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## **Strategic Learning**

*East Germany as a "Model Case" for Transformation Theory*

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*Publication date:*  
1995

*Document Version*  
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*

Kupferberg, F. (1995). *Strategic Learning: East Germany as a "Model Case" for Transformation Theory*. Institut for Historie, Internationale Studier og Samfundsforhold, Aalborg Universitet.

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ISSN 0904-8154

## **Strategic Learning: East Germany as a "Model Case" for Transformation Theory**

by

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DEVELOPMENT RESEARCH SERIES  
DEVELOPMENT RESEARCH UNIT

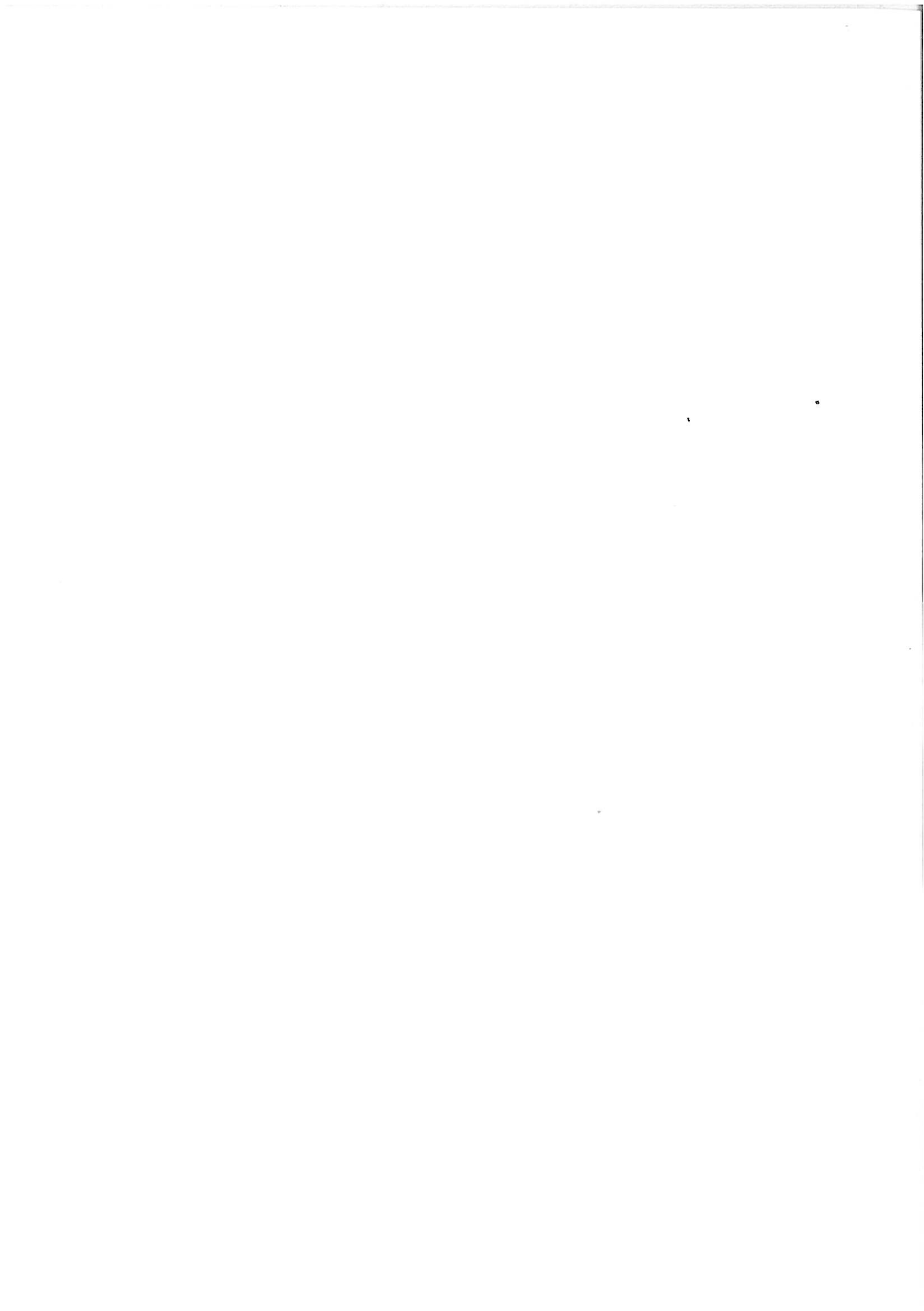
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WORKING PAPER NO. 46

MARCH, 1995

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## **Abstract**

Most studies on transformation in Eastern Europe tend to exclude the East German case, due to the tacit assumption that because of German unification the transformation process is so unique that it cannot be treated in the same category as the other East European countries in transition. This assumption is challenged in the article, which argues that precisely the specific dimensions of East German transformation helps us to clarify some of the issues of transformation theory. First of all German unification touches upon all the major problem areas of transformation, helping us to outline the domain of an emerging discipline. Second, the radicalism of East German transformation puts into focus many of the social psychological aspects of transformation which have mostly been neglected in main-stream theories on transformation. Third, the East German case, gives us a clear opportunity to look upon the transformation process from a "learning" point of view, locating the major mistakes made by the "strategic" players.

In the general literature on systemic change, democratic transition and economic transformation in Eastern Europe, East Germany plays a marginal and somewhat ambiguous role. One can hardly deny that the former GDR seems to represent a "Sonderweg" to democracy, a particular case combining transformation and integration at the same time (Reissig, 1993b, 1994a). Its unification with a functioning liberal democracy is unique and separates it clearly from the other East European countries (Miller, 1992, Wiesenthal, 1994). On the other hand, these very unique, unrepeatable traits do not exclude that there are some very interesting analytical insights to be gained from a close study of the East German experience both with communism and post-communism (Henderson, 1994), possibly making the East German "Sonderweg" to democracy a kind of "model case" for the existing theories of transformation (Offe, 1994).

Innovation economists and scholars of international relations have emphasized the previously neglected but highly critical role played by "learning" in turbulent environment. Lundvall & Johnson (1992), following the idea of Hayek that the market is a kind of more or less chaotic search-project of decentralized actors, argue that the contemporary economic systems are best seen as "learning economies". Stein (1994) argues that the radical change in foreign policy during the Gorbachev era can only be explained by assuming that a process of learning has taken place. Molz (1993) argues that such learning processes cannot always be assumed in domestic policies, because of the lack of consensus-building pressures in this area, even in times of economic crises. But if there are "strategic" factors involved, the learning process is enhanced, "one would expect fewer political intrusions in the learning process when there are objective threats to state security or when technical considerations limit the set of possible solutions" (Molz, 1993: 304).

