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### Empfohlene Zitierung / Suggested Citation:

Martens, B. (2016). Some Results of the Economic Transformation in East Germany and their Possible Relevance for Korea. *Historical Social Research*, 41(3), 211-228. <https://doi.org/10.12759/hsr.41.2016.3.211-228>

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# Some Results of the Economic Transformation in East Germany and their Possible Relevance for Korea

Bernd Martens\*

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**Abstract:** »Einige Ergebnisse der ökonomischen Transformation in Ostdeutschland und ihre mögliche Relevanz für Entwicklungen in Korea«. The outcomes of the transformation of the GDR economy is described in regard to four topics: reproduction of managerial elites, due to functional necessities; short windows of opportunity of reaching a leading position at the top level of companies in the new economic order; fast role taking of the new managerial elites who often had a professional background as cadres in the socialist economy; and an accelerated change of social structure. The results refer to different surveys among entrepreneurs and executive of industrial firms in East and West Germany. The data were collected by the research project A2 "Economic elites in enlarged Europe" of the Collaborative Research Centre 580 at the universities of Halle and Jena, and they can additionally be compared with similar surveys among Polish and Hungarian respondents. The results are assessed in reference to three transformation paths which distinguished countries that have undergone after the collapse of the global socialist economic system. Eventually the relevance of the outcomes is considered for the North Korean case.

**Keywords:** Transformation, economic elites, business leaders, circulation of elites.

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## 1. Introduction<sup>1</sup>

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In 1991 the Council of Mutual Economic Assistance (CMEA or Comecon) was dissolved. This decision marked the visible collapse of the experiment that attempted at establishing a global socialist economic system (Stone 1996). During the following years, the former member states of the Comecon underwent quite different fates, for example: the Soviet Union and Poland (founding members in 1949), Vietnam (Comecon member since 1978), or North Korea (no membership, but observer status). Nevertheless, the economic transformations of former Comecon countries can roughly be classified into three different paths that are used in the following as an interpretative scheme. The

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<sup>1</sup> I am indebted to Thomas Ketzmerick, Rainer K. Silbereisen, and Michael Wyrwich for helpful comments on an earlier version of this paper.

overall question is whether the German unification process and the economic transformations of selected East European countries provide some “lessons” for conceivable changes on the Korean peninsula, despite large differences between the countries (Frank 2014, 347 et seq.).

Therefore the transformation of the former GDR economy is outlined in this paper and its relevance to hypothetical future changes in Korea is discussed. The chosen approach is twofold: information on the economic development as well as data about East German business leaders are used. The second type of information refers to different surveys which were conducted by the research project A2 “Economic elites in enlarged Europe” of the Collaborative Research Centre 580 at the universities of Halle and Jena.

The outcomes of German economic transformation and additional information about other East European transformation countries are summarized with regard to five topics:

- the development of economies in different (former) socialist countries are summarized in three transformation paths;
- the reproduction rates of economic elites were relatively high and showed similar patterns in all former East European socialist countries;
- the windows of opportunity to reach the first hierarchical level in East German firms were rather short at the beginning of transformation;
- the comparisons of population and economic elites indicate a successful “role taking” of the latter; and
- the economic transformation processes were always connected with social “side effects” like growing inequality and social closure (Ther 2014 offers a synopsis of the various East European developments).

As a concluding remark, the East German situation after the economic transformation delivers a background for hypotheses concerning the Korean situation.

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## 2. Data

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During the research of the Collaborative Research Centre 580 computer assisted telephone interviews were carried out with executives and entrepreneurs in companies in selected East and West German regions, for the first time in 2002. The sample included independent enterprises of the German manufacturing industry with 50 to 1,000 employees. These relatively small firm sizes reflected the recent industrial structure in East Germany with a lack of large corporations. The standardized questionnaire comprised questions regarding the characteristics of the companies and the persons responsible on the first organizational level (entrepreneurs, managing directors, executives, or CEOs). Personal data of the business leaders (social and educational background, careers, perceptions of their role in society, assessments of industrial relations

and opinions about relationship between state and business) were collected and can be correlated with organizational or other independent variables. The first survey in 2002 was replicated twice in 2005 and in 2010 following a panel design. The last German survey was complemented by identical data collections of our Polish and Hungarian research partners (Bluhm et al. 2014). Consequently, some of the results on East German business leaders can also comparatively be discussed.

