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Some Thoughts on
Why the East Is Gray

May 20, 1985

Mr. Peter Martin
Institute of Current World Affairs
Wheelock House
4 West Wheelock Street
Hanover, New Hampshire

Dear Peter:

It might seem obvious that the fundamental differences between the market economies of the West and the socialist countries of eastern Europe center around ownership of private property and flows of financial capital. But the consequences of these differences and their effects on everyday life are not so obvious until you really begin to compare the way people live in East and West. Living in West Berlin, surrounded by the GDR, I constantly see this contrast, and it struck me most strongly recently when travelling through the GDR and out again to one of the Danish islands. Perhaps because this was the first time I had crossed an East-West border by sea, rather than by land, I marvelled more than ever at the drab grayness of eastern Europe.

Why do the East Bloc countries look so drab? It's partly because the more modern parts of the towns and cities of eastern Europe are filled with colorless and unimaginative buildings, built by the state architect-bureaucrats, many in the Stalinist style. But it's also because everywhere so many buildings stand half-finished or half-demolished. Sometimes one can't even tell which. One of these overlooks the Wall in East Berlin, and I've frequently sat gazing at it while waiting at the Friedrichstrasse border crossing (i.e. Checkpoint Charlie) for the clearance to travel into East Berlin. Only after two months, could I be sure that the building was becoming more, rather than less finished. Parts of the structure I had thought were being demolished looked ragged only because they'd run short of concrete.

On my most recent trip through the GDR, I saw several examples

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of this particular form of socialist urban blight. One in particular stands out in Warnemunde, where an old hotel-restaurant, in a prime location on the beach stands half-demolished (or half-finished?), with no sign of further construction. Warnemunde is a small town on the Baltic Sea, just outside of Rostock. The GDR has invested heavily in the area--when Stettin was ceded to Poland after the War, the GDR had to develop Rostock for its major deep-water port. Warnemunde has also grown because of its sizable fishing fleet and because its sea-side location brings in tourists from eastern Europe, so its stalled construction project stands out partly because of the new buildings around it. But it is precisely in areas of new growth and investment where projects most often stand idle.

This problem is not unique to the GDR, but plagues many countries in the East Bloc; for example in Hungary, you may often see weeds growing up through a half-finished building. Slow construction work is due not just to material shortages, although these do play a role. Nor can they be blamed simply on an overall lack of investment capital. The biggest problem is that the state planning system doesn't make the right amount of money available at the right time to the state building enterprises. And there's no real capital market to create mechanisms for lending and borrowing money at realistic interest rates (to reflect the costs of capital) to smooth over the gaps.

This has two effects. One is that the building enterprise often runs out of money and has to wait for the next budget year. (Of course, once the project is started, an enterprise is in a good position to argue for more state funds later, which also contributes to the number of uncompleted projects.) Secondly, since they're not paying interest on borrowed capital, builders can afford to let a project stand idle for months or even years, whereas a contractor in the West would long since have gone broke, because for him money has a high cost.

Lack of capital markets is of course closely related to lack of private economic activity. In the GDR, only 2.8 percent of the net national product is produced under private ownership. Such differences in forms of ownership between East and West probably have the greatest impact on the agricultural sector; it's here that the contrast between the GDR and Denmark is most striking. In the GDR, 95 percent of the agricultural land is state-owned, while in Denmark, essentially all of it is private.

Everywhere planting season is in full swing by the end of April. The huge fields of the state and collective farms around Schwerin in the northwestern part of the GDR are busy

with machinery. That is, until 4:00 or 4:30 in the afternoon when the tractors are shut down and the trucks come around to pick up the workers. As in any other industry, it's the end of the working day, and the workers lay down their tools and go home. Quitting time is particularly obvious on these farms though, because the tractors are simply left in the fields for the next day's use-- the farms are so big that it's uneconomical to bring them back into the farm headquarters or machinery station every night.

The scene is very different in Denmark. As I drove north from the southern tip of Sjælland, farmers were working their fields right up to sundown, which in this latitude at the end of April is after nine o'clock. It's not that the Danish farmers are necessarily more industrious--they simply have greater incentives, as owner-operators, rather than as employees, to get the most out of their land. You don't need to see private property signs to tell you the ownership patterns. The well-kept farmsteads and the fields planted right to the very edge of the roads and hedges make it clear enough.

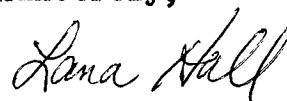
Private agriculture does exist in the GDR, but only in certain selected, state-approved forms. Although field crops are not produced privately, there are a few independent private farmers, numbering about 3,700 in 1983. As in Hungary, most of the so-called "private" agricultural activity is carried out by employees of state and collective farms, who are allowed to produce certain crops and animals on their household plots for home consumption or sales to state marketing agencies. The most important of these are fruit and eggs. Since about 50 percent of the GDR's total fruit and egg production comes from this source, it's clear that horticulture and chickens are popular ways for farm workers to supplement their income.

But because this farming is oriented more towards a year-to-year income supplement and home consumption, people aren't much interested in making major improvements to farm land and buildings. Even for the 3,700 farmers who actually own some land, inheritance taxes are so steep that there's little incentive to improve the property for the next generation. It's often more financially advantageous for an heir to let the property go to the state and become an employee on a state farm, renting one of the subsidized state housing blocks.

The lack of incentives for property improvement extends to residential areas as well, and is another reason why the GDR's

towns and villages often look unkempt and a bit run-down, at least from the outside. But I think the appearance of the smaller towns is much preferable to that of the big industrial centers, with their endless blocks of prefabricated apartments, punctuated with the permanent construction zones. It would take much more than even a change in ownership to make those look cheerful.

Sincerely,

A handwritten signature in cursive script that reads "Lana L. Hall". The signature is written in dark ink and is positioned to the right of the typed name.

Lana L. Hall

Received in Hanover 6/7/85