

6.1 TRANSITIONING FROM A COMMAND TO A MARKET ECONOMY

? FOCUS QUESTION:

- How do people transition from a command to a market economy?

STANDARD #7 PRODUCTION, DISTRIBUTION AND CONSUMPTION.

LESSON OVERVIEW:

This lesson, consisting of a simulation and a document-based essay, focuses on the transition of East Germany's command economy to a market economy in the context of a single German state.

TEACHER BACKGROUND INFORMATION:

Today's German economy is the result of the 1990 merger between the two German states, the Federal Republic of Germany (the FRG or West Germany) and the German Democratic Republic (the GDR or East Germany). At the time of unification, the former East German states were accepted into the Federal Republic; the GDR ceased to exist except as a historical concept. The GDR's economy had been based on a system established under the control of the Soviet Union and was a *command* economy from the end of World War II in 1945 until the fall of communism in 1989. The GDR followed economic and political precepts laid down by Moscow. Within the context of Eastern Europe and the Soviet sphere of influence, the GDR's economy was thought to be among the strongest, producing precision machines, chemicals, and electronics. Yet after the end of the GDR, it became clear that the country's economy was, in fact, inefficient and weaker than previously thought. At the end, the country's currency was virtually worthless outside its own borders.

The new postwar Federal Republic experienced a period of enormous economic growth, often referred to as the *Wirtschaftswunder* or "economic miracle." With support from the United States, and thanks to entrepreneurial drive in West Germany, the country experienced rapid reconstruction and development. The old "Reichsmark" was replaced with the new "Deutsche Mark" as the FRG's legal currency. Under the government of Chancellor Konrad Adenauer and the leadership of the Minister of Economics,



Ludwig Erhard, usually considered the "father of the economic miracle," West Germany experienced a period of unprecedented growth marked by low inflation. By the end of the 1960s, the growth rate had slowed. As elsewhere in Western Europe, Germany in the 1970s struggled with the oil crisis, the rising cost of established social programs, and rising deficits. But in the 1980s, the country returned to positive economic growth.

After the fall of the Berlin Wall in 1989, the old GDR soon ceased to exist and the Federal Republic became the single German state in 1990. With the end of the GDR, both the political and economic systems of the old East Germany were abandoned. Yet, desirable as they might be, new systems did not and could not immediately take hold in eastern Germany. How did former GDR citizens come to terms with the transition from a command economy to a market economy? Even if they gladly embraced the reforms, could East Germans expect to become quickly as prosperous as their fellow citizens in the West? The econom-

ics and politics of Eastern Europe had collapsed along with the Soviet Union. New customs, assumptions, habits and ways of thinking had to be created or adopted. In addition, the inefficiencies of the communist system had to be overcome for the country to achieve a new stability.

Certainly it will take generations to complete the economic and social transformation of both the old East and the old West into a single Germany. The adjustment has been expensive, time-consuming, and difficult to predict and manage. Yet German industry continues to have an excellent record in producing some of the world's finest machine tools, trucks, automobiles, chemicals, and engineering products. German quality and durability are highly regarded around the world. Unlike some countries, Germany's economy is characterized by a large number of small and medium-sized companies.

TIME:



(2-3) 45 minute class periods

INSTRUCTIONAL RESOURCES:

- Economic Simulation Anticipatory Set (**Handout 6.1.1 on the Instructional Resource Disc**)
- Economic Simulation Chart (**Handout 6.1.2 on Instructional Resource Disc**)
- Transition DBQ (**Handout 6.1.3 on Instructional Resource Disc**)
- Recommended online resource: "Special Report on Germany," (2010, March) *The Economist* Retrieved from: <http://www.economist.com/node/15641069>



PROCEDURE:



DAY 1:

Anticipatory Set: The students will participate in a simulation that will give them a better understanding of the positives and negatives East Germans may have encountered as they made the transition from 50 years under a command economy to a market economy. The teacher should refer to the Economic Simulation Anticipatory Set (**Handout 6.1.1 on the Instructional Resource Disc**) for complete game instructions, and then distribute the Economic Simulation Chart (**Handout 6.1.2 on Instructional Resource Disc**) to the students.

DAYS 2-3:

After the Economic Simulation Exercise, the teacher should distribute the Transition DBQ (**Handout 6.1.3 on Instructional Resource Disc**) and have the students complete the scaffold questions (either individually or as a group). As a homework assignment or in class the students should write the DBQ essay.

MODIFICATION:

- The teacher may transfer the DBQ to PowerPoint format and conduct the first part of the lesson as a full-class exercise, followed by the students writing the essay either for homework or in class.

EXTENSIONS:

- Students may read *The Economist's* "Special Report on Germany," (March 2010), which covers many areas of Germany's economy. After reading the article, students may write a summary or give a presentation to the class summarizing the article. This report can be read online at <http://www.economist.com/node/15641069>
- The feature film *Goodbye, Lenin!* illustrates the transition from a command to a market economy. The teacher may want to show appropriate scenes which illustrate this change [Refer to lesson 4.3].

