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The Influence of Political Motivation in Germany's Economic Development

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Abstract: The reasons behind the German post-World War II "Wesswunder" have been the subject of a contentious discussion for decades. This also applies to a second matter, which comes up in the discussion of the causes of the 1950s "economic miracle" in West Germany. Despite multiple policy changes, the East German economy persisted in its decline, ultimately resulting in the integration of East Germany into West Germany. The paper concludes the different development path of the East German and West German after the World War II by focus on the interaction between the factor of economic and the politics in a country and how them affect in one's economic development. The factors that influence a country's economic results outside the economic system are emphasized. Due to ideological intervention, the GDR could not integrate market factors into its planned economy. The result of not respecting economic laws and only considering political interests is economic failure, which leads to a series of negative factors such as social unrest and the regression of political reform.

Keywords: German Democratic Republic, Economic transformation, German economic, Market mechanism

1. Introduction

This paper will discuss the GDR's attempts at economic transformation and explain the economic situation of the GDR after its integration into the Federal Republic of Germany. By analyzing the role of political factors in the formulation of an economic system, this paper puts forward some suggestions on the current economic policies and development of modern economic theories.

1.1. Background Information

After World War II, the situation in Germany was dire. Millions of Germans were homeless from Allied bombing campaigns that razed entire cities. And millions more Germans living in the Poland and East Prussia became refugee when the Soviet Union expelled them. With the government and economy of German in shambles, the "Big Three" Allies-the United States, the Great Britain, the Soviet Union, concluded that Germany needed to be occupied after the war to assure a peaceful transition to a post-Nazi state. After that, Germany was subdivided into four quadrants, with the British, French, Soviet and Americans each policing a different zone of the lands. Even Berlin, the capital of Germany, was been included.

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Tensions became increasingly apparent between the Soviet Union (the Eastern bloc) and the United States and its European NATO allies (the Western bloc) in the following years. This was known as the Cold War—an intense state of ideological conflict, diplomatic tension, and an arms race that would see the creation of increasingly deadly nuclear weapons. With Berlin at its center, East and West Germany served as a stark symbol of the divide between the Eastern and Western blocs. The Soviet Union attempted to eject the allies, and tried to stem the flow of refugees that frequently fled a harsh, stark Communist existence to West Germany. Under such circumstances, East and West Germany, which pursued two economic systems, followed very different development paths.

The GDR belonged to the socialist countries of the Eastern Soviet Union, and its political and economic model was derived from the Soviet Union. Because of its dependence on the Soviet Union and the incomplete restoration of national sovereignty, the GDR took the initiative to reach consensus with the Soviet Union in the formulation of important policies. It is clear from Peake's minutes that the GDR's major decisions were made in consultation with the Soviet Union." [1] From the beginning of the implementation of the planned economy, the formulation of the first five-year plan and the establishment of the national economic structure were carried out under the impetus of the Soviet Union. During the economic crisis of the 1950s, the Soviet Union insisted on the existing economic structure because of its will. In the 1960s, when the reform of Germany's economic management system was effective, it was also abruptly halted due to the pressure exerted by the Soviet Union.[2] In specific economic matters, the GDR was also guided by the will of the Soviet Union, such as the setting of foreign trade prices. Within the context of the Council, the GDR was primarily an exporter, but the price of its goods was to be determined by the Soviet Union's will. This makes foreign trade prices often sacrifice the interests of national economy in order to meet the requirements of the Soviet Union. For example, the price of machine products exported from the GDR to the Soviet Union could not be set according to the market, while the price of crude oil exported from the Soviet Union to the GDR could be set according to market factors. This raised the price of oil in the Soviet Union far more than the price of machine products in the GDR. [3]

The division of post-war Germany into the GDR and the Federal Republic of Germany was itself the result of external factors, not the result of national choice. Therefore, the fate of each individual has a lot to do with these external factors. The reasons for the eventual economic failure of the GDR were also largely external. It faced ideological control not only from the socialist camp in the eastern Soviet Union, but also from the rising economy of the Federal Republic of Germany. The GDR economy also faced a comparative challenge from the Federal Republic of Germany. People can't help but compare their economy with that of the Federal Republic of Germany. This put great pressure on the economic development of the GDR. If anything goes wrong, the population will move towards the Federal Republic of Germany. The great economic performance of the eastern region in the first years of the post-war period was due to the large amount of labor input. In the process of the economic development of the GDR after 1950, a large number of labor went to the Federal Germany, especially the loss of high-quality labor was particularly obvious, which brought heavy damage to the economic development of the GDR. Even by 1989, the GDR economy was in bad shape, but it was not yet unviable. It was the example of the Federal Republic of Germany that made the people of the GDR unwilling to accept their own political and economic system, and the country eventually collapsed. The economic development of the GDR has been compared with that of the Federal Republic of Germany for decades, and so has the people and the country. It was this contrast that led the GDR to give up and collapse.

