Central European History 43 (2010), 484–507.
© Conference Group for Central European History of the American Historical Association, 2010
doi:10.1017/S0008938910000385

# Unifying without Integrating: The East German Collapse and German Unity

*Jonathan R. Zatlin*

"Economy of time: all economy ultimately reduces itself to this."[1]

The demise of the German Democratic Republic (GDR) came as a surprise to most western observers. For historians of modern Europe, its disappearance remains remarkable for at least two reasons. First, East Germany has ceased to exist in an era when new states are constantly being born. Since the French Revolution unleashed the power of national self-determination as an ordering principle more than 200 years ago, new sovereign states have continued to emerge across the globe, whether through the breakup of multiethnic and colonial empires or the dissolution of pan-Slavic states in eastern Europe. Illiberal governments have been swept aside, often with the result that new states have been cast out of imperial entities by the centrifugal force of cultural attachment. In the history of European political sovereignty during the twentieth century, the particular has triumphed over the universal. Except in the case of the GDR. Against the tide of European history, the GDR has gone from sovereign state (East Germany) to regional designation (eastern Germany). In this sense, the story of the GDR's absorption by a larger polity is a tale of modern state-building told in reverse.

Similarly, the collapse of communist authority that preceded the GDR's dissolution is the story, told backward, of the correlation between economic rationality and political power in modern Europe. Nowhere has the mutually reinforcing, if always potentially repressive, relationship between economic development and bureaucratic control been illustrated in a more striking manner than in the life and death of the GDR. In his masterpiece of modernism,

I would like to thank Jeff Kopstein for his insightful compression of my arguments, Andrew Port for his excellent editorial comments and wonderful suggestions, and the two anonymous readers for *Central European History* for their thought-provoking help in improving this article. Despite my colleagues' efforts to help me advance my arguments, however, only I can answer for the failures of integration that may mar them.

[1]Karl Marx, "Grundrisse der Kritik der politischen Ökonomie," in *Marx-Engels-Werke*, vol. 42 (Berlin: Dietz Verlag, 1983), 105.



https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

*The Philosophy of Money*, the sociologist Georg Simmel linked economic exchange to authoritarian rule via money, which he described as "an extremely effective technique for despotism, as a means for incorporating the most remote areas into its rule that, in a barter economy, always tend to separate and become autonomous."[2] Remarkably, the Socialist Unity Party (SED) succeeded in unraveling Simmel's teleology of monetary "progress," shattering the unity of the GDR's monetary regime and encouraging the emergence of economic realms no longer amenable to central control. Through its own actions, the East German dictatorship sabotaged one of the most powerful instruments of administrative subjugation and economic integration at its disposal. Here, too, developments in the GDR moved against the current of modern bureaucratic experience.

This essay employs the economic function and political meaning of the East German mark as an analytical tool to trace Simmel's story in reverse. It argues that the antipathy toward money at the heart of socialist economic theory hobbled the planned economy from the start. Marxist-Leninists argued that replacing money with the administrative distribution of resources would improve productivity and level access to social wealth, making possible an Edenic future of perpetual plenty and limitless good. Instead, bureaucratizing the allocative framework of exchange introduced contradictory incentives to economic action, and these contradictions resulted in chronic shortages of producer and consumer goods. In turn, these shortages stimulated the growth of barter and the use of alternative currencies, which destroyed economic wealth and raised barriers to social equality. Using representative examples of market failure in production and consumption, this essay demonstrates that the demonetization of East Germany also entailed a progressive disintegration of communist power, as entire sectors of the economy began making use of local rather than general equivalents, thereby evading central control. The more that ordinary East Germans turned from socialist money to monetary substitutes, from the West German mark to barterable goods such as coffee, nylons, meat, and even fish, the less the communist party could direct economic policy.

The fragmentation of the East German monetary regime also provided a path to German unification. Although all Soviet-style regimes experienced some degree of monetary collapse, what made East Germany exceptional was the extent of its reliance on capitalist currency. Like Poland, Romania, and Hungary, the GDR borrowed money from the west during the 1970s to improve living standards. But the GDR also officially incorporated western money into domestic retail transactions as a method of paying down its debt.[3]

[2]Georg Simmel, *Philosophie des Geldes* (Frankfurt am Main: Suhrkamp Verlag, 1989 [1900]), 378.

[3]For more on comparative debt problems, see Jonathan R. Zatlin, *The Currency of Socialism: Money and Political Culture in East Germany* (Cambridge and New York: Cambridge University Press, 2007), chapters 2, 3, and 4.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

Most fateful was SED leader Erich Honecker's decision in 1974 to permit East Germans access to the Intershops, or hard-currency retail stores. By the 1980s, the Intershops had become the GDR's largest single source of hard-currency revenue; no other eastern European state was so reliant on *domestic* hard-currency revenues.[4] But the GDR's increasing fiscal dependence on capitalist money did not merely reflect the socialist state's flagging economic struggle to "overtake" the capitalist west, or even its failure to offer an attractive alternative to western consumerism. Transforming the Intershop chain from duty-free shops for western visitors into a mainstay of the East German retail landscape linked access to material prosperity and social status with West Germany, conditioning East Germans to associate West German money with the consumer plenty that socialism promised but could not deliver. Through its own avarice, the SED leadership reversed the very value hierarchies it had established between capitalism and socialism. When the protective hand of the Soviet Union was removed in 1989, East Germans put into practice what they had learned from the SED's economic policies: that money was identical to a wealth of consumer goods, and that the best money was West German.

Seen in this light, the introduction of the West German mark on July 1, 1990, was not the conclusion of the 1948 currency reform, which had precipitated the division of Germany. Nor was monetary union merely the economic prelude to political unification of the two German states. It was also a shocking reversal of East German institutional "backwardness" and the brusque beginning of its reintegration into international markets. That is, the German-German currency union constituted an abrupt halt to East German developmental "regression" and its realignment with Simmel's economic time. It is from this sudden, sharp exposure to economic modernity that eastern Germany suffers today—and from which Europe has benefited.

## Money as Theft

In large part, East Germany's economic woes were the product of socialist economic theory, which confused money with markets. Despite the vehement objections of Karl Marx, a deep-seated hostility toward money animated socialist approaches to economic organization. Early socialists, from Thompson and Owen to Proudhon and Blanqui, believed they could eradicate poverty, unemployment, and exploitation by liberating economic activity from the constraints of pecuniary mediation.[5] Owen and his followers, for example, resolved to

[4]This is true even for Poland. See ibid., chapter 6.

[5]George Lichtheim, *A Short History of Socialism* (London: Weidenfeld and Nicolson, 1970), 39–42; Mark Blaug, *Ricardian Economics: A Historical Study* (New Haven, CT: Yale University Press, 1958), 140–50; Leszek Kolakowski, *Main Currents of Marxism: Its Rise, Growth, and Dissolution*, vol. 1 (Oxford: Clarendon Press, 1978), 194, 208, 212–3, 225; Edward S. Mason, "Blanqui and Communism," *Political Science Quarterly* 44, no. 4 (December 1929): 498–527; Keith Taylor, *The*

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

circumvent economic exchange, which they believed enabled factory owners to steal the labor of their workers. Since labor for them, as for most socialists, was the source of all value, they argued that eliminating money would restore to workers their power to dispose over the fruit of their labors. To put economic trade on a socially just footing, Owen and his followers set out to replace money with labor vouchers. If all value was generated by labor and labor was identical to itself, society could abolish money and instead trade commodities directly based on the labor-time it took to produce them.[6]

With this calculation in mind, Owen created the National Equitable Labour Exchange in London in 1832, adding a branch in Birmingham in 1833. These labor exchanges made possible the sale of goods based not on the British pound, but instead on labor vouchers, which were denominated in units of one labor hour. Despite their initial popularity, however, these artisanal bazaars were soon forced to close down. The most important reason for their failure involved the labor vouchers, which did not obviate the need for money.[7] As Marx would later point out, Owen tried to preempt the market rather than abolish it. Like others, he imagined that labor vouchers could become legal tender on the basis of the commensurability of labor, assuming that the notes could acquire exchange value *before* they were exchanged simply because they were denominated in units of labor-time.[8] But absent a system of barter, the transaction between buyer and seller still required some medium through which the exchange of labor could take place. Far from organizing trade along non-monetary principles, the bazaars simply replaced one medium of exchange with another.

