

East Germany as a Unique Case of Societal Transformation: Main Characteristics and Emergent Misconceptions*

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Abstract

As a peculiar case of postsocialist transformation, the former GDR benefits from vast financial subsidies as well as from the adoption of a well-balanced institutional system. Two further characteristics appear more ambiguous: First, starting conditions of economic reform show a severe lack of consistency since the Bonn government revaluated the GDR currency by more than 300 % and, unlike governments in postsocialist countries, refrained from wage controls and social pacts. Second, because economic reforms, including price liberalization and open trade, became introduced all at once, domestic industries lacked in sufficient time to adapt themselves to competitive markets. A correct assessment of these causes of economic decline reveals that neither the privatization policy of *Treuhandanstalt* nor the predominance of West German corporate actors are factors of similar negative impact. Thus, the widespread interpretation that social costs of transformation would directly result from the representational bias inherent in East Germany's new political system proves wrong. With reference made to aspiration dynamics resulting from an unusual allocation of "goods" and "bads" during transition manifestations of dissatisfaction in East Germany seem explainable. In the concluding section, two further misconceptions of reality which informed decision-making at the outset of unification are discussed: the idea of a replication of Germany's "economic miracle", on the one hand, and the myth that migration to the West could be discouraged by hastened wage increases at the expense of employment opportunities.

East Germany's transformation differs from transformation processes in other post-socialist countries in several respects. First of all, one need only recall the extraordinary advantage of large financial transfers without any obligation of repayment. Second, East Germany benefitted from unification by importing a fairly complete system of legal institutions encompassing an extensively tested collection of norms and rules, as well as a set of corporate actors with the experience necessary to operate within this institutional framework. Both these outstanding features have provided a degree of institutional stability and calculability that is nearly the opposite of what we know in other societies undergoing the process of transformation.

However, "unification" is only a descriptive label which one associates with the East German mode of transformation. It does not explain what will happen to those who have embarked upon this path of rapid social and institutional change. It obviously deviates tremendously from cases of "self-transformation" such as those accompanied by dissolution (as in the cases of the USSR and Yugoslavia) or divorce (as happened to Czechoslovakia). In addition, when viewed with greater scrutiny, "unification" would not seem to be an entirely advantageous process. Some of its less pleasant features would appear to be: (1) a rapid decline in domestic production from 1989 to the end of 1991 by more than 40%;¹ (2) the uncompensated loss of 37% of all jobs (from 1989 to 1993);² (3) investment conditions that are only slightly better than those in West Germany, but definitely less attractive than in the neighbouring countries of Eastern Europe; (4) an extraordinary share of personnel turnover in the upper echelons of political and managerial hierarchies; and (5) a considerable degree of popular frustration and dissatisfaction as a consequence of unexpected unemployment, a massive renouncing of skills and the repudiation of individual property rights. Some additional features of East Germany's new political system can be attributed to unfavourable results of unification: weak voter affiliation with the imported West German party system as a whole, and in particular, the increase in what now may be viewed as an apparently stable voter turnout for the *PDS*, the former socialist unity party successor and self-declared true guardian of those citizens who feel they have been disadvantaged or unfairly treated over the course of unification. Whether indications of anomie and radicalism among East German youth which would appear to be associated with xenophobia and a readiness to commit violent acts can to be traced to the current situation rather than social disintegration during the period of the GDR, remains open.

While most spectators and a strong majority of East Germans would admit that unification not only brought about valuable collective goods like the rule of law and democratic procedures but also considerable individual advancement, some observers insist on emphasizing the significance of the "bads" as mentioned above. These bads would seem to indicate that East Germany has undergone a process which has included certain facets reminiscent of "colonization". Alternatively, the bads could also be attributed to a peculiar kind of "shock therapy" assumed to have been employed without reservation (Pickel 1992). Thus, the East German situation appears ambiguous and subject to controversial interpretations.

The purpose of this contribution is to elucidate the peculiar set of framework conditions that fashion the unique case of East Germany's transformation. In an attempt to accomplish this aim on the basis

¹Gross domestic product (in prices of 1991) fell below 69,7 % of its 1989 level in 1990, and below 58 % in 1991 (see DIW 1992).

²See Statistisches Bundesamt (1994: Tab. 2.1.3). Job losses in industrial sectors are even more tremendous. The Number of persons employed fell from 2.1 million in January 1991 to 0.7 million in June 1993 (Nolte/Ziegler 1994).

of a parsimonious explanation, I would like to draw attention to two main features of German unification (or to use a term more suitable for comparison: of East Germany's transformation): *first*, the policy pattern of economic transformation (section 2), and, *secondly*, the stage and actors chosen for the most important decisions on transformative policies (section 3). Before referring to popular dissatisfaction as a feature that demands explanation, especially in the case of East Germany, two elements of the institutional path of unification must be dealt with in detail. Though both of them are assumed to have greatly contributed to the unfavourable outcomes, their negative effects appear substantially overrated: This is the case for the chief mode of privatization undertaken by *the Treuhandanstalt* (section 4) and, on the other hand, for the predominance of Western corporate actors in East Germany (section 5). With regard to widespread feelings of disappointment, an explanation is advanced which draws on the process of cognitive framing. It is suggested that unification provided effective opportunities for the incorrect interpretation of its causes and consequences, thus giving rise to improper conclusions (section 6). However, as I will argue in the final section (7), disbelief and misconceptions were so endemic at the advent of unification, one is also inclined to conceive of an eventual constructive role they have played in terms of having made feasible both this highly improbable event and such an extremely costly path to German unity.

2.

East Germany is by no means an example of shock therapy. Comparing the decisions taken at the start of the economic and monetary union in July 1990 with the bundle of decisions made at the beginning of the economic transformation in Poland or, to be more precise, with the set of policy prescriptions for shock therapies as implemented elsewhere (e.g. Sachs 1989), large discrepancies become obvious. Before going into detail, a short remark on the concept of shock therapy as a heuristic means for comparing economic transformation policy approaches seems appropriate. Notwithstanding several strong arguments which social and political scientists might raise against this infamous blueprint approach to macroeconomic restructuring, even though the strategy may be repudiated empirically for being not only socially irresponsible, but unfeasible in a proper democratic system, some positive features which hold true do exist. The valuable aspect of shock therapy stems from its promise to list all measures assumed indispensable for a proper departure from the state economy. Since this is a key problem of transformation, alternative approaches, if not bound to failure from the outset, are obliged to respond to the same exact demands for (macro-) economic consistency and rational political self-commitment upon which the foundation of radical change is based. Thus, the latter offers a yardstick to measure the "task awareness", as well as the (implicit) "problem productivity" of conceptual approaches to economic transformation.