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### 3. Outcomes of Economic Transformation

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#### 3.1 Transformation Paths

German reunification is embedded in the political upheavals in Eastern Europe. It is, therefore a special case of political, social, and economic change. In the literature the following aspects are taken into consideration to describe the economic transformation in Eastern European countries in the 1990s:

- the position of the communist party (still in power or replaced by new political agents);
- the time span in which political changes took place;
- the type of exchange of economic and political elites;
- the conditions and, in particular, the restrictions under which the privatization of former public property had been carried out.

The economic transformations of the former socialist countries in Eastern Europe occurred in diverse patterns. However, for analytical purposes they are classified into two groups of countries.

Countries which are characterized by an abrupt political change and relatively unregulated conditions of the privatization processes are Russia, Ukraine, Romania, Bulgaria, and Albania. The socio-political consequence in these cases was that “insiders,” who were mainly former cadres, could get control over large economic units and were able to acquire additional properties. Oligarchic structures emerged and have gained a substantial impact on the economy in these countries. These countries followed transformation path *A*.

Separated from this path of economic transformation, the Czech Republic, the Baltic States, Hungary, Poland, and East Germany can be denoted as a second group of countries (transformation path *B*), where the political change was also carried out quickly, but at the same time more or less transparent rules governed the conditions of transfer of state’s property. Partially, these regulations led to a systematic discrimination of “insiders.” This held especially true in the case of East Germany.

The German reunification was an extreme case of transformation. The monetary union with the Federal Republic of Germany comprised a “shock thera-

py” for the GDR economy which suddenly became a part of global competition. With the accession of the German Democratic Republic to the scope of application of the federal constitution, West German institutions were also introduced at one stroke. At the national level, an elite exchange occurred and a conversion of former political power into economic power was not possible, since the question of ownership of public property had already been solved by the establishment of the privatization agency *Treuhandanstalt* in 1990. It quickly brought about a high turnover of elites in the economy, because it managed the takeover of firms by strategic (Western) investors and systematically obstructed or outright prevented buyouts by East German management in favour of West German buyers. Informal relationships or family ties did not matter in the privatization, so a strategy “from plan to clan,” which could be observed in other transition countries, was ruled out (Gergs and Pohlmann 1999, 247; see also Fritsch and Wyrwich 2016, in this HSR Forum).

In the group of countries that followed transformation B, different forms of privatization were used: direct sales to mainly West German or foreign investors (in East Germany, Estonia, and Hungary); a mass privatization and strategic sales in the Czech Republic as well as an insider privatization combined with a subsequent mass privatization; and direct sales to investors in Poland (Bluhm et al. 2014; Ther 2014).

Despite of this varying diversity over time and different ownership structures (for example, in Poland companies in state ownership play until today an important role), it can be stated, as a general result, that the economic transformation in these countries led to dependent market economies which suggests that the influence of foreign capital is large. In some cases even regional developments in dependent market economies depend on foreign companies due to their dominant position in the respective national economies (Bluhm et al. 2014).

East Germany may be included in this group of countries, because, in this case, mainly West German investors bought companies. After reunification, these investors were formally no longer foreigners, but their functions were, nevertheless, similar to foreign investors in other former socialist countries of the second group of transition countries. Actually, the *Treuhand* policy, which fostered very fast and direct sales of assets to strategic (Western) investors, led to an even more extreme version of “dependent capitalism” than in the other post-socialist countries of East Central Europe. The important difference was, however, that the top positions of the larger privatized companies could much more easily be staffed especially with Western, that is, West German, personnel (Bluhm 2010). Most of the large companies were subsidiaries of western or West German companies. Just one headquarter of a large manufacturing company is located in the formerly highly industrialized East Germany, that is, in Jena, and only because there was a particular political support for this company.

In a rapid political change, a controlled privatization seems to promote the influence of foreign capital, that is, in fact relatively independent of the selected type of privatization. By those regulations oligarchic structures as well as insider solutions can partially be prevented, but at the same time it supports the creation of “extended workbenches” under foreign control. In addition, it can foster sentiments of colonization among the domestic population. In regard to the elite constellation, the remaining essentially regional economic elites in the emerging dependent market economies were not able to maintain a decisive influence on the economy. It remains an open question to what extent this held true before the political upheaval, because in the socialist planned economies the claim of a primacy of politics always existed.

Countries like China or Vietnam pursue a third transformation path called *C*. It differs from the previously mentioned paths A and B in the decisive feature that the traditionally ruling party still remains in power, although economic reforms took place in the past. The political class in these countries strives for the complete control of the transformation process that encompasses, for example, the opening of certain markets, foreign investments, the allowance of entrepreneurial activities of the domestic population, or joint ventures. The still ruling political elites try to decouple political and economic reform processes, or in other words: The primacy of politics shall remain untouched. Economic reforms shall only occur in accord with political decisions and they shall never undermine the power of the ruling class.