But the labor vouchers were not simply a different kind of money. They were bad money. In particular, the scope of the notes' usefulness was severely restricted by a shortage of key goods and a surfeit of others. Because the labor exchanges were largely comprised of craftsmen, the market they established could not supply all of their needs. Although there were plenty of shoes, for example, little food was available for exchange. In addition, the bazaars

*Political Ideas of the Utopian Socialists* (London: Cass, 1982), 155–6, 176, 202; Nicholas V. Riasanovsky, *The Teaching of Charles Fourier* (Berkeley, CA, and Los Angeles: University of California Press, 1969), 136–7.

[6]John F. C. Harrison, *Quest for the New Moral World: Robert Owen and the Owenites in Britain and America* (New York: Scribner, 1969), 72.

[7]Ibid., 202–7; Taylor, *The Political Ideas*, 77–8; Frank Podmore, *Robert Owen: A Biography*, vol. II (London: Hutchinson and Co., 1906), 402–22; Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 2001), 176–8; Edward Palmer Thompson, *The Making of the English Working Class* (New York: Victor Gollancz, 1963), 790–2.

[8]See Karl Marx, *The Poverty of Philosophy: Answer to the Philosophy of Poverty by M. Proudhon*, in Karl Marx and Friedrich Engels, *Collected Works*, vol. 6 (New York: International Publishers, 1976); and Karl Marx, *Capital*, in Karl Marx and Friedrich Engels, *Collected Works*, vol. 35 (New York: International Publishers, 1997), 105ff.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

quickly became "a dumping ground for unsaleable items," which further depreciated the value of the labor notes.[9] Inevitably, the labor notes' limited fungibility raised questions about their future utility, which further reduced their value. As workers refused to accept them, the labor notes quickly retreated from a position of general equivalence into a means of payment limited to specific circumstances. In part, then, Owen's attempt to abolish money foundered on the rocks of consumer demand.

The purchasing power of the labor notes was further restricted by their dependence on the British pound, which was a generally recognized currency. The labor notes' dependency on the pound derived from the inability of socialist economic theory to account for the formation of relative prices and the price of labor in particular. Although the labor theory of value postulated the commensurability of all labor, in actual fact labor is far from homogeneous. The labor a cobbler requires to make a pair of shoes, for example, is not equivalent to the labor that an iron worker requires to smelt iron, not least because of the different kinds of "dead" labor—fixed capital in the form of tools and machines—required by these tasks. Without a mechanism for determining the price of labor, Owen's exchanges were unable to determine how to measure the heterogeneous labor that went into producing different commodities. As a result, they simply adopted the valuation of labor set by the very markets they vilified—the standard rate of sixpence for an hour's work on British markets. It is no wonder, then, that Marx scoffed that Owen's labor vouchers were "no more 'money' than a ticket for the theatre."[10] Like theater tickets, the labor vouchers possessed only a limited and fleeting value; their purchasing power deteriorated as their fungibility declined and a competing currency became more attractive.

Even Marx's most trenchant criticisms of schemes to eliminate capitalism by doing away with money failed to reconstitute this hostility toward money among his heirs. According to Marx, the utopian socialists had confused cause with effect (and money with capital) and misidentified money as the locus of social inequality in the process. In contrast, Marx claimed that "money is not a thing, it is a social relation."[11] Money is a physical expression of the social alienation that casts a veil over the real relations of production structuring economic exchange. Because it is a form of capitalist alienation rather than its cause, money cannot be the root of all evil. For Marx, a genuine transformation of society will occur only when private property is abolished, not the currency that embodies the particular set of social relations that makes private property possible.[12]

[9]Harrison, *Quest for the New Moral World*, 207.
[10]Marx, *Capital*, 105, fn. 1.
[11]Marx, *The Poverty of Philosophy*, 145. See also the discussion in Marx, *Capital*, 86, 97, 107.
[12]Marx was quite consistent in his understanding of money as an aspect of social alienation. See his discussions in Karl Marx, "Economic and Philosophical Manuscripts," in Karl Marx and Friedrich

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

Despite his often scathing objections, however, an entrenched antipathy to money rooted in non-Marxian traditions of socialism continued to inform socialist attempts to generate an alternative to capitalism. The labor theory of value, which was attractive to socialists because it privileged labor in a way that corresponded to their heroization of the working classes, encouraged them to seek ways to circumvent money. When the Bolsheviks came to power in 1917, they, too, sought to dethrone money as the allocative instance in economic life. Even Lenin's begrudging compromise with the market enshrined in the New Economic Policy was intended merely to postpone a moneyless future.[13] Stalin's codification of economic planning, moreover, "partitioned" money, eliminating it for producers but retaining it in weakened form for consumers.[14]

It was this partial elimination of money, together with the suspended hope of its eventual and complete elimination, that East German communists inherited after 1945. On collective farms, for example, SED officials calculated labor productivity and distributed income according to units of labor time (*Arbeitseinheiten*)—just as the utopian socialists had.[15] Their failure to heed Marx on this and other points resulted in a variety of economic contradictions that contributed to the GDR's demise, two of which are essential to this essay. First, market failure resulting from attempts to unmake money reduced the value of the East German mark in much the same way that Owen's labor exchanges experienced shortages of exchangeable goods and a currency collapse. Second, Honecker's decision to profit from the West German mark undermined the East German mark by linking it to a more valuable currency, much in the same way that Owen's labor notes were contingent on and a poor substitute for the pound.

---

Engels, *Collected Works*, vol. 3 (New York: International Publishers, 1975); Marx, *The Poverty of Philosophy*; and the first chapter of the first volume of Marx, *Capital*. For an analysis of his position, see Zatlin, *The Currency of Socialism*, chapter 1; Anitra Nelson, *Marx's Concept of Money: The God of Commodities* (London and New York: Routledge, 1999).

[13]Arthur Z. Arnold, *Banks, Credit, and Money in Soviet Russia* (New York: Columbia University Press, 1937); Simon Johnson and Peter Temin, "The Macroeconomics of NEP," *The Economic History Review* 46 (November 1993): 750–67; S. S. Katzenellenbaum, *Russian Currency and Banking 1914–1924* (London: P. S. King, 1925); David Marshall Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (Ithaca, NY: Cornell University Press, 2000).

[14]The term "partition" is Woodruff's; Woodruff, *Money Unmade*, 24–5. For more on planning under Stalin, see Joseph Stalin, *Economic Problems of Socialism in the USSR* (New York: International Publishers, 1952); Arnold, *Banks, Credit, and Money*; Alec Nove, *An Economic History of the U.S.S.R.* (London: Penguin Books, 1989); Gavin Peebles, *A Short History of Socialist Money* (Sydney, London, and Boston: Allen and Unwin, 1991).

[15]See, for example, Brandenburgisches Landeshauptarchiv, Rep. 730, Nr. 956, HV Produktionsgenossenschaften, Ministerium für Land- und Forstwirtschaft, "Situationsbericht," September 26, 1953. See also Willi Ehlert, Heinz Joswig, Willi Luchterhand, and Karl-Heinz Stiemerling, eds., *Wörterbuch der Ökonomie Sozialismus* (Berlin: Dietz Verlag, 1984), 61; Hartmut Zimmermann, ed., *DDR-Handbuch*, vol. 1 (Cologne: Verlag Wissenschaft und Politik, 1985), 56–7.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

Of course, an industrial economy can hardly be compared to two short-lived artisanal bazaars.[16] Nevertheless, the very same theoretical flaw produced analogous practical problems. In the end, the inability of the *Ostmark* to act as a general measure of value, together with its "softness" relative to the other German currency, created a path dependency on the West German mark that overdetermined German unification.

