

Analyzes in effects of 1990 German reunification in economic, political and cultural perspective

Zhiqing Wu

Department of Queen's University, Kingston ON, Canada

18zw45@queensu.ca

Abstract. After the fall of Berlin Wall, the East and West Germany faced a series of problems brought by the reunification. It was surprising to witness the unification of east socialist regime with west capitalism for the theorists. East Germany relied on subsidies from the government and investments from west Germany due to its low living standard and productivity level. The forty years of separation in culture values, political community, and economic systems generates great obstacles for the union of the two Germanie.

Keywords: economic, political and cultural.

1. Introduction

Section 1 and 2 would focus on the effects of German unification in economic and political aspects. The disparity in economy between East and West Germany is one of the premises of the divergence in political values. The emergence of post-materialism value in more advanced East Germany is a compelling example.

In section 3, the cultural differences would be compared and its role in the unification would be analyzed as well. The separation generated different political ideologies and gap in economic development contributed to distinctive lifestyles and cultural values in the two Germanies.

2. Unification effect in Economy

There was a requirement for Monetary union following the unification. Economists in the West argued for 2:1 rate (Gerhard, 1991), which means two Marks for one D-mark. However, East Germany wanted a conversion rate of 1:1 regarding the differences in consumption level and productivity in the two Germanies from the past records (Gerhard, 1991). The debates between economists of two Germanies could reflect the conflicts between people in East and West. Apparently, East Germans want unification and accept the idea of monetary union, but they want to minimize the costs and the argument for 1:1 conversion rate is a good example. Unfortunately, West Germany also holds the same perspective to minimize their costs in the unification. Moreover, Enterprises' assets and liabilities was a hard problem, especially for the debt issue. For firms, their equipment was imported at an exchange rate of 4.40M/DM and borrowed loans from state banks for importing, the proposed 1:1 conversion rate means they needed to pay four times of the original value of equipment back to the bank (Gerhard, 1991). A flexible conversion rate is essential when involving with the debt issues because the debt burden of enterprises would increase significantly if exchange rate were different from past to present.

The backwardness of former GDR economy was exposed following the unification. About 80% of GDR industrial output was valued as uncompetitive at the world price (Michael & Mark, 2017). This reveals the inefficient industrial-centered market of GDR and needed to introduce other production industries like services to improve the market competitiveness. The East Germany's industrial landscape was devastated by competition force and consumer sovereignty and allow the development of service sector including restaurant, personal services, and entertainment (Michael & Mark, 2017). The development in service sectors created new opportunities for jobs and caused the rise in unemployment rate as well, since the old jobs in industrial sectors were abolished along with the shutdown of industries. Social issues came afterwards since East Germany was abolishing its old-fashioned system and adopted the new system, layoff became a common predicament for workers in

former GDR. A significant number of Eastern citizens immigrated to West Germany after the unification for an increasing demand for jobs. Some of these commuting workers could adapt to the new occupations immediately when they entered the labor market such as technicians, while the others lack marketable skills need some training to get their jobs such as lawyers and administrative personnel (Gerhard, 1991).

Despite that the German government tried hard to raise to exports of East Germany, the intensity of former GDR exports was quite low. West Germany imported from GDR without tariffs since it was regarded as domestic trade (Gerhard, 1991). About two-thirds of East Germany exports went to West Germany, some of these exports would be re-exported to the European Community (Gerhard, 1991). The relationship between West Germany and GDR allowed for the low barriers for West Germany to import GDR's products. Thus, the main importer of GDR was West Germany and other nations in EC would be less likely to import from GDR since they would face tariff problems in that case. The export share of GDP in East Germany largely depended on the internal trading volumes with West Germany, so if the GDR exports value declined in the West Germany market, GDR would suffer from great losses in its exports. Such pessimistic predictions are not unreliable. In 1989, the export share of GDR in the West Germany market decreased from 1.6% to 1.4% (Gerhard, 1991).

East Germans imported more goods from West Germany than expected, their own products, however, was uncompetitive. West goods were more advanced and could improve their living standard eg. Cars. As a consequence, domestic and demand for east Germany goods declined, and demand of former GDR citizens for West goods surged as they were unavailable before the unification (Gerhard, 1991). This caused the western investors to become less interested in investing in eastern enterprises.

