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Germany: The economic Anschluss of the GDR

Wednesday 21 October 2020, by [KNAEBEL Rachel](#), [RIMBERT Pierre](#) (Date first published: 28 November 2019).

Thirty years after the fall of the Berlin Wall, the former East Germany remembers the deliberate, immediate destruction of industry and jobs for the profit of West German firms and money-makers. East Germans still want to know how this was allowed to happen.

The story of 9 November 1989 is usually accompanied by the *Ode to Joy*, with images of jubilation, freedom, Rostropovich playing near the crumbling Berlin Wall, and the promise of ‘flourishing landscapes’ [1]. But recently more about the discrepancies between the grand narrative of ‘reunification’ and the economic brutality of the ‘peaceful revolution’ has been revealed.

This year’s commemorations of the fall of the Berlin Wall are less triumphalist than usual: the far-right Alternative für Deutschland (AfD) won over 20% of the vote this year in several former East German Länder; opinion polls suggest that 58% of East Germans ‘feel no better protected from state arbitrariness than in the GDR’ (*Die Zeit*, 3 October 2019); successful books tell the story of the 1990s from the viewpoint of the ‘losers’. Something no longer rings true in the noble history of a bountiful West Germany bestowing democracy and the Deutschmark on a neighbour ruined by four decades of Communist dictatorship.

The architects of ‘reunification’ realised too late that an industrial combine can be wound up but not a people

In autumn 1989, East Germans wrote their own history. Without outside support, mass demonstrations in Berlin, Leipzig and Dresden brought down the party-state controlled by the Socialist Unity Party of Germany (SED), its political police and state media. In the weeks after the fall of the Wall, the overwhelming majority of the regime’s opponents (71% according to a poll in *Der Spiegel* on 17 December 1989) hoped not for unification but for a democratic GDR. A pastor at the huge protest on Alexanderplatz in Berlin on 4 November 1989 captured the mood: ‘We Germans have a responsibility to history to show that true socialism is possible’ [2].

‘For our country’

The appeal ‘For our country’, which the writer Christa Wolf read out at a press conference on 28 November, struck the same tone, insisting that ‘we still have the chance to build a socialist alternative to West Germany.’ The appeal was signed by 1.2 million of the country’s 16.6 million people. To preserve East German independence, opposition movements and traditional parties drew up plans for a democratic, green form of socialism and a draft constitution, in a forum set up on 7 December 1989, following Poland and Hungary’s model. But the irruption of West German political forces soon ended this.

West Germany’s leaders in Bonn (then its capital) were initially caught out by the speed of events, but they now began the electoral conquest of their neighbour. Their interference in the East German

parliamentary election of 18 March 1990 — the first free of the influence of the party-state and Moscow — led Egon Bahr, former Social Democratic Party (SPD) minister and architect of the rapprochement between the two Germanies in the 1970s, to say it was ‘the dirtiest election I’ve seen in my life’ [3].

With US backing, and no opposition from a weakened Soviet Union, West Germany under conservative chancellor Helmut Kohl took over within a few months, annexing a sovereign state, liquidating its economy and institutions, and transplanting a neoliberal capitalist regime.

But since the GDR was founded in 1949, its people had forged their own identity, notable on the one hand for socialist achievements in work, health, education and culture, and on the other for a hostility to the authoritarian party-state, a withdrawal into the private sphere and a hankering for the West. The architects of ‘reunification’ realised too late that an industrial combine can be wound up, but not a people.

To understand what is wrong with the official history, which almost no one in the East believes, you have to abandon the word ‘reunification’, as there never truly was one. In spring 1990 West Germany’s then interior minister Wolfgang Schäuble, who led the unification treaty negotiations, told the East German delegation unambiguously, ‘Dear friends, the GDR is joining the Federal Republic, not vice versa ... What is happening here is not the unification of two equal states’ [4].

Bonn did not put a new constitution of united German peoples to the vote, in accordance with the Federal Republic’s Basic Law (article 146) and as civic organisations demanded, but imposed annexation, resorting to an obscure mechanism used to incorporate Saarland into the Federal Republic in 1957. The unification agreement, which was signed on 31 August 1990 and came into effect on 3 October, extended West Germany’s Basic Law to the five newly created Länder, abolishing a country, leaving just the memory of a harsh police state, kitsch clothes and the Trabant car.