What are the basic components of shock therapy? Besides the establishment of the rule of law in general, of company law and contractual law in particular, and irrespective of the method chosen for the allocation of property rights (a task that often becomes relegated, in a misleading way, to "privatization"), policies presumed to guarantee the quickest, though not flattest way to a capitalist market economy are assumed to consist of at least five substantial measures and a single procedural one:³ (1) the freeing of (most) prices and the embarkment on an open trading policy; (2) sharp cuts in state subsidies to private and business recipients; (3) the attainment of currency convertibility subsequent to the devaluation of the exchange rate; (4) a decision in favour of income policies which block any tendency towards wage explosion; (5) budget reforms associated with the restriction of state credits; and (6) a strategic plan that allows for the simultaneous application of a maximum number of the measures mentioned above in order to inhibit insider profits and the inefficient allocation of scarce resources.

3Cf. Sachs (1989, 1991), Fischer/Gelb (1991), Lösch (1992), and Brada (1993).

With transition costs expected to increase over the duration of economic transformation, shock therapy, as idealized above, aims to save in total costs of the transition. At the same time, but for different reasons, shock therapy would work as a kind of insurance against political failure by primarily concentrating all painful interventions at the start of the transition from socialism to a market economy, thus enabling governments to stick to the chosen strategy despite the opposition provoked early on by harmful results of the intervention. This pattern of allocating decisions based on a compact timetable is considered superior to the alternative of a prolonged sequence of single actions which are aimed at the same target but evaluated separately, i.e. such that composite effects aspired to are ignored. Understood as a coherent policy approach, the logic of shock therapy is two-fold: On the one hand, it relies on the consistency of a set of functionally interdependent measures. This feature makes up for the holistic quality of the approach. On the other hand, it offers protection to political actors against their eventual weakness of will or, in other words, against their temptation to behave opportunistically. Once such package decisions were implemented, the costs of revising them would be greater for the politicians than in the case of departing from a strategy of sequential reforms. Thus, with an increased "intrinsic" interest in successful transformation, as well as with cautious calculations of given (moral) resources and risks to be incurred, politicians might feel inclined to adopt the radical approach. Since the latter promises to decouple decisions on transformation from the interim outcomes of the transformation, it has a flavour of rigidity.

Has shock therapy been introduced in East Germany? The answer is a definite no. Only two of the five substantial measures, namely the unfreezing of prices and cutting of subsidies were introduced at the start of economic and monetary union on July 1, 1990. However, the freeing of prices was accompanied by an abrupt and unconstrained inclusion of East Germany into open markets. The result was a sudden subjection of East Germany to global market conditions, a feature of East German transformation which would appear unique by comparison to what was occurring at the same time in other post-socialist countries. One may remember that all the Visegrad countries (i.e. Czech Republic, Hungary, Poland, and Slovakia) still continue to protect major parts of their respective economies by means of tariffs, currency policy and state control over foreign investment. For business in East Germany, the sudden inclusion to the world economy meant a painful lack of time to accommodate to dramatically changed conditions. Thus, firms went out of business or became dependent on massive state subsidies. While these harsh decisions made on prices and (consumer) subsidies may be in line with shock therapy, this does not hold true for the remaining items.⁴

Currency convertibility was obtained in conjunction with an enormous revaluation of the exchange value of the East-German *mark* by more than 300 per cent. As an example of a further deviation from the concept of economic stabilization, wages and social incomes were fixed at a one-to-one relation with the West-German *mark*. According to the perspective held early on by the government, the gap remaining between income levels in East and West Germany would disappear within five years. Although no legal measures were taken to secure the accomplishment of this target, its proclamation obviously had a negative impact on investments.⁵ As a consequence, a third deviation became necessary: the state's abstention from credit restriction. In the end, the pattern of policies for economic transformation were significantly lacking consistency when compared to the catalogue of shock therapy. This pattern combines decisive steps of market-oriented liberalization while

⁴See Sinn/Sinn (1991), Siebert (1992) and Hankel (1993).

⁵This means that there were no wage policy effective that would have allowed to compensate for the detrimental effect of currency revaluation on the competitive position of East-German industries (Collier/Siebert 1991).

granting opulent favours to the East German electorate for "political reasons", i.e. in order to improve the government's chances for re-election (Hankel 1993: 27). This very special pattern accounts for the socio-economic paradox of the GDR's incorporation by West Germany: the fastest decline in economic performance to be seen in East-Central Europe was accompanied by the fastest and closest approximation of West-European income levels (including transfer incomes).

3.

Notwithstanding the approval required by the former allies of WWII, unification was achieved through two series of negotiations between the government of the Federal Republic of Germany (FRG) and the government of the German Democratic Republic (GDR) which entered office following the first democratic elections in March 1990. The first series of negotiations resulted in the so-called "monetary, economic and social union" of July 1990; the second series produced a huge catalogue of regulations concerning the accession of the GDR to the FRG which became effective on October 3, 1990. In both cases, the objects of agreement are detailed norms concerning the subjection of East Germany's people and territory to West Germany's institutional system. While this is precisely the logic behind "transformation by inclusion" as denoted by the notion of "*Institutionentransfer*" (Lehmbruch 1994), both the pace of the GDR's transformation, as well as the governance of the whole process, became subject to constraints deriving from a peculiar way of "transformative" decision-making chosen by both partners. This way would appear to be the German alternative to gradualism versus radicalism in transformative policies.

