

Bellagio notes on the new Länder in unified Germany and Cuban transition

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There is one dimension on which the Cuban and the GDR cases are located at opposite extremes. This is the dimension of *nationalism*. As one of the leading party intellectuals of the GDR, Otto Reinhold, remarked shortly prior to the breakdown of the East German regime, the GDR differed from the rest of the COMECON countries in that "they are all *nations*, while we are just a *mode of production*". The constitutionally enshrined standing offer of the West German Federal Republic to incorporate the citizens of the GDR, be it individually or collectively, as fellow citizens, as well as the commonality of a shared culture, language, and history, have effectively prevented the rise of a sense of "nationhood" in the GDR, in spite of early attempts of the ruling party to establish a doctrine of separate nationhood. In that sense, Cuba is certainly both a nation (relying on a strong sense of patriotic loyalty, identity and solidarity of its people) *and* a "mode of production".

Nevertheless, there are arguably comparable incentives for *migration* between the two cases. After the fall of the wall in November 1989, and all the more after unification in October 1990, there were strong incentives for large segments of the East German population (estimated at more than two out of 17 million residents) to move to West Germany. These incentives worked in a highly selective fashion. As a rule of thumb, members of the young and middle generations and the skilled were likely to leave (among other reasons, because the level of unemployment in the new Länder was - and still is - about twice the level of West Germany), while the elderly and the less skilled were likely to remain. The effects of this selective migration incentives were such as to distort not just the demography of the East (and with long term implications, as many people of child-bearing age would leave and as there was a sharp decline in the East German birth rates after 1989 anyway), but also to change the composition of the work force in unfavorable ways, leading to a pattern of "dying cities" and a virtually irreversible trend towards de-industrialization. The only thing that the government of united Germany could do (or allow to happen) in order to stem this wave of migration to some limited extent (given the high and chronic level of unemployment that prevailed in the West, too) is to fix wages, pensions, and, above all, the terms of currency conversion at levels that were much more favorable for people in the East than what would have been economically justified in terms of the overall productivity level of the East German economy.

The massive outflow of labor was in part compensated for by the inflow of investors, business men, and managers from the West. Members of these social categories took largely control over the rapidly privatized economic assets of the East German economy as well as of start-up enterprises and subsidiaries of West German companies starting to do businesses in the East (not to speak of the courts, the professoriat in many disciplines, and public administration). What can

certainly be learned from the German and other Central East European cases is that the fates of an economy that emerges from a closed system of state socialism will largely be determined by the incentives it generates for the outward movement of labor and the inward movement of capital, with both movements having potentially favorable and unfavorable implications for long term economic viability. Again, the East German case is unique in that the volume of "foreign" (i. e. West German) direct investment, both in productive facilities and even more so in infrastructural modernization was by far greater than in any other case of post-socialist transformation economies. Such massive and ongoing transfer of (mostly) West German resources was necessitated by the fact that political unification and, even before that, currency unification in the summer of 1990 caused an immediate breakdown of nearly half of the output of the GDR economy—the greatest slump ever experienced by an industrial economy outside of wartime conditions.

(1) *Social spending in the GDR*

(a) The 8. party congress of the Socialist Unity Party (SED) promulgated the doctrine in 1971 of "*unity of economic policy and social policy*". The basic idea of this doctrine was the notion that technical and organizational progress would lead to economic growth which allowed for increments of social spending which in turn generated the feedback loop (to be implemented by the party-controlled trade unions) of not only strengthening the acquiescence and support enjoyed by the regime, but to motivate productive efforts of the work force to achieve and over-achieve the targets of economic plans. This doctrine, however, established expectations and aspirations in terms of rising standards of consumption, housing, services, and social security which, as they could not (fully) be financed out of increments of productivity and growth, had to be financed through foreign debt.