## Bottlenecks and Bottle Tops

Like the early socialists, the SED never succeeded in preempting capitalist exchange, much less in eliminating markets. Indeed, creating extra-monetary relationships between producers and consumers within an allocational framework bound together only by the party's political priorities created an irrational set of incentives for all economic actors. The use of planning targets to relay the center's directives, for example, encouraged an emphasis on quantity rather than quality that led to yawning gaps in supply and demand as well as moral hazards and adverse selection, or overexposure to risk because of the uneven distribution of information about market conditions. The result was most frequently a shortage of goods, although the ability of producers to ignore consumer preferences sometimes led to an oversupply of goods that no one wanted to buy, as in Owen's bazaars. To give an example from the 1960s, a textile factory was directed to make 50,000 blouses for "larger" women. Concerned to get the most out of the fabric they were allotted, factory managers decided to make the blouses short- rather than long-sleeved. But many women refused to purchase the blouses because they preferred wearing long-sleeved shirts to hide the girth of

[16]If the planned economies of eastern Europe were inspired by a compelling critique of the social injustice and alienation produced by capitalism, they never devised a viable alternative to the market. On the contrary, the failure of Marxist economic theory to provide a convincing economic—as opposed to a sociological—account of the price discovery process forced planners to concoct a variety of schemes aimed at translating the social values that animated these regimes into everyday prices. But none of these pricing schemes really replaced market-clearing prices, much less "transformed" the sociological category of value into an economic one. As a result, the methods by which planners arrived at prices were imprecise and vulnerable to manipulation. Whether it was using units of labor-time to measure "socially necessary" labor, deploying ill-defined concepts, such as "robotic," to permit producers to demand higher prices for machine tools, or employing social "need" to distinguish between luxury and basic goods, these pricing mechanisms scrambled financial information and economic incentives, resulting in waste, pollution, and productivity losses. In addition to these price-oriented critiques, however, I am arguing that the problems of production and consumption in Soviet-style economies began and ended with the communist attempt to suspend the coercive power of money—to cancel out its function as a provider of information about the relative scarcity of resources and thereby to banish the threat of bankruptcy. Thus, prices in the planned economy were not simply distorted reflections of the party's political preferences, but were also expressed in a currency that, like a dead language, had lost its power to communicate the material decisions made by economic actors. As a result, producers operated without regard to consumers, while consumers were confronted by a currency that possessed little purchasing power and a pricing system that contradicted communist promises of a rational and socially just distribution of resources.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

their arms. Despite an attempt to redirect demand by running television ads touting the blouses as undershirts for sweaters, East German retailers were unable to move these shelf warmers.[17]

Without active money—money that accurately reflects real claims on finite resources and has the power to force bankruptcy—producers had no method of spontaneously rationing scarce resources. Instead, they redistributed economic scarcity in arbitrary ways. The resulting asymmetries between supply and demand presented themselves to producers as well as consumers as a problem of complementarity—of the dependency of one good on another in order for it to function. To illustrate the way in which the absence of money as an allocational framework created "bottlenecks" because of failed complementarity, let us consider the relation between East German bottles and their tops—specifically the SED's introduction of West German twist-off covers for bottles and jars in the early 1980s. In part, the decision to shift from caps that could not be reused to twist-off covers was driven not by economic but by political considerations—by the desire of SED leaders to placate East Germans by keeping up with West German consumer trends, where twist-offs had been in use for some time.[18] By 1984, however, the GDR's balance of payments problems, together with West German price increases, had made the cost of importing the twist-off covers prohibitive. Worried about the increasing sums of hard currency required to service the GDR's massive debt to the west, economic planners became convinced that it would be more advantageous—though more expensive in the short run—to purchase the twist-off technology and make the tops in the GDR. Importing the technology rather than importing the commodity, so their calculation, would eventually reverse the flow of capital to the west and pay off in the long run. If all went well, moreover, the GDR could even manufacture twist-offs for export to western Europe, "capitalizing" on the relative cheapness of its labor and currency to win market share.

It is worth recalling that the severity of the hard-currency shortage was a direct consequence of Honecker's leadership. Under his predecessor, Walter Ulbricht, who ruled from 1949 until 1971, the SED had pursued a policy of economic autarky that was reinforced by the West German embargo against trade with the GDR.[19] In contrast, Honecker saw economic opportunity in

[17]Andreas Hergeth, "'Wenn die Leute lachen, sind sie bereit zu kaufen.' Ein Interview mit Isabella-Margarete von Oettingen, Autorin und Regisseurin bei *ttt*," in *Wunderwirtschaft. DDR-Konsumkultur in den 60er Jahren*, ed. Neue Gesellschaft für Bildende Kunst (Cologne, Weimar, and Vienna: Böhlau Verlag, 1996), 78.

[18]Bundesarchiv Berlin (BArchB), DN10, 1898, Zywitzki, Industriebankfiliale Mansfeld Kombinat Eisleben, Staatsbank der DDR, "Stellungnahme zur Grundsatzentscheidung für das 2. Teilvorhaben zur NSW-Importablösung 'Twist-Off-Verschlüsse für Delikaterzeugnisse,'" September 25, 1984.

[19]Of course, before the construction of the Berlin Wall in 1961, there was some clandestine trade with the west, mostly by private individuals, but even this was dwarfed by the volume of transactions starting in the late 1970s.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

better relations with West Germany, an argument he used to great effect in his struggle to unseat Ulbricht. Although Honecker had once overseen the construction of that great symbol of German-German division, the Berlin Wall, he now took advantage of the West German pursuit of détente to ingratiate himself with East Germans by supplying them with western consumer goods. But East German industry was unable to export enough goods to the west to pay for its imports, and the SED was forced to take out loans to pay for Honecker's shopping spree. Where the GDR's debt to the west had totaled $1 billion in 1970, it soared to $11 billion by 1980. Although *Ostpolitik* helped to reduce the pain, even rescuing the GDR from certain default in 1982–3, it could not reverse the deteriorating export capacity of East German industry. By 1989, the debt had nearly doubled once again to $20.6 billion.[20]

Import-substitution schemes such as the twist-off project reveal the conflicting imperatives at the heart of Honecker's approach to paying down the western debt. The shortage of capitalist money, which was a sign of East German industry's lack of competitiveness on international markets, required that the GDR consume fewer western goods. But Honecker was concerned that necessary reductions in living standards might trigger political unrest. The East German uprising of 1953, together with the widespread demonstrations in Poland following price increases in 1956, 1970, and again in 1979/1980, served as unpleasant reminders to the SED leadership that austerity measures, however necessary, might trigger open expressions of political discontent.[21] To balance these contradictory goals, economic planners toughened up the soft budget constraints under which enterprises labored—their insulation from meaningful financial restrictions—by viewing production in terms of paying down the growing western debt. Spending more capitalist currency in the hopes of spending less, however, hardly amounted to a sound strategy, especially for a socialist state. On the contrary, measuring deals such as the twist-off project in terms of capitalist money without actually monetizing it contradicted the taboo against the profit motive that underpinned the planned economy without actually making the deal itself profitable.

In the absence of a general equivalent that could relay key information about resource allocation and the penalties for its misallocation, economic actors consistently made bad decisions, leading to expensive reversals, project delays, and failed complementarity. Thus, the managers in charge of the twist-off project

[20]During Honecker's first five years in power, East German trade deficits with the west totaled nearly 8.9 billion DM; Zatlin, *The Currency of Socialism*, chapter 2.

