

Capitalism vs Communism: How did the FRG and GDR differ in development and why?

On 30th December 1922, the Soviet Union was established, on 9th September 1948 the Democratic People's Republic of Korea was founded, and on 1st October 1949 Mao Zedong proclaimed the formation of the People's Republic of China. All these dates are significant today as the start of modern experiments in a far left economic system, where only some have succeeded. The divergence in paths to development in the global economy to systems such as capitalism and communism have long been examined by historians and economists alike. Especially in the 21st Century where it can and will have an enormous impact on the lives of everyone within a population. The contrast between the two ideologies has notably been seen in places like Korea where the north/south, "communist"/capitalist divide has seemingly had a drastic effect on development, if measured by density of light pollution from a satellite view, as seen in Figure 1.

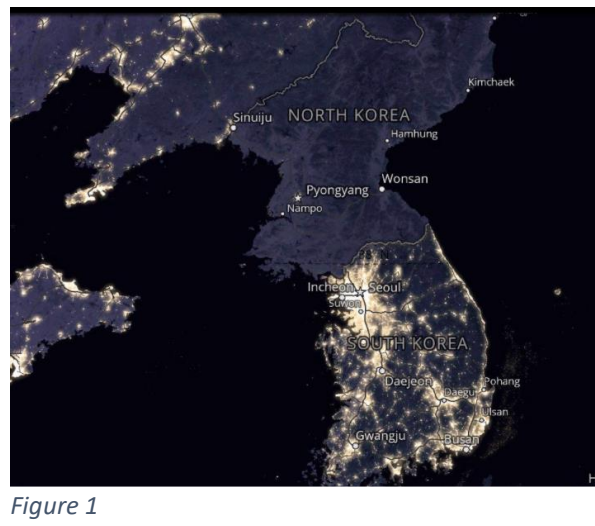


Figure 1

However, the case more relevant to this piece is post-WW2 eastern Europe, often referred to as the eastern bloc, more specifically that of Germany after it was split into the two separate entities: The Federal Republic of Germany (West), and the German Democratic Republic (East), hereafter known as the FRG and GDR. This example is significant as it gives academics a subject whose culture, population, and economy, where previously had lived mainly as one, were split by the global powers of Capitalism and Communism following the events of World War 2. Here then the question presents itself, how did the FRG and GDR differ in growth and development and why? Answering this question is necessary since it is the generally assumed in capitalist societies such as the UK or USA, sometimes as a result of propaganda, that Communism as a rule does not work and should not be thought of as a possible alternative, however the nature of different factors that played into the separation of Germany forces us to rethink this. To answer the question, the following is split into 4 Sections;

- 1) Capitalism and Communism
- 2) Nazi Germany before and leading up to WW2
- 3) The FRG and GDR as separate entities and their economic performance during the years of the split (1949-90)
- 4) Germany united after the collapse of the USSR, how the split affected the economy and nation and why.

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These sections are to document how Germany changed by evaluating of course Germany before and after the split, but also to recognise factors that may have been endogenous within the country, considering what their effect was and if that should change the way in which we look at Capitalism and Communism in Germany. The measures of development and growth at our disposal include GNP, GDP, population growth, and social conditions such as health and quality of education.

1) Capitalism and Communism

Another essential part to evaluating the effect of the separation is understanding the two systems, this means discussing the main advantages and disadvantages of the two as concepts. Within capitalism the biggest focus and advantage is property rights, meaning people can trade currency to own things like land, businesses or products etc. As a result, these rights mean the presence of an efficient incentive, that is, incentive to produce capital or a service to increase one's own wealth. In a perfect society this allows the economy to grow as it is in peoples interest to firstly carry on producing and secondly to find progressively more innovative methods, this then gives birth to competition as other people do the same. The presence of competition also leads to the effective allocation of resources in the economy, since those who can create the most value out of a resource can afford to offer a competitive price. It is from these factors then that advocates for Capitalism claim it allows the most freedoms to the people to pursue their interests. Nevertheless, an increasing number of people are recognising the pitfalls of this system, foremostly the mass inequality that can arise as workers are sometimes not paid the value of their labour or not afforded the same opportunities as everyone else due to their position, and these problems are time and again closely related. While this proves the biggest problem, others include the environmental costs as we can see today in 2021 when governments are having to spend money to invest in more eco-friendly methods, or the economic instability showcased by the crash of 2002 and the 2008 financial crisis. Some of these criticisms of the Capitalist system are then captured in the statement from famous economist John Maynard Keynes, "Capitalism is the astounding belief that the nastiest of men will do the nastiest of things for the greater good of everyone".

