The title of this chapter borrows the words chosen by W.E.B. Du Bois to characterize the political process of extending rights of citizenship to the black population of the American South after the Civil War. My purpose here is to consider the economic reconstruction of the German East following unification. For a two-word summary of that process, one would be hard-pressed to find a better characterization than “splendid failure.” The institutional structure of a planned socialist economy was indeed successfully replaced by that of a modern European welfare state and private market economy. The fact that this economic transformation occurred without any significant groups experiencing a drop in material standards of living was truly a splendid achievement. The scale of transfers from West to East for both private and public consumption and investment was completely appropriate to the magnitude of the historic task of German unification. And yet two decades after the Treaty of Monetary, Economic, and Social Union went into effect, the East German states and the city of Berlin are only about half way to catching up with the back of the pack of West German states, much less the average economic performance of West Germany. That gap between per capita output in West and East Germany has become smaller than it was during the last year of divided Germany, but its continued persistence constitutes a major policy failure.

One could argue that the “failure” of economic reconstruction became inevitable with Helmut Kohl’s campaign speech of March 7, 1990, in Erfurt on behalf of the East German Christian Democratic Union (CDU) in which he foresaw “blooming landscapes” for East Germany once the institutional preconditions for a social market economy had been established in the East. Helmut Kohl struck a chord with the East German
electorate that resonated a shared hope that the postwar (West) German economic miracle might indeed be repeated. The ideological (in the best sense of the word) foundation for this hope was the doctrine of the Social Market Economy à la Ludwig Erhard. It can be distilled into three sub-doctrines: (1) hard money, (2) private enterprise disciplined by competitive markets, and (3) soft hearts reflected in burden sharing between the more and less fortunate members of society. Each of these components served as a pillar for the Treaty of Monetary, Economic, and Social Union that went into effect on July 1, 1990. What did the timetable of convergence between the East and West German economies appear to be to those confident enough to identify milestones of convergence and publicly announce estimated times of arrival?

Figure 5.1 of this chapter plots a set of early forecasts of the degree of convergence between real per capita gross domestic product (GDP) in East and West Germany at particular points in time following German unification in 1990. Three of the forecasts (1, 3, and 4) involved dates when East German per capita output was expected to converge with that of West Germany. To compare these forecasts with the four forecasts represented by the points (2, 5, 6, and 7) for dates with incomplete convergence, paths for East German relative real per capita GDP have been drawn reflecting different hypothetical average rates of growth of real per capita GDP in East Germany from a low of 3 percent to a high of 9 percent per year. In contrast, the measured average rate of growth of West German real per capita GDP was only 0.65 percent per year over the period 1991–2009. This same rate has been extrapolated forward to 2030 to calculate the convergence paths for each of the hypothetical growth rates identified in the figure for East Germany.

Thus, conditional on the West German real per capita GDP growing at 0.65 percent per year, we can see from Figure 5.1 that a continuous 9 percent rate of growth in East Germany starting in 1991 would have resulted in convergence (100 percent) by about 2002. In contrast, a 3 percent per year rate of growth in the East would achieve convergence over a quarter of a century later, in 2028. The first thing that strikes the eye in examining Figure 5.1 is the sheer range of the forecasts: from a Panglossian faith in the social market economy to generate Chinese levels of economic growth as seen in the early forecast of Siebert, point 1, to the dismal projection of Barro and Sala-i-Martin, point 7, that foresaw a Mezzogiorno in the making. Even allowing for the differing dates when the forecasts were made, a noneconomist can be excused for concluding that a range for forecasts, in which the combined lifetimes of the third Reich and the German Democratic Republic (GDR) would comfortably fit, is of little use for anything but discrediting all pretensions the