1.2. Research Framework

The arrangement of the rest of this paper will include three sections.

In the Section two, the economic factor in the failure of GDR been introduced, as this section divided GDR's economic development into three phases. The first two phases are mainly about two time periods with different leaders and the different policy attempts by the leader. The last two phases focus on the deeper reason of the GDR's economic failures and conclude the useful experience.

The Section three describes the direct causal relationship between the economic failure of GDR and the political motives in the reform of economic system, suggesting that the economic strategy of developing countries should focus on finance and economy itself, and try to exclude the role of political aims in it.

The different economic paths and results between Germany and Germany lead to different social results, making each of them have different social structures and social problems. In the Section four, the after-effects of the reunification of East and West Germany and the new national environment forced Germany to embark on a different economic path, and this new change in the economic field immediately triggered corresponding changes in the social structure.

Therefore, through the long-term tracking and analysis of the economic situation of Germany in the past hundred years, we come to the conclusion that whether it is a capitalist country or a socialist country, the political system is a fundamental factor affecting the economic development of a country. The most important and often fallacious of these is that the fundamental motivation for economic reform must be economic rather than political, especially for countries in economic transition.

2. The economic factor in the failure of GDR

In order to explore the success of Germany's economic transformation, it is an indispensable part to understand the failure of economic policies and the related influencing factors of German Democratic Republic (GDR) from its establishment in 1949 to its incorporation into the Federal Republic of Germany in 1989.

2.1. Establishment and implementation of planned economic system (1945-1949)

The East and West Germany region was originally a country, during which the economic capacity was basically the same, the difference is not very big. At the end of the Second World War, in 1945-1947, the total production of the eastern region even exceeded that of the western region. This made the Soviet Union confidently reject the proposal of the Western occupation to establish a unified economic system in the whole of Germany and decided to pursue a planned economy in the eastern occupation. In response, the Soviet Union rejected the Western currency reform and introduced its own currency reform on 24 June 1948, issuing the East German mark instead of the Imperial Mark.

The East German constitution of 19 March 1949 established the German Democratic Republic (GDR), a planned economy in which prices and wages were set centrally. These actions in the early days of the founding of the People's Republic should be understandable, given the lack of precedent for the failure of the planned economy, which is inherently ethically friendly.

However, at that time, people did not notice that the economic aggregate of the East in the first years of the post-war period was not increased by productivity, but by the input of a large number of labor forces. This led to some blind confidence in the eastern economy at the beginning. They were unwilling to face problems when they appeared, but blindly adhered to the principle of planned economy and did not make timely adjustments. The problem had already emerged in 1950, when the East German economy, which had previously been on a comparable economic footing, was quickly overtaken by the West.[4]

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2.2. Five-Year Plan and Monetary reform (1950-1989)

In the early 1950s, with the implementation of the planned economy system, consumer goods were in short supply. Popular discontent began on June 17, 1953. Under such circumstances, the state has continued to focus on heavy industry and neglected the improvement of people's living standards. As a result, the first five-year plan (1950-1955) fell short. At a time when the problem of the planned system should have been reconsidered, the correction of the disregard of the market by the planned economy became a mandatory drawback, especially the resulting political fluctuations in Poland in the autumn of 1956 and Hungary in October-November 1956, which should have prompted the government to take a serious look at economic bias. However, the authorities stuck to the original plan, turning it into a form of coercion, and appeasing discontent with higher wages. Instead of improving production, the single issue of additional money is precisely a measure against the economic law, which makes the problem worse. There is a situation in the society where money can not buy things, and the price of goods rises.

In response, the East German government did not adjust the root causes of the system, but carried out the second currency reform on October 13, 1957, and forcibly suppressed the circulation of funds. The practice is that each person can exchange the new currency 1:1 300 marks, the rest of the money must be deposited in the bank. At the same time, strictly examine the sources of circulating funds. This series of measures almost took state intervention to the extreme, and the result can only be an artificial and deliberate reduction in the amount of money circulating in the market, but the price rise can not be stopped. In response to the bad economic situation, there was a political swing in society, and a group of "Revisionisten" including the famous philosopher Ernst Bloch and some government officials advocated facing up to the mistakes of economic policy. At this time, although the delayed second five-year Plan was no longer implemented, the replacement seven-year plan still did not focus on reform and adjustment, but further followed the original plan, and forced down the reform calls that appeared in the late 1950s by political means. It was only when it became clear that the renewed seven-year plan had failed that the government began discussing reform at the 6th Party Congress on January 15, 1963.

