PREFACE

In 1989, communism suffered demise both economically and politically throughout the Soviet imperium. With the result, the former members of the Soviet bloc in Central and Eastern Europe as well as the Third World countries were obliged to seek integration into the global mainstream. The concept of State-planned economy, as it then prevailed in former GDR and the socialistic pattern of society in India suffered the gravest jolt both ideologically and institutionally. Having been left with no option, while GDR became integrated with FRG, India had to bid adieu to "statism", and adopt free market economy. As such, this study on Economic liberalization in the eastern part of Germany (former GDR) and India: A Comparative Study is a modest attempt at understanding the on-going systemic changes in the former Soviet bloc and their implications for new experiments with liberalization in eastern Germany as well as India.

The politico-economic crises in the erstwhile communist regimes in Central and Eastern Europe displayed remarkable similarities both relative to their causes and manifestations. The factors which influenced domino-effect fall of communism included: lack of political participation and political articulation which had its beginning in the "inclusion phase" as termed by Kenneth Jowitt, the legitimacy of communism in modern societies, failure to win acknowledgement of the masses, socio-economic deprivation of the people, strangle-hold of monopoly of information, and finally the on-set of Gorbachev's glasnost, perestroika and "new thinking".
Consequently, the ruling communist parties were forced to renounce their monopoly in politics and society, and to speed up politico-economic reforms. In fact, the imperatives of economic reforms opened up the prospects of political democratization.

In eastern Germany (former GDR), the State-planned economy oscillated between the command and the operational spheres of the economy during its entire post-war period due to non-fulfilment of the much desired results. In the first place, there existed crude dominance of the command economy during the phase of industrial expansion (1949-62). The investment mistakes and ensuing structural disequilibrium led to a comprehensive reform of the planned economy under the chieftainship of the SED General Secretary, Walter Ulbricht, and profit was given recognition as an important criterion of managerial success. It adopted a more rational pricing system and allowed enterprises with greater freedom in decision-making. Witnessing serious socio-economic problems, GDR had to revert to a centralised economy when Erich Honecker became the First Secretary of the SED in 1971. However, the gap in living standards between East and West Germany continued to widen further, thereby sowing the seeds for the eventual downfall of the command economy in 1989-90.

In effect, the dismantling of the Berlin Wall on 9 November 1989 symbolized the disillusionment of the citizens of GDR with the totalitarian autarkic mode of economy. There then arises a critical question whether it is primarily the lure of the DM which impelled GDR populace to rush in for integration with FRG, particularly
through Article 23 of the Basic Law, which required no prior inter-governmental negotiations on the national reunion.

The last ditch effort to alleviate the deteriorating economic conditions of GDR was made by Hans Modrow who became the Minister President (Prime Minister) on 13 November 1989. Participants in the debate on economic reforms during his brief tenure included various political formations, such as Democratic Awakening (DA), the Social Democratic Party (SDP), Democracy Now (DJ), the United Left, New Forum, and other small citizens movements which had emerged during the autumn of 1989 to oppose the SED rule. Amongst these participants, only DA and SDP of GDR favoured adoption of FRG's economic system. Other groups insisted on retaining their socialist principles in a modified form providing greater autonomy for the enterprises, diversity of ownership forms, the linkage between wages and performance, the enhancement of the role of the market and a more flexible response of firms to customer needs. The economic reform package of Hans Modrow included diversity of ownership of property, inflow of foreign investments, reduction of State targets, adjustment of domestic prices to world prices, to abolish state control over foreign trade, etc. However, economic conditions further deteriorated and worse still, FRG refused to Hans Modrow's request for aid between DM 10 billion and DM 15 billion during his visit to Bonn on 13-14 February 1990. However, Chancellor Helmut Kohl offered monetary and economic union to GDR on condition that it must be a free market economy with a variety of ownership. As a result, in the Volkskammer election on 18 March 1990, the citizens of GDR voted for rapid
economic and political unification that led to change in government led by Lothar de Maiziere. Thus, under the fast changing systemic scenario, proposal for economic, monetary and social union was mooted. Inter-related with the foregoing was also the question as to what position the four war-time Allied Powers, especially the Soviet Union, would adopt at that critical juncture, when the German question had been basic during the cold war to the East-West conflictual dynamics.

Furthermore, undoubtedly, the merger of GDR with FRG meant at one go restructuring of the socialist economy into free market economy. For this purpose, Treuhandanstalt, a privatizing agency, popularly known as Treuhand, was entrusted with the task of economic reconstruction in eastern Germany. In this study, its role has been examined in privatizing the erstwhile State-owned enterprises, and also at what economic and social costs to the populace in the two German states.

With the collapse of communism and disintegration of the Soviet Union, even the concept of social democracy fell under cloud, particularly in the early 1990s. For developing countries, such as India, an alternative to the capitalist mode of economic management that provided balance at the global level also disappeared. With the result, out of desperation, India had to set aside the earlier approach of self-reliance and move to integrate itself in the global economy. However, it has to be acknowledged that this was not all too sudden, for in the 1980s several initiatives had been taken to mitigate the rigours of the command economy. But then these efforts were fragmented; they only touched upon the surface, partially loosening controls and operating them flexibly. In contrast, the reforms initiated in June 1991 marked
a radically break with the past, a comprehensive shift away from the regime of controls to embracing the capitalist paradigm.

It is in this context that the four issues relating to economic reforms in eastern Germany and India have been examined: first, the convergence of economic experiments in these economies; second, the divergence in their approaches to economic reforms; third, the constraints and opportunities confronting them; and fourth, varying conceptual and institutional responses in India and in eastern part of Germany. Besides, unification of Germany and liberalized economic atmosphere in India have inevitably entailed new modes of bilateral cooperation between them.

Chapter I provides an overview of the systemic collapse of communism due to its inherent deficiencies; the subsequent politico-economic transition in Eastern Europe and the republics of erstwhile Soviet Union; and the new trends which have emerged due to globalization of the economy and "near" universalization of democracy.

Chapter II examines the economy of GDR in the post-war period and the reasons for the failure of planned economy in that country. For this purpose, three phases have been identified: the period of strict control (1945-62), period of reform under Walter Ulbricht (1963-70), and period of recentralization under Erich Honecker (1971-mid 1989).

Chapter III analyzes the changing systemic contours of GDR economy after the fall of the Berlin Wall and actualization of economic and monetary union on 1 July 1990. The economic reforms proposed to be introduced by Hans Modrow and
Lothar de Maiziere failed to carry conviction with the Kohl government. For the latter willed German economic and monetary union to synchronize with the eastern part adopting free market economy.

Chapter IV deals with the economic reconstruction in eastern Germany under the supervision of the Treuhandanstalt, a privatizing agency, and the social, political and economic implications of the modernization process in eastern Germany for a free market economy.

Chapter V provides an overview of the economic liberalization in India and the adoption of various measures in order to integrate it with the world economy, with an overview of India's economic performance during the preceding epoch, 1950-90, which presented a mixed spectacle of high hopes and low returns under its socialistic mode of economic management.

Chapter VI deals with the new experiments on liberalization of economy in the eastern part of Germany as well as in India, though the objective social and political realities in these two realms differed widely. Yet, studying side by side actual operations of the two varying paradigms, so it is believed, presents a mutually beneficial learning exercise.

Chapter VII evaluates the challenges and prospects of bilateral cooperation between Germany and India, and how it could be made use of to mutual advantage.

The main findings of the study and the conclusions have been presented in the final Chapter.