(b) Social policy in capitalist welfare states is usually designed to buffer particular categories of individuals through specialized agencies, be it in a *ex post* compensatory or *ex ante* preventive manner, against some of the typical material risks of life and service needs that affect employees and their families, such as health risk, income problems of retired workers, unemployment, survivorhood, material burdens of parenthood, housing needs of the earners of low income, poverty, etc. In contrast, the main characteristic of GDR and other state socialist systems is that social policy has strong "*totalizing*" features. This applies in two senses. First, the *entire population* is targeted by (essentially tax-financed) social policy measures and status rights resulting from them. Second, *all spheres of life* are shaped and designed by measures of social policy, which ultimately, together with the systems of political control and mobilization, amounts for the ongoing creation and corroboration of loyal and productive "socialist man" in a socialist society. State socialist social policy does not compensate for needs on the basis of statutory *rights*; it rather shapes living conditions and life styles by the means of authoritarian, discretionary, though presumably benevolent paternalism. As such, it deals with and tries to design demographic trends, gender relations, human capital formation, patterns of consumption, vacation and other leisure time activities, family life, conditions of neighborhoods, and ultimately "trusting relations between the Party and the people" (E. Honecker). Not *persons* were subsidized according to their need, but *goods and services* (such as housing, basic food, transportation services, health and day

care services, vacation facilities) according to notions of a "socialist form of life" that was to be imposed on the entire society. Central to this form of life, and hence most privileged by social transfers, services, and status rights were, fully in line with the ruling ideology, the "ruling class" of active workers (as opposed to pensioners) as well as ranking members of the party and the state apparatus (be they active *or* pensioners).

(c) A third feature of state socialist social policy is the close integration of organizations of production (enterprises, companies, state agencies) with social services. Enterprises were multi-purpose organizations which were not just offering guaranteed jobs and incomes, but also provided meals, day care, leisure time activities, sports, social work services, "polytechnic" skill formation, vacation trips, entertainment and cultural events, sometimes even laundry services to employees - as well as, of course, political education and surveillance performed by a cell of the party that operated inside each enterprise and agency. All of these costly functions interfered with the core functions of economic organizations, i. e. the production of specific good and services that is governed by criteria of efficiency, productivity, and (international) competitiveness. It must also be said, however, that the organizational integration of productive and social service functions (such as vocational training, health, day care) might arguably be defended on grounds of efficiency.

(2) social policy changes as consequence of unification, both East and West

The German case is unique in space and time. In space, because the majority of the new member states of the EU (Estonia, Latvia, Lithuania, Czech Republic, Slovakia, Slovenia) emerged as *new* states through *separation*, while the others *maintained* their borders and territories (Poland, Hungary, Bulgaria, Romania). The German case is (so far) the only one where transformation occurred through the *fusion* of states and their territories. This exceptional pattern explains the uniqueness in time, i. e. the breathtaking speed by which political unification was accomplished within less than eleven months under the aegis of the West German government. This extraordinary pace with which both sides proceeded was in turn motivated by the combination of three factors. First, after the first free elections held in the GDR in March 1990, it became evident that the vast majority of the population (lacking anything like a "national" identity) did not want a distinct and "better" GDR (as opposition groups within the East had originally aspired to), but *no* separate state at all. Second, as section 23 of the West German Constitution provided for the possibility, in fact for a standing invitation, of a unilateral accession of the East German state, the highest priority had to be given to accomplish the fusion in an reasonably organized (rather than abrupt and spontaneous) way. Third, a speedy unification was also mandated by the (as it turned out, accurate) perception that strategies had to be pursued within a window of opportunity, as the consent of the allies of World War II (and most importantly that of the Soviet Union (whose president Michael Gorbachev was in fact to survive in office for only ten months after German unification) had to be secured.

All of these considerations (parallels to which are hardly conceivable for any Cuban scenario) led to a deep and abrupt change of virtually every institutional sector of the former GDR, including the entire system of social protection and social service provision. The promises that Chancellor Kohl offered to the new German citizens were arguably sincere, but highly unrealistic

from the beginning. He promised (perhaps having in mind the West German post-war "economic miracle" that followed the currency reform of 1948) a "flourishing economic landscape" in the new Länder and, more specifically, that "nobody will be worse off" after and due to unification.

