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Germany: What Reunification Wrought

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East and West Germany reunified on October 3, 1990. But for most workers, the hopes of that day were dashed.

Today is a national holiday in Germany, commemorating twenty-five years of reunification. A “Festival of Unity” has been organized — in Frankfurt-am-Main and nationwide — under the motto “Overcoming Borders.”

The standard narrative of German unification begins with the New Cold War and Ronald Reagan’s call to Mikhail Gorbachev to “tear down the wall”; next, East German (GDR) refugees broke through Hungary’s border fence to escape to the West (a celebrated moment that echoes awkwardly given today’s [fences and walls](#)); then the masses protested in Leipzig and elsewhere, before finally breaching the Berlin Wall. There followed the “2+4” negotiations (two Germanys, four occupying powers) and the process of institutional merger that on October 3, 1990 yielded the “new Germany,” a blessedly unified state, at last able to bask guilt-free in [banal nationalism](#).

A critical moment shaping this narrative occurred in December 1989, when the demand for unification was raised on East German streets and the visiting West German (FRG) chancellor [Helmut Kohl](#) was greeted by a sea of black-red-gold. “Blossoming landscapes” lay ahead, he promised. With unification, “nobody will face undue hardship”; “none will be worse off than before — and many will be better off.” Kohl pulled off a masterstroke: he aligned himself — and by association the West German elite as a whole — with the East German revolutionary crowd.

It was a move that occluded a lot.

The same month saw popular fury turn on the Stasi, East Germany’s despised state police. Many of its premises were stormed. Although this often occurred with officers’ cooperation (angry crowds could be more effectively channelled than confronted), it was nonetheless an explosive episode.

I took part in the occupation in Potsdam. In the main office the front wall sported a large board on which magnetic letters were formed into stock phrases — one was “State Security Service: Sword and Shield of the Party.” The protesters, in a mood at once serious and delirious, rearranged the letters into seditious or clownish statements. It was a carnivalesque moment, the world turned upside-down.

The Stasi building occupations instigated the process of squeezing the secrets out of the secret service. Many documents were destroyed, some were procured by other intelligence services, but a colossal number [have been made available](#). The picture they reveal of relations between West and East German elites is conspicuously different to the usual narrative.

Trade between the two Germanys had been stifled during the initial decades of division but later developed apace. West German business leaders sought to rebuild Germany’s traditional role as the dominant economic power in Central Europe, with its neighbors in the East supplying raw materials

in exchange for high value-added goods. Following a major pipeline deal with the Soviet Union in 1969–1970, the credits for which were arranged by Bavaria's Christian Social Union (CSU) government under Franz-Josef Strauss, West German-Comecon exchange boomed.

For their part, Soviet bloc enterprises required Western technology and capital goods. Moscow [was ever keen](#) to trade with the West. [So too](#) was the GDR.

On this, the Stasi files have much to divulge — for example, on Western business leaders' connections in the East. The East German market was not large but was nonetheless, in the words of one steel magnate, Berthold Beitz of Krupp, "of substantial importance to many FRG enterprises," including his own.

In the early 1980s another Krupp executive confided to GDR politburo member Gerhard Beil that West Germany's steel industry was in such a parlous state that "the consequence, in a 'free market economy,' would be bankruptcy."

His firm was desperate for extra orders from East Germany and offered that payment could be made, in part, through GDR firms supplying Krupp's projects in third markets. Joint ventures between Krupp and East German *Kombinate* existed in a range of countries, and East German officials were keen to beef up these links, noting that Krupp "possesses very favorable terms" around the world "thanks to the political intervention of the FRG and finance from the World Bank."

Another player was Volkswagen. More than most, its global strategy in the 1980s was oriented to state economies such as China, the Soviet Union, and East Germany. Its president, Carl Hahn, explained to Beil that because of "rising costs" VW wished to relocate some production from West to East Germany. The cogs began to turn and before long a GDR car firm, Ifa, was manufacturing VW engines.

There was also the nuclear industry. Although no joint venture resulted, the negotiations were revealing. One consortium of West German corporations proposed the construction of a nuclear power plant in East Germany. Three factors, they said, motivated them: "West German government and industry are seeking to create a counterweight to the anti-nuclear movement," FRG firms possessed "gigantic stockpiles of valuable nuclear power equipment" awaiting profitable deployment, and East Germany "has a clear nuclear power strategy and no problems with its population."

Alerting Beil that Washington might attempt to block a German-German nuclear venture, they urged him to keep the discussions strictly confidential.

In all, the GDR engaged in well over one hundred collaborative ventures with West German firms — usually as junior partners, even while officials continued to insist that East Germany "will not act as an extended workbench for the FRG." GDR *Kombinate* operated in scores of developing countries, sometimes in cooperation with Western multinationals.

With inter-German détente came personal contacts. East German officials manifested a sneaking admiration for Western capitalism through their purchasing decisions, and they fawned over Western business leaders. The latter, with steel tycoon Otto Wolff and CSU leader Strauss at the vanguard, were adept at parlaying their contacts with East German leaders into monetary gain — for their businesses, their friends, and themselves.