Experts on North Korea agree that since the end of the 1990s economic reforms were conducted in the country.

In terms of economic life, there were some indications of change – and even the use of the taboo word ‘reform’ – in both the rhetoric and the observable reality of DPRK (Democratic People’s Republic of Korea) life. Since the economic crisis began to emerge in the early 1990s, long before the famine (1995-97), there had been signs of liberalization and the growth of local markets in the North Korean economy (Armstrong 2014, 58 et seq.).

In 2002 “the most far-reaching economic changes” were established “since the regime was founded in 1948” (Armstrong 2014, 59).

The actions by the state concerned rising wages, the food supply system, taxes, and a very strong currency devaluation. The domestic currency was reduced in relation to the dollar by 6,800 % (Frank 2014, 200). Some of the reforms failed and since 2005 an opposing trends of a “neo-conservative socialism” could be detected (Frank 2015, 568). But Frank (2014, 204) describes for example that planning, as an essential part of socialist economy, vanished in the North Korean public. Perhaps there are still economic plans, but they are not a particular subject of public perception, any longer.

The 2002 reforms showed the limits of political interventions in North Korean economy; they produced, for instance, an immense inflation. In essence, they did not have the effects that were originally intended, but they had im-

portant impacts or “side effects” on the society. Money obtained a growing influence on all aspects of life. Thereby it changed social relationships and established new societal inequalities (Frank 2015, 567). “North Korea is today no longer the same country as before the July reforms [in 2002]” (Frank 2014, 232). It is supposed that these changes can best be described in terms of transformation path C that presumably also meets the intentions of the ruling class in North Korea.

### 3.2 Elite Reproduction

The transformation in East Germany represents the extreme case of elite turnover, since in fact a professional “counter-elite” was available in all sectors due to the German reunification. Simultaneously, the far-reaching institutional transfer which was involved in the reunification entailed transfer of top personnel from West to East especially in administration. In the middle of the 1990s, the East German elites were underrepresented at a national level in comparison to the overall population: Of the 2,341 elite positions in politics, economics, science and culture, only 11.6 % (272) were occupied by East Germans (cf. Bürklin and Rebenstorf 1997). The proportion of the East German population is about one-fifth. Among the 180 largest companies listed in the DAX, just two chairpersons were born or socialized in the German Democratic Republic (Mau 2012).

The *Treuhand* policy and the massive deindustrialization following the currency union in July 1990 led to a quick and dramatic structural change not only in branches but also in company size. The *Treuhandanstalt* already broke larger state-owned enterprises into smaller pieces in order to make the process of selling them easier; in addition, departments and smaller production sites looked for Western investors, contributing to the dissolution of bigger units. For the transformation of the economic elite, the downsizing of the East German industry supported their “regionalization.”

The first *Treuhand* director Detlev Karsten Rohwedder was in favour of a “head theory” which suggested the creation of an elite circulation. Thus, initially the (West German) directors of the privatized companies had to be appointed. Then – this was the conjecture – they would bring their “heads of the department” and their managers from the West with them (Pohlmann and Gergs 1996, 77). This hypothesis did not come true. The East German labor market was rather uninteresting for West German executives that in the mid-1990s. The elite import in the field of economy was estimated to 11-14 % of all managers (Pohlmann and Gergs 1996, 79). Later investigations of the Collaborative Research Center 580 showed that the proportion of business leaders with a West German origin was continuously at one-third in East German industrial firms during the period 2002-10. But also in these cases the remaining levels of hierarchy were clearly dominated by East German managers (Martens and

Lungwitz 2012). Therefore, the import of managerial staff from West Germany was more limited than originally expected. This rather supports the notions of an elite reproduction than an elite circulation.

Nevertheless, studies about the fate of former economic elites, who had worked at the top levels of state conglomerates (*Kombinate*) in the GDR, found that approximately 25 % of the former economic cadres retired during the first years of transformation. After ten years, however, 80 % of the still working persons were successfully busy in different economic fields. One fifth of them was entrepreneurs at that time and had founded a company. The largest proportion of this group of former economic cadres (80 %) continued their careers in managerial positions. At least 40 % even found jobs at the very top level of company management during the 1990s (Schreiber et al. 2002, 141). In comparison to the general employment rates in different economic sectors, the personnel in the higher organizational strata had generally a better chance of keeping and finding adequate jobs after the historic upheaval than workers at lower organizational levels (Lutz and Grünert 1996, 85).