[21]The SED's harsh reaction to events in Poland after 1980 suggests that the link between price increases and a "counterrevolutionary" threat was uppermost in party leaders' minds, not least because many of them were in positions of responsibility when the SED lowered wages in June 1953, triggering a popular uprising. For more on the traumatic effects of 1953 on SED leaders' decision making, see ibid., chapters 2 and 3.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

badly underestimated the amount of energy that it would require to manufacture the caps. Because the GDR was energy inefficient and could not spare the necessary electricity, the combine was forced to install its own electric generators on the premises, build special doors to insulate the factory hall, and purchase machines to dehumidify it.[22] In addition, the planned economy's emphasis on quantity rather than quality, together with the lack of punitive consequences for contractual abrogation, meant that the combine could not rely on its suppliers. The paints and dyes used to label the caps, for example, were often delivered late or were of such inferior quality that the combine was forced to purchase materials in the west, even though the point of the project was to avoid spending scarce hard currency. Similarly, the bottles and jars supplied to the combine were often unusable because they were badly chipped or so damaged that they leaked.[23]

Ironically, it was the combine's attempt to anticipate failed complementarity that "sealed" the project's fate. Instead of counting on unreliable suppliers to deliver serviceable bottles and jars, the combine's directors decided to rely on consumers to recycle their glass containers. But East German households had no incentives to return the containers quickly; after all, the regime condemned western-style deposit systems because they made use of pecuniary rewards to influence consumer behavior. In fact, East Germans had a negative incentive to recycle precisely because the twist-off technology made the containers reusable. Bottles and jars now took much longer to flow back into circulation than planners anticipated, which transformed the chronic shortage of glass containers into an acute one. This dramatic reduction in the availability of bottles and jars had two unintended consequences. First, it led to a shortage of processed food products, which could not be distributed without some kind of receptacle. Second, the shortage of glass containers led to a surfeit of caps and lids. As a result, the combine was stuck with millions of extra twist-off caps that could find no domestic use because of the lack of glass containers or any export value because their inferior quality was unacceptable to western firms.[24]

[22]BArchB, DN10, 1898, VEB Mansfeld Kombinat Wilhelm Pieck, "Abschlußbericht für das Vorhaben Twist-Off-Verschlüsse für Delikaterzeugnisse," February 23, 1988, 6–8, and VEB Mansfeld Kombinat Wilhelm Pieck, "Bestätigungsdokumentation zur Präsizierung für das Vorhaben 'Twist-Off-Verschlüsse für Delikaterzeugnisse,'" no date, 8. Despite having one-third of the population and even less industrial output, the GDR consumed thirty percent more energy than West Germany did in the 1980's, according to the State Planning Commission. BArchB, DE1, 56285, Klopfer, "Persönliche Niederschrift über die Beratung der Wirtschaftskommission beim Politbüro am 9. Januar, 1989," January 10, 1989, 18–19; BArchB, DE1, 56287, Klopfer, "Niederschrift über die Beratung des Ministerrates am 11. Februar 1982 zur Erfüllung des Volkswirtschaftsplanes 1982—Monat Januar," February 11, 1982, 251.

[23]BArchB, DN10, 1898, VEB Mansfeld Kombinat Wilhelm Pieck,"'Präsizierte Grundsatzentscheidung' zum Vorhaben 'Fertigungslinie für geschweißte Konservendosen,'" Autumn 1987, 1.

[24]BArchB, DN10, 1898, VEB Mansfeld Kombinat Wilhelm Pieck, "Abschlußbericht," February 23, 1988, 1–3. The import-substitution amounted to 1.115 million West German marks in 1986-87, or less than half of the 2.241 million DM economic planners had hoped for—not counting various unanticipated costs, such as the purchase of electric generators. As a result, planners estimated that it

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

In the end, both a deficit and a surplus of complementary products undermined the project.

The dominant interpretive framework for understanding production bottlenecks such as the twist-off case emphasizes how the central determination of prices leaves managers in the dark about the supply of capital goods and the consumer preferences structuring demand.[25] Such accounts link price formation to political control, but rarely acknowledge that information asymmetries also always undermine central power. In the twist-off case, the planning apparatus was powerful enough to transmit its political priorities to economic actors, yet unable to determine economic outcomes. Because price-oriented accounts focus on transaction analysis, moreover, they neglect the monetary dimensions of repeated market failure. As with Owen's labor exchanges, the Marxist-Leninist inability to devise a real alternative to market relations created inefficiencies that eventually forced the GDR into a position of dependence on its capitalist competitors. Stressing the SED's attempt to eliminate money also allows for greater analysis of the link between the absence of budget constraints and the lack of political accountability for economic mismanagement—that is, for the growing deterioration of economic productivity and institutional control. Without money to supervise factory performance, the center had no mechanism for holding producers responsible for their actions because the central directives communicated by the plan lacked coercive power. The willingness of planners to integrate hard-budget constraints in the form of the western debt into their calculations amounted to a partial remonetization of the GDR's industries. The creeping intrusion of monetary paradigms into East German economic activity did not suffice, however, to resolve the basic contradiction between Honecker's struggle to placate consumers and the growing need to make substantial investments in East German industry, whose productive capacities had been undercut by aging equipment, technological obsolescence, inflexible production techniques, and declining labor productivity.[26] Instead, introducing real cost constraints only made the *Deutsche Mark* (DM) more attractive to producers and consumers.

---

would require more than six years for the GDR's investment to start paying off rather than the three years that had made the project attractive to begin with.

[25]Both left- and right-wing critics have been greatly influenced by the Hayekian emphasis on price formation. See, for example, Peter Rutland, *The Myth of the Plan: Lessons of Soviet Planning Experience* (Hutchinson: London, 1985) and *The Politics of Economic Stagnation in the Soviet Union: The Role of Local Party Organs in Economic Management* (Cambridge and New York: Cambridge University Press, 1993); Alec Nove, *An Economic History of the U.S.S.R., 1917–1991* (Penguin Books: London, 1992). Notable exceptions include the work of Gregory Grossman. See also Hajo Riese, *Geld im Sozialismus. Zur theoretischen Fundierung von Konzeptionen des Sozialismus* (Regensburg: Transfer Verlag, 1990).

[26]For more on the state of the East German economy at this time, see Zatlin, *The Currency of Socialism*, chapters 2, 3, and 4.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

## Extra-Monetary Transactions

If the plan was not binding in an economic sense, it did have legal force. Factory managers acted to satisfy central directives however they could, no matter how wasteful and unproductive, to avoid being punished for dereliction of duty. As Peter Jacob, the Economic Director of *Industrieverband Fahrzeugbau Kombinat Personenkraftwagen* (IFA Combine PKW), which employed 61,419 workers in thirty-five factories to produce automobiles and light trucks, explained it, "money played no role. We couldn't go bankrupt. But we had to produce 200,000 cars, whatever the cost." Aside from ideology, what motivated managers was the fear of being fired or even arrested. According to Jacob, "the real constraint was the fear that you could be accused of 'managerial incompetence.' Then you would be swept aside, transferred to a job you had already done before, which really meant a demotion."[27] The threat of dismissal was real. Economic Secretary Günter Mittag, Honecker's powerful economic advisor, sacked managers on a regular basis, taking special pleasure in humiliating them publicly.[28]

In practice, however, the threat of dismissal could not compensate for the lack of financial constraints. There was little to prevent producers from misrepresenting their actual performance. Well before the 1980s, they had developed a variety of strategies aimed at fulfilling the plan in form rather than content.[29] Some factory managers withheld production so that they could meet the unrealistic goals set by the center in future plans. One enterprise director, for example, underreported production by twenty-nine percent over a three-year period, creating a "planning cushion" to help his factory meet future increases in its planning targets.[30] Other managers lied outright, claiming to have delivered goods that never reached customers, hoping that the confusion would buy them enough time to fulfill the plan.[31] If that failed, factory directors could

[27]BArchB, DE1, 56350, Wirtschaftskomitee, Abteilung Finanzen und Preise, "Expertise zur Rentabilitätslage von Wirtschaftsbereichen der DDR unter den Bedingungen der Einführung der D-Mark als einheitliche Währung," March 2, 1990, Anlage 2. Author's interview with Peter Jacob, Economic Director, IFA Combine PKW (1980s), Chemnitz, Feb. 26, 1996.

[28]Zatlin, *The Currency of Socialism*, chapter 2.

[29]The misalignment between production imperatives and financial incentives also encouraged workers to take advantage of irrational benefits structures and the party's inability to enforce discipline on the factory floor, especially after the 1953 uprising. As a result, managers had to contend not only with actual worker absenteeism but also misreported work schedules. See Andrew I. Port, *Conflict and Stability in the German Democratic Republic* (Cambridge University Press: Cambridge and New York, 2007).

[30]BArchB, DL2, 995, *Liberaldemokratische Zeitung*, no date, and unidentified newspaper reports from early September 1978.

[31]BArchB, DE1, 55834, Ministerrat Beschluß vom 13.4.89, Ministerium für Handel und Versorgung,"Stellungnahme zur Vorlage 'Information über die Untersuchung der Ursachen für Differenzen zwischen der Abrechnung der Vetragserfüllung der Industrie und der im Handel noch nicht eingegangenen Ware,'" no date, and Stoschus, Komitee der ABI, "Stellungnahme zu den Ereignissen und Schlußfolgerungen," June 22, 1989.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

always submit corrections to their plan in August, when Mittag went on vacation.[32] Or they simply neglected to report bad news.