Conversely, it is from these problems that the communist, or early Marxist ideals were born. Since the subscribers to these ideologies believe that a capitalist society is too driven by greed and too rife with inequality. As a result, communism is based on the belief that everyone should work towards the common good, and that workers should own all that which they produce. In theory this provides the best method by which everyone within the society can be treated fairly and equally as they all are working towards mutual success. While this approach to societal structure has its merits, it is the opinion of economists such as Milton Friedman that this focus on the people is not effective as, as he puts it, "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both". Meaning as it sounds that if equality is put before freedom the society may grow to police the strict rules of equality, thereby limiting each person's individual freedoms. This humanitarian criticism is one caveat of the communist system, others manifest themselves economically as a lack of incentive, save that of "for the common good", and while this may suffice for some, there are many who are too self-serving for a motive like this to work. Furthermore, the planned or sometimes command economy of communist nations, meaning quotas for production and prices are set by the government, often requires too large an entity of government to do efficiently or would take too long for any unspecialised department. Contrasting to the mostly immediate cause and effect relationship within free market economies between price, demand and production. Moreover, with the presence of a command economy, a centralised government is required for efficiency, however this can sometimes lead to little political representation for the people and therefore possibly lower quality of life as their needs are not taken into account. Despite this, advantages of this

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structure were illuminated in the modern era by China, with its ability in 2020 to go into nationwide lockdown effectively, and still retain net GDP growth¹.

Now that the ideals and shortcomings of the two systems have been identified, this information can be used to contextualise what occurred within Germany. However, in addition to prefacing the two political/economic systems, the state of Germany before the split must also be recognised such that, as mentioned prior, the pre-existing differences in Germany at the time can be evaluated with respect to how we view the effect of Communism.

2) Nazi Germany before and leading up to WW2

Germany, or the German Reich, in the 1930's had been beaten bloody by not only the effect of reparations imposed upon them after the Treaty of Versailles 1919, but also the worldwide depression, hamstringing the economy and causing disastrous mass inflation. Despite this, the German economy under Hitler as chancellor/Fuhrer had begun its recovery. The economic development and state of Germany can be measured firstly by wealth in terms of Gross Domestic Product per capita and unemployment, in addition to the general standard of living at the time. The following is important since it allows us to situate Germany economically before the War and, if various academics can be trusted, will play a part in the performance of West Germany after the War.

Drawing upon data from various studies “real GDP grew by some 55% in 1933-7”², compared to other countries at the time this was quite an achievement. While this trend does not continue through the war, it stands as testament to how surprisingly effective the revitalisation of the German economy was in the 1930's. Another closely linked factor that strongly contributes to the nation's wealth and status, is unemployment. This is because from Hitler coming to power in 1933 to the start of the war in 1939 unemployment had gone from around 9.1% of the population down to less than 0.5%³. This was only accomplished as unemployment was banned and vigorous employment initiatives were put in place. While this trend does not continue through the war, it stands to show how surprisingly effective the revitalisation of the German economy was in terms of production in the 1930's. Despite this, under the Third Reich all non-Germans had their citizenships revoked and were beginning to be deported or otherwise, driving down the true figure for unemployment and undermining this achievement. Shifting our focus to the standard of health and living in Germany, we see that while there were successful campaigns and advancements, for example the connection between smoking and lung cancer being discovered making Germany a world leader in smoking restrictions⁴. However, it cannot be said that overall health improved, since the political policy at the time, which focussed mainly on autarchy from the rest of the world, led to a major crisis in health and mortality at the time⁵. This is because the increasing lack of imports led to food shortages of essentials like animal fats, paired with the vigorous workloads the people were forced to bear with rearmament, malnutrition became more and more prevalent. The accumulation of these components meant the health and situation for the average citizen was bad or getting worse. In addition to this, education under the Third Reich became solely a way for the government to indoctrinate the German youth into supporting Hitler and his visions for Germany's future.⁶