In spite of a high elite turnover in the East German economy and the widespread decline of its indigenous elite to the level of a “regional elite,” due to the reduction in size of the companies and the takeover of the remaining large state enterprises by multinational companies, the thesis of “vertical reproduction” is applicable here (cf. Pohlmann and Gergs 1999). This notion means that the economic transformation frequently offered the second hierarchy of economic cadres the possibility to continue their careers. Hatschikjan (1998, 258) describes the transformation process and the recruiting of new business elites during the early 1990s as “revolution of the deputy department chiefs” that was observable to some extent in all former socialist countries.

The thesis of “vertical reproduction” of the economic elite is even more appropriate to the East German case if one takes into account the founding of new companies during the economic transformation, which were often based on the ruins of the former state enterprises, although the *Treuhandanstalt* did not support management buyouts by preferential prices that were set for West German investors. Initial disadvantages faced by the former GDR management are still detectable more than two decades after unification. Larger companies in East Germany are more likely to have West German or foreign capital holders and West German executives. If East Germans do own shares, their holdings are likely smaller.

Nonetheless, there has been a remarkable continuity in career paths overarching the system collapse in some respect. Many “deputies” moved to the top level of firms. In 1989, those who made this move were approximately 40 years old, principally engineers or technicians with a university degree and nearly all of them had already had leading positions in the GDR economy (Table 1). Around half of them made this step as shareholders, either as spin-offs of former companies or founding their own new companies (cf. Martens



2008). Only a few ever worked outside the economic sector – in this respect they resembled their West German counterparts.

**Table 1:** Percentage of Business Leaders who had a Leading Position in Management before 1989, Differentiated to Regional Background

| Year of the survey | Percentage of business leaders who had leading position in management before 1989 |              |
|--------------------|---|--------------|
|                    | East Germans  | West Germans |
| 2002               | 79.1 %  | 72.0 %       |
| 2005               | 74.8 %  | 55.7 %       |
| 2010               | 67.1 %  | 54.8 %       |

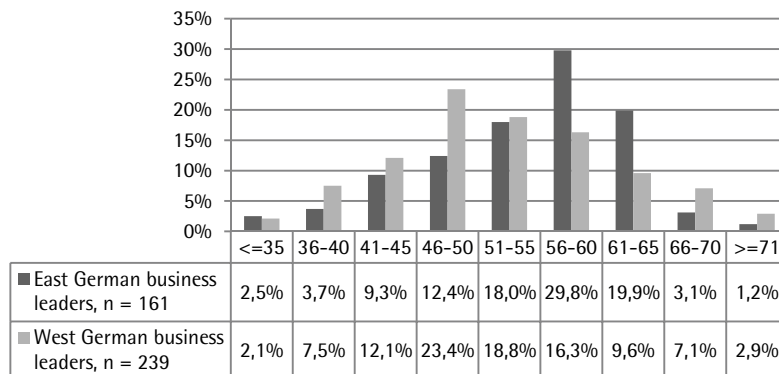
Source: Management panel surveys, project SFB 580/A2.

### 3.3 Short Window of Opportunity with a Long Shadow

However, the chance of former economic cadres of getting first rank positions was limited with regard to the course of time. The window of opportunity was open during the first years after 1990, and then it closed.

Kotthoff and Matthäi (1999, 100), in their study of economic transformation in East Germany, point to special types of entrepreneurs who had a professional background in the GDR. They found among others “senior entrepreneurs” who took their opportunities to control a company at an unusually advanced age, as well as “entrepreneurs against their own will” who were forced by circumstances to follow a new profession, principally in order to avoid unemployment (Matthäi 1996, 153-71).

**Figure 1:** Distribution of Age, According to Regional Background



Source: 3rd wave of the management panel survey in 2010, project SFB 580/A2.