Despite the center's power to dismiss managers, the falsification of production records had become endemic by the 1980s.[33] In a meeting with his aides in November 1988, Mittag thundered that "whoever takes on a plan is responsible for it. They simply leave and we are left standing there."[34] A week later, Willi Stoph, who as chairman of the Council of Ministers had an excellent overview of economic activity in the GDR, registered his frustration, exclaiming that "there are factory directors, general directors, and ministers who already know that they will not fulfill the plan this year and [simply] do not tell us."[35] Although totalitarianism theory suggests otherwise, substituting planning targets for money actually reduced the ability of the center to shape economic activity.[36]

The SED's loss of administrative control intensified during the 1980s, when the balance of payments deficit, poor debt management, and a liquidity crunch in the west triggered a financial crisis that shook the GDR.[37] Ordinary failures of complementarity began causing serious disruptions in the economy, preventing manufacturers from meeting their planning targets and frustrating consumers. The increasingly sharp competition for scarce resources, from cement to steel, encouraged the development of informal markets among producers.[38] During the 1980s, for example, the directors of the IFA Combine PKW routinely overproduced the number of vehicles stipulated by the plan. Rather than informing Mittag, however, they secretly withheld about 10,000 cars and light

[32]Author's interview with Jacob, Chemnitz, Feb. 26, 1996, and Wolfgang Sachs, Director of Production and Planning, IFA Combine PKW (1980s), Chemnitz, Feb. 26, 1996.

[33]Stiftung Archiv der Parteien und Massenorganisationen der DDR im Bundesarchiv (SAPMO-BA), DY30, Vorläufige SED 35649, Kruse, "Standpunkt des Direktors für Produktionsdurchführung zu falschen Angaben im operativen Meldesystem," February 23, 1985; BArchB, DE1, 55834, Ministerrat Beschluß vom 13.4.89, Anlage, "Information über Aussagen der Industrie und des Handels über die Vertragserfüllung," 6.

[34]BArchB, DE1, 56285, Klopfer, "Persönliche Notizen aus einer Beratung beim Mitglied des Politbüros und Sekretär des ZK der SED, Genossen Günter Mittag," November 10, 1988, 12.

[35]BArchB, DE1, 55384, Klopfer, "Persönliche Notizen über eine Beratung beim Vorsitzenden des Ministerrates am 17.11.1988," November 18, 1988, 19.

[36]Early articulations of totalitarianism theory placed economic planning at the center of their criticisms, and "total" economic control remains a core assumption of recent interpretations of Soviet-style regimes. See, for example, Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (New Haven, CT: Yale University Press, 1944); Friedrich von Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944); Carl Joachim Friedrich and Zbigniew Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge, MA: Harvard University Press, 1956); and more recently Richard Pipes, *Russia under the Bolshevik Regime* (New York: Vintage Books, 1995).

[37]For more on the debt crisis and the GDR's rescue by the Federal Republic, see Zatlin, *The Currency of Socialism*, chapter 3.

[38]The shortage of cement became so acute in 1988 that representatives of the National Front reported that "people do not understand why there is no cement either for the populace or handymen, yet the residential housing program is supposed to be realized." SAPMO, DY6, Vorläufige 2910, Waszian, Bezirkssekretär, Bezirksausschuß Leipzig, "Aktuelle Information," August 1, 1988, 5.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

trucks, or some five percent of annual production. They then traded these "unplanned" vehicles for the semi-finished goods they needed to meet their planning targets, such as rolled steel. Some enterprises even began publishing catalogs advertising the products they were willing to trade.[39]

But non-monetary transactions are extremely inefficient. Barter requires a double coincidence of wants, which poses a serious obstacle to its success. Countertrade, as it is sometimes called, also entails grave price distortions since there is little information regarding comparative value. Moreover, barter arrangements can extend business partnerships beyond their actual profitability because of supply dependencies that would otherwise not exist in a monetized economy—a problem that would affect East German producers of export goods to eastern Europe after the Council for Mutual Economic Assistance collapsed in 1990. In addition to weighing on productivity, the proliferation of countertrade meant that firms were concluding commercial transactions beyond the purview of the plan and at the expense of state control. Most obviously, transactions conducted on black markets violated East German law. By the mid-1980s, however, even SED officials were caught up in these contradictions, openly flouting the party's authority in their struggle to comply with the plan. In 1986, for example, a severe shortage of computer diskettes in the GDR led to delivery delays in excess of a year. To obtain diskettes more quickly, East German factories, combines, research institutes, and even ministries turned to smugglers.[40]

SED leaders were not unaware of the growing threat to their power. As early as 1983, the Central Committee's Department of Foreign Trade pointed out that the growth of parallel markets interfered with the party's political priorities, withdrawing resources from the planned economy while creating an area of the domestic economy where market forces ruled.[41] Mittag's attempt to reduce western imports helped to restrain the growth of the GDR's western debts, but it also choked off much-needed investment in fixed capital, which soon undermined East German industry's ability to produce goods for export and earn the hard currency necessary to pay down its debt.[42] To replace worn-out equipment and machines, enterprises with access to hard currency flouted Mittag's ban on imports and purchased the plant they required on western markets. Others turned to Mittag's aide, Alexander Schalck-Golodkowski, for the hard currency they required. Schalck, who was in charge of hard-currency operations such as the Intershops, acted as a capitalist financier,

[39]Author's interviews with Jacob and Sachs, Chemnitz, Feb. 26, 1996; and Christian Scholwin, Deputy Minister for General Machine, Agricultural Machine, and Automotive Construction (1978–1988), Berlin, Nov. 23, 1995.

[40]Bundesbeauftragter für die Unterlagen des Staatssicherheitsdienstes der ehemaligen DDR (BStU), HA XVIII, 6166, "Hinweise," 1987, 12.

[41]SAPMO-BA, DY30, Vorläufige SED 36639, Sektor Außenhandel, "Zu Fragen der Valutarechnung," August 2, 1983, 2.

[42]For more on the age of the GDR's plant, see Zatlin, *The Currency of Socialism*, 156–9.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

issuing loans at market-oriented interest rates.[43] Ironically, Mittag's emphasis on earning West German money only accelerated the dissemination of capitalist methods.

In response to the growing administrative disarray, Mittag introduced a variety of mechanisms aimed at wresting control back from local producers. He increased the surveillance of economic activity, for example, relying more extensively on supervisory organs, such as the Workers' and Peasants' Inspectorate and the Party Control Commission, to expose waste and fraud[44] Mittag also invited combine directors to an annual conference in September, where he demanded that they over-fulfill their production targets. Like other managers, the directors of IFA Combine PKW responded to Mittag's attempt to squeeze more production out of them by understating their actual accomplishments, then committing to the higher planning targets by making available some of the vehicles they had "kept in reserve." In the hopes of reducing this kind of inflationary reporting, Mittag sought to police developments on the factory floor. When he began demanding biweekly and even daily production reports, however, factories willingly flooded his office with paperwork. As Jacob, the IFA Combine PKW's Economic Director, exclaimed proudly, "I always tried to shortchange the guys in Berlin."[45] No amount of observational discipline could compensate for the lack of hard budgets or the increasing power of the periphery.

