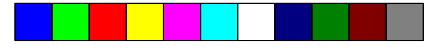


American Institute for  
Contemporary German Studies  
The Johns Hopkins University

AICGS Research Report No. 6  
Economic Studies Program

# The Seven Year Itch? German Unity from a Fiscal Viewpoint

Ullrich Heilemann  
Hermann Rappen  
Rheinisch-Westfälisches Institut  
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Essen, Germany





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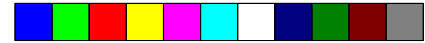


## ***F O R E W O R D***

Such are the times that German unification is only one of the several monumental challenges that Germany must simultaneously navigate as the country and its “social market economy” approach their “golden” anniversary in 1999. Now, with the hindsight of seven years, few things will be as obvious as the general economic consequences of German unification. But unification must be understood in detail in order to be understood at all. Authors Ullrich Heilemann and Hermann Rappen, both of the *Rheinisch-Westfälisches-Institut für Wirtschaftsforschung*, one of the group of German economic policy institutions to which the German government routinely turns for analysis and advice, deliver a meticulous and compelling analysis of the unification process that highlights and dissects its most prominent aspect: the enormous financial flows triggered by the massive industrial dislocation in the eastern *Länder*.

The data presented by Prof. Dr. Heilemann and Mr. Rappen demonstrate that the government’s strategy has been aimed as much at keeping people in the eastern *Länder* as it has been in reinvigorating the economy there. Perhaps that is why recent studies show that, although levels of happiness correlated to employment are predictably lower in eastern Germany than in the western part of the country, labor market changes have a weaker impact on happiness in the east than in the west. More broadly, the authors demonstrate that Germany’s fiscal *masse-de-manoeuvre* is exceedingly narrow. The analysis suggests that the government has still to come to terms with the magnitude of the challenge of unification.

Public finance is a hieroglyph exposing the critical connections comprising German identity in Europe. In that sense, this publication is a natural and essential pendant to the two central strands of AICGS’s

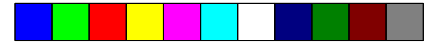


Economic Studies Program—the dimensions and implications of Germany’s participation in Europe’s project of Economic and Monetary Union (EMU) and the German-European aspect of evolving regulatory regimes.

German unification is first of all a dramatic, indeed, nearly unique form of regional integration. Contrary to the spirit of Maastricht, the driving motivation behind German unification has been to obliterate rather than to preserve differences. As such, the ongoing German experiment occupies a position near the end of a spectrum of integration scenarios, with the free trade area alternative occupying a position near the opposite pole.

At the same time, German unification is having a weighty effect on Germany’s capacity to integrate at the European level. Disciplines associated with the EMU project only magnify the dilemmas described in this short monograph. Indeed, there are already some indications of potentially serious conflict between Brussels and Germany’s present and future EU partners on the one hand, and the unification agenda on the other. Of late, a rising chorus of German officials has been insisting on a reduction of Germany’s net contribution to the EU budget. Although they enjoy Objective-1 status, the eastern *Länder* use regional aid grants available from the EU budget only with trepidation because they must be matched by local funds. And tension remains high over the action of EU competition authorities to limit the kind and amount of subsidies granted to firms in the eastern *Länder*. Without the kind of probing but concise stock-taking of German unification provided in these pages, it would be difficult to achieve a meaningful assessment of Germany’s EU strategy.

Forecasting the impact of east/west economic differences is well beyond the scope of this paper, but the analysis provides a very useful platform for raising critical questions about the ongoing process of



unification. At the level of political culture, one wonders about the continuous generation of an enclave mentality in the east. After their brief honeymoon, how will the growing scarcity of public funds affect the “terms of endearment” between the eastern and western *Länder*? How will the eastern reality described by the authors transform economic institutions throughout united Germany? Will continual financing needs ultimately make Germany a willing accomplice in producing a soft euro? Thanks to the picture painted by the authors, we are in a much better position to address questions such as these.

Its sobering message to the contrary notwithstanding, AICGS welcomes this addition to its Research Reports series within the P.J. Hoenmans Program on Economic Policy Issues in Germany, Europe and Transatlantic Relations. From the definition of this project during the summer of 1997 when Dr. Heilemann was a Economic Studies Program visiting fellow at AICGS, it has been a distinct pleasure to work with him and Hermann Rappen. It is our second collaboration with Dr. Heilemann, who together with AICGS Academic Council member Wolfgang Reinicke, produced *Welcome to Hard Times. The Fiscal Consequences of Germany Unity*, published by AICGS and The Brookings Institution in 1995.