‘Priority was the GDR’s liquidation’

Two unequal political forces were in opposition. The East Germans wanted political freedom and prosperity, but not to sacrifice their society’s distinct character. For Bonn, according to Italian academic Vladimiro Giacché, author of *The Second Anschluss*, ‘the priority was the GDR’s complete liquidation’ [5].

This needed full wallets and ballot boxes, both of which the GDR had somewhat failed to deliver. Kohl had multiple aims in February 1990 when he proposed to extend the use of the West German Deutschmark to the East. He wanted to yoke the GDR to the West in case Mikhail Gorbachev was toppled in Moscow, and to win the parliamentary election in East Germany scheduled for March.

Polls put the newly created East German SPD well ahead of Kohl’s Christian Democratic Union (CDU). The finance ministry in Bonn produced the solution of ‘immediately integrating the GDR’s economy in the economic and monetary Deutschmark zone’ [6] in January 1990, inspired by the monetary expert Thilo Sarrazin (who became famous much later for his xenophobic bestseller *Germany Is Abolishing Itself*, not translated). By February, the once sceptical Kohl had embraced accelerated monetary union, disregarding the opposition of the president of the (theoretically independent) Bundesbank.

This generation are all too aware that what they did to transform the country has gone unrecognised - Petra Köpping

The prospect of the Deutschmark’s introduction galvanised the campaign. The Deutschmark was

worth 4.40 Ostmarks, so East Germans, who had long suffered shortages, welcomed the promise of one-for-one conversion. It also put the unification issue at the centre of the election campaign. The CDU and its allies won the election with 48% (the SPD took 21% and the PDS, Party of Democratic Socialism, successor to the SED, 16%). But a political decision lay behind what Lothar de Maizière, leader of the CDU in the East and the big winner in the election, praised as 'the Federal Republic's act of political generosity': the aim of 'ensuring the rapid annexation of the GDR by the FRG [Federal Republic] by means of the mark', according to Christa Luft, the GDR's last economics minister (December 1989-April 1990) [7].

Bartering the Deutschmark

Not only the currency but the whole market economy was transplanted. Sarrazin recalled, 'We could only give them the Deutschmark in exchange for the complete transformation of the economic system.' The terms of the treaty signed on 18 May confirmed this regime change. 'The basis of the Economic Union shall be the social market economy as the common economic system of the two contracting parties. It shall be determined particularly by private ownership, competition, free pricing and, as a basic principle, complete freedom of movement of labour, capital, goods and services' (article 1.3). 'Provisions of the constitution of the German Democratic Republic relating to its former socialist social and political system shall no longer be applied' where they clash with neoliberalism, free trade and 'ownership of land and means of production by private investors' (article 2).

Soon after the treaty came into force, East Germans became disenchanted. As consumers clamoured for products from the West, real prices of goods and services produced in the East went up 300-400% and business competitiveness evaporated. Businesses lost not only their domestic market to western companies, but their customers in the East, especially the Soviet Union, which had taken 60-80% of East German exports. Former Bundesbank president Karl Otto Pöhl admitted that the GDR had swallowed 'horse medicine that no economy would be able to cope with' [8]. But convinced of the need for shock therapy, Bonn's negotiators rejected supportive countermeasures, such as phased currency alignment, subsidies for East German manufacturing or a surtax on West German goods.

The GDR underwent an overnight economic liberalisation that had taken postwar West Germany a decade. In July 1990, industrial output had fallen 43.7% from 1989; by August, 51.9% and by the end of the year, 70%. The official unemployment figure rose from 7,500 in January 1990 to 1.4 million in January 1992, but was more than double that when short-time working, retraining and pre-retirement were factored in. No other country in Central or Eastern Europe suffered more economically by leaving the Soviet Union's orbit.