## Bending over Backward

The unraveling of the center's ability to influence economic behavior was even more obvious in the consumer sector. Whole economic spheres sprang up in which the general equivalent of the socialist regime could not function as money, thereby robbing the communist party of an effective instrument for consolidating central control. Existing shortages were exacerbated by workers in the service sector stealing commodities in short supply. Sales personnel had long legitimated petty theft as a form of just compensation for their low pay and poor working conditions. In some sectors of the economy, such as the meat processing industry, workers were treated so badly that they viewed pilfering as a third paycheck (*dritte Lohntute*) after wages and benefits. During the 1980s, however, stealing from the workplace had become rampant. In 1987, for example, economic planners calculated that the theft of public property consisted of twenty-five percent of all crimes committed, though the real rate must have been much higher.[46] To retain workers, managers frequently

[43]Author's interview with Scholwin, Berlin, Nov. 23, 1995.
[44]Zatlin, *The Currency of Socialism*, 260–1.
[45]Author's interview with Jacob, Chemnitz, Feb. 26, 1996.
[46]Given that workers feared retaliation by communist officials, they surely underreported the theft of socialist property. SAPMO-BA, DY30, IV 2/2.039/60, "Politbüro-Sitzung vom 19.4.1988," 43-5.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

looked the other way as their workers stole. Employees at the People's Own Enterprise Baked Goods Combine Cottbus, for example, regularly took large quantities of bread for family and friends with management's consent.[47] Even factory managers began making off with public assets on a large scale, pocketing "excess" production or embezzling funds.[48]

When they did not steal for personal use, service sector employees leveraged their position as distributors of scarce commodities to demand higher prices from customers. Such "profiteering" posed a serious challenge to the SED's authority. Not only were clerks withdrawing resources from the overburdened state distribution network, but these "bend-over goods" (*Bück-Dich-Waren*)—which earned their name from the clerks having to bend over to retrieve the choice goods they had squirreled away—were traded according to principles that contradicted socialist notions of exchange. Increasingly, sales staff hid choice cuts of meat or sought-after lingerie only to barter them for prized consumer goods, such as stockings or jeans. Yet barter is highly inefficient, whereas money is completely fungible and therefore more attractive—provided of course that it is good money. There is some evidence that clerks were willing to sell bend-over goods for East German marks at a "markup," but it is also clear that they found other forms of currency more attractive. Some western consumer goods, for example, functioned like near monies: sometimes, West German coffee circulated rather than percolated, almost like currency. Most desirable, however, were West German marks.

The Deutsche Mark had always been a part of the GDR's economy. Even after the construction of the Berlin Wall in 1961, a trickle of DM found its way into East German pockets through the gifts and gratuities left by western diplomats and journalists, and visits by West German friends and family. Once again, however, it was Honecker's response to Ostpolitik that dramatically altered the GDR's cash flow, transforming a drip into a surge of capitalist money. In return for access to West German markets and money, Honecker relaxed travel restrictions between the two Germanies. Beginning in 1971, ordinary West Germans were allowed to visit the GDR for the first time since 1961.[49] With them, they brought West German marks, which increased the circulation of West German marks in East German hands and stimulated the growth of illegal markets for goods and services in return for West German marks.

[47]SAPMO-BA, Vorläufige SED 35986, ZPKK to Mittag, June 5, 1986, SED Kreisleitung Cottbus-Stadt, Kreisparteikontrollkommission, "Bericht zur Untersuchung der KPKK in der GO VEB Backwarenkombinat Cottbus," February 27, 1986, and Bezirksparteikontrollkommission, "Information an den Kandidaten des Politbüros und 1. Sekretär der Bezirksleitung SED Cottbus, Genossen Werner Walde," no date.

[48]SAPMO-BA, DY30, IV 2/2.039/60, "Politbüro-Sitzung vom 19.4.1988," 43–5.

[49]The *Passierscheinabkommen* of 1963-1966 limited travel to Easter and Christmas.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

The black market reduced the SED's ability to direct trade, as ordinary East Germans increasingly engaged in transactions that circumvented official channels. But shortages of key goods meant that the socialist state sometimes tolerated this behavior because it helped to overcome otherwise insuperable gaps in the supply of goods and services. Economic planners put up with the black market in spare parts for cars, for example, because it distributed the acute shortages of key goods more efficiently than the plan. Their decision was facilitated by the fact that most transactions involving spare parts were not monetized, which made these transgressions more palatable. In contrast, the SED actively criminalized the sale of used cars by private actors, not least because the transactions involved large amounts of money—and therefore sizable profits.[50]

To gain control over black market trade, Honecker tried to move it inside the hard-currency stores. Breaking with communist precedent, the SED permitted East Germans to shop in the hard-currency stores and use western currency starting in 1974. In 1979, he authorized an aggressive expansion of the Intershops aimed at creating a dense network of alternatives to regular East German retailers. As a result, Intershop sales soared from some 170 million West German marks in 1971 to 464 million in 1974, eventually reaching 1.2 billion before the GDR's collapse in 1989.[51]

Opening up the Intershops to East Germans filled state coffers with West German marks, but the policy failed to curtail black market trade. At fault was the inability of East German industry to respond to consumer demand, but Honecker's decision to continue swapping political liberalization for West German marks only made things worse. In return for a financial package from the Federal Republic that helped to rescue the GDR from defaulting on its debts in 1983, for example, Honecker agreed to loosen restrictions on East German travel to the west. In 1988, some eight million East Germans visited West Germany, while around thirty-five million westerners traveled to the GDR, including about six million West Germans.[52] The scale of this traffic overwhelmed the ability of East German security services to control the influx of money and goods. In 1987, the Ministry for State Security estimated that at least fifty percent of the merchandise on the black market was not available for purchase in the GDR, even through the Intershops.[53] Moreover, as increasing numbers of East Germans were permitted to travel, the demand for

[50]Zatlin, *The Currency of Socialism*, chapter 5.

[51]See the reports in SAPMO-BA, DY 30, Vorläufige SED 42023; and BArchB, DL2 992, Panse, "Geschäftsbericht 1989," February 2, 1990, 14.

[52]BArchB, DE1, VA 56323, no date, 576, 628; SAPMO-BA, DY30, JIV 2/2A/3252, "Welchen Nutzen haben wir alle aus dem Intershophandel," no date, 1; SAPMO-BA, DY30, IV 2/2.039/307, Abteilung Sicherheitsfragen, "Information und Schlußfolgerung zur Durchführung des Beschlusses des Politbüros vom 9.11.1988," February 28, 1989, Anlage, 129.

[53]BStU, HA XVIII, 6166, "Hinweise zu einigen bedeutsamen Problemen des Schmuggels und der Spekulation mit Waren, Gegenständen und Zahlungsmitteln," 1987, 12.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

West German currency soared. According to the Stasi, ordinary East Germans managed to smuggle around 800 million East German marks out of the GDR in 1988 alone.[54] By 1989, participation in black market trade had become so widespread that Chairman of the Council of Ministers Stoph demanded that "income from work must return to being the most important source of income for the employee."[55]

The SED was caught in a dangerous dilemma. In return for West German economic concessions, it was forced to permit greater travel freedom. More tourists meant more hard currency, but also more black market trade: the party's attempts to use the influx of western money to pay down western loans by expanding the Intershops only stimulated traffic in capitalist contraband and currency. In addition, the black markets, which revolved around West German marks, diminished the SED's ability to determine the conditions of exchange. At the same time, the mounting circulation of West German marks undermined the value and utility of the East German mark, which was supposed to function as an instrument of state control over consumption. By the 1980s, the SED had effectively surrendered its monopoly over the emission of money, a power that Simmel's colleague Max Weber counted among the essential characteristics of modern states. Once again, the GDR was moving backward through institutional time.[56]

Perhaps most devastating, however, was the ideological damage done by circulation of the Deutsche Mark. Legalizing capitalist money was tantamount to sanctioning the profit motive, which contradicted the purpose of economic planning. In addition to this symbolic denigration of socialism, legitimating capitalist money encouraged antisocialist economic practices. The informal distribution networks that grew up around the DM, for example, were driven by personal gain—the very kind of behavior that the SED wanted to eliminate. Attempting to profit from the DM, moreover, created new social divisions that belied the ideals of social justice and egalitarianism on which the SED based its claim to power. Of course, the GDR was hardly the egalitarian utopia that its leaders made it out to be. As Andrew Port has demonstrated, differential access to material benefits and the jealousies it generated had been important features of economic planning from its inception.[57] What changed

[54]BStU, HA XVIII, 6166, "Hinweise," 1987, 17-18; BArchB, DN1, VS 13/90, Nr. 6, Nickel and Kaminsky, "Einschätzung zur Stabilität," October 26, 1989, 14-15; BStU, Arbeitsbereich Mittig, Nr. 58, "Zu den ausgewählten Problemen," 24. Before the construction of the Berlin Wall in 1961, around 500,000 East German marks changed hands daily for an annual volume approaching 182.5 million marks.

[55]BArchB, DE1, 56285, Klopfer, "Persönliche Notizen über die Beratung beim Generalsekretär," May 16, 1989, 13.