The two sides discovered they shared a surprising degree of common ground. Even Strauss, a notorious anti-Communist, came to admire the GDR's Prussian authoritarianism and its tough stance toward three things he abhorred: "hashish, pornography, and long hair." He even telephoned Eric

Honecker to vent contempt for East Germany's "crazy" dissidents. Strauss was no outlier. Leading figures from the CDU, such as Lothar Späth, and from the Free Democrats, notably Count Lambsdorff, voiced their lack of sympathy for East German dissidents.

Inter-German détente coincided with the Comecon's decline.

Comecon — the Soviet bloc's Council for Mutual Economic Assistance — was constructed from two Russian ingredients: Kalashnikovs and cheap oil. Both suffered from crisis in the late 1970s and early 1980s. Soviet leaders were forced to accept they could not risk sending troops to crush the Solidarity movement in Poland, especially with their army fighting an unwinnable war in Afghanistan.

Meanwhile, they hiked their oil price and charged their allies closer to world market prices, a move which helped improve Moscow's economic situation but at the cost of undermining its hegemony. Oil pipelines were the arteries keeping Comecon alive.

The Soviet move signaled that, in crisis, motherland comes before empire. East German leader Eric Honecker warned that the reduced oil supply represented "an earthquake" under the foundations of his economy, which, increasingly dependent on Western capital goods, was obliged to pay for these, and to service loans, with hard-currency earning exports.

East Germany responded to its deteriorating terms of trade by reducing dependence on Soviet raw materials (power stations were converted to burn lignite) and by prioritizing deals with the "non-socialist abroad" over those with Comecon partners.

Relations with the West were conducted through the normal channels but also by an organization called Commercial Coordination ("KoKo"). Integrated into the Stasi, KoKo was the perfect instrument for covert operations in the West, or for those that evaded [CoCom](#) restrictions or embarrassed the official ideology. KoKo firms acquired Western equipment to ameliorate critical shortages of spare parts and luxury goods for the nomenklatura. They merchandised the GDR's material heritage, such as museum treasures, artworks, and antiques.

KoKo administered East Germany's trade with South Africa when the official position was a boycott; it arranged deals with Western pharmaceutical firms, offering GDR citizens as guinea pigs; and it collected blood that citizens had donated for "international solidarity" and siphoned it to the West. It fed the official economy with a steady 2 billion DM annually.

Behind their stiffly unified public front, GDR leaders were divided over geo-economic strategy. Some opposed expanded engagement with the West. "I am in favor of trade with the West, but not dependence," as one politburo member put it. Instead, economic integration should occur above all within Comecon. Others preferred intensified cooperation with Western firms and states. By the late 1980s, Western multinationals were showing a greater interest in organizing Eastern Europe's division of labor than Comecon enterprises themselves.

Albeit more tentatively than their comrades in Poland and Hungary, members of East Germany's nomenklatura began to warm to the theory and practice of market capitalism. But as a liberal capitalist entity, the GDR would lack a core purpose. This was discussed at the time under the formula "Poland minus Communism is Poland, East Germany minus Communism is . . . West Germany."

It was a formula that brought agony to the Communist Party, and also to the political opposition ("civic groups") that formed in autumn 1989.

Within the ruling party, those who favored stronger links with the West saw their position win out, hastily and by default. Already before 1989 several East German industries were operating as an “extended workbench” for West German firms, and the likes of Siemens and Volkswagen were actively considering enlarging their operations.

When the Berlin Wall fell, these plans went into action. Firm directors immediately sought Western partners. They reckoned that the combination of cheap East German labor with Western technology and markets would prove a winning formula. The GDR could establish an economic relationship with West Berlin similar to that of China’s with Taiwan: separate states with a shared national consciousness and thriving economic links.

Already in early December, Ifa and Volkswagen announced the first FRG-GDR joint venture. Assuming that East Germany would remain a protected market, they planned to produce together a range of cars, chiefly for domestic consumption. In the words of Ifa’s general director, the intention was to “control the East German automobile market, together with VW.”

Another motive was wages. As VW’s director of finance put it, “Why go to Korea when wage levels next door are only a quarter of West German levels?” The VW-Ifa announcement was followed by lash-ups between Interflug and Lufthansa, between Robotron and various Western suitors, and a torrent of similar announcements by smaller West German firms.

These developments destabilized the Communist Party, but the civic groups were just as discombobulated. They advocated parliamentary democracy and a “social market economy,” goals that the FRG could claim to share. When, following the fall of the Berlin Wall, demonstrating crowds began to call for unification, which appeared to offer the high road toward democracy and a “social market,” the civic groups did not respond with one voice. On unification, some said “yes,” some “no,” and others “go slow.”

Behind the oppositionists’ skepticism lay two factors. Over long years of courageous political engagement they had woven visions of an alternative GDR that they could help to shape. With unification, these plans and dreams would be unceremoniously dumped. They had developed a critique not only of Soviet-style communism but also of market capitalism. German unification conjured up specters of NATO, mass unemployment, welfare erosion, and an egotistic “elbows society” — with East Germans elbowed aside.

