The Challenges of the German Reunification with 2 different Economic Systems

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+ Module A: Contemporary History
- Economic Aspects of German Reunification

- Task
Describe the economic challenges of the German reunification with two different economic systems (market economy versus centralized planned economy) and discuss alternative solutions.
+ Market Economy? Planned Economy?

- Market Economy
A market economy is a system where the interaction between consumers and businesses, i.e. *the laws of supply and demand* direct the production of goods and services.

- (Centrally) Planned Economy
A planned economy is an economic system in which a single authority such as the state or government *makes economic decisions* for the production of goods and services.
General Features of Planned Economies

- Less influenced by Economic Crisis
- Rapid Economic Growth at the Early Stage
- No Motivation — No Innovation
  - Fixed Employment and Income
  - Quantity >> Quality
  - General Problems of Bureaucracy
  - Regarding Production Priority / Preferences of the Consumers
+ The Decline of the GDR’s Economy

- Trabant (so-called “Trabi”, 1959~1991)
  - A symbol of the inefficiency of the GDR’s planned economy

<table>
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<th>Trabant 601 (1964-1990)</th>
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| **Engine**              | 600cc  
  2 Cylinder 2 Stroke  
  23 Horse Power         |
| **M. Speed**            | 123km/h  
  (actually under 100km/h) |
| **Materials**           | Steel (Car Frame)  
  Fiber Reinforced Plastics (Car Body) |
The Decline of the GDR’s Economy

- Lack of Understanding about Human Desire
  - Despite of Honecker’s various endeavors to improve the living standard

- The “KoKo” (Kommerzielle Koordinierung, 1966~1989)
  - Establishing 150 companies for domestic and external trades
  - Earnings: about DM 17 Billions during its existence

- “Schürer-Papier” at the End of October 1989
  - Disclosure of the desolate economic and financial Situation of the GDR
  - Contradicting the myth of the 10th largest industrial nation
Endeavors: Monetary Union

- The main problem is creating the single currency
- Wages/salaries/pensions/rents at a rate of 1:1
- Serious adjustment crisis in East Germany
- West Germany gave a helping hand
- Unemployment benefit
- Pension payments and welfare assistance
Endeavors: Economic Union

- The GDR adopted all-important laws
- Determining elements of any free-market economy
+ Endeavors: Social Union

- The unification of the social standards
- The aim was to integrate the principles of equal opportunities
- The social union was established in 1992-1993
- Pension, health, unemployment and accident insurance
- Adjustment procession is still ongoing today
BIP pro Bundesland
Bruttoinlandsprodukt je Einwohner in Euro

Hamburg: 53.611
Bremen: 43.085
Hessen: 38.490
Bayern: 38.429
BaWü: 37.472
NRW: 33.621
Saarland: 31.834
Berlin: 30.642
Rheinland-Pfalz: 30.420
Niedersachsen: 30.149
Schleswig-Holstein: 27.684
Sachsen: 24.226
Brandenburg: 23.751
Sachsen-Anhalt: 23.196
Thüringen: 23.168
Mecklenburg-Vorpommern: 22.817

BIP in jeweiligen Preisen. Einwohner Stichtag 30.6., noch nicht auf Basis des Zensus 2011
Quelle: Statistische Ämter der Länder
Unemployment rate

Data: 2013

+ AND NOWADAYS?