Right before the German unification, the fiscal policy of the federal government was claimed to eliminate tax increases to finance the unification, but the Christian Democratic government increased the fuel tax and insurance tax as the East economy went on a deteriorating trend (Michael & Roland, 2002). This indicates that the German government underestimated the number of finances required for the unification. It made an impossible promise that the tax would not be increased to its citizens without being aware of the real costs associated with unification.

Although West Germany has transferred over DM1200 billion over the nine years of unification into East Germany, at least half of the money went to consumption instead of investing in economic activities as shown in the table below (Michael & Roland, 2002).

Table 2. Priorities of Transfer Payments (%)

	1991	1993	1995	1997	1999
Industrial infrastructure	12.4	8.6	13.0	13.2	12.6
Subsidies to companies	2.5	7.6	8.0	6.3	5.8
Social expenditures	45.4	54.4	49.5	49.7	51.4
Other	39.7	29.4	29.5	30.8	30.2

Source: OECD, *OECD Wirtschaftsberichte*, p.136.

From the table, social expenditures were granted the highest priority when distributing the financial transfers from West to East. Almost fifty percent on average of the transfers were spent on social consumption from 1991 to 1999. East Germany needed the expenditures on social programs to deal with the long-term problems that existed before unification and with some negative consequences brought by unification as well.

To summarize the unification effects of German economy, the unemployment rate and economic pressure of East Germany was increased due to the transitional process of integrating into capitalism market, and West Germany had to support the lagging East economy financially to relieve the burden. East Germany became largely dependent on West after the unification through exports trading volume and financial transfers, and it is a huge challenge for the West as well since it won't be able to share the economic burden of the East in the long term.

3. Impact of unification in political aspects

Along with the efforts of federal government and West Germany, the economy of the East has gradually improved, but the attitude of East Germans towards national institutions is not positive and they continually express a feeling of being marginalized during the integration process. Today, even there was about a trillion dollars of German investment flowing into East Germany after decades of unification, and almost doubling the wages, pensions, and per capita income of East Germans, East Germans tended to participate in protests towards national policies and regulations at a higher frequency (Mi-Kyung & John, 2003). They are more likely to hold a suspicious attitude to the German polity institutions. The citizens who believe in religions tend to trust the existing institutions more than those who do not engage in religious events. The socialist government in GDR set up anti-religious rules and that might be a reason the East Germans shared a lower level of trust in the institutions (Robert & Rüdiger, 2002). Religious individuals value income less important than non-religious ones (André & Robbert, 2010).

Reunited Germany faced the challenge of integrating two distinctive political ideologies and traditions into a single federal structure. It had to embed conflicting traditions of stable democracy as well as developing democracy; tradition of market capitalism as well as traditions of socialism and command economy (Mi-Kyung & John, 2003). West Germany was built up in Western Zone and the democratic system was constructed for a long time and it is stable, while it is hard for East Germany to transplant democratic and capitalistic traditions into its existing socialistic structure, which was set up by the Soviet Union and its effect lasted for generations. East Germans found that their previous command socialism traditions were not accepted and had to transform to a free democratic one. Compared to West Germany, the newly introduced democratic structure is far less mature in East Germany.

Even though a typical replacement transition focusing on revolutionary replacement in scope and scale, the opposition group in East Germany did not seek for revolution, but rather human rights, free elections, and constitutional amendments to weaken the SED's dominant position (Mi-Kyung & John, 2003). These groups did not express any interests in full-scale regime change in East Germany (Mi-Kyung & John, 2003). The East Germans did not want their socialistic regime to be overturned and their intention was not to replicate the capitalism structure of West Germany into their political community. Specifically, they were seeking a transition into democratic socialism regime. That might be an important reason for the high popularity of the SPD (social democratic party) in East Germany today.

