

The economy of berlin essay sample



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Berlin has been the primary site of political, social, and cultural transformation in modern Germany. Unlike any other German city, Berlin, known as the “ Athens on the Spree and City of Crisis,” has witnessed, influenced, and mirrored the political metamorphosis of Germany during the entire twentieth century (Cohen 1983). The years 1918, 1933, 1939, 1945, 1961, 1989, and 1990 represent special markers in economic upheaval; in each the city of Berlin figured prominently as a locale and as a symbol: World War I and the 1918 November Revolution led to the establishment of the Weimar Republic; Hitler’s rise to power, with the burning of the Reichstag on February 27 and 28, 1933, was a visible sign and sinister omen; the invasion of Poland on September 1, 1939, signaled the beginning of World War II, with the war eventually ending with the Red Army’s conquest of Berlin in April 1945 and the Wehrmacht’s unconditional surrender signed in Reims and in Berlin on May 7 and 8 of that year; the division of Berlin and Germany was most painfully enacted and visibly demonstrated by the initiation of construction of the Berlin Wall on August 13, 1961, and unexpectedly breached on November 7, 1989; and German unification, marking the end of the postwar era, took place on October 3, 1990.

The Berlin Wall is no more; economic planning has gone by the board; managerial autonomy is de rigueur. In this work, we will consider management in transitional economies. We have approached the topic by looking at not only the macro-dimensions but also the micro-economic ones, as well as the management-level equivalents, of the changes both economies and enterprises have experienced across Berlin during the transformation process.

From an economic point of view, the Berlin wall was undoubtedly used as an instrument to segment the German labor market. Substantial differences in living standards between East and West Berlin had resulted in large migratory flows from east to west during the 1950s. The East Berlin regime found itself confronted with the options of either building the Wall or offering West Berlin wage levels. The re-opening of the Wall restored a unified labor market. The unification of the labor market in turn had an impact on trade union wage policy. A rational stance was to insist on the fairly rapid equalization of wage rates in the two parts of the newly unsegmented labor market.

When western banks demanded a reduction in the DDR's indebtedness in 1981/82, the pressure to increase exports and reduce imports was further increased. Consequently, nearly all the growth in output during the 1980s was devoted to improving the current account. The result was an almost complete lack of capital investment and technical change. Product obsolescence was another consequence, as was low labor productivity. Industry was also overmanned. Outward migration to the west—the proximate cause of the construction of the Berlin Wall in 1961—reached a peak after the re-opening of the Wall in 1989.

Significantly, the Berlin wall brought the flow of migrants from the East to a halt in 1961. There followed a sudden rise in unemployment during 1974—the time of the first oil price shock. In 1975, unemployment doubled again to over one million; there was then only a relatively small remission before the dramatic rise to over 2.25 million after the second oil price shock (Norman

1986). It remained at that level during most of the 1980s, nearing two million again only as a result of the pre-GEMSU boom.

After the building of the Berlin wall in August 1961 the Federal German economy entered a phase of excess demand for labor, partly because the annual number of hours supplied by labor fell owing to such factors as a lower birth rate, delayed entry into the labor force because of an extended education, longer holidays and a shorter working week as well as a prolonged compulsory military service. Unemployment among foreigners has been relatively high because most of them have a low level of education and training. The inflow of foreign workers tended to curb the upward wage trend thus raising the price competitiveness of Berlin exports, but it has probably reduced the employment opportunities for women and older workers and also slowed down technical progress, especially labor saving investment.

In certain important respects East Berlin has made remarkable gains since the war. Housing continues to go up at a rapid rate, and several areas of the city are now dominated by high-rise apartment houses. Although the government has done an impressive job of closing the gap between available housing and individual need, the wait for an apartment can still exceed seven years. Like those of West Berlin, the eight districts of East Berlin offer a diverse urban landscape – from the pastoral scene of the “village” of Rosenthal to the inner-city grittiness of Prenzlauer Berg. East Germany gained most new business firms in the first five years after the Berlin Wall had fallen. During 1990-94 184, 200 new firms were founded, and in the next five years an additional 110, 600 firms (Clay 2000). This achievement was

still far from being able to compensate for the decline of employment in former state enterprises.

The Hungarian experience was a dramatic rise in numbers of new small business firms – there were more than 500, 000 in existence by 1993. West Berlin was rather successful in creating new small and medium businesses too. The number of sole proprietorships and partnerships increased by 42 per cent in 1988-89 and 40 per cent in 1989-90 (Clay 2000). The number of SMEs increased from 1. 2 million to nearly 2. 8 million during the period 1990-98. The ratio of SMEs to the total number of economic units in Berlin is comparable to that in the European Union now (Clay 2000).

In the light of the exploratory remarks, we attempted to explain not only the general phenomenon of transition but also the variations between the experiences that characterized the demise of the command economies in the post-Second World War. Many myths about the post-Second World War economy of Berlin have been exposed. Chief among these is the belief that Berlin industry lay in complete ruins after the Second World War. There is also the conviction that Germans work harder than other nationals, as opposed to working in better organized ways with technically superior equipment. The Wall is still described as the “ antifascist defense barrier,” a necessary support to the economic integrity of the German Democratic Republic. In East and West Berlin, two deeply opposed economic systems (sprung from a unified German nation more than forty years ago) confront one another so visibly and unrelentingly.

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