In the Spring of 1990, available options included not only the sudden incorporation of East Germany into West Germany's institutional system, but also a prolonged option which would have allowed for an incremental adoption of a new legal and institutional system. This probably would have made possible a thoroughgoing public debate on the kind of institutional changes and accommodations needed by an united Germany. With respect to both these options, the choice available to the conservative-liberal coalition in 1990 strongly resembled the question of choosing the radical over the gradual approach to economic transformation. While the rationale of the non-gradualist approach has already been sketched above, here our attention is drawn to a different aspect. What were to happen, if the strategy for transformation were to be chosen not by a single (unitary) actor but, instead, were to be the outcome of a conflict between actors with competing interests as is the case with political parties struggling for voters? Would radicalism, if rejected by the public as well as by the political opposition, still be the most promising approach (in terms of consistency and velocity)? And would gradualism, when supported only by a slight majority, work at least as well as the crash project if the latter is unleashed after controversial discussion? Probable answers to these questions are listed in a 2*2 matrix (scheme 1).

Given that not only gradualism, but shock therapy as well requires a time span that might exceed a parliamentary period in order to work out its assumed advantages (notwithstanding the possibility that decisions about the course of transformation were to be taken close to the date of elections), it obviously risks failure when becoming a subject of controversy between campaigning parties. Thus, radicalism seems workable only when it is based on a broad consensus among major political powers. The same applies to gradualism, however with minor consequences. Gradualism might deliver a considerable share of its goods even in the presence of "radical" opponents who demand additional and deeper interventions than the gradualists are willing to apply. In both cases, a strongly contested policy will most likely fail to win enough popular support to become a complete success. This is because social and economic actors might postpone decisions when uncertainty about their future action environment is on the rise. If they were to employ a "rational" calculus,

they would defer from realizing risky projects and, instead, restrict themselves to strategies that look appropriate for different futures. However, the outcomes of an insufficiently supported approach to transformation might be quite different for the radical and the gradualist strategy respectively. While a radical approach that is heavily contested at the outset appears almost unworkable, contested gradualism might possibly proceed more slowly, but in a proper way, i.e. depriving its proponents of only some of its assumed fruits. Paradoxically, in both cases the result would be quite the same. Both options, if not based on a strong and stable majority, would become reduced to the obviously worst outcome of strategic conflict: "contested gradualism". This slowed-down version of moderate procedure not only lacks the advantages of resolute radicalism, but also the full basket of fruits as promised in the case of consistent implementation. Because of this asymmetry in the consequences of implementation failure, adherents of radicalism seem to have little to gain by compromising with gradualists, while sticking to a preferred course of gradualism would make sense even vis-à-vis "radical" opposition. Gradualists experiencing some modifications and a reduced speed of transformation were better off than radicalists deprived of the conditions for a proper implementation of their project.

		Actor A	
		radicalism	gradualism
Actor B	radicalism	R workable radicalism (shock therapy)	G- contested gradualism
	gradualism	G- contested gradualism	G+ consented gradualism

Scheme 1: Outcomes of competitive choice of transformation strategy

In West Germany prior to unification, the preferences of government and opposition clearly resembled the distinction between radicalism and gradualism; their ideal responses to the question of how to transform the GDR were mutually exclusive. According to the procedural characteristic of shock therapy which demands the simultaneous change of all relevant institutions, the West German government preferred the once-and-for-all approach to any alternative.⁶ In order to proceed along this line, Chancellor *Kohl* and his government resolutely tried to circumvent situations in which they could become trapped in a strategic conflict as sketched in scheme 1. Anticipating an eventual conflict on principles of transformation strategy between government and opposition, the government choose to "locate" strategic decision-making in an arena where it was considerably less constrained by the presence of political opponents (as well as by diverging views within the parties forming the liberal-conservatist coalition) than in standard procedures of decision-making on issues

⁶According to the alternatives described by scheme 1, the preference ordering of government might be reconstructed as $R+ > G+ > G-$, while the preference ordering of the opposition were led by efficient gradualism as in the case of $G+ > G- > R+$.

of constitutional or domestic policies. Thus, the government decided to remove the issue of "How to deal with GDR?" from the agenda of domestic policy and made it a topic of foreign policy. Decisions made in this arena concerned the procedure of incorporation, its time schedule, and the actors involved. Since the procedural characteristic of decision-making resembles the once-and-for-all approach of shock therapy, the impression arose that a full-fledged variant of the latter had been launched at the start of unification.

In East Germany, politics gained priority over policy because the *Bonn* government held a strong preference for the preservation of West Germany's institutional order (Lehmbruch 1991; Czada 1994). This preference not only concerned the issue of constitutional integrity vs. reform, but also the informal rules of procedure, i.e. the content of coordinative action taken between the state and the private sector. Were a gradualist approach to have been chosen as was apparently preferred by the Social Democratic Party and the Green Party, the accession of the GDR to the FRG in the eyes of government would have unraveled a series of opportunities suitable for putting into question some well-established institutions. The issue of proper institution-building would irreversibly have been on the agenda for at least a decade since there would have been little chance that the quest for "new" institutions for the East would have remained decoupled from demands for more "modern" and "appropriate" institutions in the West. For this reason, as was clearly revealed in reports authorized by two of the negotiators on the side of government (cf. Schäuble 1991; Teltschik 1991), the latter did not hesitate to choose a non-gradualist strategy. With this decision, the German path of "transformation by abrupt unification" won its air of holism while at the same time allowing its proponents a rigid self-commitment to the chosen course of change.