All of which turned out to be untrue immediately after unification. Unemployment, an entirely unknown condition in the GDR, jumped to one third of the work force. This was not only due to the export competitiveness of the GDR economy coming to an abrupt end as a consequence of currency reform, but also to the mode in which the privatization process was managed. This mode led to the closing down of many of the production facilities by their new owners, which was often motivated by the desire to take "excessive" supply capacities out of the market. Privatization of residential property also implied a steep rise of rents. Companies that managed to stay in operation could do so only by playing according to the new economic rules of a capitalist market economy, which meant abandoning all unprofitable social services and facilities and laying off parts of their work force that was rendered superfluous by the severe recession. An experience that has often been described in the scholarly literature as well as in novels and movies is the profound disorientation of who had to endure these changes and the measures of agencies that were often described as "new rulers" if not "occupiers" - as agents, that is, who acted in ways that were seen (at least) as paternalistic and authoritarian as those of the previous regime.

The perception of having no voice in the process was further suggested by the fact that citizens of the new Länder found themselves in a structural minority of less than 20 per cent of the total population of unified Germany. Being deeply unfamiliar with new institutions and new rights, citizens of the new Länder suffered from a profound ignorance concerning (a) what to demand and expect from the new regime and (b) how to get what it turns out one is legally entitled to. Most disturbing, perhaps, was not the experience of economic need and insecurity but the (lasting) feeling that "nothing can be taken for granted". A frequently heard complaint that is based upon a vulgarized labor theory of value runs like this: "After all, we have worked for all of our lives. Why is it that we now find ourselves deprived of the value we must have produced?" This widely shared sense of deprivation, insecurity, and frustration has been a powerful factor in the unexpected rise of the successor party of the former Communist party in East (and recently also in West Germany).

Academic observers and commentators have highlighted the pervasive sense of cognitive and moral, not just material, insecurity that was caused by the sudden change of the political, social, and economic regime. Janos Kornai, the eminent Hungarian political economist, has once described the difference between state socialism and a capitalist market economy in terms of who does the *waiting*. Under state socialism, he argues, managers wait for the workers, and clients wait for the suppliers of goods. In contrast, under market capitalism workers stand in line for jobs, and salesmen wait for customers. Being exposed to a sudden transition from one to the other has been widely experienced as an irritating rupture of people's life world.

These disturbances at the level of perceptions and experiences are, however, often not matched by actual distributional effects of the transition. Among the significant net transfers from West to East (transfers of about 90 bn. €p. a., which are to last for at least another decade) are substantial transfers for social security benefits, in particular unemployment benefits and pensions. Both in

order to stave off further East-West migration (as well as migration in political terms from liberal, social democratic and conservative parties to the leftist successor party PDS), federal governments since unification have made consistent efforts to improve the social situation in the new Länder through all kinds of transfers and subsidies, while the labor market situation is (and probably will remain) much worse than even the highly unsatisfactory employment conditions prevailing in West Germany. As a result, the total share of GDP that is generated in the East is far less than the total share of consumption that actually occurs in the East. Also, economic growth in East Germany is significantly inferior if compared to the growth rates that are achieved in all other post-socialist countries that are now new member states of the EU. At the same time, the vast West German majority of the German electorate has come to realize (and to some extent complain about) how much they have to "sacrifice", in terms of taxes and social security contributions, for the Easterners. On the other hand, a widely shared sentiment on the part of Easterners is based upon the complaint that what "we" want is not the somewhat degrading flow of subsidies, transfers, and donations (to the "poor relatives", as it is often put) but jobs from which "we" can derive both adequate income as well as a *sense of self-respect*. These sets of sentiments and complaints have been (and are likely to remain) a significant factor in German politics, both at the Länder and at the Federal level.

(3) Lessons: What to do and not to do?