The current transformations in Eastern Europe seem to be in a similar category, that is they clearly incorporate elements of consensus-building pressures which transcend domestic policy-making, which normally takes place under conditions of stable political institutions, reliable communications and broad political support. What makes the learning process particularly different in this case is that there are no readymade theoretical insights or successful models to learn from. In this respect it resembles the open and experimental-chaotic search process assumed by the "learning economy" approach.

The transformations in Eastern Europe are historically unique, which means we cannot mechanically apply previous theories, developed in other historical contexts (Sztompka, 1991, Brzezinski, 1993, Offe, 1994). Although the latter are no doubt valuable as a starting point in accordance with Shils' (1984) argument that we should not throw away traditions since this would mean having to "reinvent the wheel", we must go beyond mere application of existing theories and methods which have evolved in quite different historical contexts.

This is why previous theories of say democratic transition (Glaesner 1994a, b) or

modernization theory (Mouzelis, 1993, Zapf, 1994, Merkel, 1994a) are not enough (Müller, 1991). Other approaches have to be evolved (Reissig, 1993a, 1994b) which are more adequate for the turbulent, volatile environments of transformational societies.

The lack of attendance to this element of turbulence or chaos (Bolz, 1992, Kupferberg, 1994b) has tempted theorists to present highly simplified models of how social actors behave under relatively stable or predictable conditions, ignoring that it is precisely the absence of stability and predictability which characterizes transformational societies in general. The social actors engaged in the transformation process and particularly the main players, are neither "prisoners" of the system (Mutz, 1993), nor do they exclusively behave in the way predicted by the "rational choice"- oriented theorists (Wiesenthal, 1994). Their scale of preference might be different from the one expected in a predominantly individualistic, "Gesellschaft" type of society, compared to a "Gemeinschaft"-one and moreover they might lack the information or knowledge necessary to act rationally.

This is partly also the case in Western societies (Etzioni, 1988) but the introduction of turbulent, volatile environments in premodern conditions influences actors in ways which have yet to be investigated more closely. According to Griffin (1994) we should in particular look upon the element of "strategic learning" taking place among the main players who due to their particular positions have specific interests and different access to the type of information necessary to act strategically and learn from mistakes. The absence of strategic learning leads to passive "waiting" and "riskavoidance" among actors. The latter often lack the relevant position to assemble the necessary information and thus tend to wait until the situation becomes more stabilized and predictable (that is more similar to the one they are used too), which means their contribution to the transformation process is almost nil or negative.

Precisely because choices are not always rational and surrounded by uncertainty, one must look for motives of action beyond the individualistic, utilitarian one. In particular the role of "national feelings" as a possible source for "solidarity" in transformation processes should be emphasized. But such national feelings cannot always be taken for granted in the post-communist context. This is what makes the case of East Germany particularly interesting. Germans seem to have left their nationalist past behind to a degree where it is questionable whether they are a nation at all in the strict sense. Perhaps a "marriage of convenience" would be the right term. It seems clear that this is how the unification of the two Germanies is seen from both side, with few romantic feelings and a lot of pragmatic considerations as to who gains and who loses from it, how much it is going to cost, how long it will take before the living conditions are about equal and whether one really wants the latter to be the case in the first place (Koch, 1994). This relative absence of national feelings makes it into more into an "unplanned experiment" (Scheuch, 1991) then generally assumed.

## German Unification and the Transformation Paradigm

What is transformation about? Although the term is more or less generally accepted in the literature for describing the ongoing changes in Eastern Europe, the concept of "transformation" is somewhat confusing, since it is obviously used in very different contexts. As a first start to find some kind of preliminary "order" in chaos, I have found it useful to distinguish between five different "problem areas" which seem to outline the domain of transformation theory (or rather the transformation "paradigm" since the domain obviously includes different kinds of more or less specialized theories, addressed to particular type of problems):

- 1) Why communism collapsed the way it did, what brought about the systemic change in the first place and particularly the problem of "non-predicting the collapse of communism" (Reissig & Glaessner, 1991, Hollander, 1993, Hirschmann, 1993, Merkel, 1994a).
- 2) The paradox of trying to craft stable democracies in societies which seem to lack the preconditions of democracy such as a functioning market economy, a strong civil society, a large middle-class, competent elites and corporative institutional arrangements (Miller, 1992, Glaessner 1994a, 1994b, Merkel, 1994b).
- 3) The strategic dilemmas encountered by actors trying to transform the previous, centrally governed, socialist economies to some kind of market-oriented economies based on private property and entrepreneurship and the possible role of the West assisting the East European societies in creating the market-economy assumed necessary for stable democracies (Rollo, 1990, Batt, 1991, Offe, 1994, Wiesenthal, 1994).
- 4) The problem of nation-building and the role of nationalism in an area where national identity and ethno-national conflicts have been repressed for historical as well as ideological reasons, the relation between democratization and nation-building and the dilemma of international intervention in local conflicts (Devetak, 1991, Glaessner, 1994a, Kupferberg, 1994a, Mueller, 1994b, Maynes, 1993).
- 5) The geo-political strategies pursued by Western democracies as they try to establish new security- and trade-arrangements, replacing those which existed under the Cold War, taking into account the new realities of a highly volatile Eastern Europe and an



empire which has seized to exist but remains a great military power and possible future threat to European stability (Huntington, 1991, Mayall, 1992, Brzezinski, 1993, Mueller, 1994a).

German unification obviously touches upon all these issues. It certainly represents a major geo-political problem or rather German Unification in a way is the problem. Without the sudden and unexpected collapse of the GDR it is highly doubtful if 1989 had become the year of the Eastern European revolutions and the unification of Germany was certainly the single most important factor which forced the major geo-political players to redefine existing trade- and security arrangements in Europe. Moreover, the collapse of the USSR (Fairbanks, 1993) and the problem of redefining Russia's geopolitical role is clearly related to these new arrangements, which with due respect to the so called "near abroad" (Goble, 1993), still plays the major role in Russia's geopolitical thinking.

The problem of national identity and nation-building also plays an important role in the German transformation process, in certain ways it is defined by it (Reissig, 1993b, 1994a, Glaessner, 1992, 1994). It is mostly assumed that strong national feelings are an inevitable element in post-communist societies, either for historical reasons (the return of unsolved traumas) or because of the role of ideology (the sudden liberty and meaning vacuum) but what is perhaps most peculiar in Germany is the strong absence of such feelings (Schramm & Schlese, 1992).