A strategic option of such a holistic kind and of such a binding nature was not open to any other post-socialist country. It owes its feasibility to the simple fact that two autonomous states, the GDR and the FRG, were equally legitimate and competent actors in a position to decide upon all matters of "transformation by unification". Thus, the West-German government had in fact a like-minded partner which preferred the radical over the gradual strategy on grounds having to do with its own partial interests. While West Germany's government showed a certain unwillingness to allow for a prolonged period of accommodation and, instead, offered attractive conditions for an immediate accession of the GDR, East Germany's government not only felt increasingly uncomfortable with its interim functions, but also with the growing unwillingness among Eastern politicians to act in accordance with a common agenda (see Hämäläinen 1994: 218f). An immediate accession to the FRG became an attractive offer to the coalition government in East Germany as it fell victim to disintegration and, at the same time, became aware of its rapidly increasing dependence on Western aid, expertise and advocacy. After the GDR government fashioned its own preferences about the course of transformation along constraints as set by the West, it found itself a strong supporter of the once-and-for-all package decisions. It might be quite difficult to assess the impact of internal and external factors upon the turn to embark on "radicalism". While there were some instances where Eastern cognitions were shaped by Western interpretations of the common situation and, in particular, where an Eastern self-image as being an inferior actor incapable of designing a strategy of its own was fostered, even "rational" competitive behavior of Eastern politicians after the Volkskammer election in March 1990 appears to have been driven by external forces: Those looking for a longer political career began to take into account how their present behaviour might be evaluated by top functionaries in the (Western) parties with whom they expected to become affiliated. In sum, choosing foreign policy as the arena of decision-making, and, by doing so constraining the future agenda of domestic policy-making, the *Bonn* government succeeded in excluding its political opponents from participating in an effective governance of transformation.⁷

⁷The window of opportunity in international politics that opened with the erosion of Soviet power in 1989/90 often served as an excuse for the exclusion of domestic actors from the unification process. However,

As we see, those pretending to recognize some kind of shock therapy in the course of East Germany's transformation do not appear to be totally incorrect. In fact, the temporal pattern of actions taken resemble the ideal-type once-and-for-all pattern of "radical" transformative decisions. However, all relevant - and effective - motives were of a political and not an economic nature. Inter-governmental negotiations were preferred to sequential policy-making in a multiplicity of arenas of domestic politics, mainly in order to cope with the uncertainties of party competition. By "upgrading" matters of societal transformation to "foreign affairs", West Germany's coalition government escaped a lasting debate on adequate institutional policy - with uncertain outcomes. Obviously, the joint choice of stage, time and collaborators helped them win the national elections in December 1990. As part of the complex consequences, the population of the GDR on the one hand received extremely favourable gratifications in terms of currency revaluation and income growth, but, on the other, were subjected to a shock, both in terms of institutional change and economic decline, thereby effecting substantial economic, social and "moral" costs. Last but not least, as fresh participants of a civil society, East Germans were inclined to feel deprived of an opportunity to discuss and participate in decisions relative to the concrete terms of societal transformation as allegedly seems to have been the case in such post-socialist countries as Poland, Hungary and former Czechoslovakia.

4.

Both the extensive de-industrialization that started in 1991 and came to a halt no earlier than 1994, as well as the massive lay-offs in all industrial sectors and in agriculture are commonly attributed to the course of privatization as it was carried out by the *Treuhandanstalt (THA)*. The *THA* was founded by the GDR government in the spring of 1990 as a state agency charged with holding the assets of all former state enterprises and real estate once labelled the "people's property" (*Volkseigentum*). With the economic and monetary union of July 1990, its main task became one of organizing the organizational restructuring (i.e. corporatization) and transformation of the state enterprises into market actors (i.e. commercialization). This task was governed by the order to sell the former state assets as quickly and efficiently as possible to private investors. The target of industrial modernization and sustaining jobs in firms belonging to the *THA's* portfolio did not appear before 1992. In accordance with the line taken by the *Kohl* government, the main reason given by the *THA* officials for preferring privatization over modernization had to do with uncertainties inherent in projects or strategies which would eventually be chosen by future investors. While the *THA* was reluctant to allow massive investment in the productive equipment of firms under its control, following a policy shift initiated in Bonn in 1992, it tried to maintain a relatively high level of employment in order to provide future buyers with a skilled workforce, as well as to relieve the unemployment funds of a part of their tremendously increased burden. Thus, even if in principle the *THA* opposed subsidizing firms for the purpose of combatting unemployment, it worked as a kind of employment agency, at least from the spring of 1992 until the end of 1994. While tolerating a certain level of unemployment on the job even before the *Bonn* government embarked upon a strategy of founding and subsidizing public "corporations for employment and re-construction", the *THA* was instrumental in coping with and concealing a certain share of East Germany's growing unemployment figures. Nevertheless, massive lay-offs which lead to a steady increase in unemployment had been initiated or at least agreed upon by departments of *THA* as they tried to improve productivity as a precondition for the survival of single firms.

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while this fact belongs to a set of enabling conditions it can in no way explain the choice to abstain from sequential transformative decisions in the arenas of domestic policy.

For a proper assessment of both the type and impact of privatization policy in East Germany, one has to look at the relevant options open to politicians. Strategies for privatization can be classified in several dimensions according to their specific "values". These are usually taken into account after measures of pre-privatization - in terms of the dissolution of large firms and conglomerates (*Kombinate*) into single corporations - are employed. There is first a variety of *procedures* which differ with respect to prerequisites and outcomes such as (i) auctions (i.e. selling according to the best bid), (ii) negotiations on detailed contracts which might have also included provisions concerning future investment and employment, (iii) the emission of vouchers (for a moderate price if not free of charge), and, last but not least, (iv) the allocation of property rights to persons who hold a certain privileged or functionally preferred status, be it (former) management, employees, or semi-public funds. Second, although the most significant distinction is the capability of buyers to install a cost-responsible management and furnish the firm with capital, there may be preferences for or against certain categories of potential *buyers* that sometimes prompt the exclusion of foreigners or members of the *nomenklatura*. Third, there may be preferences for some accompanying or *secondary effects* of privatization such as the prevention of large capital stocks from providing their owners with excessive power resources, or, more significantly, public policy goals such as budgetary relief, a high level of employment, as well as sound sectoral and regional development. Fourth, privatizing policies will usually refer to a certain *time horizon* within which the process of privatization is expected to be completed.

The most common preference aims at a short transition period, whereby the number of relevant dimensions are reduced to three. A further reduction of complexity is possible through the choice of management styles if variance among potential buyers is constrained to the alternatives of having a respectively strong or weak impact on the level of future productivity. The remaining two dimensions, mode of procedure and secondary effects, can be assigned variables in a contingency model of approaches to privatization. Such a two-causes-one-result model is presented in another 2*2 matrix (scheme 2). It classifies four options open to politicians who feel free to choose buyers according to the most preferred "secondary effects" of privatization. The main operative distinction refers to the kind of owners who are - or are not - interested in market efficiency and, according to their interest, provide - or do not provide - the enterprise with a responsible management (i.e. a group of top executives who, for the sake of their own jobs and professional reputations, confront the firm with "hard budget constraints"). The most important secondary effects (or by-products) of privatization concern the budgetary aims of public policy or such institutional principles as the adjustment of all economic transactions to market conditions on the one hand, and, on the other, targets which exhibit social responsibility (for employment levels or sectoral and regional development). Preferred results arising out of the juxtaposition of two kinds of buyers and two kinds of secondary effects are depicted in the four boxes in scheme 2.