The political parties in Germany after the unification became complicated since the fusion of two distinctive political ideologies is a rare situation and those parties experienced vote increases or decreases due to the lasting effects since the unification. The major parties in Germany at that time were CDU (Christian Democratic Union) and SPD and the competition between them still last till today. CDU believed that the only way of surviving through the Soviet threat and internal instability was to integrate closely with the Western Europe (David, 1991). However, according to SPD, Konrad Adenauer as the leader of CDU and the first chancellor of West Germany was the German collaborator with Great Britain and America to impose democratic capitalism in West Germany (David, 1991). CDU showed the trend of collaborating with capitalist countries and attempted to apply democratic capitalism that opposed socialism, which was rooted by the Soviet in East Germany. SPD also argued that Stalin would take revenge if West Germany formed an alliance with the United State, and Stalin would have to set up a communism East Germany that may cause Germany to be divided (David, 1991). SPD denied the contribution of CDU who attempted to improve the economic situation of the new united Germany by integrating into the western capitalist market, for the reason that allying with the capitalist nations, especially with America, the biggest opponent of the Soviet Union at that time, would force Stalin to build and strengthen communism in East Germany to confront with capitalism in West Germany. The Social Democrats won at a comparison of 5.2 percentage and exceeded the votes for Christian Democrats in the 2021 election (Thorsten & Tristan, 2022). The lower votes of CDU than that of SPD from the results of 2022 Germany Election shows

that the relatively inferior position of CDU since unification has not changed over decades. The CDU was regarded as a party for division during the unification period and this idea may still lie in the head of many Germans.

Another party that holds increasing votes was the Green Party, which gained most of its supports in West Germany and had relatively low popularity in the East. The Green Party is a famous environmentalist political party in Germany. The concern on environmental issues could be classified as post-materialism value. Post materialists regard the non-economic objectives such as environmental protection and gender equality more important than policy domains like economic growth and domestic stability, thus the premise of post-material theory is economic affluence and stability (Robert & Rüdiger, 2002). Considering the fact that the Green party has a comparatively smaller share of voting in East Germany, this corresponds with the post-material theory that suggests a stable economy is the premise. Compared to the West, the democratic institutions were undeveloped, and the economic growth was lagging in East Germany. With low domestic stability and an inefficient market, citizens of former GDR are less concerned about the environmental issues since they rather spend budgets on improving the economy.

To sum up, the citizens in former GDR want a democratic system to be established and their demand for human rights and political freedom is obvious, but what they desire is an adaptation to democratic era instead of completely changing their original social regime. The unification of two different political regimes offers the opportunity for some parties to increase its influence power or weaken the popularity of parties and these effects still exists till the current period.

4. Culture differences exposed during the unification

Citizens living in former communist communities lack the perceptions and attitudes that would make them successful in the market economy such as “entrepreneurial spirit”, motivation (André & Robbert, 2010). Under Soviet control, the command socialistic rules in GDR eliminate the private ownerships and establish collective companies. Individual’s self-interest conception is oppressed so it is not surprising that the Eastern citizens appear to be less conscious of acting independently on their own benefits. The result from the utility function model that measures the happiness level of East and West Germans (André & Robbert, 2010) showed that East Germans significantly happier of being Civil servants than West citizens, which consistent with the preposition that growing up in a communism society might result in lack of entrepreneurial consciousness. It is more hurtful for East Germans to not belong to the work population (André & Robbert, 2010). In other words, East Germans feel more unbearable when being unemployed.

Given the low proportions of religiosity in East Germany, the social stigma is less influential related to divorce, and the social policy encourages the economic independence of women (André & Robbert, 2010). In a high level of religious community like West Germany, individuals regard divorce as a humiliated thing and discourage the independence of women. While in East Germany, the four decades of communist rule influenced the citizens less likely to participate in religious activities and build up their beliefs. The difference in religious level between East and West could lead to the divergence in subjective well-being determinants and social values.

Well-established West Germany conceptualization was applied inappropriately to facilitate the devaluation and misinterpretation of East Germans values and practices (Henrike, 2002). East Germans were highly dissatisfied with the arrogant and patronizing tones of West German officials and superiors while interacting with them (Klein, 2001). This is inevitable since West Germany was under the influence of Western Europe for generations and the Western values and practices are rooted in their culture. In western political vocabulary, there are negative terminologies to describe the former GDR, such as ‘old burden’ [Altlasten] that became ‘unreeled’[abgewickelt] indicates the dominant Western way of regarding East Germany(Henrike, 2002). The vocabulary ‘abgewickelt’(unreeled) is used to depict East Germany that is like an antiquated clock with sprung coils inside and the former GDR is being unwound and set back to a prior time. This suggests the

impression of Western towards East Germany after the reunification. Their conclusion is that East Germany was old-fashioned and apparently lacked innovations. The East was put into an inferior position by concepts. East Germans were regarded “too slow” not only in work setting but also in mundane aspects of daily life, for example the complaints about exceeded delivery time that lasted for two months (Henrike, 2002). The Western Germans complain about the unbelievably slow rate of delivery in the East, and this is not surprising since East Germany had a less developed transportation system. But it is a conception difference rather than a transportation problem, the East citizens got used to a slow pace of life and what they considered as a “normal” delivery period was two months, which is extremely slow regarded by the Western Germans.

