

## **Heritage from Socialism and Economic Growth in Medium-Sized Cities – Results from Case Studies in East Germany**

Following the opening of the “Iron Curtain”, cities in Central and Eastern Europe had to develop new institutional settings and strategies for coping with the conditions of interregional competition within a market economy. Within these new conditions, some cities have been more successful than others in enhancing interregional competitiveness and attracting or retaining businesses and residents. Various factors were relevant for these differences, like certain categories of human capital, specialization or institutional aspects (see for these general explanations e.g. Storper 2010). Our paper is focusing on a group of factors which has been, so far, not systematically analyzed in the discussion about explanations for the economic development in post-socialist cities. We are looking at different categories of heritage from socialism and their impact on path dependencies for urban development: Had decisions from the time of socialist central planning an impact and long-term consequences for cities even after their return to a market economy?

The theoretical framework of the paper is based on a wave in regional and urban economics which has stressed the importance of historical factors and path-dependencies (see e.g. Krugman 2001; Martin and Sunley 2006) or intended to develop an “evolutionary” approach for explaining the spatial pattern of the economy (Boschma and Frenken 2006). Following these approaches, during the last years, some scholars have presented empirical results on the importance of historical factors for the present economic performance of cities and regions. But most empirical studies deal with heritage from earlier periods of time, not with the impacts from the time of socialism (Fritsch, Falck and Heblich 2011; Fritsch and Storey 2014; Fritsch and Wyrwich 2014). With our paper, we want to look explicitly at changing institutional factors under the socialist regime and to identify whether these changes are still relevant for the present economic performance of post-socialist cities. The basic idea is that during the period of socialism, for more than 40 years, politicians at the central level of government have tried to create new conditions for the economic development of cities and regions (an overview on these measures for the city regions in East Germany is given by Bröcker and Richter 1999). These new conditions followed the logic of centralist planning and the specific needs of socialist countries, resulting especially from their disintegration of the global market and the abstinence from the international division of work, from the division of Europe into two economic blocs, as well as from pure ideological ideas. The allocation of specific functions was followed by the shift of fiscal means between cities and regions, favoring those cities which were regarded – in the perspective of centralist planners – as most relevant for the socialist economy. In addition, also flows of migrants between cities and regions were initialized.

From our perspective, these changes in the spatial allocation had the character of a natural experiment: Were the implemented new conditions able to change the long-term paths of development of cities and regions, even after the transition

back to a market economy? And if yes: In which direction did the socialistic allocation of functions and funding shift certain cities? How did local agents in the cities make use of their heritage after 1990, have there been several options or was there just a one-way road in a certain direction? What was the role of local decision-making within the restrictions, given by the heritage from socialism?

The paper wants to answer these questions for a selection of cities in East Germany. Apart from Berlin, Dresden and perhaps Leipzig, the vast majority of East-German cities may be categorized as "medium-sized" and "slowly growing" or even "shrinking" cities. But still there are relevant differences between these cities which have to be explained.

We will at first give a brief overview on the existing literature (a.) on the role of history for urban economic growth and (b.) on the driving forces for urban development in Central and Eastern European cities since 1990. This will be followed by a theoretical section in which we discuss different categories of historical heritage (as possible determinants for present local economic growth rates), with a special focus on measures by the public sector to change the regional allocation of resources. Relevant categories of such public measures are (for some of these categories see Bröcker and Richter 1999:98) (1.) massive investment in public infrastructure (including transport infrastructure), (2.) massive investment in fixed assets for manufacturing and mining companies (2.a) for supporting existing "clusters" (and agglomeration economies) in certain cities or (2.b) for creating new economic "clusters" in cities without any tradition in the fields of these "clusters", (3.) creating new industrial districts in rural areas, in order to change the social composition of the population (4.) allocating specific regional "capital" functions to cities without any or with just a weak tradition as regional capitals, (5.) supporting local cultural amenities (like theatres or concert halls) in certain cities, (6.) public investment in new housings or urban redevelopment ("socialist style"). Of course, these different public measures may have been combined with each other in certain cities. And there could have been some cities which were not favored by the socialist planners at all – none of the support measures might have taken place there.

The theoretical part of the paper is followed by a description of the economic development of the overall system of East German cities since 1990, in terms of changes in population and employment figures. After this, the empirical results on the impact of changes from the time of socialism for the selected cases of cities will be explained. The case studies for each city will include three parts: Firstly, it is described which changes were implemented in the times of socialist planning: What was the vision of centralist planners for each city, what was the specific treatment for the city (= our key explanatory factor)? Secondly, we describe the main lines of the economic development since 1990. Thirdly, the impact of our key explanatory factor will be explained: How strong was the influence on the development since 1990? Was the central planning able to change, in the long run, the traditional path of development of a city? How did local leaders cope with the heritage? Which other factors were relevant for the

development? Had there been alternative options for local development? These explanations are based on documents and in-depth interviews with present and former local decision-makers and experts, conducted in 2015 and 2016.

The selection of case cities has followed our theoretical considerations on possible public measures to support local economic development. For each of the case cities, the GDR-regime had implemented some kind of a special treatment. For the selection of case cities, we used four criteria: (I.) the sample of cities should include cities with different categories of treatment, (II.) some cities should belong to the group of (after 1990) slowly growing cities, some should have the character of shrinking cities, (III.) some larger and some smaller cities (with regard to their inhabitants in 1990) and (IV.) some cities from the south and some from the north (supporting the development of the north was a general objective of the GDR regime) should be in our sample. In the result of the selection process, we decided to include the following six cities in our sample:

- Chemnitz: major city, south, extended regional capital functions, investments in fixed assets to support existing "clusters"
- Rostock: major city, north, massive investment into infrastructure and fixed assets in manufacturing (new "clusters"), newly established regional capital functions, housing-programs
- Suhl: smaller city, south, newly established regional capital functions, investments in fixed assets to support existing "clusters"
- Schwedt: smaller city, north, massive investment into fixed assets in manufacturing (new "clusters")
- Sangerhausen: smaller city, south, massive investment into fixed assets in mining (new "cluster")
- Weißwasser: smaller city, south, investment into fixed assets in manufacturing (new and existing "clusters")

The empirical results so far make clear that for some few cities, the heritage from socialism was – rather surprisingly – a positive asset for enabling cities to find a new niche in the process of interregional competition, which started immediately with the German reunification in 1990. This is especially true for Rostock, but for the development in Rostock also relevant other factors played a role, especially the post-war German-Polish border (with a declining importance of the harbor in Szczecin for Germany) and the process of European Integration (leading to an increase of traffic between Germany and the Baltic countries). For the majority of cities however, the heritage from socialism was more a threat than a chance; decisions from the past are still hindering these cities to be open for new developments.

In the final part of the paper, conclusions for future research into the impact of heritage from former times and path-dependencies on urban development will be drawn, as well as for local economic policy in general. Given the treatment by the socialist planners in the past, we will discuss which local development strategies

were more successful than others, and what could be learnt in general for local policymakers in slowly growing medium-sized cities.