did indeed increase. Is the current job more stressful than during socialism, and are the job conditions more adverse now than before (a scale was used for both parts of the question: 1 = much less, 2 = less, 3 = same, 4 = more, 5 = much more)? For the first part of the question, the average response was 3.33, and for the second part it was 3.47. While the results may suggest that it was perhaps better to work during socialism, they can be misleading since the wages are also likely to be higher today than before (though only one

third admitted to this). This question of whether the present is preferred over the socialist period will be addressed later in the paper.

The businesses that survived the transition found themselves in dire need of renovations, since during the years under socialism there was little incentive to modernize (profit was not the goal of the employers). It is not surprising that the vast majority of businesses renovated either everything, almost everything, or built a new building altogether (5/15, 4/15, 4/15, respectively). Indeed, only 2/15 undertook no renovations at all. With the renovations came changes in the amount spent on maintenance; 4/9 reported a lower maintenance budget than before, 2/9 the same, and 3/9 a higher budget. It is not clear why some experienced an increase while others a decrease in their maintenance budgets. Some possible explanations are that the new equipment reduced the need for repair, the store space became more efficiently utilized, and more care was now given to equipment and facilities.

The market economy allows for advertising to take place, and 8/10 businesses reported some sort of advertising (mostly in newspapers). Sutton and Tirole's theories address the issue of advertising, and this will be discussed later in the paper. Even with advertising, in terms of sales, most companies (10/13) reported less business now than before and only 2/13 reported more. To get a better idea of the company, the companies' suppliers were noted. Out of the 12 companies that replied, one quarter (3/12) self-produce their supplies, one quarter (3/12) obtain them from whole-dealers, and one half (6/12) obtain them from general suppliers. Those companies that obtain their products from suppliers do so mostly from the old West German states (6/9), while the rest (3/9, though one of them self-produces half of its supplies) get them from the newly-formed German states. Those companies that self-produce or obtain their supplies from the newly-formed states all experienced a decrease in business, though it is not clear why this occurred. What were the main reasons for the layoffs? Less business was the most common answer, being reported 4/10 times. Smaller shop was the second most common answer, being reported 2/10 times. It is, however, possible to combine

the two, since the latter is usually the consequence of the former – this would give 6/10 responses indicating a dearth in business as the main reason for the layoffs. In the end, are the people happy with the transition? Only half (7/14) gave a positive response, with 3/14 being indifferent, and 4/14 preferring the socialist era. This is not surprising, considering that the state of Saxony, where Dresden is located, is one of the biggest supporters of the Party of Democratic Socialism (PDS), the successor to the communist party of the former East Germany. Indeed, in the 1999 election 22% of the votes cast in Saxony were for the PDS.

V. The Relocation of Businesses

The introduction of advertising into the economy brings about changes in the ways in which businesses locate, which is described by two theories. Sutton's work on sunk costs and market structure predicts that concentration processes will be observed, whereas Tirole's simple models of location choice predict that businesses will locate equidistantly from each other. Which of these theories fits the data most accordingly in the Dresden case? To better observe this phenomenon, business groups were plotted using a bit-map editor. The business groups were plotted on maps of Kesselsdorfer Strasse and Hauptstrasse, giving the before and after view. From this, it was possible to draw some conclusions.

Both Kesselsdorfer Strasse and Hauptstrasse seem to fit Sutton's theory better than Tirole's. On Kesselsdorfer Strasse, for instance, two mini-malls were built, which concentrated the businesses. These businesses, however, were not necessarily diverse; in the first mini-mall on Kesselsdorfer Strasse 2-6 there were three cafés, while in the second mini-mall on Kesselsdorfer 24 there was a supermarket, a butcher, and a bakery within the same building. Such examples abound – banks found on Kesselsdorfer Strasse 12, 16, 17, 22 are certainly not located equidistantly from each other, the clothing stores on Hauptstrasse also tend to support Sutton's theory, since they are located mostly on the right side of the street (in

the direction towards Albert Platz), and they are also quite concentrated in some locations, as can be seen by looking at the map. While a study of the whole city would have yielded more concrete results, it seems probable that what happened on the two busiest streets of Dresden is likely to take place elsewhere, too.

VI. Conclusions

What has this project disclosed about the planned and market economies? It shows that the planned economy is indeed inefficient. Many businesses failed with the transition, but there was a pattern to be seen – pharmacies, clothing stores, and food stores were the likeliest to fail, though not one bakery went out of business. In the planned economy there were too many of one type of business and too few of another type, yet only the government could make the corrections. Since this could take years, many mistakes were not corrected; only with the advent of the market economy were the corrections made, though this came at a cost – layoffs, longer working hours, and more stress on the job. Some people were unable to cope with these costs, and so they left town to seek employment elsewhere. This, however, forces even more businesses to close, since there are now fewer customers. This is not an easy cycle to break, and even though West Germany has spent more than one trillion dollars to help with the transition, unemployment and other problems continue to plague the East. What must be kept in mind about the whole process, however, is that it is gradual. As can be seen by the mean year in which new businesses were established – 1998, there is still a lot of turnover taking place. It will be many years before the full effects of the transition will be felt.

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