Those conflicts are caused by the divergence in culture differences between the East and the West. Western Germans dislike the outdated East and its inefficient system, while the East Germans felt to be despised due to the patronizing attitudes of Western Germany.

To summarize, East and West Germany shared little common place in culture due to different religious level, lifestyle, and ideologies. The divergence in social values is obvious, for example, East Germans encourage women independence while West Germans do not, and divorce is a more humiliated thing in the West. Their determinants of happiness are different as well. The negative effect brought by unification is that culture difference and less developed East Germany cause the East to be discriminated by their West compatriots.

5. Conclusion

The rapid reunification of Germany implies a series of challenges and issues in economic, political, and cultural aspects. In economy, the government fail to estimate the real costs of the unification and the amount of supporting finances to East Germany exceed their expectation. The economy development of East Germany heavily relied on the imports of West Germany from the East due to its low competitiveness in international market. In addition, West Germany transferred considerable finances to the East to aid its development, but the inefficient system of East Germany distributed many of these financial transfers into the social spending instead of into long-term oriented events such as investments. The unification made the West Germany to bear the economic burden of the East, and this is an obscure reason lies underneath the conflict between two Germanies. In political aspects, the unification brought democratic transition in East Germany. There's no doubt that citizens in the East want democracy which was unavailable during the Soviet control era, although they refuse to change their social regime. The political parties in Germany experiences changes in citizens' support as well due to the shift in values such as post-materialism. In cultural perspective, the four generations of separation caused noticeable differences in cultures between East and West Germany. Firstly, under the Communist rules, the portion of religious citizens in East Germany is much lower than that in the West. East citizens tend not to trust in government institutions, and they obtain a strong feeling of being marginalized by their western siblings, because the less developed East Germany creates different pace of life and the reliance of East economy on the West suggests the inferior position of East Germany.

References

- [1] André van Hoorn, Robbert Maseland. (2010). Cultural Differences Between East and West Germany After 1991: Communist Values vs. Economic Performance?. *Journal of Economic Behavior and Organization*, Elsevier, 76 (3), pp.791. [ff10.1016/j.jebo.2010.10.003](https://doi.org/10.1016/j.jebo.2010.10.003)ff. [ffhal-00911822](https://doi.org/10.1016/j.jebo.2010.10.003)
- [2] Gerhard Pohl. (1991). *Economic Consequences of German Reunification: 12 Months After the Big Bang*. Geneva Office, The World Bank.
- [3] Michael Münter, Roland Sturm. (2002). Economic Consequences of German Unification, *German Politics*, 11:3, 179-194, <https://doi.org/10.1080/714001316>

- [4] Burda, Michael C., Weder, Mark. (2017). The Economics of German Unification after Twenty-five Years: Lessons for Korea, SFB 649 Discussion Paper, No. 2017-009, Humboldt University of Berlin, Collaborative Research Center 649 - Economic Risk, Berlin
- [5] David Gress. (1991). The Politics of German Unification. *Proceedings of the Academy of Political Science*, 38(1), 140–152. <https://doi.org/10.2307/1173819>
- [6] Klein, O. G. (2001). You just can't understand us! Why East and West Germans talk past each other. Frankfurt am Main: Eichborn.
- [7] Mi-Kyung Kim, John D. Robertson. (2010). Analysing German Unification: State, Nation and the Quest for Political Community. <https://doi.org/10.1080/714001304>
- [8] Rau H. (2002) Time Divided – Time United?: Temporal aspects of German unification. *Time & Society*.;11(2-3):271-294. <https://doi.org/10.1177/0961463X02011002006>
- [9] Robert Rohrschneider, Rüdiger Schmitt-Beck (2002) Trust in Democratic Institutions in Germany: Theory and Evidence Ten Years After Unification, *German Politics*, 11:3, 35-58. <https://doi.org/10.1080/714001314>
- [10] Thorsten Fass, Tristan Klingelhöfer (2022). German politics at the traffic light: new beginnings in the election of 2021. <https://doi.org/10.1080/01402382.2022.2045783>