Since economic institutions of socialism were based on the principles of interest identity and reciprocal trust (reality was not only different, but often the opposite as we know it today), enterprises usually were, at best, weakly monitored with respect to their productive efficiency. Although budgetary functions were often predominant under socialism, a weak management deprived of the power to recruit (and dismiss) personnel according to output was incapable of serving them with efficacy (see box one). Likewise, privatization programmes which rely primarily on the broad distribution of vouchers, as indicated by box two, might win public approval, but turn out to be rather inefficient with respect to the future "market power" of the enterprises: this procedure might be appropriate for the creation of a kind of people's capitalism ("*Volkskapitalismus*"), but, for two reasons, is rather unlikely to stimulate an adaptation to market environments. Individual entitlements appear strongly decoupled from effective means of controlling

the use of capital, while governments could be assumed to avoid any devaluation of equity, thus, disguising a probable lack of productivity. Under such conditions, formally "privatized" firms remain subjects of continued subsidization and regulation by the state. This is precisely the problem with voucher privatization in Russia; despite its declared completion in July 1994, there remains an ongoing lack of incentives for market efficiency. Analogous judgements apply to the substitution of public or semi-state owners for state ownership. More difficult to assess is the impact of so-called *nomenklatura*-privatization, as well as employee ownership combined with industrial self-governance. Both these modes do not exclude efficiency by principle, but often do so empirically. In any case, the installment of responsible management demands a different mode of privatization.

The most prominent alternative is exemplified by auctions (box three). Here, enterprises are sold at the highest price, perhaps for the sake of maximizing state revenue. In principle, buyers might come from everywhere aiming to make the most profitable use of whatever came under the hammer. Typical options include large lay-offs for the purpose of ensuring the firm's survival in market environments, as well as the closure of production in order to convert valuable parts of the firm into cash. In principle, auctions typically exclude any public constraints on further capital usage.

Buyers' impact on management	Accompanying Functions	
	budgetary/principled	social/developmental
weak (unmonitored management)	{Former Socialist Economy} 1	Public Holdings, Employee-owned Firms {Voucher Privatization} 2
strong (responsible management)	Unconstrained Private Investors {Auction Privatization} 3	Committed Private Investors {Negotiated Contracts} 4

Scheme 2: Paths and Outcomes of Privatization

Besides the extreme options of boxes two and three, there exists the instrument of single contracts negotiated individually between potential buyers and the privatization agency. This is the mode of privatization which the *THA* mainly employed after the winter of 1992. In light of the technical alternatives, the *THA*'s dominant privatization policy would appear to have been a reasonable compromise. In reality, auctions also occurred in the former GDR (e.g. for the selling of real estate and media firms such as newspapers), but the main instrument of privatization employed by the *THA* during the last three years of its existence before being dissolved into several regional agencies at the end of 1994 were detailed individual contracts, whereby buyers committed themselves to certain volumes of investment and a pre-fixed number of employees; additional obligations included tasks concerned primarily with environmental reconstruction and networking with specified firms also formerly owned by the state.⁸ In lieu of these extremely restrictive obligations, some buyers were

⁸For more details of the structure and activities of the *THA* see Fischer et al. (1993).

relieved of any cash payments; in some (rare) cases, cash transactions happened the other way around, whereby the *THA* had to pay the buyer for not committing economic suicide for having purchased a rusty factory and binding itself to high levels of employment and investment. Such cases involving "negative" prices indicate very clearly the policy change undertaken in 1992 when the *THA* shifted its attention to the "secondary" social and developmental effects of privatization. The rationale behind the sale of East German firms was not to gain the highest possible price, but presumably to obtain positive structural and developmental side effects. Nevertheless, individual contracts turned out to be somewhat ambiguous. There were several examples of where the *THA* resisted selling firms to employees or management, offering instead a sale on the same terms to a Western competitor whose aim was to control the market supply. Some cases of corruption indicate how susceptible the individual mode of privatization is to illegal arrangements between the vendor and the buyer. However, neither eventual corruption nor ignorance of social demands were indicative of the overall style of the *THA*'s privatization policy.⁹

It would therefore appear difficult to argue with the *THA*'s concept of privatization if one considers its focus on socially acceptable "secondary" effects. *THA* may be blamed for a certain openness to clientelism (mainly demonstrated by having favoured investors from West Germany) and of risk avoidance (when denouncing reasonable projects of modernization), but definitely not for a strong orientation in favour of state revenue. To understand the discrepancy between this flattering interpretation and the widespread opinion that the *THA*'s policies are the root cause of de-industrialization in East Germany (see e.g. Hall/Ludwig 1993), one must recall the actual causes of the disaster, i.e. the sudden exposure to global competition as occurred on July 1, 1990 for which socialist enterprises were unprepared. The "opening shock" (*Öffnungsschock*) experienced by the GDR economy has also been the predominant cause for steadily increasing unemployment (Siebert 1992). Already months or even years prior to becoming privatized, firms were denied the opportunity to adjust themselves to an environment which included such things as global goods and factors markets, what to them must have appeared as strange surroundings. The time span considered appropriate for a smooth accommodation can be studied in the relatively "open" Polish economy: It is still protected by such effective tariffs and import controls, that truck drivers with imported goods from the West regularly spend between 10 and 30 hours waiting for clearance at customs. Decisions made at the outset of economic transformation, rather than privatization policies chosen later on, were responsible for effecting de-industrialization and a complete erosion of industrial networks. The enforced obsolescence of co-operative nets and professional competence are further disadvantages of East Germany's economy (Albach 1993).

5.