The difficulties the previous GDR-citizens have had with getting used to a liberal democracy (Maatz, 1991, Reissig & Glaessner, 1991, Glaessner, 1992, 1993, Reissig, 1993b, 1994b) are not that very different from what we can observe in the rest of Eastern Europe (Henderson, 1994). In all the post-communist countries a kind of post-revolutionary disillusion replaced the initial euphoria. This is a thing which always happens in a revolution, when the task of "making history" is replaced by the practical problems of everyday life (Trotsky, 1969, Sztompka, 1991). In this particular case, the Toquevillean factors of too high expectations also played a certain role (Brzezinski, 1993), but the most important explanation is probably the mistakes which were made under more or less chaotic conditions (Zapf, 1994, Wiesenthal, 1994).

The question is whether these mistakes could have been avoided or whether such mistakes are in themselves a part of a "strategic learning" process. For this particular purpose, the East German case is particularly relevant. One thing one definitely cannot accuse the West Germans of is a lack of political commitment to go through with the transformation and integration consistently and carry the full financial, administrative and political burden of reshaping an economy, society and polity in a previously communist ruled state into the "safe haven" of the liberal democracies of Western Europe.

As the latter option is precisely what the other East European countries tend to look upon as the "ideal case" for a transformation, arguing that their difficulties to a large degree stem from the reluctance of the West Europeans to go on with the process of fully integrating Eastern Europe into the Western European institutional system and the lack of commitment to such a goal, the East German case gives us an almost perfect opportunity to test such a hypothesis. What would happen if the dreams of Eastern Europe came true, if they were indeed bidden "welcome" into "Europe" on similar terms as the East Germans?

George Bernard Shaw once said that the worst thing in life is when our dreams don't come true. The next worse thing is when our dreams do come true. Although such a scenario is highly unlikely, it nevertheless presents a kind of "ideal" which many West Europeans believe we "owe" the East Europeans. They ask us to "go ahead" and don't seem to be too worried about the unintended or unanticipated consequences, which always follow upon social action (Merton, 1968). What we need, they say, is a kind of new Marshallplan, a consistent commitment and massive financial, administrative and technical support, combined with an opening of our markets as well as theirs.

In fact there are clear similarities between the way the just defeated Nazi Germany which had come under control of the Western allies were integrated into the geo-political sphere of the liberal democracies and the guiding idea behind the unification policy of the West Germans towards the previous citizens of the now non-existing GDR. But there are also differences, the most important of which is that the East Germans have lived under communist rule and a socialist system for forty years.

One could argue, that precisely because the East Germans after unification were confronted with a uniquely well functioning market economy, democratic polity and "Rechtsstaat", their behaviour, attitudes and modes of adaption say something significant of the "deeper" impact of having been part of the Soviet-dominated region of Europe since the end of the Second World War. This "socio-psychological" dimension of the transformation process has been conspicuously underemphasized in the literature on transformation, revealing a traditional bias towards an "institutional" approach (Glaessner, 1994a, 1994b) or alternatively a tendency to reduce systemic change and transformation to a question of "rational choice" (Offe, 1994, Wiesenthal, 1994) or a combination of both (Merkel, 1994a,b). What is missing in these "main stream" approaches to transformation is the ability to account for how actors cope with chaos and uncertainty (Ewers & Nowotny, 1987, Bion, 1992), which as I see it is the core of strategic learning.

## The East German "Sonderweg": Transformation as Unification

For the East Germans, a rapid integration under the guidance of the West Germans and financed by the latter, seems to have been what the majority of the citizens in the GDR had more or less secretly longed for during all the years of post-war separation (Scheuch, 1991, Reich, 1991). When they finally got the chance, after the fall of the Wall, they made sure that the "message" didn't get lost on those political leaders who held the fate of post-war Germany in their hands. Several factors seem to have influenced the decision to "go on" with a rapid unification, an option which as late as november 1989, was a "non-option" for all the decisive players in the field (Glaessner, 1992).

- The fear that the collapse of communist authority and the social and economic chaos which followed in the months after would destabilize the area and perhaps cause a civil war in the heart of Europe (Reissig & Glaessner, 1991).
- The pressure from the overwhelming majority of the East Germans, who when confronted with the prosperous, well-functioning and "neat" West German, "capitalist enemy", decided they had had enough of socialist experiments, they wanted to live the same way the West Germans did (Stolpe, 1992, Schorlemmer, 1992) and they didn't trust the intellectuals ("die Chaoten"), preferring to follow the lead of the established parties and Chancellor Kohl, at least with him one knew where one stood (Reich, 1991).
- The continuing mass exodus of East German citizens into West Germany after the fall of the Wall, which put pressure on the West German politicians to do "something" for the East Germans so they might regain hope for the future in their part of the world, a development which enhanced the willingness of the West German establishment to take the great political risks of a rapid unification (Schäuble, 1992, Scheuch, 1991).
- The overwhelming victory for the conservative parties in the first free elections in March, 1990, the parties most dedicated to the idea of rapid unification and also with the best contacts with the leading government party in Bonn, where the money for the unification was to come from in the first place (Scheuch, 1991, Glaessner, 1992).
- The contingency of the situation in the Soviet Union, where a reform-oriented president was willing to make a deal with the West Germans (Schäuble, 1991,

Schorlemmer, 1992), probably hoping to create some kind of informal alliance with the economic locomotive of Western Europe, the value of which would more than compensate for the loss of a minor state which in a radically changing geo-political climate was rapidly losing its strategic as well as economic importance for the Soviet Union, mostly retaining a symbolic value.

The combined result of these different social forces working more or less in the same direction, produced the fact of German unification. It seems that so called "national feelings" played a minor role in the process. Contrary to what most non-Germans believe, national feelings were not particularly strong in West Germany, neither were the articulated wishes to see a unified Germany (Reich, 1991, Scheuch, 1991, Glaessner, 1992, Schramm & Schlese, 1992). The GDR was increasingly seen as a foreign country which one didn't particularly want to visit and where people lived under circumstances few could identify with (Stolpe, 1992). The identification was much stronger on the other side, but this doesn't necessary mean that it was of a "nationalist" kind. A more plausible hypothesis is the once advanced by Offe (1994) that the East Germans wanted to (re)unite with West Germany mainly for socio-economic reasons.

This lack of national identity should of course be seen in a historical context. Both West Germans and East Germans resemble "burned out" cases when it comes to nationalism. Having once been fully committed to the idea of unbridled nationalism, they have learned their lessons although in different ways. The East Germans having been told that they lived in an "anti-fascist" state, never felt shame and guilt for the crimes of Hitler the way the West Germans did. Instead they felt they had to pay dearly for previous mistakes by being excluded from the club of the NSW (nicht-sozialistische Währungsgebiet). This reduced them to a kind of "second-rank" Germans (Reich, 1991) which was particularly humiliating in personal encounters abroad, where the strong West German currency "dwarfed" the East German Mark and thereby also its owner. After the Wall had fallen and the citizens of the GDR could freely travel as well as express their wishes, these long repressed longings for the magic of the Deutschmark proved to be stronger than a geo-political arrangement which had anyhow outgrown itself a long time ago.