Thanks to Jeremiah Riemer’s quick and accurate translation of this text, we were able to insure timely publication. We are also grateful to AICGS Robert Bosch Research Scholar Dr. Ulrike Schneider, who gave generously of her time to proofread the manuscript with her economist’s eye.

Carl Lankowski  
Research Director

December 1997



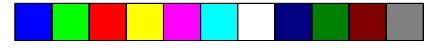


## *EXECUTIVE SUMMARY*

Seven years after unification Germany projects a picture very different from the one that had currency in pre-unification days. Economic growth is still much too low to reduce unemployment, fiscal deficits and debts are still uncomfortably high and rising. Of course, much of this distress has to be attributed—directly or indirectly—to unification. Since 1990 Germany has spent more than six percent of GDP for transfers to eastern Germany and under the present circumstances it would be surprising if its volume and structure, its financing and its burdens would not be discussed. The recent slow down of economic growth in the new *Länder* adds an unexpected dimension to this discussion.

An interim balance sheet seems thus in order. It reveals that fiscal transfers from western to eastern Germany amounted to more than a trillion DM. More than two-thirds of these funds were used for so-called consumptive purposes, the rest went into investment, including *Treuhand* assistance. Less than 20 percent of the transfers were financed by spending cuts. With shares of about 40 percent each, debts and tax increases played much larger roles. Though the relative shares changed over the years as deficit financing was much reduced, it was far from what had been foreseen in 1990. Social security contributions were a major factor in tax increases, leading to a rather unequal sharing of burdens. For a long time the lower income groups had to bear a much higher share than self-employed, civil servants or old-age pensioners.

It is, however, unfair to focus only on the fiscal burdens, now increasingly borne also by east Germans. Though difficult to quantify, for east Germans unification meant more mobility (not only to commute to western Germany) and increasing inequality, which caused not only



dramatic drop in births and marriages, but is also responsible for at least some deterioration of health. Still economically, for most, unification meant an increase in welfare, which hardly any east German will deny. Least of all old-age pensioners, who may be, at least for the moment, the biggest winners of unification.

What are the perspectives for economic convergence between western and eastern Germany? Even ignoring the present relative economic slow down of the new *Länder*, realism compels the judgment that another fifteen to twenty years of time and of transfers will be necessary. Of course, some regions will catch up earlier—East Berlin, Dresden or Leipzig, for example; and others will have difficulties similar to some regions in western Germany. What this will mean for the fiscal transfers to the new *Länder* is not yet quite clear. A restructuring of the various programs to foster economic growth is conceivable and also in some part already under way. However, given its small share in the overall transfer volume, direct effects of any cuts in these programs on transfers should not be over-valued. If growth in the new *Länder* does not find its way back to a six percent growth path, these reductions will require rethinking and further social security expenditures will be inevitable. Though western German growth is a prerequisite for eastern Germany's catching up, the experience with unification so far should warn us not to ignore the time and the resources this process demands.



**THE SEVEN YEAR ITCH?  
GERMAN UNITY FROM A FISCAL VIEWPOINT**

Ullrich Heilemann and Hermann Rappen\*

“People are said to be eager to celebrate anniversaries because their collective memory is so short-lived. For Germans, the dizzying pace of change in the former East Germany since the establishment of the Monetary, Economic and Social Union (MESU) between the German Democratic Republic and the Federal Republic of Germany on July 1, 1990 and the signing of the Unification Treaty on October 3, 1990, makes this forgetfulness easy to understand.”<sup>1</sup> The seventh anniversary of unification can thus serve to revive collective German memory. But it can also serve the more important purpose of reminding us what has been achieved and what remains to be done.

The most important task of German unification is adjusting east German living conditions and opportunities as rapidly as possible to west German levels. The precondition for this was—and is—galvanizing the east German economy. In 1990 east Germany’s economic potential amounted only to one-third of west Germany’s (table 1); its infrastructure was in bad shape and not up to western standards. Nonetheless, despite a host of other deficiencies,<sup>2</sup> west German politicians assumed that efficiency and living conditions of the East would rapidly adjust to western levels. Primarily this was supposed to be achieved by capital-oriented measures stimulating and fostering economic activity. Financial assistance and tax breaks were assumed to spur the privatization of former state enterprises as well as private investment activity and company startups, backed up by a rapid expansion of

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\* The preparation of this text benefitted from the stimulating intellectual atmosphere at AICGS. The authors appreciate the many helpful comments made during the preparation of this text by Dr. Ulrike Schneider, currently a Robert Bosch Research Scholar at AICGS.

infrastructure. Social welfare and regional policy measures (early retirement, job creation and retraining programs) were designed to accompany this process. Under the circumstances, what all this inevitably implied in the short run was a massive fiscal maintenance program for eastern Germany.