This social demolition was deliberate: dozens of reports had explored its consequences. 'Better to achieve unity with a ruined economy than remain in the Soviet bloc with a half-ruined one,' said SPD politician Richard Schröder [9]. His wish was more than granted. To *Ossies* (East Germans) the exterminating angel had a name: the Treuhand (Treuhandanstalt, trust agency), created on 1 March 1990, the tool to convert the former GDR to capitalism. It privatised or liquidated almost all of the 'patrimony of the people', the name for the GDR's state businesses and assets, which it took possession of in July 1990. This made it the world's biggest conglomerate, responsible for 4.1 million employees (45% of the workforce) working for 8,000 businesses at 32,000 sites, from steelworks to holiday camps, grocers to local cinemas.

2.5 million jobs lost

By the time the Treuhand was wound up in December 1994, it had privatised or liquidated most of

its portfolio with an impact unequalled in industrial history: a country deindustrialised, 2.5 million jobs gone and losses estimated at DM 256bn despite an opening balance sheet of DM 600bn, according to its own president's estimate [10]. This miracle of neoliberalism was, according to Christa Luft, 'the largest ever destruction of productive capital in peacetime' [11]. Researchers Wolfgang Dümcke and Fritz Vilmar regard this as the key period in the structural colonisation of the GDR [12]: West German investors and companies bought up 85% of East German production sites, East Germans just 6%.

This miracle of neoliberalism was the largest ever destruction of productive capital in peacetime - Christa Luft

The idea of a Blitzkrieg against the GDR's planned economy dates back to the 1950s. Historian Markus Böick attributes the idea to Ludwig Erhard, postwar FRG economics minister and guardian of the ordoliberalist flame. His essay 'The Economic Problems of Reunification' (1953) argued for a swift monetary union and, Böick wrote, set out a shock therapy model that was far from the only alternative [13].

When the Treuhand was created, it did not set out to privatise the old GDR economy. In the view of dissident circles and civic movements, this 'trust agency for the preservation of East German citizens' rights over the patrimony of the people of the GDR' was expected to divide up state businesses among the people. The IG Metall union proposed that ownership should be transferred directly to workers. But the conservative victory in the East German election changed that. A fortnight before monetary union on 1 July 1990, East Germany's parliament, the Volkskammer, passed an emergency law 'for the privatisation and organisation of the patrimony of the people'. This ended any search for compromise between socialism and capitalism, the focus of reformist economic thought in the GDR since the fall of the Wall. Shock therapy prevailed.

The Treuhand was set up within weeks and improvised its work. As East and West Germany had no shared phone network, the Treuhand's East German employees had to go to West Berlin phone boxes at a pre-arranged time to speak to colleagues in the West [14]. This did not discourage West German business restructuring consultants from offering their services. The Treuhand's first president, Reiner Maria Gohlke, a former CEO of IBM, handed over in August 1990 to Detlev Karsten Rohwedder, head of the Hoesch steel and mining group. Its oversight board was headed by a friend of Chancellor Kohl, Jens Odewald, CEO of the West German department store chain Kaufhof, which later acquired lucrative retail sites on Alexanderplatz. From summer 1990, Bonn supervised operations: the finance ministry appointed a cabinet of consultants from firms such as KPMG, McKinsey and Roland Berger, who determined (without explicit criteria) whether companies were destined for improvement, immediate privatisation or liquidation [15].

Absurd decisions — with collusion between the Treuhand, the conservative government and West Germany's business leaders — produced a conviction in the East that has never been refuted: the Treuhand was principally acting to eliminate any competitor that would reduce West German groups' profit margins. Though largely stagnant, East German industry did have some successes. On 2 October 1990 the Treuhand management decided to close the Pentacon camera factory in Dresden and export its Praktica model to western countries.

Almost beyond parody

One of East Germany's rare environmental achievements was Sero, a national recycling company. Local authorities asked for it to be turned into a network of municipal businesses, but the Treuhand broke it up and sold it off to West German companies. The agency's zeal in destroying the Interflug airline, which was largely in the black, and transferring its routes and Berlin Schönefeld hub free of

charge to its West German competitor Lufthansa, is almost beyond parody.