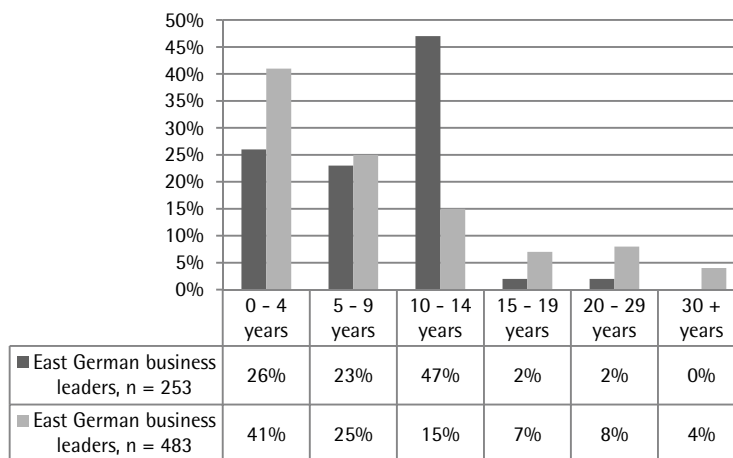
Both types of these entrepreneurs appeared in the empirical material and interviews of the management study conducted by the Collaborative Research Centre 580, but with a preponderance of the former type. A group of East German

entrepreneurs and executives which was still dominant 20 years after unification had a professional background in the socialist economy of the GDR (Table 1). The percentage of East German persons who had already reached leading positions before 1989 and was still in such positions in 2010 is 67 %. The corresponding figure for the West German sample is 55 %. In comparison to the data of the 2005 survey the differences are only minor.

The age distributions of our respondents also illustrate the high proportion of “senior entrepreneurs” in East German management. At first glance, the difference between the mean ages of respondents seems to be rather small: 54.6 years (East) and 52.5 years (West) and became smaller during the three panel waves (Martens 2008). But the difference is still statistically significant (t-test,  $p < 0.018$ ), and, furthermore, the whole distributions are quite different (Kolmogorov-Smirnov test,  $p < 0.001$ , Figure 1).

Older age groups occurred more often in East German top management. The ages of the largest cohort in the 2010 survey was between 35 and 40 years at the beginning of the 1990s. In contrast to the age structure of the East German sub-sample, the age distribution of the West German respondents is more “balanced.” Persons who are younger than 45 years appear with larger frequencies. Due to the special age structure of managerial elites, a generational change in East German top-level management was originally expected during the first decade of the 21st century; however the older cohorts of former economic cadres have shown a large degree of resilience.

Figure 2: Length of Time Spent at the Position Held at the Time of the Survey



Source: 1st wave of the management panel survey in 2002, event history data, project SFB 580/A2.

A second impression on career patterns is provided by a comparison of the duration of staying at the position that the respondents occupied in the year of the first panel survey (the following analyses refer to the event history data on careers that were only collected in 2002). The distributions of the East and West German respondents differ widely (Figure 2): A majority of East German executives and entrepreneurs apparently used rather short windows of opportunities to obtain their positions at that time. These windows of opportunities only existed at the beginning of the 1990s and since then, these persons have remained rather immobile in their positions. The length of time spent at the position also correlates positively with ownership of company shares.

A multivariate method (optimal matching of sequence data<sup>2</sup> describing careers of East German respondents during the time frame 1981-2001) revealed that some of the economic elite's current characteristics – such as age structure, job mobility, company ownership, and qualifications – were still influenced by the windows of opportunities that existed in the early 1990s. It was possible to summarize the careers of East German entrepreneurs and executives into three patterns of sequences of occupational states (jobs):

- 1) The dominant career pattern could be circumscribed by the term “continuously.” Persons belonging to this type were essentially senior entrepreneurs and did not change company, but only their position. Executives and entrepreneurs of this career type had always been – before and after the unification – in the same economic organization. This held true for 53.6 % of the East German sample and it described the main structure of opportunities which were relevant for East German business elites in the beginning of the 1990s: seeking their chances in the firm they already knew.
- 2) A second group of persons, encompassing 27.0 % of the East German sample, reached the top-level of companies only by changing the firm or by founding a new one, also at the beginning of the 1990s. This group exhibited a different type of mobility and flexibility and it can be denoted as the founders.
- 3) The last cluster includes respondents who were younger and who did not possess company shares. Their careers often showed them rising to top-level positions at the end of the 1990s. They seemed to represent a new generation of managers (Martens 2005, 225).

Further analysis reveals that the career type essentially depended on the ownership of companies. This held true especially for the first and second career pattern. The use of the windows of opportunities frequently implied the neces-

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<sup>2</sup> The careers are regarded as sequences of states during a given time frame. All sequences are compared according to a special distance measure and classified by cluster analysis (Abbott and Tsay 2000). In our case, states are hierarchical positions and whether a person changes firm to get a new job. Optimal matching of career sequences leads to seven clusters for the East German respondents (Martens 2005, 218-25).

sity of buying company shares. Consequently, the percentage of owners among in East German business leaders were higher than among their West German counterpart, however, more often, they possessed only minority shares.

