

## Government declaration by Helmut Kohl (Berlin, 4 October 1990)

**Caption:** On 4 October 1990, in his first government declaration to the Bundestag of the reunified Germany, Chancellor Helmut Kohl assesses the country's economic situation and indicates the correct paths to follow in order to overcome the difficulties associated with the harmonisation of two economic systems which, for a long period of time, had been separate.

**Source:** The Unification of Germany in 1990. Bonn: Press and Information Office of the Federal Government, 1991. 184 S.

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**URL:** [http://www.cvce.eu/obj/government\\_declaration\\_by\\_helmut\\_kohl\\_berlin\\_4\\_october\\_1990-en-465c978e-d50e-4ea8-b79c-11ecc5f8fe05.html](http://www.cvce.eu/obj/government_declaration_by_helmut_kohl_berlin_4_october_1990-en-465c978e-d50e-4ea8-b79c-11ecc5f8fe05.html)

**Publication date:** 23/10/2012

## Policy statement by Chancellor Kohl (Berlin, 4 October 1990)

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The economic situation in the former GDR is determined by the difficult transition from a socialist command economy to a social market economy. This task is unprecedented. Over decades two incompatible economic and social systems developed in opposing directions. Now we must jointly shape the future in freedom. We have every opportunity to jointly meet this challenge.

Industry and enterprises have to be radically adapted and reoriented for many of the industrial goods produced so far cannot compete internationally. Services, for instance in commerce, finance and tourism, have been badly neglected.

Full employment under the socialist system was only a sham. In truth there was hidden unemployment in nearly every factory and nearly every office. The public service alone had nearly twice as many employees as that of the Federal Republic - which no one could say is understaffed. And if we take into consideration the obsolete industrial plant and the widespread waste of energy, it is not surprising that productivity is only about 40 % of that in the old Federal Republic.

We want to promote this process jointly by the swift modernization of enterprises and by intensified retraining and further training for employees. We are providing the necessary support through extensive skill enhancement schemes, investment allowances and regional economic aid. On the basis of the economic support currently envisaged, an investment volume of roughly DM 50 billion can soon be achieved.

How far companies are prepared to invest is shown by the latest survey carried out by the IFO institute, according to which about half of those asked intend to launch investments in East Germany by the end of next year.

The farming and the food industries are to receive substantial assistance to facilitate the restructuring process. Expropriation and state control have often led to the creation of huge but in many cases unproductive farms. The transformation now offers efficient farms a fair chance to compete on the market. This applies not only to family-run farms but also to cooperatives.

Through German unification the farming community in the former Eastern Germany has been fully integrated into the European market. Thanks to their favourable locations, farmers throughout Germany are well set to hold their own in that market. But everyone knows there are still considerable transitional problems to be solved which have repercussions on the territory of the old Federal Republic as well.

We also have to make joint efforts with regard to housing and infrastructure. Anyone travelling through the former German Democratic Republic can see the terrible of houses, indeed whole districts. We intend to stop this decay by means of the housing modernization programme we have introduced. Approximately ten billion marks are to be made available for this purpose on unusually favourable terms. This will also open up new prospects in the building industry for many people forced to change their jobs.

We have also agreed on a number of measures with which to improve the housing situation in Western Germany as well, especially in the densely populated areas. By 1992 it will be possible to build a million new flats, well over a third of them for people in the lower income groups, for whom there will also be larger rent allowances.

We have initiated a far-reaching infrastructure programme for the former GDR. The main aim is to repair and modernize the road, railway and telephone systems. An efficient infrastructure is the prerequisite for lasting economic recovery.

We shall soon have to make it just as easy to telephone from Dresden to Rostock as it is to telephone from Cologne to Munich. The Federal Post Office is investing billions to make this possible. Some 55 billion marks have been earmarked for the extension of the telecommunications network by 1997. Over 7 billion of this is to be spent in the next 18 months. As a result, as many as one million new telephones will be installed in the former GDR each year.

Parallel to this we shall have to develop a modern road and rail infrastructure which calls for considerable effort and imagination. 10 billion marks is to be made available to finance the new local authority infrastructure investment programme. These funds will be used for the development of industrial estates, the improvement of local roads, urban and rural rehabilitation, and the modernization of hospitals and nursing facilities.

I call upon local authorities to use available funds for job-creation measures in this connection. This will make it possible to reduce unemployment in the short term. It will also be possible to make an immediate start on urgently needed local public works and at relatively little expense.

Let me also stress this: The Unification Treaty enables the cities, towns and rural districts to make land and buildings available without delay for the purpose of job-creating investment. Immediate use should be made of this opportunity for the sake of promoting employment.

Even greater efforts are required to protect the environment. In many areas the soil, lakes and rivers are polluted, indeed they are ecologically dead. Drinking water, too, is seriously affected. The SED regime is to blame for the fact that Eastern Germany has the worst sulphur dioxide and carbon dioxide pollution in the world.