[56]"The modern state has seized for itself the monopoly over the monetary system." Max Weber, *Wirtschaft und Gesellschaft. Grundriß der verstehenden Soziologie* (Tübingen: J. C. B. Mohr, 1972), 97. See also Simmel, *Philosophie des Geldes*, especially 218–231, 472–3.

[57]According to Andrew Port, the social fragmentation resulting from the SED's failure to deliver on its promise of equality had the unintended consequence of defusing opposition. "It was those very

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

under Honecker, however, was the fragmentation of the GDR's monetary regime. If access to socialist currency continued to be unequal, access to capitalist currency was hardly gained by hard work, social class, or political loyalty to the socialist state. On the contrary, Honecker's policies rewarded East Germans with family in the west—reinforcing the sort of kinship ties normally associated with pre-industrial societies and social groups in economic duress.[58]

Nor did the party's ideological resourcefulness prove adequate to the task of explaining away this new and contradictory distribution of privilege. Unsurprisingly, those excluded from participating in the shadow economy held the socialist state responsible for the lack of social equity. In 1988, the Leipzig office of the National Front, the umbrella organization used by the SED to control other political parties, reported that "lively discussions"—a euphemism for open displays of political discontent—were taking place "about the division of the population between some who can obtain [West German] currency and those who do not have this possibility."[59] Honecker's expansion of the Intershops was so unpopular among ordinary East Germans, moreover, that the opening of new stores sometimes provoked violence.[60] Local officials, worried about mobs attacking the Intershops, sabotaged plans for new stores. The SED hierarchy disciplined the periphery harshly, but was unable to prevent growing criticism in its own ranks.[61]

In the regime's final years, popular complaints about the lack of social justice increased dramatically, and their tone became more aggressive as well.[62] Like

---

divisions, in fact," Port writes, "that effectively prevented serious challenges to the regime and that, in so doing, accounted for so many years of domestic stability." Port, *Conflict and Stability*, 277.

[58]In his study of Kent, Barry Reay argues for a transition from "loose" to "dense" kinship networks among rural laborers as a response to economic modernization. Barry Reay, *Microhistories: Demography, Society, and Culture in Rural England, 1800–1930* (Cambridge: Cambridge University Press, 1996), 158–174. I would argue that these dense kinship networks were a response to the economic duress of a sector in decline and that Simmel's monetary "future" necessarily entails the increasing dissolution of familial networks for most social groups.

[59]SAPMO-BA, DY6, Vorläufige 2910, Waszian, Bezirksausschuß Leipzig, "Aktuelle Information," October 31, 1988, 6.

[60]In 1978, for example, officials were forced to close a store near Dresden to reduce tensions. For this and other examples, see SAPMO-BA, DY30, Vorläufige SED 42023, "Information," March 26, 1985, 77; BStU, MfS BKK (KoKo) 601, Panse to Schalck, "Jahresanalyse," December 27, 1985, 17-19; BStU, MfS BKK (KoKo) 819, *HAZ*, January 28, 1989, 4; *Die Welt*, June 28, 1978; *Der Spiegel* 33 (1978), 30-1; *Der Tagesspiegel*, September 5, 1978; Andreas Herbst, Winfried Ranke, and Jürgen Winkler, *So funktionierte die DDR. Lexikon der Organisationen und Institutionen* (Reinbek: Rowohlt, 1994), 434-5.

[61]SAPMO-BA, DY30, Vorläufige SED 42023, "Information," March 26, 1985, 77–8; Schalck to Mittag, May 9, 1985, 32; Schalck to Mittag, "Standpunkt zu den aufgeworfenen Problemen des Interhotels am Standort Rostock," December 5, 1985, 28–30; Schalck to Mittag, April 11, 1985, 34; Briksa to Schalck, February 28, 1985, 79–80; Briksa to Schalck, April 10, 1985, 37; and Briksa, Jurich, and Merkel, "Gesondert zu entscheidenden Fragen," no date, 81–2.

[62]Zatlin, *The Currency of Socialism*, chapter 7.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

many East Germans, one woman objected that nothing could be found in the stores without "connections, money to bribe people, or having to run around and get angry."[63] Taking seriously the SED's commitment to the equal distribution of wealth, some East Germans began demanding equal access to West German money and the Intershops along with it. Others suggested that the SED pay East German salaries in West German marks so that everyone might have the opportunity to shop in the hard-currency stores.[64] In the face of material and moral bankruptcy, even rank-and-file party members began to lose faith in the ability of communism to foster social justice, much less material prosperity. In November 1988, for example, the Stasi reported with alarm that many SED members were leaving the party or intended to, and that recruiting new members was becoming increasingly difficult.[65]

## Regression Analysis

Reinforced by Soviet leader Mikhail Gorbachev's economic and political reforms, a process of ideological delegitimization took place throughout eastern Europe during the 1980s. What distinguished the GDR from its communist neighbors was the division of Germany. To East Germans, the capitalist alternative was no set of anonymous foreign forces, but spoke the same language, shared the same traditions, and laid claim to leadership of all Germans. The GDR had styled itself the "better" Germany, claiming that the public ownership of production provided egalitarian access to greater social wealth created by non-exploitative means. Like other Soviet-style regimes, the GDR failed to deliver on that promise, combining instead economic failure with political coercion. What did the GDR in, however, was not simply this fatal mixture of institutional and economic backwardness, or even the Red Army's refusal to crack down on dissent, but rather Honecker's hypocritical manipulation of hard currency. Once the SED leadership began hawking capitalist money, merchandise, and methods, the socialist state lost its raison d'être.

But officially sanctioning the use of West German marks did not simply establish the conditions for the GDR's demise, it also created a vehicle for German unification. Because of institutions such as the Intershops, ordinary East Germans had learned to associate material prosperity and social equality with West German money, replicating the utopian socialists' confusion of money

[63]BArchB, DQ3 1804, Petition from November 20, 1989.

[64]See, for example, BArchB, DN10 931, Wünsch, Bezirksdirektion Erfurt, "Analyse über die Entwicklung der Eingaben im Verantwortungsbereich der Bezirksdirektion Erfurt, 2. Halbjahr 1988," December 23, 1988.

[65]BStU, ZAIG 16807, "Reaktionen der Bevölkerung zur Versorgungslage," November 1988, 52. Although this report stood in the shadow of the regime's censorship of the magazine *Sputnik*, which had carried an article critical of the Hitler-Stalin Pact in October, it was a regularly scheduled monthly update on popular opinion.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

with markets. As the following joke illustrates, many East Germans had come to view the difference between the two Cold War competitors as boiling down to a matter of money. When an East German retiree returns from his trip to West Germany, his family and friends ask what it was like. "Well," he says, "it's basically the same as here: You can get anything for West German marks."[66] In popular perception, West German money had come to symbolize economic freedoms that could not be had for socialist money. East Germans had come to fetishize (capitalist) money for the very same reasons that Marx had criticized so vociferously—and the West German institutions that had made it so attractive.

Some commentators have interpreted the collapse of communism as an expression of a transhistorical desire for political freedom.[67] According to this interpretation, the transformation of the popular chant "We are the people" (which sought to wrest political representation from the SED's control) to "We are one people" (which demanded unification with the Federal Republic) represents the triumph of liberal democratic institutions. In fact, however, the political demands of ordinary East Germans were mediated by their experience of socialism, which claimed that political liberty is contingent on economic freedom. Perhaps the best—and most pivotal—example of this inversion of the relationship between economy and politics is the struggle over the freedom to travel, which precipitated the collapse of the Berlin Wall. The SED's refusal to allow East Germans to travel freely to the west constituted one of the more important symbols of deprivation. Honecker's unwillingness to relax the constraints on mobility during the summer of 1989, as televisions throughout the world aired pictures of East Germans fleeing to the west via Hungary, Czechoslovakia, and Poland, ultimately cost him his job. After his ouster, jeering crowds demanded that the new SED leadership remove not only the political but also the financial obstacles to travel, since the gap in purchasing power between the East and West German marks had rendered it impossible to enjoy the political freedom to travel.[68] Ironically, East Germans had accepted the communist premise that the state had a moral obligation to

[66]Reinhard Wagner, *DDR Witze Teil 2. Lieber von Sitte gemalt, als vom Sozialismus gezeichnet* (Berlin: Dietz Verlag, 1997), 93.