If unification had been driven mainly for nationalistic reasons, we would have expected both West Germans and East Germans to be very happy today. After all, they achieved what no one only a few years ago had thought was possible. It was a miracle, a dream had come true. So why all this massive dissatisfaction after the unification among both West and East Germans (Harre, 1991, Gilwald & Habich, 1991, Schramm & Schlese, 1992, Belwe, 1992)?

It seems as if both West and East Germans have tended to replace a strong "national

identity" with other kinds of identities. The West German identity is more "cosmopolitical" or "European" and at the same time heavily oriented towards "post-materialist" values, while East German identities are more "provincial" and at the same time "materialistic" and "work"-oriented (Reissig & Glaessner, 1991, Reissig, 1994). But there are also important similarities. Both West Germans and East Germans are highly unpolitical, preferring relatively privatized lifestyles, indicating that these non-political spheres of life were invested with the inherent need for "Gemeinschaft". In everyday life they so to say replace the "imagined community" (Anderson, 1991) of a national identity denied.

Although the great majority of the East Germans no doubt wanted a rapid unification they were in fact very little prepared for its social, economic and cultural consequences. Some of the most pessimistic prophecies of the intellectuals (Schorlemmer, 1992, Reich, 1991) didn't come true, the German federal republic was after all different from what could be read in the marxist-leninist text-books, but other things happened which were almost as bad, because they were not expected and in fact went against the grain of East German habits and hopes.

First of all the East Germans had great difficulty in finding around in the many bureaucratic rules of a "social market-economy". Having been brought up by a paternalistic state which takes care of its citizens as if they are naughty children which should be punished hard if they disobey and being given small "gifts" as token of appreciation if they do the "right" thing (Feher et.al. 1993), they were suddenly "thrown into the cold water" as Rainer Eppelmann, a leading East German conservative likes to put it. Nobody took them by the hand and showed them what to do, they had to find out for themselves because it was their life and their responsibility what they wanted to do with it. In stead of the traditional role of client versus authority, they had to learn to look upon themselves as "customers" asking for a particular "service" from the public administration which was there for them, but not in order to tell them how to live their life, but to inform them about their rights and duties and only if asked.

The second great problem was the sudden insecurity felt as the GDR collapsed and with it a whole way of life, which one knew intimately and where one didn't have to worry about the future, this was taken care of by the party and the state. Existential worries were more or less abolished, due to the extremely high degree of work security but also the many provisions which were more or less connected with the work-place or school, ensuring that no one was left alone but always part of a community. This highly collectivized and routinized life also meant the lack of individual freedom, opportunity and creativity, things one missed and longed for, precisely because these were denied (Reissig & Glaessner, 1991). But since the former was so much part of the landscape, it was impossible to imagine what life would be without it and most of all it was impossible to imagine that this whole life-world would just disappear almost overnight.

The third major problem is related to the long-standing social inferiority complex of the GDR-citizens. The East Germans had hoped that their feelings of inferiority would quickly disappear, once they got hold of the D-Mark. What happened was that the pride of the GDR, the most effective and well-functioning industry in the Soviet bloc, turned out to be hopelessly outdated and overmanned and had to be fundamentally restructured, in order to survive under market conditions. This meant mass lay-offs from existing plants, which were then sold to private investors, mostly from the West, often to a ridiculously low price. In fact the Treuhand who organized these deals often had to pay the investor to take the firm off their hand. The result was that the imagined fortune accumulated in state-owned property, so-called Volkseigene Betriebe, dwindled and eventually landed at a huge negative sum (minus 200 billion D-mark).

For most East Germans this was deeply humiliating and a clear sign that they had been "colonized" by the West Germans, who were not interested at all in treating them as equals, but only wanted to make a profit of the "stupid" East Germans, who had little experience with business and thus let themselves be fooled by these swindlers. And how could they ever hope to become economically equal with the West Germans, if they were robbed of their most valuable assets? With no industry or productive resources, they would forever be dependent upon large transfers from West Germany, they would remain a kind of welfare clients, dependent upon the good will of the West Germans, who ran the whole show.

The fourth problem seems to have been a lack of deeper understanding of GDR realities on the part of the West Germans. The most sympathetic of them used to call the GDR the land of "Die kleinen Leuten", emphasizing the lack of a prosperous, middle class mainly interested in career making and personal enrichment, also claiming that East Germans lived in a kind of "Niche"-society. But the high degree of privatized lifestyles is typical for all Germans and should be seen in the context of a search for alternative "imagined communities" in the absence of nationalist feelings. Moreover changes in valueorientation in the eighties had brought East Germans closer to the ideal of a career-oriented, middleclass type of lifestyle predominant in East Germany. This growing similarity was too create unanticipated problems for unification as the existence of an East German aspiring middle class was not taken seriously by the West Germans who basically thought they had to do with the subaltern "Werkstätigen" described by Bahro (1977) and not a social category who had only been waiting for the chance to "prove" that they were indeed capable of creative work (Mayer, 1993, Thomas, 1993).

## The Appeal to Solidarity

A major problem in any transformation is that mistakes cannot be avoided. How else can one learn if not from experience? As the transformation process in Eastern Europe is a unique, unprecedented one, there are no theories to rely on, that is the actors have to grope more in less in darkness (Offe, 1994). Although it is possible analytically to abstract certain theoretical dilemmas which have to be coped with such as the choice of a radical or a gradual strategy (Wiesenthal, 1994), or whether once should start with economic modernization and postpone democratization to a later phase (Emmerich, 1994), in practical life actors do not always have the freedom to choose at will.

Most observers seem to agree that "the end of Leninism in Eastern Europe and the consequent move towards market structures demands democracy... without a successful economic reform democracy may not survive. Thus democracy and economic reform are closely linked" (Rollo, 1990: 116). Offe (1994) convincingly argues, that the simultaneous transformation of economy, politics and constitution is a historically given fact in Eastern Europe, and although it presents a paradox for theory, making a successful transformation almost impossible from an analytical point of view, this is what reality looks like, whether we like it or not.