This is why the civic groups lost touch with the crowds. A process of mass radicalization was underway, over questions of corruption, economic justice, and the Stasi. Revelations of KoKo’s dirty deals were especially inflammatory. Stasi premises were stormed. Workers and prisoners took strike action.

It was now that the popular mood shifted toward unification. It seemed to promise a sure-fire means of achieving civil liberties, prosperity, and a less stressful life, and the most radical break with the old regime. But, paradoxically, this involved a short-circuiting of the radicalization process.

A new tone infiltrated the demonstrations, a rather desperate, wheedling address to West German politicians to come to the rescue of their poor cousins. Demonstration banners turned from the ebullient to the imploring: “Herr Kohl, help us!” and “Only German unity can save us!” The change from “We are the people” to “We are one people” was shocking, commented Klaus Hartung, but not so much for its nationalism as for the [dramatic decline](#) in self-confidence. “We are the people” is a clear expression of the consciousness of power; “we are one people” is [at best](#) an appeal to the Federal Republic.

Shortly before German unification, on a railway journey through Saxony's Erz mountains, I passed a factory with a banner unfurled on its roof. Such sights were common in the GDR, but the slogan here was new. It read, "Economic Power through Unification."

The sentiment was clear. The powerful West German economy would act as a source of capital for ailing firms in the East. But what sort of "economic power" would unification bring? And whom would it empower?

The obvious winner was the West German state, which, assimilating its rival, instantly climbed the power ladder — crucially, within the European Union. NATO was another winner: German unification launched its eastward expansion. Other beneficiaries included West German property owners, bondholders, and companies — especially the giant corporations.

Unification, heralded as an opportunity for economic decentralization, in many ways brought the opposite. This was already obvious in 1990, when West Germany's largest business swallowed the East German railroad engineering conglomerate Schienenfahrzeugbau.

"Was it not a priceless irony," [Michael Schneider quipped](#), "that it was the bosses of that West German super-conglomerate named Messerschmidt-Bölkow-Blohm-AEG-Dornier-Daimler-Benz which has now purchased a monopoly of the production and distribution of railway carriages for the entire Comecon area, who used to preach tirelessly to the directors of the GDR *Kombinate* of the need to embrace the liberal market economy?"

Although that particular mouthful of a conglomerate later divided once again, one of its segments went on to gobble up Chrysler during a frenzied year of mergers and acquisitions that saw German companies participate in thousands of takeovers worth over 400 billion DM.

Economically speaking, the official narrative of unification refers to the bailing out of a troubled country by its generous relative. In truth, the GDR was a national capital in receivership: the FRG played the role of receiver, supervising the asset-stripping of the East.

The institution that performed that role was the Treuhand. It took over most of the East German economy. Usually translated as "trust agency," its fictional representation in Günter Grass's novel [Ein weites Feld](#) is more candidly named "Handover Agency." Of the Treuhand's assets, four-fifths landed in West German hands with only 6 percent going to East Germans.

Much of the Treuhand's activity followed the usual protocol of legal corruption, but hundreds of deals fell on the wrong side of the law, including several involving Chancellor Kohl himself. "Don Kohleone" presided over a major operation funneling illegal donations from arms dealers into his party's coffers, and he pushed through at least one decidedly shady [purchase](#), of East Germany's petrol distribution company (Minol) by the French corporation Elf Aquitaine.

Amid the chatter of German nationalism, the pickings were taken by the rich. It was a [relatively small group](#) of owners of monetary and productive assets who creamed off the profits of unification.

With unification, East Germany converted almost overnight from one of the most to one of the least industrialized regions in Europe. Mass unemployment enabled employers to experiment with practices that trade unions in the West would not countenance. Some firms [explicitly used](#) eastern Germany as a greenfield from which to influence work organization at their western plants.

National collective bargaining agreements were ripped up in the east, resulting in a greater regional differentiation of industrial relations. Through the 1990s and 2000s, the proportion of wages and salaries in total GDP plunged to a record low while company profits and income from property hit

new highs.

The effects rippled through Germany and beyond. The low wages imposed in the former East were extended westward. The Germany's [current account surplus](#) soared, as did its pendant, the entrenched deficits in the countries of the EU periphery — a process that culminated in a devastating crisis and the [Berlin-led evisceration](#) of Greece.

Back in Germany, the subsidization of investment and consumption in the east resulted in higher taxation — the “solidarity supplement” — and a huge public debt. The tax hasn't reduced the East-West gap in per capita income; it remains stuck at around 20 percent. Rising debt benefited bondholders, and was deployed to justify austerity in East and West.

German unification may have brought little to celebrate, but the uprising that preceded it undoubtedly did. It led to the institutionalization of civic freedoms and brought to a thunderous end those torrid decades in which social movements in East Germany were systematically smothered. Nor should we forget the collective action itself: the courage, creativity, and wit of protesters, and the uprush of debate and initiative.

It is in this memory that the Left can find some hope — and resolve — today.

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