It was hard to sell 'free and fair competition' to the Thuringian mining village of Bischofferode. In 1990 the Treuhand bundled together all its potash mines and transferred them to a western competitor, K+S, which immediately closed them down. Dietmar Bartsch, a parliamentarian from the leftwing Die Linke party said, 'Bischofferode is an example of a competitive business shut down because of West German competition. It was about showing that the GDR was over, that there was nothing of value in it.'

The loss of jobs sparked protests. In March 1991 the 20,000 textile workers in Chemnitz (Saxony) threatened with redundancy, the 25,000 chemical workers who occupied their factories in Saxony-Anhalt, the 60,000 demonstrators responding to a call from IG Metall, and the evangelical churches and former opposition figures were all fighting against economic neoliberalism. On 30 March, a group set fire to the Treuhand's Berlin offices; next day, its head, Rohwedder, was shot dead. He was immediately replaced by Birgit Breuel, recruited from the Roland Berger consultancy, a CDU member and fanatical advocate of privatisation.

Organised chancers, charlatans and con artists realised that the Treuhand was a public money dispenser to whoever expressed interest in one of its assets. As it failed to check its clients' references and criminal records, scandals abounded: misappropriation of funds in the sale of the Leuna refinery to Elf Aquitaine in 1991; corruption in the Halle office in 1993; the siphoning off of hundreds of millions of Deutschmarks awarded to West German Bremer Vulkan to improve the naval dockyards at Rostock and Wismar, which also cost 15,000 jobs.

'What's not right will haunt us'

Embezzlement became such a problem that a new word was coined, *Vereinigungskriminalität* (unification crime) and in 1998 a parliamentary commission estimated that this had cost between three and six billion Deutschmarks [16]. Huge sums were paid to the liquidators (a DM 44,000 bonus per privatisation; DM 88,000 if a target had been exceeded) and consultants profited massively: over four years, the Treuhand's external partners pocketed DM 1.3bn; DM 460m went on consultancy fees in 1992 alone [17].

'What we don't get right today will haunt us for 20, 30 years,' the Treuhand's director said in 1990 [18]. The small town of Grossdubrau in Saxony has not forgotten that its ceramics factory was shut down on KPMG's recommendation, despite interest from credible buyers. Over 45% of voters in Grossdubrau voted for the AfD in the regional election on 1 September 2019. Petra Köpping, SPD minister for equality and integration in Saxony's parliament, sees a causal link: 'People here deserve some explanation of what went on with the Treuhand.' She is calling for a truth commission.

Two parliamentary commissions of inquiry, in 1993-94 and 1998, shed some light, despite obstruction from the finance ministry, which withheld files and contracts. SPD parliamentarians claimed in 1994 [19] that 'the government and the Treuhandanstalt have abrogated the right of parliamentary scrutiny to an extent that no other democratically legitimate government has dared to do since 1945.' But then the subject slipped from public view; who cared about the *Jammerossies* (whining Easterners), as they were called in the West?

But in the past few years, the spectre of the Treuhand has returned. Petra Köpping said, 'People used to have hope. They'd tell themselves, "I'll have another go at getting back on my feet, I'll do one more course, try a career change." That went on for a long time. But when they reached retirement, this generation, who see themselves as the rebuilders of the country after reunification, discovered that they sometimes have a pension of just €500. They're all too aware that what they did

to transform the country has gone unrecognised.'

'Culture of remembrance'

Marcus Böick compares the Treuhand to a 'culture of remembrance' zombie that in itself represents all the 'rotten debts' of German reunification: destruction of industry, depopulation of regions, inequality, mass unemployment in a country where work is a significant basis of social status. Die Linke is calling for a new parliamentary commission of inquiry with access to records sealed in 1990. All other parties in the Bundestag, apart from the AfD, oppose this. Seven archivists recently hired to sift the 45km of files may feel under-resourced compared to their 1,400 colleagues working on Stasi files.