In the case of East Germany, the strategic players clearly had no choice but to introduce democracy and capitalism simultaneously. Neither could the actors chose between a radical or a gradual strategy. The very fact of rapid unification, which was the inevitable outcome of factors mentioned above, made a radical strategy, the so called shocktherapy (embedded in the security net of the "social market economy" and accompanied by a particular kind of "industrial policy") inevitable, although it was clear that this would lead to a "valley of tears" as Sachs had predicted. One could of course add to these factors, the theoretical argument, based on the idea of rational choice- theory of the importance of mutual commitment according to the model of "Ulysses and the Sirens", which points at shock therapy as the correct choice, but this was hardly on the mind among the major players at the time, who were thinking of other problems which transcend the pure rational choice model.

The main question Chancellor Kohl and the political elite had to ask themselves was whether they could sustain support not from the victims (the latter had been "bribed" in advance through the economic, monetary and social union of July 1st 1990, where they at last got rid of their phoney money and became owners of the beloved D-Mark) but from the West German taxpayers. Were they ready to "sacrifice" some of their "hard earned" wealth and prosperity, sharing it with their poorer countrymen in the East? This was the major political problem, a problem which takes us beyond rational choice, to the question of solidarity.

As we know this is what Chancellor Kohl appealed to, the feelings of Solidarity, but

with poor results. The West Germans were just not prepared suddenly to change their individualistic habits and ways of thinking for a national cause, for the simple reason that they didn't believe in one (neither did the East Germans for that matter who were just as individualistically orientated, only from the other, receiving end of the table). This is emphasized by Schramm and Schlese, who argue that "the overwhelming German majority has only a minimally developed national sentiment. The mobilization of nationalism would also be problematic in Germany, given its history and its developed European orientation. The potential for solidarity of West Germans with Eastern compatriots must therefore be nurtured from resources other than national sentiment." (Schramm & Schlese, 1992: 176-7).

They find three such possible sources, "solidarity in terms of saturation and sharing some of what you have", "solidarity based on similar emergencies experienced" and "solidarity based on values and norms" but find all of them problematic. "Empirical findings show that the influence that material well-being (a) exerts on the willingness to share is only moderate, and that similar emergencies experienced (b) foster distributional conflicts rather than supportive attitudes". Thus only common values and norms remain, but the effect of such shared values and norms are contradictory.

"The extent to which West Germans will maintain solidarity with East Germans on this basis presumable depends on the degree to which their sense of social responsibility created is being sustained, the neediness of the East German population remains clearly recognizable, and successful developments in the East makes the effectiveness of Western support evident. In fact the latter two conditions are also expected to have counterproductive effects on solidarity. The clearer it becomes that support from the West brings about economic success in the East, then the less comprehensible the need for ongoing solidarity will become. Likewise, if economic success is not visible, solidarity will eventually hit its limits because it apparently makes no difference. Instead distributional conflicts will arise" (Schramm & Schlese, 1992:177).

The conclusion they draw is that solidarity has to be supplanted by some kind of cooperation, that is an increasing equality of positions and a more or less balanced division of labour. What the writers are hinting at is obviously Durkheim's idea of an "organic solidarity", based on individualistic values and complementarity of a highly specialized division of labour, replacing the "mechanical solidarity", which is more collective and egalitarian (Durkheim, 1965). According to Durkheim, modern societies tend increasingly to move away from the latter to the former, as societies become more complex. "Mechanical solidarity" can only function in



primitive societies according to Durkheim, who on the other hand admitted that modernity had also produced "anomy", that is a lack of binding norms and indirectly lack of solidarity.

Durkheim struggled all his life to find a way out of this paradox and finally fell back on religion (Durkheim, 1964). Here at least was a kind of solidarity which went beyond pure "utilitarian" reasoning. Religion for Durkheim represented a perfect community, since such a community embraces not only the living but the dead and unborn as well. It is rather a community of fate. Since modern societies are highly secularized, religion is unable to provide the basis for modern solidarity though, but the ingenious thing seems to be that the place of religion has been substituted by nationalism or national identity which according to Anderson (1991) have the similar power as religion once had. They are both related to the fundamental anthropological need of "belonging" and they have the strength of making individuals, even modern ones, willing to make sacrifices for the preservation of these values.

Anderson's provocative theory has been contested by Gellner (1983) who indirectly argues that we don't need such drastic formulations. Nationalism and nationality is, when you look at it more closely, based upon a purely utilitarian type of integration, much closer to the one advocated by the "early" Durkheim, who thought the "state" or alternatively the civic professional "estates" would do the similar work. The reason we feel loyal to a nation according to Gellner is the small advantage it provides us with after having passed a particular nationally organized system of education. The question is of course whether one would be willing to die for ones national system of education (which according to Anderson, 1991 is the test case of whether national identity is indeed present or not).

This willingness is extremely low in Germany, where the population is probably more pacifistic than in any other European country. Moreover Gellner seems to have a somewhat narrow picture of how education is organized in other countries than say England and France where the degree of centralization and standardization is probable higher than the average. It certainly doesn't fit the German case where education is a prerogative of the "Länder", that is we have sixteen different systems of higher as well as lower education. Can we imagine these sixteen countries going to war just to preserve the right to have their own system of education?

The fragmentation of loyalties tied to the Länder should not be overstated. Indeed, according to the Constitution, living conditions in the different Länder should be fairly equal and so far the redistribution between the different Länder over the state budget has functioned without too much frictions. The problem is that this arrangement presupposes that the productive and innovative capacities of the Länder are fairly equal, which they have more or less been during most of the postwar period in the Federal Republic. This means that the introduction of five new Länder (which had been sharply separated from the West German "Wirtschaftswunder" and moreover kept artificially in technological and socio-economic

backwardness due to the firm entrenchment of the GDR in the non-convertible trade area under Soviet surveillance and hegemony) created a constitutional dilemma.

On the one hand, the Federal Republic was committed to raise life chances and living conditions in the five new Länder drastically, on the other hand this could only realistically be done if the productive and innovative capacities were fundamentally altered, so they began to resemble those in the old Länder. For this, the political system was not at all prepared, because the prevailing arrangement of redistribution tacitly assumed that productive and innovative capacities were just about equal which was far from the case.

Moreover, unification caught the political class as well as the administration unprepared (Schäuble, 1992). There were simply no plans how to go about which meant most things had to be improvised, which is somewhat unusual for both West Germans and East Germans, who like to plan things ahead and prefer the feeling of having control over what is going on.

### **The Nationalism that wasn't there**

When Chancellor Kohl surprised the West German elites in January 1990 by launching his plan for a rapid reunification, beginning with an economic, social and monetary union as fast as possible (it became a reality July 1 the same year) he was almost unilaterally advised by the leading West German economic and financial experts, that it was a foolish thing to do. First of all it would undermine the stability of the German Mark and moreover it would lead to economic disaster and the possible destruction of the East German industry which would never be able to overcome such a shock therapy. Kohl went ahead anyhow for politic reasons mentioned above and most analysts would probably agree that there was no alternative in the given situation (Christ & Neubauer, 1991).