[67]See, most importantly, Timothy Garton Ash, *The Magic Lantern: The Revolution of 1989 Witnessed in Warsaw, Budapest, Berlin, and Prague* (New York: Random House, 1990).

[68]I realize that my emphasis on the link between economics and politics, and more specifically the role played by the travel law in bringing down the Wall, does not conform to most stories told of the East German revolution. Based on my own research, however, I would argue that the prevailing narrative about the East German revolution, which was first articulated by observers such as Timothy Garton Ash and has been repeated by neo-liberal commentators such as Lothar Kettenacker, relies more on romantic attachments to transhistorical notions of freedom than on empirical evidence about the actual circumstances of the revolution. See Ash, *The Magic Lantern*, and Lothar Kettenacker, *Germany 1989: In the Aftermath of the Cold War* (Harlow, U.K.: Pearson Education Limited, 2009). For a critique of neo-liberal assumptions about economics and politics and a very different interpretation of the East German revolution, see Zatlin, *The Currency of Socialism*, epilogue.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

shield its citizens from the market and provide them with the financial means to exercise their legal rights.

To set itself apart from Honecker, the new SED leadership made some concessions, indicating its willingness to issue passports. But the weakness of the socialist currency, together with the parlous state of the GDR's finances, convinced party leaders to refuse to subsidize East German tourism. They had badly misjudged popular sentiment, however. The publication on November 6 of a new travel law ruling out financial assistance provoked widespread anger and massive demonstrations; in Leipzig alone 500,000 people took to the streets. On November 7, the Council of Ministers stepped down, and on November 8, the entire Politburo resigned. On November 9, a new Politburo offered a more liberal set of travel regulations, but in the confusion miscommunicated the revisions, which were misinterpreted as authorizing the populace to breach the Wall. Humiliated and without its sole bargaining chip, the SED leadership was reduced to begging West German Chancellor Helmut Kohl to cover the difference in value between the two marks. This financial arrangement, which pegged the exchange rate at three Ostmark to one DM, laid the foundations for German unification.[69]

Far from narrowing the gap between the two currencies, however, this political arrangement further destabilized the socialist currency. In December, the Ostmark experienced a serious crisis of confidence, as bad money pushed out the good and the demand for the DM soared. Anxious that their money might become worthless for the third time in the twentieth century, East Germans began clamoring for West German intervention. Outrage over the weakness of the Ostmark and the differential access to the DM fueled demands for a currency union. The National Front office in Leipzig reported popular fears that "social tensions between those who possess DM and those who do not will increase. Hard work, ethical values, and morality will fall victim to speculation in DM and corruption by ordinary people. Young people will continue to leave our country."[70] As they had before 1989, East Germans argued that social solidarity could be guaranteed only through uniform access to the West German mark.

By January 1990, the GDR had been plunged into an existential crisis. The weakness of the socialist currency, the GDR's large debts, the SED's attempt to reconstitute the Stasi, and the anticapitalism of the civil rights movement convinced increasing numbers of East Germans to take advantage of the open border and migrate westward. Those who remained also wanted a market

[69]See Jonathan R. Zatlin, "Hard Marks and Soft Revolutionaries: The Economics of Entitlement and the Debate over German Unification, November 9, 1989-March 18, 1990," *German Politics and Society* 33 (Fall 1994): 57-84; Zatlin, *The Currency of Socialism*, epilogue.

[70]SAPMO-BA, DY16, Vorläufige 2764, Jahn, Stadtbezirksverband Leipzig-Nordost, December 20, 1989, 1. See also the official representations of popular complaints in SAPMO-BA, DY30, IV 2/2.039/321, "Hinweise über die Reaktion der Bevölkerung," November 24, 1989.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

economy, chanting "If the D-Mark comes to us, we'll stay here. If not, we'll go to it over there." Their experience with the GDR's confused monetary regime, together with the revolutionary chaos, had convinced them that possessing West German money meant acquiring West German wealth. In March, they chose an economic path to political union, electing a government whose main mission was to negotiate a favorable exchange rate between the East and West German marks. In the meantime, however, the West German central bank had taken over control of the East German monetary system, usurping the budgetary powers of the GDR's first (and last) democratically elected government. Well before the West German mark replaced the Ostmark in July, the two states were formally unified in October, or East Germans had the chance to participate in all-German elections in December, a new form of despotism—the centralizing tyranny of Simmel's economic time—had begun to circulate in the east.

If the political unification of the two Germanies has reunited the east with Simmel's economic time, remonetizing the economy and restoring control to central agencies, it has not returned the German east to "normalcy," whatever that might be. Nor has it translated relative backwardness into competitive advantages on capital or labor markets. Of course, one might argue that the Wall merely held up the westward migration of Germans, which has been taking place since 1848. Although extending the DM eastward slowed that migration at first, East Germans resumed their journey to the west as soon as the shock worked its way through the East German economy.[71] The flight of mostly younger people has created a vicious circle: as younger people leave, they deplete the local workforce, leaving behind an older and increasingly male population that is often unemployable and largely dependent on government subsidies. As the real and perceived prospects of economic recovery shrink, more people decide to leave.

Nor has monetary union repeated the finer moments of West German development. Despite comparisons with the 1948 currency reform and Kohl's prediction of "flourishing landscapes," there has been no second "economic miracle."[72] Despite historically unprecedented transfers of wealth from west to east, moreover, eastern Germany has been growing at a slower rate than western Germany since 1996, while real unemployment in the east has persisted at rates reminiscent of the Depression.[73] Worse still, the transfer payments have

[71]From mid-1990 to the end of 1992, an estimated 1 million people left the GDR permanently, amounting to a rate of about 1,000 a day. Between 1992 and 2002, another 521,000 people left for West Germany. *Der Spiegel* 3 (1993): 52; Jan Priewe, "Zwischen Abkoppelung und Aufholen. Das schwache ostdeutsche Wachstumspotential," *WSI Mitteilungen* 12 (2002): 706.

[72]Kohl first used the phrase on February 20, 1990. See Manfred Görtemaker, *Unifying Germany 1989-1990* (New York: St. Martin's Press, 1994).

[73]Michael C. Burda and Jennifer Hunt, "From Reunification to Economic Integration: Productivity and the Labor Market in Eastern Germany," in *Brookings Papers on Economic Activity* 2 (2001), 1-71; Hans-Werner Sinn, "Germany's Economic Unification: An Assessment after Ten

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press

shielded many firms from hard budget constraints, returning East German business to old habits as large government subsidies have made the cost of capital negative and encouraged managers to disregard transaction and labor costs.[74] A similar regression afflicts East German consumers. More than half of the transfer of wealth has been used as welfare payments, shielding East Germans from the privations of their eastern European neighbors but contributing to what the Bundesbank has called a "subsidy mentality."[75]

As a result, East Germans find themselves fighting old battles. The majority struggles to defend the expansive welfare state that the west wants to trim, while an entrepreneurial minority argues for drastic limits to state intervention in the market. Under the thumb of western cultural hegemony, East Germans retreat from history into memory—a commodified past available in stores and online. One is reminded of the politically opportune promise made by Prussian King Friedrich Wilhelm IV shortly after the revolution of 1848 that Prussia would merge into a larger German polity.[76] Once again, unification has brought not integration, but the dominance of one German particularism over another.

BOSTON UNIVERSITY

Years," *Working Paper 7586*, National Bureau of Economic Research, 2000, 7; *Berliner Zeitung*, April 7, 2004; *Der Spiegel* 15 (2004).

[74]As Sinn puts it, "capital changed from being a factor of production to being an economic good." Sinn, "Germany's Economic Unification," 14-16.

[75]Deutsche Bundesbank, ed., *Monatsbericht Juli 1995* (Frankfurt am Main: Deutsche Bundesbank, 1995).

[76]"Preußen geht fortan in Deutschland auf." See Lewis Namier, *1848: The Revolution of the Intellectuals* (Oxford: Oxford University Press, 1957), 28.

https://doi.org/10.1017/S0008938910000385 Published online by Cambridge University Press