A different but complementary interpretation of the unfavourable outcomes of transformation focuses on a certain structural feature of East Germany's political system. Here, not only were legal institutions and approved rules of procedure from West Germany, but collective actors as well. This applies to a huge variety of organizations such as political parties, trade unions, employers' and business associations, as well as organizations for the advancement of professional interests or the provision of welfare. This was already taking place prior to October 1990 when unification formally came into effect. It took less than one year for associations of genuine East German origin to lose their impact on public policy. Even the majority of organizations that emerged in the times of endogenous liberalization and democratization, i.e. between September 1989 and March 1990,

⁹For a comparison with privatization policies in other post-socialist countries see Stark (1992), Brusis (1993) and Roland (1993).

turned out to be the losers when confronted with West German competitors. The stronger ones were invited to merge with Western organizations; most others disappeared. Thus, the transformation of East German society became the project of external actors who supposedly possessed superior skills and, at the same time, could capitalize on their institutional privileges given their affiliation with the corporatist layer of Germany's political system (Katzenstein 1987). While Western collective actors immediately started an extensive transfer of professional personnel to the East,¹⁰ their implicit rationale for doing so was to secure their position relative to that of the other actors and, by doing so, install the same system of governance in their respective fields of interest representation and joint regulation as was already in place in the West (Lehmbruch 1994).

With respect to the formal completeness and the functional efficacy, notwithstanding the level of social security attained at the outset, the imported system of representation and governance works more smoothly and efficiently than is the case elsewhere in East Central Europe. This holds true even though many associations are "little more than an organisational shell" (Boll 1994: 114). On the other hand, not all the imported institutions would appear to offer the best possible answer to the problems with which East Germany is confronted. One reason is that having assumed a greater risk with decentralized structures in their enlarged domains, corporate actors resolutely shifted the locus of everyday decision-making from lower levels of hierarchy to the top. As a result, decision-making on matters of East-German interest became dislocated to West Germany in two ways: geographically and cognitively. In many cases, the underlying reason was that organizational branches in the East seemed too weak. However, an additional intention was to block demands made by membership for a more flexible adjustment of policies suitable to the current circumstances. As a consequence, frames for problem definition, the range of policies considered, and the criteria employed for decision-making bear a strong bias in favour of West German policy traditions and interests. They are often imprinted with obsolete experience (concerning a different international context of the domestic economy) and lack sensitivity to the actual problems which arise in a society with "socialist legacies" and increasing social differentiation.

Whereas transformation policies in Hungary, Poland and the former Czechoslovakia suffer from insufficient resources, a lack of political skills, and increasing competition within the former oppositional elite (Ágh 1993), the main characteristic of East Germany's representational system, especially in the different fields of functional representation by interest associations, is the predominance of external actors and their neglect of - or insensitivity to - "local" views and preferences. This fact has a considerable impact on the perception of the social costs of transformation. To illustrate this finding, two examples follow which will help to explain the unpleasant aspects of exogenous transformation and asymmetrical representation.

Example number one refers to the retroactive re-allocation of property rights in real estate. When government officials of both German countries agreed upon the principle of restitution, neither could they anticipate the enormous volume of claims West-German citizens would raise, nor the fatal effect on conditions of investment and reconstruction in the East. A considerable share of private investment projects were postponed because their realization was constrained by protracted and tedious legal procedures having to do with the clarification of property rights. Although several amendments to the original law on property restitution lead to remarkable improvements in prospects for commercial projects, many private homeowners are still constrained by pending lawsuits. They are neither entitled to borrow money from banks for reconstruction and necessary development expenses, nor find a buyer for their contested property. In fact, since many former owners of Eastern real estate, namely those belonging to the better-off, migrated to West Germany

¹⁰For more details see Offe (1994: ch. 3 and 10) and Wiesenthal (1992).

deficits and idiosyncrasies occurring in other post-socialist countries (Ágh 1993) reveals that former GDR benefitted from the density and stability of West Germany's policy networks in several ways (Wiesenthal 1994). Since East Germany became a regular field of competitive political action, West German politicians were well advised to behave neutrally or act explicitly in favour of East-German interests. By doing so, they often contributed to the rise of aspirations in the East. Forced by popular responses to their optimistic announcements, they have had to work hard to meet rising expectations. In the case of property restitution, the most severe problems do not originate from restitution as such (which is a common reaction to former injustice in other countries as well), but from the principled priority given to return in kind over indemnification. This principle remains responsible for the protracted path of recovery, although its negative effects do not extend to the causes of de-industrialization and unemployment. The same applies to the high-wage policy as it emerged under conditions of asymmetrical interest representation. However, this factor of sluggishness is extremely unlikely to be blamed by both employees and the unemployed, since critique and dissatisfaction in the East are, above all, triggered by the remaining income gap. Thus, despite arguments raised against the predominance of external (West German) actors with peculiar cognitive and normative shortcomings, it would in no way be correct to attribute economic destruction and mass unemployment to the asymmetrical composition of representational bodies. Again, the real causes are to be sought in decisions taken earlier.

6.

The occurrence of unfavourable consequences of transformation gave rise to the diagnosis that the transition to democracy and a market economy via unification might be a mixed blessing for East Germany. However, critical assessments of the results from the early period of transformation are not only made with respect to East Germany. They are common in all post-socialist countries because a considerable minority of the population everywhere were pushed below the poverty line when societies under transformation began crossing "the valley of tears" (Sachs 1991). What is different in the case of the former GDR is, first of all, that discontent and frustration are occurring in the absence of significant individual sacrifices. Poverty is not the common fate of those who feel betrayed and frustrated. Second, only in the former GDR did a separate discourse develop which was heavily critical of marketization and private capitalism, as well as the new system of political institutions and actors. Since the same discourse, however, refers to human rights and the principles of democracy in a positive manner, its proponents cannot be identified with adherents of the former regime. Assessments as developed in this critical discourse described unification as a process of *colonization*.¹³ With its reference to the concepts of submission and colonization, this kind of reasoning contradicts the positive picture held by the majority which depicts an all-encompassing (political and economic) liberalization, a view which emerged around the time of the GDR civil rights movement and was thereafter enforced by complacent West German politicians.