A year later, the government introduced an economic reform program that aimed to "replace planning management and central command leadership with a combination of central planning and economic leverage."[5] Thus began the period of economic reform in the 1960s, the so-called "economic experiment". The content of the experiment is mainly to introduce some market economy factors under the framework of the planned economy, such as the central government no longer has to plan independently, but begins to take into account the laws of the economy and the market, requiring enterprises to put profits in an important position, so as to achieve independent economic profit. The degree of implementation of this reform is higher than that of the 1950s, the East German economy began to significantly improve, ideas and practices began to be more in line with economic laws, and the proportion of private economy significantly increased. However, due to the loss of talent in the 1950s, the lack of labor force became an important factor in curbing the economic development of East Germany in the 1960s, and the loss of a high-quality labor force became an important bottleneck to improving productivity. Although this reform made the East German economy significantly better than in the 1950s, it still did not fully release the economic development potential of the reform.

In the first half of the 1970s Erich Honecker, the last official East German leader, began to worry that the economic adjustment of the 1960s was overdue and not yet fully effective. When Erich Honecker came to power in the mid-1970s, he reemphasized such concerns and eliminated the market economy elements introduced in previous reforms. From then on, the five-year plan began an era of only unfulfilled plans, and the East German economy began to decline. By strengthening the state,

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ignoring the market, and increasing wages in the face of declining production, society returns to the dilemma of insufficient production, that is, money cannot buy anything. At the same time, out of the economic principle of nationalism, it is necessary to strengthen social welfare. So social welfare was extended through overseas loans, mainly from the Soviet Union, to the extent that the state could not repay them. As a result, the East German economy was on the brink of collapse.

2.3. Analysis of the economic failure of the GDR

Therefore, from an economic point of view, the core cause for the economic failure of the GDR was not simply the planned economic system itself since it was too attached to ideological considerations. The GDR government stuck to the principles of the planned economy, and did not make timely adjustments according to specific national conditions, thus constantly violating the law of economic operation.

Leader Honecker and his conservative policies was the immediate cause of East Germany's economic failure, but not the ultimate cause. The final reason is that the dogmatic planned economy disabled adjust its policies in time, and even the late adjustment was not thorough enough. Also, instead of going deep into the reform of political system that formulated the economic system, Honecker’s policies only stayed at the level of economic operation which can not solve the problem fundamentally. Honecker's reforms did not go far enough into central planning, and the GDR economy remained structurally unbalanced.

In 1989, for example, "lignite production in the GDR was 2.7 times that of the Federal Republic of Germany."[6] Excessive mining is certainly to reduce imports, due to tight foreign exchange. However, this is not the right way to solve the problem, but will make the national economy worse and worse due to structural imbalance.

2.4. Experience and Enlightenment

The government does not make a separate plan for the economy, and requires enterprises to put the goal of profit in the first place and achieve independent economic profit. The issuance of additional money needs to be tightly controlled and constantly modified according to the requirements of financial markets, rather than a long-term strategy based on political needs.

3. The political factor in the failure of GDR

The Allies used prefer to establish a unified economic system in the east and west of Germany. However, the Soviet Union developed a series of policies based on its own political considerations: on July 21, 1945, the property of all banks in the occupied territories was confiscated, on September 3 of the same year, all private property was confiscated, and on September 30, all industrial and trade facilities were nationalized. On 21-22 April 1946, the former German Social Democratic Party (SPD) and the Communist Party (KPD) in the Soviet-occupied areas were merged to form the Socialist Party for German Unification (die Sozialistische Einheitspartei Deutsch-lands), or SED. On 30 June 1946, the Soviet occupation closed the borders to all other occupied areas, the Deutsche Wirtschaftskommission(DWK) was established on 14 June 1947, and the nationalization of peasant land began in 1949.[7] As a result, the eastern region moved towards the road of socialist planned economy.

Thus, the economy of the GDR was essentially the product of political factors and was divorced from the actual economic trajectory. This also suggests that the government needs to carefully control incentives when making policy. "The failure of the GDR's successive attempts provided a rare opportunity for the Federal Republic of Germany and other Western countries to demonstrate their temporary advantages in the development of productive forces, the enhancement of overall national

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strength, especially economic strength, and the improvement of social welfare." 26). In contrast, however, the GDR's economic setbacks also provided lessons for the Federal Republic of Germany's economic development.