East Germany's nuclear power stations by no means meet our safety standards. It was quite irresponsible of the East German Government to keep these facilities in operation, even after the Chernobyl disaster. We have in the meantime decommissioned four of them, and the last of them, at Greifswald, will suffer the same fate very soon. This will not affect electricity supply. A recently concluded agreement will ensure the speedy development of an efficient and environment-friendly generating network by private electricity companies. Investment in this project will total more than 20 billion marks in the next five years alone.

In our view, economic recovery and ecological rehabilitation go hand in hand. Enterprises and plants posing a high threat to public health and the environment have already been shut down. And we are working at top speed on an ecological rehabilitation and development programme, especially for highly polluted areas, such as Bitterfeld and Espenhain as well as the Mansfeld and upper Elbe valley regions. Once again we see how much we depend on industrial efficiency for the development and operation of state-of-the-art environment and safety technology.

Similarly, without a highly productive economy there would be no reliable social security network, which many today take for granted. The situation of pensioners in Eastern Germany above all shows how much leeway has to be made up in this respect. Not only were pensions low, they were insufficiently brought into line with wages. We have since made sure that old-age pensioners, like those in the Federal Republic, receive their fair share of the country's economic prosperity. In East Germany too we must ensure that pensions represent adequate reward for a lifetime's work.

Health care in the former German Democratic Republic was based on a two-class system. Only a few privileged people were entitled to first-class treatment and facilities. The ordinary citizen had no such privileges. We are now establishing our long-standing system of health, pensions and unemployment insurance, even though the initial cost is tremendous. The Unification Treaty ensures that equal conditions will be created step by step throughout Germany, for effective social security is inseparably linked with the principle of a social market economy.

Our stocktaking exercise also covers Eastern Germany's financial situation. In the past, public funds were spent on objects of political prestige, an overmanned bureaucracy, and on the government's repressive

system.

Instead of investing in the future the regime wasted the people's economic resources. It cannot be said often enough that even a year ago leading SED functionaries themselves had recognized that East Germany would very soon be unable to repay its debts to Western countries.

The people of Eastern Germany had to live and work under such depressing conditions for over 40 years. We can appreciate all the more what they managed to achieve in spite of those disadvantages. Those who have been privileged to live on the "sunny side" of German history in the Federal Republic over the past four decades should always remember this. It is most depressing to realize that the East German regime destroyed the fruit of the people's labour for decades. Many people are still confused by those who deliberately complicate and disguise the new beginning with their "old" thinking.

The former command economy has failed. But in many respects the contours of the new economic system are not yet clearly discernible. As a result, the people are understandably anxious about their own future, about their jobs, about their earnings or pensions, about their homes, about the new demands that a competitive economy will make on them. We all, and I myself, take these questions and fears seriously. They affect people personally and concern us all.

This also gives rise to expectations, which sometimes exceed the short-term capabilities of public and private aid and support. We understand these expectations and will do everything in our power in order to overcome the consequences of division as quickly as possible.

The destruction caused in the course of four decades cannot be set right within a few weeks and months. And financial demands come up against the limits set by the need to keep the Mark stable and maintain a sound financial base for the country as a whole. After all, this is the foundation on which we all stand today and on which we want to build our common future.

It is thus all the more important that the public debate should not just focus on the cost entailed by this new beginning for, as we know, it is easy to add up huge figures. Those who do so should also bear in mind the cost of division over the past 40 years - not only in the Federal Republic but also in the GDR. They should remember the billions spent year in, year out on Berlin and the areas adjacent to the Eastern part of the country, the lump sums paid for transit traffic, and also the cost of buying the freedom of people held by the East German regime. And they should also recall the huge amounts spent on maintaining the "Stasi", the Wall and the barbed-wire. Those who tot up these costs and see them in relation to one another quickly find that they run into trillions. Would anyone really want to keep on bearing those huge costs of division instead of now investing meaningfully and judiciously in our country's unity ?

Investments in our common future certainly involve costs - yet not only costs, but also returns. That, too, is one of the experiences of the Federal Republic's 40 year history. Economic recovery in Eastern Germany will help create new jobs in the whole country. This is patently clear from the recent unemployment statistics. The ones to profit from this additional economic growth initially are Western suppliers of machinery and equipment. But as a result production capacities in East Germany too will be quickly expanded. Here we will see increasing company profits and workers' incomes, and this in turn translates into increased public revenue precisely what happened in the Federal Republic in the past.

The benefits thus gained include the reduction of air and water pollution. This will be to everyone's advantage. For instance, every mark we spend on improving the quality of water in the river Elbe in the Dresden area, though it will not make depollution unnecessary near Hamburg, will considerably simplify the procedure and reduce the cost.

Therefore, those who travel around saying that the cost of unity is almost insurmountable should also speak openly about the cost of division we are now saving and about the benefits of unity, which will continue to increase.

It must be borne in mind that the united Germany lies at the heart of a no longer divided, but merging Europe. This bridging function will obviously yield tangible economic benefits for us and our partners.