On the surface, the paradigm of colonization gains its empirical significance from experience with the arrogant behaviour of West-German individuals (called "*Besser-Wessis*" for their pretension of knowing better). Further confirmation stems from perceptions of actual exclusion and discrimination experienced namely by those who became redundant in the labour market or were threatened by claims for restitution. Further evidence is given by a certain tendency among West Germans often ruthlessly to devalue individual and collective achievements accomplished under socialism. One widespread mode of discriminative behaviour is to denounce any kind of network relations that sur-

¹³Sometimes, this expression is also used in a positive sense (e.g. by Dahrendorf). For the main topics of the colonization discourse see Brie (1994).

vived from the former GDR as illegitimate and mafia-like "*Seilschaften*". Endeavours to reveal traditional networks make up the other side of a picture, whereby East Germans are expected to abstain from any kind of collective action which refers to their status as being subjects of transformation.

The paradigm of colonization appears consistent inasmuch as its underlying cause-effect assumptions sometimes gain evidence from individual experience. Experience, together with a certain kind of reasoning, yields a frame for the interpretation of empirical facts as being necessary effects of an exogenous transformation. In brief, this interpretation of East-German reality reads as follows: A significant minority of East German citizens became trapped by self-interested actors from the West who offered immediate unification at the price of the unmodified adoption of a foreign institutional system. Although East Germans were granted the same social and political rights as in the West, laying claim to these rights has proven ineffective because of the predominance of Western corporate actors. The latter exclusively control actual decision-making and choose policies that usually discriminate against Eastern interests. Viewed this way, all disadvantages experienced after 1989 are to be attributed to West-German self-interests.

Even if this picture rarely appears as consistent in public debate as it is reconstructed here, its main components are broadly believed: First, contrary to what might be known about the complexity of societal transformation, people tend to assume that uncertainties and frustrations experienced during transformation are the outcome of arbitrary decision-making which could easily have yielded more favourable results. The causal chain from actual starting conditions in the disintegrating GDR to the lasting incongruity with the present West Germany is fading. Second, since there is ample evidence that the path chosen serves certain self-interests of West-German actors and since similar evidence is available to justify parts of this depiction of colonization, all unfavourable effects of transformation appear explainable by way of a representational bias. Third, an inference from the aforementioned beliefs, if taken as antecedents, is that a change in the representational system, in particular a strengthened representation of genuine East-German interests, would allow for far better results of transformation.

Although this attributional pattern is partly based on well-justified premises, its presumption about a certain logic of societal transformation is misinformed in several respects. Despite the fact that the German way is the most secure departure from socialism, it paradoxically gives rise to strong feelings of dissatisfaction. As a further irony, the one single case of transformation that very closely adheres to the postulate that all hard decisions should be cast once and for all at the start, tends to encourage the view that a simple change of criteria for actual decision-making would suffice to alter the overall pattern of outcomes. How could these beliefs gain validity in the midst of widespread scepticism about the qualities of socialist life and a series of obvious improvements in terms of individual options and entitlements? A reasonable explanation could be the extremely contracted revolution of the former system that collapsed too quickly to allow all of its supporters to learn about its inadequacy and develop a solid understanding of both the need for and the risks of change. An analogous explanation could point to certain attitudes which have survived the social and political culture of GDR and are presently being nourished by arguments raised by the *PDS* relative to the imperfections of Western societies. However, both these explanations suffer from contradictory evidence: first of all, support for the paradigm of colonization is not confined to voters of the *PDS*, and, secondly, appears unconditional of nostalgic feelings or forgetfulness of recent history. Instead, colonization would also appear to be a customary interpretation made by Social Democratic and Christian Democratic voters, not to mention non-voters. Thus, a more elaborate explanation of post-unification frustration in East Germany is needed.

A more plausible explanation can be offered by looking at the temporal pattern of East Germany's transformation in terms of the experience made by a large majority of East Germans during the period of preparing and executing the early steps of inclusion into the socio-economic system of West Germany: the experience of far-reaching promises, as well as inclusive improvements of everyday life, aroused strong feelings of optimism and high aspirations. In this context, such unrealistic expectations developed and were in fact bolstered by the *Kohl* government, that transformation, in the special case of the GDR, would march on without individual sacrifices or costs to bear. In light of these expectations, the GDR's transformation lacks that certain advantage which an ideal-type shock therapy would have delivered. Since the latter allocates all major social hardships in the initial stages of transformation,¹⁴ further down the line it will likely satisfy a lot of aspirations associated with it. As a result, the radical approach, if properly based on a series of therapeutic measures (as were absent in the German case!), will stimulate increasing social support which will in turn be instrumental for proceeding along the chosen path. Under optimal circumstances, the radical strategy creates *ex post* certain prerequisites for its ultimate success - by starting from a situation prone to provide a solely positive experience. Because in East Germany most "goods" that might become available through transformation were pre-paid by the West and distributed at the start, further developments failed to create satisfaction from the progress made thereafter along the chosen path.¹⁵ Furthermore, with common expectations having been adjusted to West German levels of reference, frustration with the "bads" caused by de-industrialization and mass unemployment is intense. It appears to be further augmented by remnants of beliefs in an omnipotent paternalist state that survived under the authoritarian socialism of GDR but, at least to a certain degree, did fade away in the "re-educated" liberal society of West Germany. That the GDR's accession to the FRG did not forestall a return of "pre-modern" political feelings is a further characteristic of the German case, irrespective of strong similarities to other post-socialist countries.

7.

The colonization paradigm and feelings of disappointment are by no means the only manifestations of misunderstanding in the context of "transformation by unification". It is anything but a departure from reality to state that incidents of delusion have been, and still are intrinsic elements of the process. They partly appear consciously cultivated, partly incidentally emerging within the context of key decisions taken under circumstances of articulated uncertainty. While some actors might have welcomed the outgrowth of mythical and wishful thinking, other have apparently contributed to its political significance in order to secure support for policies that, as was typical for the turbulent days in the spring and summer 1990, were lacking in sufficient background information to make rational choices. Simply put: some participants acted as true believers and some participants acted as managers of social cognition by selectively enforcing and denying upcoming interpretations of the all-too-complex circumstances. In order to complete the picture of East-German peculiarities two prominent examples of misconstrued reality will be addressed in the final paragraphs.