The aim of the following essay is to illuminate this process, its results and its prospects primarily from a fiscal point of view. Just tallying up the undertakings is not so simple, though it is surely easier than calculating the yields.<sup>3</sup> There are statistical reasons for this, but the more important point is that it is still hard to make a final judgment about many of the measures, given their delayed effects. The first section will draw some conclusions about transfer policy. To start out, an overview of the type and scope of transfers up to now will be presented.<sup>4</sup> There follows a demonstration of what these revenues were used for, what was achieved thereby, and finally who raised them. The second section discusses the social burden of economic adjustment which is often neglected by economists. Finally, the third section explores the prospects at present and the fiscal implications of closing the east/west gap.

## **I. AN INTERIM BALANCE SHEET**

### **A. How Much Was Undertaken?**

Through the end of 1997, public transfers from west to east—after deducting eastern German contributions to federal government revenues (approximately DM 250 billion)—are expected to add up to DM 1.4 trillion. Annually this corresponds to around DM 195 billion, which is 6.6 percent of the west German gross domestic product (GDP) or 6 percent of Germany's entire gross national product (GNP) (cf. figure 1). Thus, West Germany contributed about DM 3,000 per capita in public

transfers, whereas East Germany received DM 12,600 per capita. This compares to transfer flows between financially strong and financially weak west German states under the 1990 *Länderfinanzausgleich* (Law of

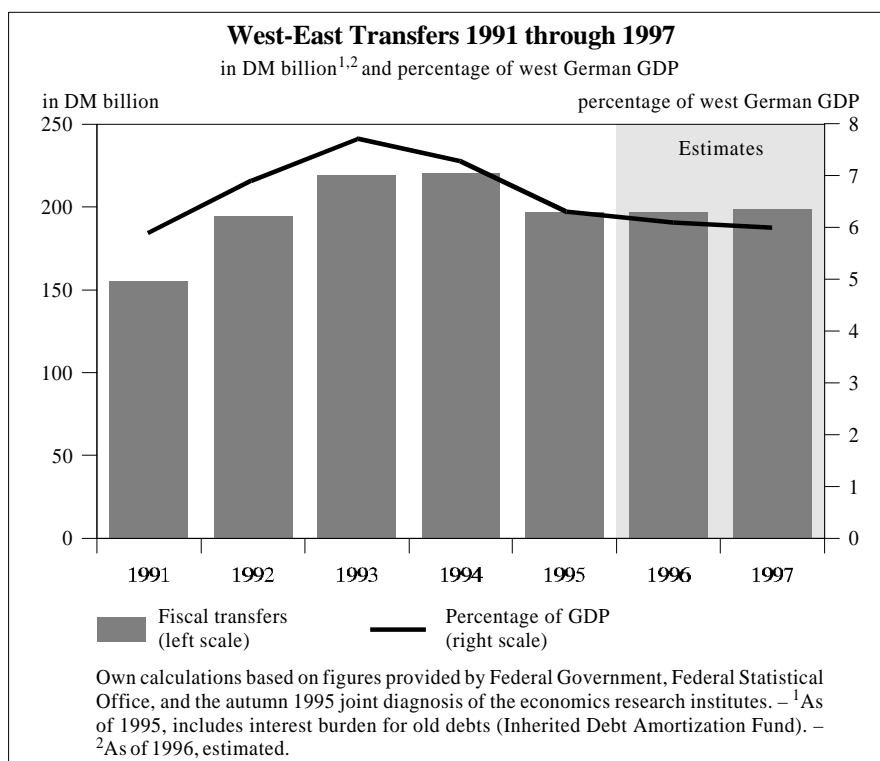


figure 1

Fiscal Equalization among the States), ranging from DM 280 in per capita contributions paid by Hessen to DM 850 per capita received by Schleswig-Holstein. Looking at unemployment insurance, income exceeded disbursements for every covered employee in Baden-Württemberg by DM 450 in 1989, whereas the region “Schleswig-Holstein/Hamburg” ran a DM 900 deficit in the same year.<sup>5</sup>