It is simply dishonest to give the impression that the East Germans will be hardly able in the foreseeable future to finance improvements from their own resources. The truth is, and again this was our own experience in the Federal Republic in the early 50s, generous assistance is necessary to launch a market economy, especially as this makes the social burdens more bearable. Who knows this better than the people in the old Federal Republic, whose recovery was likewise facilitated with funds from America's Marshall Plan? It was precisely our experience with the social market economy after 1948 which shows that kind of initial assistance to be help towards self-help in the best sense of the word. This will be no different in Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Thuringia and Saxony. There individuals, local and the state governments will soon be able to meet an increasing proportion of the cost of building their future.

Apart from the costs, we are also aware of the encouraging prospects emerging for the united Germany and for Europe as a whole.

Costs, returns and prospects are inextricably interlinked. This naturally includes intangible benefits that cannot be measured in Marks and Pfennigs - first and foremost, individual freedom.

That is our most precious asset in the reunited Germany. After all, in Western Germany, too, the economic and social system, and with it the social market economy, did not always evoke agreement. When we started on the road to recovery in 1948 it was anything but simple: price increases, passionate disputes and strikes.

And the question as to the course to be followed with the social market economy arose once more when, in 1989, the government had to lead the economy out of recession. The upward trend which began then has developed into the longest postwar boom in Germany. It is now entering its ninth year with undiminished vigour. Today we can proudly state that Germany is one of the best locations in the world and the mark one of the hardest and most sought-after currencies.

Employment figures are breaking record after record. The latest figures show the working community to number 28.5 million ... In the last 12 months alone over 700,000 new jobs have been created. This performance has been beaten only once before in postwar Germany, in 1955. That is the reality in Germany today.

Although close to a million resettlers have come to the Federal Republic in the past 12 months, the problem of workers on short time, and of unemployed youngsters, at one time very serious, now hardly exists.

This in itself shows that we have every reason to tackle with confidence the task of reconstruction between the rivers Elbe and Oder. When have we ever been better prepared for this task than today ?

With the Treaty establishing a Monetary, Economic and Social Union and the Unification Treaty we have prepared the ground for the transition to a social market economy in Eastern Germany. Those who say it has all happened too quickly must answer the question how else would they have opened up a new perspective for the East Germans. How would they have stopped the influx of hundreds of thousands more resettlers ? They should also tell our countrymen in the east that they would have preferred to keep the deutschmark to themselves for a while longer and that solidarity could only be had in the long term and in instalments.

The truth is, and this has to be said, that if we hadn't introduced the monetary, economic and social union on 1 July about a million resettlers from Eastern Germany would now be in the Federal Republic, and that this would have had disastrous social consequences both here and in Eastern Germany.

After over 40 years we had the chance to achieve German unity, but of course no one knew how much time we would have to complete it. It was in the light of this historic situation that we acted.

Also part of the reality of the year 1990 is the fact that to many people the new economic beginning means a drastic change. It is the most difficult phase for them individually, as the present state of the labour market in East Germany shows. Many factories have had to put their employees on short time. Many families are worried about jobs and everyday problems. But all those who are unemployed or on short time have a right to help from the rest of the community. This is guaranteed by our proven system of social security.

To us solidarity also means that we have to provide a future for school leavers. In other words, as in the Federal Republic a few years ago, we must see that they get an apprenticeship as soon as possible. Industrial and trade organizations have therefore launched an apprenticeship initiative for the former German Democratic Republic which I very much welcome. The Federal Government is supporting this initiative with about DM 300 million.

And it is already obvious that, after only three months of monetary, economic and social union, gratifying advances have been made :

- There has been a spate of company launches. This year alone almost 170,000 companies have been set up, 40 % of them since the introduction of the Mark and a social market economy.

- Banks, commercial, and service enterprises are setting up wide-ranging branch networks and creating thousands of jobs.

- The privatization, rehabilitation and, where necessary, closure of former combines and enterprises under the auspices of the Trust Agency are making good headway.

The urgently needed reorganization of the Agency's branch offices is also clearly progressing.

- In this connection I wish to express my warm thanks to those who are devoting all their time to the task of rebuilding East Germany's industry and administration. I mention, as representatives of many, Messrs Rowedder and Odewald who are in charge of the Trust Agency.

- Contrary to some people's fears, prices are much lower than they were a year ago, in spite of the considerable increase in the quality of goods. As a result, workers' and pensioners' purchasing power has tangibly increased, a fact which is also borne out by the calculations of the Bundesbank. This is due not least to the smooth introduction of the deutschmark in Eastern Germany. Here, too, the Bundesbank has done an excellent job and I wish to thank its President, Otto Pohl, and all his staff.

The Treaty establishing a Monetary, Economic and Social Union and the Unification Treaty have laid the foundation for an economic upswing and prosperity in the whole of Germany.

It remains essential for us, even under the difficult conditions of transition and readjustment, to abide by our liberal, economic and social order which has stood us in good stead for 40 years, a system which offers opportunities for commitment and achievement and which provides support to those without sufficient strength.

Let us be aware that other countries are closely following how we cope with this historic challenge. The result of our efforts will largely determine Germany's economic and political role in the world.

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