Whereas in East Germany the generational change in domestic top management was rather small since the beginning of the transformation process, it was larger in Poland and Hungary. There we observe a significant impact of foreign capital on the speed of generational change. Age effects are especially promoted by subsidiaries in all countries. Therefore such companies that are totally owned by foreigners can be seen as a driving force of generational transition during the transformation. The same holds true for Poland and Hungary regarding companies that are owned by other companies and – in the Polish case – by companies which are run by employed managers. In other words, companies belonging to a larger conglomerate have younger employed top managers, especially in the case of foreign ownership. While in Poland and Hungary, according to the 2010 surveys, around one-third of the older “deputy generation” who began its career under socialism held top management positions in foreign owned companies (29.5 % and 31.3 %, respectively), this held true for 46.4 % of the younger generation of business leaders in Poland and even 66.7 % in Hungary. (The demarcation line between the younger and the older group was an age of 45 years.) The contrast was much weaker in Germany, because the percentage of East German business leaders in foreign-owned companies was particularly low in both the younger and the older cohort.

For East German business leaders, the road to top positions in management, as mentioned above, was linked to ownership, as it was also the case for the younger generation. East German business leaders show the highest proportions of manager-entrepreneurs among the younger generation, but this evidently constrains the possibilities of the younger generation, due to the need for equity, in comparison to Poland and Hungary, where the percentages of employed executives are higher. The situation of the East German business leaders is characterized as “lagged generational change” as a feature of East German management for a long time (Martens 2008). A short window of opportunity developed an unexpected long shadow.

### 3.4 Successful Role Taking of the Business Leaders and its Implications for Society

Also, although the former economic cadres had firstly lacked managerial or entrepreneurial skills, many of them learned rather quickly. To label it in sociological terms: The new business leaders were quite successful in *role taking*, since most of their firms, which were accompanied during the time span of our research, were economically successful. This role taking of East German business leaders can additionally be illustrated by analyzing attitudes. Our survey in 2010 still reveals some differences between opinions of East and West German

business leaders, but the variations between them and the population are more significant in West as well as in East Germany.

The greatest contrasts between the interviewed business leaders and the population, in both East and West, exhibit the assessment regarding state's regulation on economy. In a representative survey of the German population conducted by the Collaborative Research Centre 580 in 2010, about half of the population in East Germany advocated an economically and socially active role of the state including even policies to redistribute wealth (Alesina and Fuchs-Schuendeln 2007 published similar results). The population in West Germany was more cautious on these issues with an agreement rate of about one third. But, even here, a large difference existed in the views of business leaders who were predominantly against any state intervention (Table 2). This advocacy of the population for an economically active state, albeit with the aforementioned East-West differentiation, corresponds to the social "main conflict line" between social justice and market freedom that is usually displayed in general population surveys in Germany. The desire for social justice and protection, both of which have to be ensured by the state, is widespread in German society (Neugebauer 2007, 58 et seq.).

**Table 2:** Approval to Items in the German Population and among Business Leaders of Industrial Companies

| Items   | West             |            | East             |            |
|---|------------------|------------|------------------|------------|
|   | Business leaders | Population | Business leaders | Population |
| The socio-political responsibilities of the state can only be achieved through the redistribution of wealth | 6.1%             | 36.4%      | 18.7%            | 54.6%      |
| Trade unions are superfluous  | 24.2%            | 11.2%      | 41.9%            | 16.0%      |
| Free entrepreneurship and social justice are mutually exclusive   | 3.5%             | 21.3%      | 10.3%            | 27.4%      |
| The state should monitor and regulate the economy   | 6.5%             | 31.2%      | 7.1%             | 50.2%      |

Note: The items are selected according to their differentiating power between the two social groups and regions.

Source: SFB 580 general population survey 2010 and 3rd wave of the management panel survey, project SFB 580/A2 in 2010.

The commitment to market freedom, understood as the reluctance of the state in economic fields, is in contrast a "unifying bond" between East and West German business leaders. One can interpret this as an expression of common interests on the basis of socio-structural positions and functions. However, this does not rule out that East German entrepreneurs and managers have developed, in their own ways and on the basis of specific experiences, similar views as the West German group of business leaders.