4. The economic situation of Germany after reunification

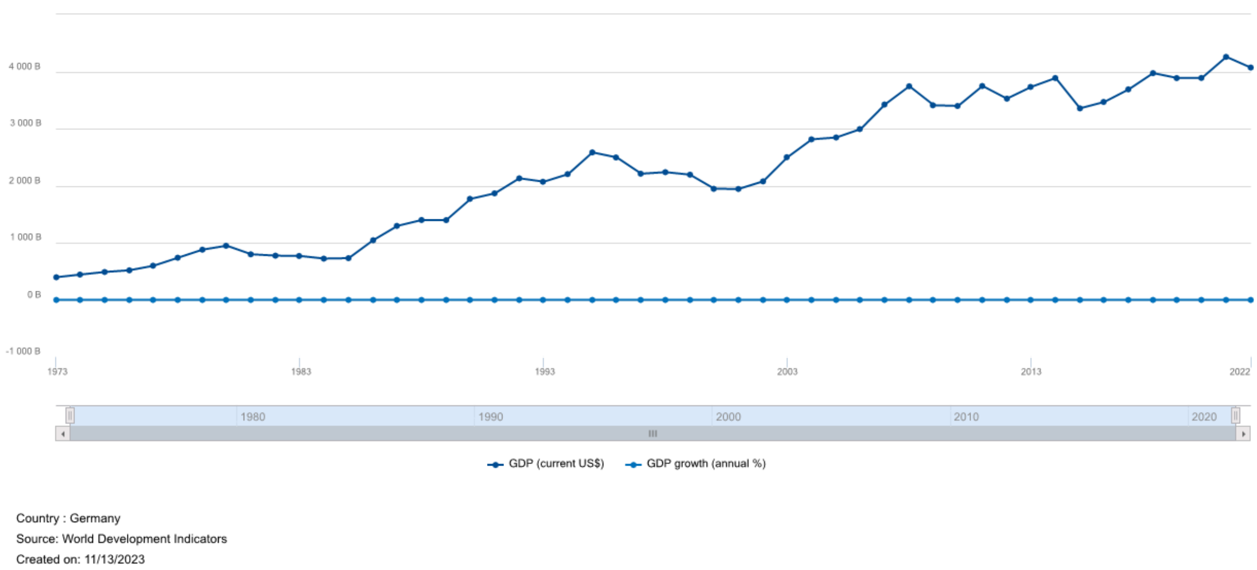

Figure 1: Germany's economic trends over the decades

Just as Figure 1 shows that after the reunification of the two Germany, on the basis of unified currency and free trade, the government of the Federal Republic of Germany, with strong economic strength, immediately began to transform the eastern enterprises according to the model of western enterprises. The federal government adopted the methods of decomposition, reorganization, auction and bankruptcy for the eastern state-owned enterprises, and basically achieved its goal of reforming the eastern state-owned enterprises in a short period of 3 or 4 years.[8] Compared with post-Soviet Russia's transformation of state-owned enterprises, Germany has been successful. But the overall economic picture in Germany was less rosy, with the aftermath of reunification causing initial turmoil.

Since the 1990s, the process of worldwide economic globalization has accelerated, and the western economy with a high degree of internationalization has also undergone rapid restructuring: the service industry has developed rapidly, the traditional mode of operation has become increasingly meaningless, and the production has been increasingly transferred to low-wage countries. At the same time, due to the competitive pressure from the international market (low wages), more and more western enterprises have begun to lay off old and unskilled employees, which has increased the social expenditure of the country from another Angle.[9] In the mid-1990s, the German economy as a whole was struggling and lifeless. As a result, the German economy has fallen to the bottom (economic growth rate) in the European Union.

After 30 years of run-in between East and West Germany, the economic differences between East and West Germany have become smaller and smaller, and the negative impact of the so-called post-unification on the economic development of the whole Germany has been increasingly digested, so that the development of the German economy is no longer directly affected by it, but is determined by the long-standing characteristics of the German economy.[10-11] That's all for later. However, in general, at this time, Germany formulated and modified different policies for economic reasons, and

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due to the correct general direction, it was almost impossible to have an extreme political action that led to economic collapse.