¹ Tradingeconomics.com; China GDP annual growth rate 1989-2020

² Jörg .B, Andrea .W, “Autarchy, Market disintegration, and Health: The mortality and nutritional crisis in Nazi Germany, 1933-1937”: pp.9

³ WW2 Germany Population, Statistics, And Numbers [ONLINE]. (URL <https://www.feldgrau.com/ww2-germany-statistics-and-numbers/>)

⁴ George, S., Dec. 18 – 25. (2004). BMJ: British Medical Journal., Vol. 329, No. 7480, pp. 1424-1425

⁵ Jörg .B, Andrea .W, “Autarchy, Market disintegration, and Health: The mortality and nutritional crisis in Nazi Germany, 1933-1937”: pp.24

⁶ Nazi Education (2015) [ONLINE] (URL <https://www.historylearningsite.co.uk/nazi-germany/nazi-education/>)

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The final element to take into account before looking at the period of separation is the pre-existing differences between East and West Germany, those most important to us being the economic distinctions. The first of which being that within West Germany the share of the blue-collar labour force out of the whole was approximately 35.7%, whereas in what would become part of the GDR this share was 11.8% higher, and this data remains relatively consistent when moving from looking at Germany as a whole to the regions closer to what would become the border. This trend is once again mirrored when observing the share of the whole labour force working in manufacturing and industry, since in the East it is 8.3% higher than in the West where it was 35.7%⁷. Despite this difference, according to the 1936 Manufacturing Census, van Ark (1996), the sales per employee in the East were only 84% of that in the West. On the other hand, the reverse is shown when looking at the agricultural employment in the West which stood at 35.2%, in stark contrast to the 22.8% in the East. However, it is possible that the composition of the two regions accounts for some of this difference bearing in mind how much more land the FRG would encompass as shown in Figure 2. In addition, this data is comprised mainly from a 1925 study, meaning that it is assumed the trends remain pervasive through the period up to WW2 and the separation. These statistics are important firstly because they tell us about how the two regions differed but also because the industrial sector is regarded as vital and often prioritised above all else in a Communist system.

In conclusion, the data discussed displays the growth of Germany in the period, implying that had catastrophic events such as the War not occurred this trend of effective economic growth could have continued into a prospective future, it also presents us with a comprehensive control variable of GDP, unemployment, health, and education, to evaluate the growth and development of the GDR and the FRG of Germany after WW2. Furthermore, looking at the pre-existing differences between the two regions it appears the West had a lower portion of blue-collar workers and

⁷ Sascha, B. et al. (2020). The Journal of Economic Perspectives. The Separation and Reunification of Germany. Vol. 34, No. 2, pp. 143-171

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conversely a larger section of workers in agriculture. These factors will be brought back into the light later since they will bear weight in re-evaluating the effect of communism.



Figure 2

3) The FRG and GDR after World War 2

Following the end of the war in Europe in 1945 Nazi Germany and Berlin became controlled by the allies, comprised mainly of Britain, France, America and the USSR, who would then officially divide Germany into two separate political entities in 1949. The FRG was formed in the West and was aligned and governed with/by the 3 former allies, while the GDR was established in the East, controlled mainly by the USSR and acted more like a puppet republic. The significance this split bears to world history is astounding, not only because one can examine the effect of differing economic and political systems in a very similar setting, but also how it would impact the international relations and Cold War events of the later 20th Century like the Berlin Airlift of 1948, and the construction of the Berlin Wall. This period will give insight into the economic performance of the two countries and how their systems may have affected this. This section will showcase the underperformance of the GDR in comparison to the FRG and help us decide how much of this disparity was due to the differences between Capitalism and Communism.