Nevertheless, there are still significant differences between entrepreneurs and managers from East and West Germany. Especially the rejection of trade

unions by East German business leaders, which is almost twice as much as in the West German sample, is striking. Ownership of company shares is accompanied by a particularly strong rejection of trade unions by East German respondents. Although the aversion to trade unions in the West German sample depends on property of company shares, which matches traditional opinion patterns in industrial SMEs (Berghoff 2006), among the East German owners the rejection rate is 60 %, which is twice as much among the West German group and the difference compared to the employed executives is, rather pronounced, 25 %. The combination of regional origin and ownership possesses the largest explanatory power for the rejection of trade unions, compared to other features (such as the size of the company, the equity ratio as indicator of the economic situation of the company and the annual income of the business leader).

In relation to the population figures two issues are significant (Table 2): There are dominant similarities in the response behavior of the East and West German business leaders and simultaneously the East-West contrasts appear in the responses of the executives that are similarly visible in the responses of the population. So the company directors are mostly against redistribution, but the rejection of the East German leaders turns out to be weaker than that of West Germans (81 % compared to 94 %). Therefore they comply with the tendency of the East-West difference in the population (45 % disapproval in the East and 64 % in the West). Comparable response patterns are detectable in regard to the question, whether free entrepreneurship and social justice are mutually exclusive. Even in the case of the above-mentioned aversion of East German business leaders to trade unions, there is a trend towards a correspondence with the attitudes of the population: In spite of a strong endorsement of redistribution and government control, the skepticism of the East German population to the trade unions is somewhat stronger than in the West German population. However, this East-West difference is not as strong as in the case of business leaders.

When comparing population and regional economic elites, differences in attitudes can better be explained by social inequality, different social positions, or contrary interests than they can be attributed to the East-West discrepancy. Consequently, the opinion patterns of the population and of the economic elites are relatively far apart both in the new as well as in the old federal states of Germany. However, the long-term environmental conditioning does not vanish more than two decades after structural change. The East-West differences within the population as among the business leaders illustrate this statement. Beyond the societal main conflict line, East-West differences are still relevant within the sample of business leaders, however, their explanatory power is limited.

Although specific attitudes can certainly be influenced by both socializing influences as well as by interests, the following conclusions can be drawn by comparing the differences in attitudes between the East and West German population and the attitudes of business leaders from East and West Germany:

Insofar as the East-West differences in attitudes are observed among business leaders and the general population in the same way, it can be assumed that this is caused by the long-term effects of historical development and of personal socialization.

Differences in attitudes between the population and the business leaders, which occur in the same way in both regions of Germany, can be interpreted as an expression of conflicting interests that correlate with social positions and functions. These social variables have a larger impact than the regional ones. Similar gaps between population and elites are analyzed with regard to the political system (Best and Vogel 2012).

### 3.5 Social "Side Effects" of Economic Transformation

Table 3: Social Background of the Business Leaders, their Fathers' Education and Job Positions

| Goldthorpe categories      | Categories used in survey   | Poland                | Hungary               | East Germany         | West Germany           |
|----------------------------|---|-----------------------|-----------------------|----------------------|------------------------|
| Class I                    | Higher grade officials; top managers in large firms; large proprietors; higher grade professionals                        | 38.0%                 | 24.8%                 | 30.7%                | 34.0%                  |
| Class II                   | Lower grade officials; top and lower managers in small firms; lower managers in large firms; lower grade professionals    | 26.8%                 | 29.3%                 | 22.1%                | 30.5%                  |
| Class I and II             |   | 64.8%                 | 54.1%                 | 52.8%                | 64.5%                  |
| Class III                  | Routine non-manual employees (sales, administration, commerce, services)  |                       |                       |                      |                        |
| Class IV                   | Small proprietors with and without employees; farmers and smallholders; other self-employed workers in primary production | 12.0%                 | 6.8%                  | 15.7%                | 16.8%                  |
| Class V                    | Lower-grade technicians; lower-grade supervisors; office workers  | 4.9%                  | 7.5%                  | 10.0%                | 6.0%                   |
| Class VI                   | Skilled worker  | 15.5%                 | 25.6%                 | 20.7%                | 11.9%                  |
| Class VII                  | Unskilled, semi-skilled worker  | 2.8%                  | 6.0%                  | 0.7%                 | 0.7%                   |
|                            | Number of cases   | 142                   | 133                   | 140                  | 285                    |
| Highest educational degree | Tertiary  | 34.5%                 | 35.3%                 | 26.8%                | 20.0%                  |
| Highest educational degree | Primary/ secondary school   | 28.9 / 34.5<br>= 0.84 | 16.5 / 45.9<br>= 0.36 | 48.0 / 6.7<br>= 7.16 | 53.4 / 11.8<br>= 4.53* |
| Education                  | PhD   | 2.1%                  | 2.3%                  | 2.9%                 | 3.0%                   |

\*Secondary education does not imply vocational training in this case, but only education at school; Note: Percentages Related to the Total Number of Cases in the National or Regional Sample; Source: SFB 580/A2 German, polish, and Hungarian surveys in 2010.