Moreover the darkest prophecies of the economic experts did not come true. The German Mark remained the strongest currency in Europe and has retained if not improved its international value and Germany is still regarded as the "Mercedes nation" of Europe (The Economist, 1994). The reason the financial markets have not lost their faith in the stability of the German economy has only partly to do with the continuity of a determined monetary policy though. Most of all, they could very easily see that the German economy as a whole wouldn't suffer that badly because of rapid reunification. The opening of the East German market would give West German firms immediate access to sixteen million additional customers, all of them provided with D-mark in their pockets, thus producing an expected bonanza at least the first years.

Seen in a longer term, things didn't look too bad either. No matter how costly the shrinkage of the highly over-manned East German firms would be, the additional costs for the state budget would in the end be more than balanced by the total increase in income and profits. This follows from the sheer fact of a 20 percent extension of German territory and population which opened undreamed of opportunities especially for the established firms in West Germany which could profit from their superior knowledge of market conditions, management know how and access to established credit channels.

The problem from an East German point of view was that the immediate commercial, financial and investment profits from unification would go almost unilaterally to West German business but this strategical advantage would from an international point of view strengthen an economy which was already among the top of the industrial nations and thus something which should be put on the plus side of the equation rather than the minus one. Both from a short term and a long term perspective there were thus more to be gained than lost. And thus the curious paradox occurred that while the European Monetary System crumbled to pieces because of the high-interest policy of the German Bundesbank, the German Mark was increasingly seen as a "safe haven" for worried investors.

This over-anxiety both outside and inside Germany of the financial consequences of unification seems to follow a general pattern during the post-War period. Despite of apocalyptic warnings, most of them issued by the Germans themselves, "the Federal Republic has gone on its quiet, successful, bourgeois way, proving one warning after the other wrong, as it has got steadily richer, stronger, and now bigger." To get a true perspective one should take into account the "fantastic distance that Germany has travelled over the last century: the distance to civility, legality, modernity, democracy. The very fact that, after four years of traumatic change in an only painfully uniting Germany, the election campaign can be boring is itself a measure of progress" (Asch, 1994, p. 20).

What probably made the economic experts in Germany particularly nervous was the idea of a "reevaluation" of the East German currency with at least 300 percent. They had preferred a much more "realistic" exchange rate, much closer to the unofficial market rate of about 10 to 1. Since any exchange-rate even resembling the market value would have made the East Germans feel even more "second rate" Germans than they already did, this was clearly impossible. The efficiency of the East German industry was obviously a problem as was low productivity and innovative capacity, which could not but lead to a mass unemployment. This was so to say part of the "deal" and tacitly accepted by the East Germans as well. The question was rather how many jobs would actually disappear and how quickly they would be replaced by new ones.

This no one knew, but the Chancellor and the dominating, Christian democratic party were quick to find an "oracle"-kind of answer to this question. Thus the famous formula was

born, which was at the time widely interpreted not only as a more or less accurate prediction but as a promise, that "no one would be worse off, all would gain from unification". The formula as such has often been dismissed as a simplified electoral slogan with propagandistic overtones with the clear aim of manipulating inexperienced voters who do not understand the most elementary thing about democracies, that politicians deliberately lie in order to be elected. I believe this criticism to be misplaced, first of all because it is the most important task of democratic politicians to create consensus around those difficult decisions which are the best for the country but not necessarily the ones most popular at the moment. This is normally better done by coming as close to truth as possible and not hiding the unpleasant facts.

The second reason why the particular formula cannot be reduced to a slogan is that it seems that Kohl and particularly his closest advisor at the time, Wolfgang Schäuble, the man who led the negotiations leading to full unification in October 1990, honestly believed they could rely on a hidden "asset", a latent "resource" in the German people which would be mobilized through the act of unification. Schäuble and Kohl put their money on the "dark horse" of reawakened national feelings which would so to say bring forth the "best" of the German people and make them overcome any obstacles on the admittedly dangerous road to full unity.

This seems to have been the basic political mistake at the time, the "reading" of a national euphoria which wasn't there. Their appeal to "Solidarity" from the West German countrymen that is the willingness to think less of "what the country can do for me" and more on "what I can do for my country" was not received with the bravado they hoped it would.

The West Germans could of course eventually be relied upon to pay any surplus taxes decided by the government, but at the time the Christian democrats were thinking less of coming tax-raises and more of the willingness of West German business not only to seize the great opportunities offered and weigh risks against future profits but most of all to redefine business as such and look upon it not as "business as usual" but as a national task. This also meant the willingness to make personal sacrifices by moving out of well-known and highly civilized settings and investing great personal energy in rough and unpleasant surroundings, far away from "home" or rather making that new area into a new German "Heimat", an attractive place to live in, a "magnet" for businessmen, lawyers, doctors, nurses, teachers, skilled workers etc.

Kohl loved to speak of the "blooming landscapes" in the new Länder he hoped would evolve very soon, with high-tech industrial parks, clean environment, rows after row of neat one-family-houses with their own garden, attractive streets with small shops and restaurants, nice squares, well-equipped playyards for children with lots of space, precisely the kind of things which makes life in West Germany civilized and takes some of the aggression and

bitterness away from the underprivileged in a social market economy by compensating for the humiliating feelings of "private misery" through the pride of "public splendour".

The problem is that public investments however necessary, can only partially create such civilized environments. It takes living people who are willing to start a new life, a kind of "pioneers" (Sommerfeld, 1993) who can inspire those around them and at the same time function as a kind of "model" which others want to imitate. This kind of "elementary" solidarity doesn't seem very frequent though. Although West Germans have to some extent moved to East Germany, the most eager group seems to have been those West-German academics who suddenly saw a chance to "jump" ahead in their professional career. This was precisely the area where pioneers were the "least" needed, since East Germany have plenty of well-qualified candidates themselves. After all, the system of Higher education was something most communist parties took a special pride in furthering, not the least because the intelligentsia has always been the group most dedicated to the idea of socialist state, a pattern which is still very much the case in East Germany where the former communists and the social democrats can count upon an overwhelming support from these groups.