The GDR is joining the Federal Republic, not vice versa. What is happening here is not the unification of two equal states - Wolfgang Schäuble

Conclusions can already be drawn from the GDR's annexation. The first is one that Germany's leaders can be pleased with: in the 1990s their united country regained its central position, and the EU accelerated its political and monetary union following the principles of German rigour. But in exchange for political freedom and infrastructure development, the East German people were cast into the maelstrom of capitalism with a stone tied around their necks. 'The paradox of unification,' said former opponent of the party-state Edelbert Richter in 1998, 'is that East Germans have been brought into democracy and the social market economy at the same time as being largely excluded from what constitutes its essential base: work and property' [20].

The economy of the East, which was industrial and export-based, now depends on domestic demand and welfare payments from the federal state. For industry bosses, public transfers to the new Länder paid for goods and services made in the West, generating profits for them. Former mayor of Hamburg Henning Voscherau (SPD) admitted in 1996 that 'in reality the five years of the "construction of the East" [21] represented the biggest programme of enrichment for West Germany ever undertaken.'

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P.S.

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Footnotes

[1] A promise made by Chancellor Helmut Kohl in 1990.

[2] Quoted in Sonia Combe, *La Loyauté à tout prix: Les floués du 'socialisme réel'* (Loyalty at any price: the dupes of 'real socialism'), Le Bord de l'Eau, Lormont, 2019.

[3] Quoted in Ralph Hartmann, *Die Liquidatoren: der Reichskommissar und das wiedergewonnene Vaterland* (The liquidators: the Reichskommissar and the regained homeland), Ost, Berlin, 2008.

[4] Wolfgang Schäuble, *Der Vertrag: wie ich über die deutsche Einheit verhandelte* (The contract: how I negotiated German unity), DVA, Stuttgart, 1991.

[5] Vladimiro Giacché, *Le Second Anschluss: L'annexion de la RDA* (The Second Anschluss: the annexation of the GDR), Delga, Paris, 2015.

[6] Thilo Sarrazin, 'Die Entstehung und Umsetzung des Konzepts der deutschen Wirtschafts- und Währungsunion' (The emergence and implementation of the concept of German economic and monetary union) in Theo Waigel and Manfred Schell (eds), *Tage, die Deutschland und die Welt veränderten* (Days that changed Germany and the world), Ferenczi bei Bruckmann, Munich, 1994.

[7] Christa Luft, *Zwischen Wende und Ende* (Between turning point and end), Aufbau, Berlin, 1991.

[8] Quoted in Vladimiro Giacché, op cit.

[9] Richard Schröder, *Die wichtigsten Irrtümer über die deutsche Einheit* (The biggest errors about German unity), Herder, Freiburg im Breisgau, 2007.

[10] *Der Spiegel*, Hamburg, 19 December 1994; DM 1,000 in 1990 would be worth around \$330 in 2018.

[11] Marcus Böick, *Die Treuhand: Idee-Praxis-Erfahrung, 1990-1994* (The Treuhand: Idea, Practice, Experience), Wallstein, Göttingen, 2018.

[12] Wolfgang Dümcke and Fritz Vilmar (eds), *Kolonialisierung der DDR: kritische Analysen und Alternativen des Einigungsprozesses* (The Colonisation of the GDR: critical analyses and alternatives to the unification process), Agenda, Münster, 1996.

[13] Marcus Böick, op cit.

[14] Ibid.

[15] 'Beschlussempfehlung und Bericht des 2. Untersuchungsausschusses "Treuhandanstalt" ' (Recommendation and report of the 2nd Treuhandanstalt committee of inquiry), Bundestag, Berlin, 1994.

[16] *Die Welt*, Berlin, 2 October 2010.

[17] Ralph Hartmann, op cit.

[18] Quoted in Marcus Böick, op cit.

[19] Dirk Laabs, *Der Deutsche Goldrausch: Die wahre Geschichte der Treuhand* (The German goldrush: the real history of the Treuhand), Pantheon, Munich, 2012.

[20] Quoted in Fritz Vilmar and Gislaine Guittard, *La Face cachée de l'unification allemande* (The hidden face of German unification), L'Atelier, Paris, 1999.

[21] Quoted in Vladimiro Giacché, op cit. Aufbau Ost (the construction of the East) was the name of the funding programme for the new Länder.