The first point of discussion after WW2 is to look at how the conflict effected Germany as a whole, what state it had been left in and how the East and West may have been affected differently. This is important since by 1950 the GDP per capita of Germany as a whole had fallen by as much as 28% down to \$3881, and while this may be inaccurate to an extent as the ability to collect data for both regions at the time may have been difficult the true decrease would still be staggeringly high for a 10 year period. The estimates of academics such as Baar, Karlsch, and Matschke (1996) suggest that the people in East Germany paid much more than their Western counterparts in total

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due to war damages, occupation costs and industrial dismantling, summing in total 2,784 versus 1,611 Reichsmarks per capita in the GDR and FRG, respectively. However, most of this difference is from a much higher level of reparations imposed by the USSR in the GDR, and the harsh effects of dismantling equipment, the value of which amounted to 6x higher in the GDR. As well as damages to production, the war meant a significant part of the German population was killed or misplaced, in cases such as in Dresden the population was decimated, from around 750,000 inhabitants to just over 30,000⁸. While this dramatic a change did not affect the whole of Germany it indicates how extensive the impact was in some places. We also see that in 1949 the inhabitants of the West summed approximately 49 million, while the GDR only contained around 18 million⁹. These changes are significant for two main reasons, firstly the surplus of available workers in the West would allow for cheap labour, providing perfect conditions for more growth, and they also create a clearer image of how the East was behind economically from the start after World War 2

Remaining focussed on population and its effect, it is also necessary to mention the nature of migration between the East and West in the years before it was stopped by the completion of the iron curtain and Berlin Wall in 1961. This is because in the years 1945-49 it is estimated that some 875,000 people moved from the Soviet occupation zone to the west (Heidimeyer 1994), either crossing the border or travelling to West Berlin to gain transport to the West. Moving on, after the official foundation of the GDR, between 1950 and December 1961 it appears that there were up to 2.75 million East-West migrants (Van Melis 2006), this meant that over the entire 1945-61 period, about one fifth of the total population moved out the East. Moreover, there is evidence to support that of those who moved to the FRG, in a similar sample size, were more likely to first be self-employed or be work/trained in white-collar professions¹⁰. In other words, there was more skilled labour moving into the FRG than was moving out. Pairing this with cheap labour already present puts the FRG in a prime position to begin growth. This data then highlights how in the first 12 years of separation, before the iron curtain shut down almost all movement, the West was in a much better position to grow than the East. In addition to this, the data could suggest that the quality of life in the GDR was so much worse than the West, that more than 3 million people migrated to the FRG before 1961, which could come as a direct result of life under a communist system, since people were typically much less well off.

Federal Republic of Germany

In the short period following the War, West Germany once again showcased remarkable economic growth, being dubbed the “Wirtschaftswunder”, literally the “economic miracle”. This is because the capitalist powers of western Europe and America knew that a strong FRG could act as an efficient block to stop the Iron Curtain spreading further West, preventing the supposed “Domino Theory” from running its course. Due to this, the western powers always approached the FRG sympathetically, giving assistance through the Marshall Plan and similar policies that encouraged post-war growth through financial support. With this support, the FRG prospered. By 1950 industrial production had grown 11% compared to the levels in 1936 and between 1950-59 GDP per capita grew at a rate of 8% pa, better than anywhere else in Europe and much more impressive when compared to the development of Germany after WW1. Additionally, in the same period production grew again by roughly 125%, an astounding success compared to other countries like Britain, growing by 30%, France by 79% or USA by 41%¹¹. Similarly, this growth in production is mirrored by the trade achievements of the time, as exports rose without setback

⁸ Gregory, G. (2020, Nov 2) The German Economic Miracle. [ONLINE] (URL <https://www.investopedia.com/articles/economics/09/german-economic-miracle.asp>)

⁹(2013, May 31). [ONLINE] (URL <https://www.spiegel.de/international/germany/new-census-finds-smaller-population-and-fewer-foreigners-in-germany-a-903083.html>)

¹⁰Sascha, B. et al. (2020). The Journal of Economic Perspectives. The Separation and Reunification of Germany. Vol. 34, No. 2, pp. 143-171

¹¹ Peter, A. Max, S. (1962). West Germany's "Economic Miracle". Science & Society, Winter, Vol. 26, No.1 (Winter, 1962), pp. 46-57

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from 8.4 million Deutschmarks to 41.2 million in the same 9 years, pushing the FRG's share of exports into the capitalist world economy from 3.6% to 9.6%, which remarkably was the same as the whole of Germany in 1936.