The management studies of the Collaborative Research Centre 580 also include analyses of the social origin of business leaders in the three transformation countries Poland, Hungary, and East Germany (Bluhm and Martens 2014). Additionally West Germany can be used for the purposes of comparison. A majority of the fathers had positions as higher-grade officials and higher-grade professionals (Table 3). More than 50 % has a social origin in the service classes comprising the higher strata of society (classes I and II of Goldthorpe's scheme, Bluhm and Martens 2014, 117). In comparison, for example, with the German society as a whole, the proportion of the service classes I and II are two to three times larger in the sample of German business leaders. This holds especially true for the highest social stratum, which characterizes 9.9 % of the fathers' social origin of the general German population,<sup>3</sup> but about one third of our sample of German business leaders (see Table 3).

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#### 4. Conclusions

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The economic transformation in East Germany (to a different extent also in other former socialist countries) allows to draw five “lessons,” concerning transformation paths, elite reproduction, windows of opportunity, differences between new functional elites and the population, and “side effects” on social structure. Do these outcomes of economic transformation provide any information about hypothetical developments in North Korea or about reunification?

Lee (2007, 24) argues about different supposed models of a unifying process in Korea and cites a widely discussed South Korean study on possible future developments. The four scenarios she mentioned are not restricted to transformation path B like the German type of unification. Also transformation path C could provide a – perhaps fairly improbable – “road” towards unification, because in one scenario, “unification by agreement,” North Korea is explicitly pursuing the Chinese way of development. The other three scenarios are “unification by incentives,” “by breakdown of North Korea,” and “by military conflict.” The authors of the study assess that the probabilities of the scenarios 2 and 3 are higher than that of agreement and conflict, nevertheless unifying processes which do not resemble the German reunification are thinkable.

Furthermore, the four described outcomes of the German (or East European) economic changes – reproduction of managerial elites, short windows of opportunity, quick adaptation to new conditions, and accelerated change of social structure – seem to be rather independent of the particular transformation path.

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<sup>3</sup> The result refers to the German Population Survey for the Social Sciences, Allbus (2008), variable v347.



The *reproduction* of the former economic cadres roots presumably in general functional requirements of management which cannot be fulfilled otherwise. Early German expectations of an extended elite import and of a manager capitalism in East Germany (the so called “head theory”) and their at least partial failure illustrate this supposition. It appears that the economic transformation is always necessarily dependent on a certain degree of reproduction of domestic managerial elites at least on a regional level, and empirical data of several transformation countries confirm this conjuncture (Bluhm et al. 2014).

The *short window of opportunity* of becoming a business leader at the beginning of the transformation process is a German peculiarity, however it is a general lesson that limited opportunity structures, with restrained chances of “late comers,” tend to throw expanded shadows in the future (see also the contribution of Ketzmerick 2016, in this HSR Forum). Perhaps those biased opportunity structures are not avoidable, nevertheless problems connected with them exist independently of the transformation path.

The *successful role taking* of the East German business leaders provides an idea that entrepreneurial skills can be activated rather fast under certain circumstances and conditions, perhaps faster than some observers in West Germany had originally anticipated. But implications of such successful role taking also illustrate growing gaps between functional elites and the population in different social systems (see also the contribution of Best and Vogel 2016, in this HSR Forum). Such differences between social classes could also come into existence by following transformation path C, where the ruling party still requires the primacy of politics, like Frank’s example about the growing impact of money on social relationships in North Korea shows (2015, 566 et seq.).

Also further *stratification of society*, increasing social inequality, and social closure do not seem to be an exclusive effect of transformation path A (countries with unregulated economic transformations) or B (regulated transformation). Although information on social structures of North Korea is rather limited, it can be supposed that the society is recently marked by growing regional and social inequalities (Frank 2014, 299). According to these studies, the North Korean transformation path C presumably implies the development of a new middle class and societal changes.

The German reunification was essentially a political endeavor. The sudden political change and the speed of the unifying process had large impacts on the economy. However, results of the economic transformation in East Germany like elite reproduction, short windows of opportunity, successful role taking with wider implications for society, and social “side effects” are not restricted to certain transformation paths or to the German reunification. In this respect they will certainly have some relevance for the Korean situation.

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