

NEWS RELEASE

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Entrepreneurial spirit thriving in former East Germany, research shows

SAN DIEGO (April 20) — The entrepreneurial spirit is thriving in the former East Germany, according to research conducted by a professor of geography at Wilfrid Laurier University in Waterloo, Ont.

A total of 281,096 new businesses were established in the former East Germany in 1990, Alfred Hecht told the annual meeting of the Association of American Geographers in San Diego today.

This represents about 17 new firms per 1,000 people compared to only eight new firms per 1,000 people in the former West German territory. In the first half of 1991, this rate of new business creation increased to 20 firms per 1,000 people but then slowed during the second half of the year.

"Since the collapse of the former East German communist regime in the spring of 1990," says Hecht, "the rigidly planned economy has been trying to make the transition to a market economy. The establishment of new businesses is crucial to that economic development.

"And the economy has definitely responded positively to this new freedom," he says.

Hecht found the rate of new firm formation was, surprisingly, greater in the more rural, peripheral regions of the country than it was in the bigger cities.

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And by far, the largest number of new firms was in the service sector of the economy. Typical businesses were stores, restaurants, travel agencies, taxis, driving schools, banks, insurance firms, and trades-related businesses. Only about five percent were industrial firms.

With such high entrepreneurship, Hecht says, it is not surprising that some businesses also failed. In 1990, the rate of firm deregistry or closure was 10 per cent of new registries; in the first four months of 1991, however, it increased to 28 percent or 4.5 firms per 1,000 people. In the city of Magdeburg in the former East Germany, for example, the rate climbed to 40 per cent by the end of 1991.

Another interesting aspect of new firm formation was the low amount of capital available to new firms. In the Magdeburg region, of 1,700 new firms that advertised their existence, their product, their management or their capital, 6.9 per cent had started with no capital and another 56.7 per cent had started with fewer than 100,000 German marks or about \$65,000 U.S.

Of those same 1,700 firms, 72 per cent had management living in the former East Germany, only 8.1 per cent were living in the West German territory, and another 10.8 per cent had some management living in both the East and West German territories. No management location data could be determined for 7.8 per cent of the firms.

"The threat that all businesses in the former East Germany would be run from the West or abroad has not materialized," Hecht says.

The professor says the first wave of business creation euphoria is gone. He adds that East Germans attributed this high rate of start-ups, in part, to an attitude that was a product of their environment: if something can be bought — including a business licence — do it today, because it may not be available tomorrow. This may also help account for the subsequent high rate of business failures.