However, while these advancements in production and national wealth are impressive, this came at the expense of standard of living for the average citizen in the FRG, which did not improve considerably. Wages remaining low led to a much smaller average income and allowed the monopolies that were present in pre-war Germany to once again grow without hinderance, explaining the increase in export surplus at the time. In addition to this, unemployment also became an increasingly worse problem, while much of Europe was experiencing near full employment, the FRG's rose from 658,000 to nearly 1.4 million between 1947-52, this meaning that more than 10% of its labour force was unemployed. This then puts in perspective the growth of West Germany at the time, as despite its consistent and remarkable growth, there were pitfalls to the people at the time.

Explanations for the growth of West Germany after the war differ slightly. The first most prominent explanation was that this growth was following a path of catching up and convergence, as the war allowed productivity to grow free of constraint and the need for development would be essential for competition with the more stable economies of the US or Britain. The second school of thought places much more emphasis on the latter point, believing that WW2 had set the economy back, and it was inevitable that it would continue the prospective growth of the 1930's, while other papers argue that the post-war shock factor has been understated in literature. Additionally, it is important to remember that while the term "economic miracle" could be afforded to Germany in the period, the growth conveyed was not unique, as other countries like Austria, Italy or Japan also showed remarkable growth in the post war period, highlighting that this development was more a trend of the period rather than as a direct result of Capitalism.

German Democratic Republic

Within the GDR it was, for the most part, a vastly different story. Soon after it's establishment, changes to the way the country was run and worked occurred quickly, swift agrarian reforms resulted in ~6,000,000 acres of land being redistributed to 500,000 families. In addition to this, the new government committed to nationalisation with the First Five Year Plan in 1951, centralising planning with high production quotas, the plan concluded with 40% of the working population becoming employed by the government. The dividends of these efforts in development and reform appear later, as industry made some advancements, the first nuclear reactor in fact being constructed in 1957, 3 years before West Germany would do the same. Despite these successes, East Germany was still falling behind, and the want for better policy coalesced into the "New Economic System" of 1963. The outcomes of which were good for the people, centralisation was marginally rolled back, real wages increased, and the supply of consumer goods began to increase once again. The culmination of these factors meant that the GDR appeared to be a satisfactory place to live, goods, housing and cars were cheap and despite their extensive waiting lists they provided¹². Moreover, economic and job security was mostly ensured. Despite this, the extent to which those in East Germany can be considered to live a "happy" life is very limited. First-hand accounts most often describe life "like a bird in a cage.", plagued by constant monitoring and very little social and political freedom¹³, this problem originates in Communism with the absence of political representation. This meant that despite growth people still could not vote for significant change without being denounced, nor did they have an adequate way to get

¹² (2006, June 23). GDR 1949-1969: The Economy. [ONLINE] (URL <http://www.zum.de/whkmla/region/germany/gdr194969ec.html>)

¹³ Rob, O. (2019, Nov 8). What Was It Like Living in Cold War East Germany? [ONLINE]. (URL <https://www.forces.net/news/what-was-it-living-cold-war-east-germany>)

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consumer goods. This conveys to us then that while statistical growth was increasing for East Germany, the people still were not better off.

Comparing the wealth of the FRG and GDR is now necessary after considering their individual performances. This is because by 1990 the GNP of East Germany stood at \$159.5bn, a minuscule amount opposed to the \$945.7bn in the West. However, this GNP difference is not consistent with the contrast in GDP per capita, where the FRG had \$15,300 while the GDR stood at only \$9,700. This conveys how in West Germany much more of the wealth was held by a smaller minority. From this evidence then it is clear that the FRG performed much better economically than their Eastern counterparts, having a much higher production, GNP and GDP per capita.

However, it is imperative to assess how much this difference was a result of Capitalism and Communism as two differing systems, since the FRG had the upper hand from the beginning, with a bigger population, more skilled workers as a fraction of the labour force, and lots of support/direct aid from other capitalist countries like Great Britain or the US. Not to mention the way in which the reparations and industrial dismantling in the East severely hindered their own ability to perform. The presence of these factors then begs the question of how the FRG would have fared without them, and while it is speculation, it appears not nearly as well.