¹⁴Proponents of shock therapy are very clear on this point. Sachs announces as short-term outcome "(a) drop of living standards for at least part of the population" as well as "(the) steady rise in unemployment" (Sachs 1991: 28). Brada points to "the predominance of the trade shock over any dislocations caused by price liberalization" as well as to the insight that "(s)hock therapy reduces consumer demand by reducing the real value of consumers' cash holdings and incomes (...)" (Brada 1993: 94).

¹⁵This is notwithstanding the lack of prerequisites for quick economic recovery. Since these are hampered by the long-term effects of currency revaluation and sudden trade liberalization (section 2) followed by generous wage increases (section 5) the fear of lasting handicaps seems realistic (Brakman/Garretsen 1993).

(1) Comparing public debates on proper ways to move from a socialist economy to the market system as they took place in post-socialist countries, East Germany appears to be an exceptional case. The GDR not only lacked any tradition of reform discourse, but East-German politicians, even in light of the upcoming unification and dramatic economic change, appeared to be not only mildly interested, but also poorly informed participants in policy formation. Their attention and competencies were constrained even with regard to features of the socialist economy, its actual performance and modes of (partial self-) governance. Since Eastern politicians and academics were so unprepared for delivering a proper diagnosis and assessing available options, they in fact left the discussion of transformation policies to their Western colleagues. Although the debate among West German experts regarding the proper way to include and reconstruct the GDR economy had little impact on policy choices, though insufficiently informed, it nonetheless appeared more realistic. Strong arguments were raised against the terms issued by the *Bonn* government for currency revaluation and income equalization. Several economic experts correctly predicted a rapid decline of production and employment which was ignored by the government for reasons already discussed above (see section 3). Even warnings from the president of the central bank turned out to be in vain.¹⁶

Thus, the question arises as to how government officials could legitimize their daring boldness despite deliberate economic reasoning which stated the contrary. There is a simple answer to this: In order not to do without an economic frame of reference, an alternative framework was chosen which evoked the idea that West Germany's "economic miracle" could easily be replicated. However, economic conditions of post-war West Germany (mainly in the period between 1945 and 1960) were quite different from the situation in 1990 (Siebert 1992; Hankel 1993). The "economic miracle" had been the outcome not only of diligence and hard work, but also of a set of favourable macro-economic circumstances. Beside demographic and structural conditions that proved extremely functional for accelerated growth (Lutz 1984), the early FRG benefitted from a stable and significantly devaluated exchange rate, restricted capital transfer, as well as tariffs and import controls which favoured exports and directed increasing demand for consumer goods to domestic suppliers. The present West Germany, however, is an integral part of the global economy as it emerged in the last decades. Becoming part of the FRG meant integration into competitive markets. The latter are a benevolent environment only to those firms and industries that are well prepared to compete in terms of prices and quality. In the optimistic frame of reference employed by proponents of the crash course, this cause-effect relationship was reversed. Even Chancellor *Kohl* pretended to believe that East German business would benefit from its inclusion into West Germany's economic system without having to incur any detrimental effects from competition. As we know today, such blissful ignorance contributed to the peculiar risks that East Germany still has to face.

(2) Another misconception influenced decision-making on unification: the suggestion that migration from East Germany to the West would steadily increase. There is strong empirical evidence for the assumption that a considerable share of the population was inclined to move to the West or, legally and illegally, to enter the West German labour market. As one may recall, the actual collapse of the GDR has to be attributed to the willingness of about half a million people to make use of the exit options that became available in the late summer of 1989. Here, a different aspect is significant, namely the relative strength of alternative motives for migration. Decision-makers in West Germany who favoured an immediate integration together with a comprehensive institutional change, advanced the view that, first, extensive migration is an evil to both the Eastern and Western parts of

¹⁶Reference to scepticism against a short cut to unification is made by Sinn/Sinn (1991: 15f) and Siebert (1992: 19f). See also Sachverständigenrat (1990: 61, 228).

Germany, and, second, could effectively be discouraged by granting incomes which would soon approximate West-German levels. Implicit in this assumption is the suggestion that in assessing their future prospects, East Germans prefer high wages to (more) secure employment opportunities. Early research on both individual preferences and pressing problems of business in East Germany (as done by Akerlof et al. 1991) reveal a reversed order of preference, i.e. greater concern with employment security than with wage levels.¹⁷ However, the misconception that East Germans could be persuaded to stay because of the lure of higher wages in uncertain jobs proved helpful for Western trade unions, as well as employers' associations when they embarked on a strategy aiming at beating potential competitors from the East. Again, long-term social costs of decisions based on assumptions made about migration appear tremendous both in terms of unemployment figures as well as financial transfers.

Five years after unification, current misconceptions changed their impact on policy. While the myth of replicating the economic miracle and the myth of a wage-driven migration in fact served particularistic interests at the expense of common goods, actual interpretations with a touch of misunderstanding seem to serve inclusive social interests. This is the case for economic optimism which still remains, despite the discrepancy between actual investment figures and investments which will be required in order that East Germany may catch up with the Western part within a decade and a half. A correct perception of the most likely *mezzogiorno* pattern would easily work as a kind of self-fulfilling prophecy. It remains unclear as to whether a similar mechanism responding to political dissatisfaction exists. Since there is, indeed, a lack of opportunities for views of an East-German origin to have an impact on all-German politics, the polemic interpretation of the causes of and responsibility for the effects of negative transformation is unlikely to have significant repercussions. Otherwise, i.e. in the case of an increasing awareness and empathy on behalf of the West-German side, Eastern complaints might probably stimulate additional efforts to improve the situation in the East.

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¹⁷Additional confirmation is provided by recent research. In a cross-national survey among citizens of post-socialist countries East Germans show a strong preference for employment security at the expense of higher wages. Only 12 % of East-German interviewees agree with the statement that "wages are more important than jobs". Figures for West Germany amount to 17 %, for the Czech Republic, Hungary, Poland and Slovakia to 52, 27, 30 and 63 % respectively (Rose/Seifert 1995).

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