If the Western academics manifested little of the "Solidarity" counted upon by those thinkers in the Christian Democratic party trying to play the nationalist card, not hesitating to use their market-sharped "elbows" in purely individualistic career pursuits, the main groups Kohl and Schäuble had counted upon, individuals with political and administrative experience by and large stayed away. The reason for the politicians and top administrators to avoid settling in the new Bundesländern is simple. As long as Bonn remains the real political capital of the federal republic - which some West German still thinks is best for Germany (Soeffner, 1994) - they have little incentives moving with their families to Berlin and as long as the new Länder remain financially poor, the latter have difficulties attracting highly qualified candidates. Moreover the partysystems in East Germany are small and poor as well (the only exception being the former communists in PDS) which means one really has to be an idealist to change headquarters from West to East.

Businessmen tend to act according to more rational motives though. Some of them have indeed settled in the East, plants have been bought and remodelled, some have even moved part of their headquarters to East Germany. This kind of "solidarity" is not always appreciated by the East Germans though, who often complain of having been "colonized" (Christl & Neubauer, 1991) or sometimes feel like they are emigrants in their own country. Which means that the very willingness of the West Germans to make large scale investments and at the same time assist the East Germans in adapting to the new system is felt almost as bad as if these West Germans had stayed away. In both cases, there would have been a latent inferiority syndrome. The difference is that anxiety has increased as the well-known environment has suddenly become volatile and strange and the future coloured by black uncertainty.

## **The Cost of Mistakes: Privatization and the Problem of Information**

What lessons are to be learned from the way East German industry was privatized/restructured? Apart from the failed investment in non-existing national sentiments, the complexity and novelty of the task seems to have overwhelmed the actors, who had to start learning and fast. One important and widely underestimated problem at the time was the lack of information about the more general state of the East German economy but also and perhaps more significantly the detailed, specific conditions in different regions and what existing firms and the labour force could "offer" in possible "deals" for interested investors.

According to Griffin (1994), the original idea was that the German banks should have played a much more prominent role than they actually did in the restructuring of East German industry. The German politicians did not rely exclusively upon national feelings, they also thought the "market economy" as such, particularly the German variety of "organized capitalism" would do the job. Most of all they relied upon the big West German banks to play an active role in industrial restructuring in East Germany, following the traditional pattern in the Federal republic where banks have been allowed to execute indirect control over industry through equity capital, thus more or less relieving the state from having to develop an "industrial policy". The concentration of ownership control in the big banks in practice means that this task is tacitly shouldered by the biggest owners, the big banks.

Thus the politicians have been saved from making the unpopular decisions of closing unefficient plants and at the same time make sure that longterm investment decisions are made by competent actors. One of the reasons why Chancellor Kohl and the Christian Democrats were so confident about the industrial future of East Germany, seems to have been their high trust in the restructuring capacity of the West German banks. The poor results of industrial restructuring, at least measured in the amount of jobs saved, can partly be explained by the conspicuous absence of these major players after unification.

The reasons the banks played a rather passive role in the restructuring process in East Germany leaving it more or less to Treuhand to organize the process and make most of the deals, were the high risks involved but also the lack of accurate information of conditions "in the field". The problem with the East German industry was not mainly the technological state which was not as bad as often assumed (Stolpe, 1992) but lack of experienced managers who could easily adapt to market conditions. These had to be brought in from the outside, which is why Treuhand insisted upon "privatization first" as the best strategy in the given condition. But in order to find an interested investor, the value of the firm had to be established (Kampe, 1994), legal issues of previous ownership had to be cleared (Glaessner, 1993), previous debts had to be taken care of (Christl & Neubauer, 1991) and most of all a strategic entrepreneurial concept had to be created: What was going to be produced, for what markets, with what

resources and would incomes from sales cover production costs and when?

The dilemma of Treuhand was twofold and unsolvable both inside a strict "market-economy" model and an "organized capitalism" model. According to the market-economy model, markets function because institutional arrangements are provided. These define the rules of the games of the actors. The latter is thus supposed to act according to information which can be more or less taken for given, for instance the market price of a given asset. This is decided spontaneously by the market itself. But in this case there is no market, since the rules of the game are not created yet. There is no way out of this "privatization" dilemma, all solutions are "artificial" in the sense that political or administrative actors have to "create" the prices themselves. This can be done in different way, according to once policies.

If the most important thing is the social aspect (that there are as few layoffs as possible) and one can do with weak management, than voucher privatization or employee-owned firms will do the job. If the social aspect means less and strong management is important, than one should chose auction privatization, with no strains on potential investors. If one wants to combine social aspects and strong management, then one should chose a bargaining model of negotiated contracts, seeing to it that one gets committed investors (Wiesenthal, 1994). In this latter case, obviously the price means less than the commitment negotiated, sometimes leading to bargains which seem to be very favourable indeed for investors (Kampe, 1994).

The reason the "organized capitalism"-model was introduced in the East German case, was the idea that the prevalence of the German banks would create a certain stability to the situation. Risks would be minimized and thus it would be much easier for Treuhand to find the investors to negotiate the deals with. Moreover the banks would be able to assist in these deals, helping to find appropriate buyers in the cases they didn't want to commit themselves directly. With their pattern of engagement in West German industry, involving not only credits but equity capital in West German firms as well, the banks had an accumulated knowledge of market conditions and networks of business contacts which could be mobilized.

When it turned out that the West German banks themselves hesitated in actively engaging themselves in the restructuring business, this sent the "wrong signals" to the business world, which was indirectly told to stay away. Thus in stead of playing an expected stabilizing role, the passivity of the banks increased the perception that this was a high-risk area for private investors. This of course made the bargaining deals Treuhand was engaged in much more difficult. Since they couldn't close down the plants for obvious social and political reasons, they had to keep them afloat. For this they needed liquidity, and since Treuhand was a government agency, the credits arranged from the big banks were fully covered by the Federal government. After thus having forced the Treuhand and indirectly the government to take over much more responsibility for industrial restructuring than intended, avoiding the

large risks involved, it gladly accepted to extend credits to the Treuhand firms, knowing there was no risk whatsoever involved in this generosity (Köhler, 1994).

But why did "German organized capitalism" stay away from industrial restructuring in East Germany in the first place? Partly it seems to have been a question of conflict of interests. With the economic, social and monetary union the West German banks suddenly saw an enormous market of private customers, whom they were anxious to please. Getting directly involved in acquiring equities in East German firms, would have meant being held responsible for the first massive layoffs which had to be executed in the first phase of adaption to market conditions. This would have badly hurt the reputation of the bank involved, thus driving private customers into the arms of the bank's competitors and since the market opportunities was so huge in this particular area, the banks couldn't resist making this kind of priority. Catch the private customers first, the others will come later anyhow, became the tacit rule of the game.