4) Germany After Reunification

The dissolution of the USSR on 26 Dec 1991 came because of two main reasons; first, the policies of Gorbachev, namely Perestroika and Glasnost, which went to restructure the economic and political systems of the Soviet Union and allow more transparency in media. Both of which resulted in the almost immediate deterioration of Soviet control in eastern Europe. Secondly, as a result of these policies and growing anti-Soviet sentiment, the various Soviet republics across Europe began pressing harder to gain freedom and independence. With these changes in and around the USSR the political stability of the Communist Party in East Germany also began to waver, as the Berlin Wall was mistakenly opened to East Berliners to cross and a fast-increasing number of people across the GDR calling for change in government and easing of migration policies. This final chapter of looking at Germany will go to highlight what enduring effects there were of the separation, and then help us contextualise and evaluate how deeply the split affected the country.

The official reunification of Germany came under the leadership of Helmut Kohl and support of the Western world, as opposers to this idea like the Soviet Union were appeased with promises of sizeable financial aid from the wealthy West Germany. The first sign of actual unity came with the currency of the FRG being introduced to the East in July 1990. Subsequently the national use of the euro across the whole country when Kohl negotiated Germany into the European Union. However, the cost of unification became much more formidable than what was expected, the estimated amount could have been as much as 1.6 trillion euros, a cost that was mainly shouldered by the West. The monumental cost of reunification came as a result firstly due to the amount of infrastructure construction required to bring East Germany "up to speed". The other reason for the sum was the underperformance of the East German Economy. In the years of reunification, it was found that the average production in the East was only a third of that in the FRG. Additionally, by 1990 the East had found itself deep in debt, much alike to its Soviet big brother in its inability to produce enough money due to economic inefficiencies in the economy and insufficient exports and imports.

While in the case of West Germany after WW2 it was not unique in its development, the period after reunification allowed for extraordinary growth in the East, the GDP per capita quadrupled and while this undoubtedly meant people were more well-off, differences between East and West persist. 30 Years on from the reunification the average east German wage is only 88.8% of the West, this contributes to the Eastern states having economic power equal to only 73% of the former FRG regions. These disparities continue inversely regarding gender roles, as in the East the perceived wage gap stood at 6%, better off compared to the 21% gap within the West. This

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demonstrates how while the impacts of the separation were significant, over years of progress Germany as a whole is finally approaching economic as well as political unity. This is because the data clearly shows a path towards convergence in Germany despite the years of separation. This is significant as it could indicate that while the differences between the FRG and GDR were stark and arose mainly due to their differing economic systems. The fact that these distinctions could relatively quickly be resolved may cast the idea that they did not have as big an impact as was once perceived.

Conclusion

As the Cold War era concluded with the fall of the USSR, Berlin Wall and reunification of Germany, almost every indicator of growth tells us that Communism was not nearly as good for development as Capitalism. However, we have also seen that there are extensive factors endogenous and exogenous to Germany that would have, no matter what, impacted growth. These include the stark differences in population, within this the worker composition, or the differing rates of industrial production between East and West. Exogenous to the country, East and West were differentially affected by World War 2, meaning that the inhabitants of the GDR paid disproportionately more reparations and a much higher cost as a result of industrial dismantling and war damages. And while the East suffered after WW2 the FRG reaped the benefits of aid from the Western world. The growth and changes in Germany after the reunification came as a direct result of the development of East and West as separate entities, and 30 years on it appears the economic differences are beginning to become things of the past. Some academics argue that the enduring effects of communism are changes to preference regarding political and economic policy¹⁴, instead of actual economic impact, implying that the perceived impact of communism was more overstated than actuality.

In conclusion, the Capitalist side of Germany fared much better than the East in terms of economic development, and part of this disparity was certainly as a result of the less efficient nature of communism. However, there are many other elements that contribute to the East falling behind, in fact meaning that the German separation may not be the best setting for evaluating and comparing Capitalism and Communism as opposing systems because the results cannot be seen as a direct relationship.

¹⁴ Nicola, F. Matthias, S. (2020). The Long-Term Effects of Communism in Eastern Europe. Vol. 34, No. 2, pp. 172-191