Many writers in the academic discipline of "comparative transitology" seem to agree on the significance of adopting different time frames for the economic vs. political transformation process. The underlying intuition is that successful economic transformation calls for an immediate and rapid change (the "short sharp shock" according to proposals such as those advocated by J. Sachs and L. Balcerowicz), while the political transition to a constitutional state with a liberal democracy requires a lengthy period of experimentation, learning, and slow maturation. The Polish example seems to follow these rules and has been a remarkable overall success. The Bulgarian example fails on both counts (with a new constitution being adopted as early as 1991) and does certainly not show impressive results, neither economically nor in terms of a consolidations of democratic governance structures. The German case is in many aspects unique (as pointed out above) and certainly mixed, as both the economic and the political transformation were adopted very rapidly. Here, the results are far from satisfactory, in spite of the many hundreds of billions of Euros having been spent for the purpose of facilitating the process. Yet, according to survey of East Germans, only 29 per cent believe that "democracy is the best form of state" in 2004 (down from 41 per cent in 1990), and just 18 per cent accept the "social market economy" in 2004 (down from 77 per cent in 1990).

Perhaps more variables need to be taken into consideration in order to arrive at a meaningful conclusion. One such variable is the friendliness/unfriendliness of the *international environment*. In this respect, Cuba is an extreme case, with the actual and anticipated US sanctions plus the Cuban diaspora being a threat which precludes an economic and/or political opening, as the latter can always depicted and suspected, under these conditions, as potentially suicidal - in spite of the widely understood fact that the status quo is no durable option either. In contrast, much of the successful transformation in most of the Central European post socialist countries must be attrib-

uted to the fact that the international environment has been largely friendly and inviting: Much of the *self*-transformation of these countries (with East Germany, due to unification, being the only case where there was never a chance for *self*-transformation!) has occurred because it was triggered, encouraged, and stimulated by the prospects of membership in NATO and the EU and the conditionalities attached to the admission to membership.

The role of *social policy* in a transition process is limited, but essential. This role is twofold. On the one hand, it can serve to absorb risks and create a floor below which citizens are not allowed to fall when travelling the stormy waters of economic transition, i. e. the privatization of assets, marketization of prices, and stabilization of the state budget. The costs of such a basic security net have been financed from the outside in the German case (i. e., by West German tax payers and social insurance systems). Is it conceivable that outside co-national donors can perform some of this function in the Cuban case, too? On the other hand, a merely materialist and need-related view of what social policies can and should do is clearly deficient. For social policies can and should also play the role of fostering a sense of dignity, confidence, rightful entitlement, and self-respect rather than the feeling that recipients are, individually or collectively, "failures" who must now submit to the tutelage of paternalistic others on whom they have come to depend. If both of these functions can be performed from the outside, as it was the case to some extent in the long process of post-socialist Eastern enlargement of the EU (from association agreements to pre-accession assistance), the "short sharp shock" can be arguably turned into a period that people can confidently cope with. The "valley of transition" is then neither too deep nor too wide to kill the subjective perception that the trip to the other side can after all be mastered.

The other issue is that of *political institution building* and the consolidation of a liberal democratic regime with legal rights and non-corrupt enforcement capacities. This is - and should be - a lengthy, gradual, and time-consuming process. Progress on this path is hindered, when a relevant group of strategic actors has reasons to fear that "one step further is one step too far", i. e. that concessions (such as the admission of independent media, independent courts, opposition parties, regional devolution, local autonomy, free trade unions etc.) will lead to disruptive social conflicts or the opportunity seized by non-cooperative players, internal or external, to take unfair advantages. Again, in the European cases of post-socialism, external actors (such as the Council of Europe and the EU) have effectively supervised and monitored, in cases that are as different as those of Estonia and Serbia, the process of such institution-building, while at the same time making it clear that failure to move forward on the road towards institutional consolidation will be sanctioned by advantages being withheld.

However, we positively seem to be crossing the border between thoughtful wishing and wishful thinking if we were to pursue a vision that would involve the EU (or, for that matter individual EU member states) in the role of externally assisting a Cuban path of transition. On the other hand, it is an EU member state, Spain, that, as an ex-clonial power, has recognized and adopted some role and historical obligation to provide assistance to a "soft landing" of the Cuban transition.