Regarding the economy per se, the German economy was formerly considered a wonderful miracle in the globe; nevertheless, this miracle has grown less evident since the 1980s. The German economy is still doing well when compared horizontally to other developed industrialized nations in Europe and the US. This is primarily due to the German economy's ability to survive: although the global market for chemicals, automobiles, and machinery is gradually becoming saturated, the manufacturing sector in Germany has managed to hold its importance and continues to grow, particularly in the third world. However, it has become evident that the German economy has significant structural issues due to the country's loss of economic leadership within the European Union and its very high unemployment rate.

However, the basis of the economy as a whole has not grown, employment has declined rather than increased, and there is a clear lack of collaboration between technological advancements and the business community, particularly with small and medium-sized businesses. These are undoubtedly connected to the macroeconomic climate in the country. The current state of the German economy, including its currency, tax and salary laws, labor market circumstances, bureaucratic and outdated administration, etc., has dampened business excitement for investing in domestic projects and new product development. Even while the German economy has picked up speed since 2006, this growth has mostly stemmed from its established advantages, and the country's growth rate has not caught up to its leading position. In the event that the incoming German government does not implement notable enhancements in the areas of currency, taxation, wage policy, and labor market, the German economy will predominantly function within the initial structural configuration. If there is any economic growth at all, it results from businesses managing their operations rationally, not from expanding into new markets.

5. Conclusions: The distance between economic theories and realities

In the future, the development of German economy can no longer blindly adhere to the original pattern, but must quickly adapt to the changed market competition conditions, timely launch new products, occupy new markets, especially in the information, communication, tertiary industry, biotechnology, medical technology, finance, tourism and other fields must accelerate the development speed, and these fields will create new jobs in the new economic fields. The sustained economic growth and high employment in the United States since March 1991 have been the result of these new economies.

More importantly, restructuring the economy will not work unless it is underpinned by large earnings and policy frameworks. Therefore, if the German economy wants to maintain sustainable development, or even reach high growth again, it can no longer simply stop in the traditional field, but must occupy the new product market, especially in the current German telecommunications, information technology, software, semiconductors, optoelectronics, biotechnology, flat panel display fields must increase the speed of development. And the government must develop a policy framework conducive to development in these areas.

In 2009, under the impact of the international financial crisis, the German economy experienced the most severe recession since the Second World War, with a recession rate of 4.7%, much higher than that of the United States, Britain and France, which was largely caused by the rigidity of the economic structure. The strong rebound of the German economy since 2010 is mainly attributed to a series of economic stimulus policies introduced by the government in 2009. Unfortunately, when the government just saw the economic recovery, in order to save money, it began to consider withdrawing some economic stimulus policies. Addressing the problem of slow economic growth in Germany requires strong and sustained policy support, and any short-sighted behavior can only solve the temporary stagflation but will not help the overall situation.

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Clearly, economic theories often have differing viewpoints. One such debate is between liberalism and conservatism. Liberalism emphasizes a hands-off approach, believing that the market will naturally balance supply and demand. Conversely, conservatism holds that government intervention is necessary to regulate the market effectively. In the United States, two main schools of economics have emerged, known as the Saltwater School and the Freshwater School. But as the world economy becomes more complex, different schools of economic theory inevitably begin to merge.

Above all, the debate on the role of the market and government in economics is about finding the appropriate balance between the two. It is a matter of degree, as some economists argue for a more hands-off approach, letting the market operate with minimal government intervention, while others argue for more active government regulation and intervention. This disagreement often lies at the core of the different economic theories and schools of thought.

From a philosophical perspective, free market economy is more consistent with individualism, while the latter is more consistent with collectivism. Coincidently, the western civilization tends to have more individualistic colors, while the eastern civilization tends to have more collectivistic colors. Although there have been some extreme cases in history of a complete market economy and a centrally planned economy, generally speaking, reality sits between these two extremes more often. Therefore, from Adam Smith's free market economic theory to Keynesian revolution, to the rise of western neo-liberalism economic theory, it reflects the changing roles and balances of market and government. [12]

However, the whole premise of this discussion is that the economic system is formulated based on economic factors and nothing else. The economic path of the GDR was from the outset not a product of purely economic considerations, but above all of political considerations. The development of the whole economy thereafter is likewise determined, first and foremost, not by economic factors per se, but by political factors. The formulation and operation of economic policies are generally political first and economic second. After the GDR was merged into the Federal Germany, the Federal Germany continued to achieve new achievements in economic development because it operated its economy from the economic factors themselves, rather than from the political perspective. Therefore, the failure of the GDR was essentially due to the dominance of non-economic factors in economic activities, rather than to the economic system itself.

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