But even more important than this shortterm profit thinking, was that in the East German context, the type of information the banks commanded were of little value. This had to do with the particular structure of East German industry, which was organized in enormous, "vertical" combinates. This particular division of labour had to be broken up and restructured, creating a model resembling the "horizontal", niche-oriented structure typical for modern market conditions. The only way of doing this was to combine the knowledge of "local" conditions with "globally" oriented actors, involved in entrepreneurial, venturing and consulting activities directly related to the market.

This particular type of knowledge the banks lacked, nor did it have any experience in "mediating" between global and local actors, which is why they stayed out of the process. Indeed, they did engage themselves for a short time, getting involved in a more or less desperate moves not to lose potential indigenous entrepreneurs to competitors. Thus, as an exception they went into the high-risky business of financing local management buyouts. But doing what was asked of them, in this case had the opposite effect, ruining East German budding entrepreneurs who lacked the necessary experience and market knowledge. They would have needed equity capital and strong guidance from the banks, in stead of being left with full responsibility, which they couldn't master. Having shown their "good will", the banks withdrew to more safe business, thus indirectly pushing the managers they had recently got on their hook into bankruptcy.

The reason the traditional models doesn't seem to work in East Germany, thus seems to have a deeper root in a failure of current transformation theory, which lives in the illusion that it is enough to apply what is already known upon the new reality. What such an "imitative" approach underestimates, is the need to "improvise" in a situation which is highly unstable and where the major competence asked for seems to be the ability to act relatively



rationality in the absence of given rules or established routines.

The type of actors actively involved in the transformation process are not bankers, but more "entrepreneurial" actors, who are able to seek out the relevant information under volatile conditions and function as a kind of "match-makers", that is bringing together the relevant actors, who by sharing their knowledge are able to "invent" new businesses and "create" the entrepreneurial concepts asked for. Whatever the success the Treuhand has been able to achieve, it is due to its ability to engage actors who are able to transcend their usual task and engage in multipurpose tasks. Accounting firms and consulting companies found themselves not only assessing the market value of a given firm, but trying to invent possible management strategies for these firms, which would fit investors they themselves had "dug up". Without this match-making activities, setting a value was more or less meaningless. "What the Treuhand sold was not assets with some fixed value, as the market economic model assumes. Rather the value of old East German firms and firm pieces depended heavily on both the strategic needs of outside investors and how well local assets could adopt themselves to fit those needs.. it had the talent to help these buyers integrate the combines assets into complex short- and longterm strategies and build consorti around these strategies" (Griffin, 1994, p. 402).

## **Conclusion**

The lack of national feeling and solidarity in Germany, transformed the process of unification from a common national task, to a "business as usual"- type of "rational choice"-individualism which works well under normal and stable conditions but which does not live up to the criteria called for by a transformational society. The result was massive dissatisfaction on both sides. The East Germans felt they had been cheated and deprived of what they had before, that is high work security, without fully receiving access to the consumer paradise of West Germany. The West Germans felt they have been asked to contribute to a common cause which they only marginally identified with.

When it turned out that some inevitable mistakes were made and that a major strategic player, the big banks in West Germany, refused to shoulder the task of industrial restructuring they normally take upon them in West Germany, the original "equation" just didn't go up and unification turned out to be much more expensive then originally calculated. Thus the patience of the West German tax payers were strained to the degree where the whole project of German unification seemed to be endangered and where trust in the political system itself declined, leading to what the Germans call "Politikverdrossenheit" (Herles, 1994).

Even now, after the last general election in October 1984, when the Christian Democrats very narrowly returned to power, the problem of the "Solidarzuschlag", the extra taxes which have become necessary to keep the rising budget deficit due to unification under control, is far from settled. If this is the case inside the same nation, the most prosperous and economically sound in all of Europe, pursuing a Marshalplan type of policy in a limited area, one must ask how realistic it is to expect that the inevitable high costs for such a policy to be politically acceptable for the West Europeans, who are themselves divided not only culturally but economically and politically as well.

But even if we abstract from this problem, one must ask whether the policy as such is wise. Given that there will inevitably be made many mistakes in any process of strategic learning, the social costs of such "learning mistakes" increases with the degree of centralization. It is far from certain that a coordinated effort is better than a decentralized one. Given that economic and political actors always cope in a sphere of uncertainty, without water-proof theories to guide them, it is probably an advantage to make social experiments on a "smaller" scale, as this will minimize the possible disasters, should the experiment fail. This has been one of the advantages of the Western liberal-democratic system, which "naturally" prefers "smaller scale" experiments to big ones (Rosenberg & Birdzell, 1986).

One could reasonably argue that one of the reasons why communism collapsed, was a preference for the opposite, big projects, preferably controlled by the government. These don't always fail, if you put enough of money and resources in a given project it is almost bound to be a success. The problem is that if you generalize this model, always preferring centralized, government-controlled projects, than there will not be enough money to any of the projects, not even the good ones and when these projects fail it will be a highly costly affair.

So far the amount of capital, managerial and administrative expertise flowing from West to the rest of Eastern Europe is only a fraction of the rivers that have brought new personnel, institutions and habits of mind to East Germany in the period of a very short time. This has caused massive resentment among the East Germans who once again have been so to say "degraded" to second-rank citizens, this time not because they lack the buying power of the D-Mark, but because they have been reduced to the status of pupils.

One of the most powerful scenes in *A Dreamplay*, written by the Swedish dramatist August Strindberg, is the one where an officer suddenly wakes up and finds himself in a classroom, surrounded by small children. This is how the East Germans feel today. They don't know if they should laugh or cry and they ask themselves the sense of becoming pupils, as if they were not responsible adults with a life-time of experience which could be used more profitably, both for society and from a life-biographical point of view. They ask themselves if their previous efforts were all in vain. Most of them made a life-investment not in the

regime or system as such, but in qualifying themselves. The Marshalplan type of assistance they are receiving now is probably well meant, but it still feels like a double punishment. First for having lived in the Soviet occupied area, thus being deprived of the freedom and prosperity of the West, and now by being left in suspension and denied access to the type of exciting jobs which makes the effort worth, the latter being either eliminated or exclusively occupied by supposedly better qualified people from the West, who won't give the "Ossies" a chance to prove themselves.

These very realistic consequences of embarking upon a new Marshalplan to Eastern Europe, follow logically by extending the German "model"-case beyond Oder and Werra. Whatever the motives, the idea of a coordinated effort, involving massive assistance during a short time, does not necessarily produce better results than a more cautious strategy of say help to self-help, where the receiver remains firmly in control and the donor arrives only when asked for. In the case of East Germany the former strategy couldn't be avoided for political reasons, but this doesn't mean we have to repeat the same mistake all over again.

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