In 1993 and 1994 these transfers reached their provisional peak at about DM 220 billion or 7.7 percent and 7.3 percent respectively of western German GDP. After the dissolution of the *Treuhandanstalt*, the institution charged with the privatization of eastern German state enterprises, there was a noticeable reduction in transfers. Currently the volume of transfers is stagnating. Since 1995 transfers have amounted to nearly DM 200 billion annually, or about 6 percent of western German GDP. Also to put this figure in perspective: the post-world war annual reparation payment of the *Deutsche Reich* at the end of the 1920s had amounted to 10 percent of national tax revenues or 2.5 percent of national income<sup>6</sup>—figures not all too different from the transfers discussed here.

Seventy percent of the financial assistance went to so-called “consumptive” purposes; including fifteen percent for coverage of deficits in the eastern German statutory social insurance scheme (approximately DM 205 billion). The shares of “investive” expenditures—twenty percent, net of tax breaks, credit and loan guarantee programs, as well as *Treuhand* assistance (an estimated ten percent)—is only slightly higher than relative social insurance spending. As a result of the agency’s dissolution by the end of 1997, the *Treuhandanstalt*’s net financial requirements will be reduced to one tenth of previous assistance. For the successor organizations, and especially the Federal Agency for Special Assignments Related to Unification (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*—BVS), the federal government will likely have spent DM 5.4 billion by the end of 1997—significantly less than originally expected. Differentiating between “consumptive” and “investive” use—leaving open, for now, the rationale behind this classification of public expenditures—is especially difficult in the case of these para-fiscal institutions. What can unqualifiedly be classified as consumptive are the *Treuhandanstalt*’s expenditures for social welfare

and labor market policy measures, which add up to an (estimated) DM 11.5 billion through 1994, as well as the expenditures for redundancy payments (DM 6.7 billion through 1994).

## **B. How Were the Funds Used?**

### 1. Modernization of Infrastructure

The phase immediately preceding and following unification made abundantly clear how necessary it was to construct a well-functioning institutional infrastructure, especially a functioning public administration, as well as to renovate, reorganize, and expand property rights in a suitable manner. And so, in 1992 the federal government, the western German states (*Länder*) and the local governments provisionally delegated 35,000 civil servants to work in eastern Germany;<sup>7</sup> western German state governments alone came up with a volume of technical and personnel assistance vastly exceeding DM 2 billion annually.

Physical infrastructure also called for special action: eastern Germany turned out to be among the regions most poorly equipped with infrastructure, and not just compared with western Germany, but even EU-wide.<sup>8</sup> Public investments were supposed to offer remedies here: In 1991 public investments per capita in east Germany, (DM 967), matched roughly the western German level (DM 1028). In 1996 the new *Länder* invested more than twice as much as the old ones (DM 2071 per capita). In the East investments rose by 17 percent per annum between 1991 and 1996, while in the West they shrank by 1 percent. Overall, from the second half of 1990 until the end of 1996, public investments in business-related infrastructure came to DM 145.5 billion. Of this, DM 79 billion alone came from of the federal budget to finance investments in transportation (DM 68 billion) and other important business-related infrastructure projects. Telekom, the former state-owned provider of

telecommunication services, invested another DM 44.5 billion in the renovation and expansion of communications equipment.<sup>9</sup>

These efforts significantly narrowed the infrastructure gap in eastern Germany, but that gap is far from closed. According to calculations of the German Institute for Economic Research (*Deutsches Institut für Wirtschaftsforschung*—DIW) for 1995, in eastern Germany gross capital investment per inhabitant for non-governmental infrastructure (e.g., energy and water, news transmission) came to 82 percent of the western level (the comparable share for 1991 was 65 percent); by contrast, funds for the immediate provisioning of infrastructure via public budgets reached just 53 percent.<sup>10</sup> Accessibility studies for the years 1994/95 come to the conclusion that, in spite of considerable investment in transportation, major and persistent locational disadvantages remain for eastern German labor market areas vis-à-vis their western counterparts.<sup>11</sup> Moreover, there are still some serious shortcomings in other areas of real economy related infrastructure (communications, waste treatment and disposal equipment), especially at the municipal level.<sup>12</sup> Much has been achieved, major regional disparities, should not be overlooked. Especially well equipped are the labor market areas Berlin, Leipzig and Dresden, which had only “small” deficiencies in infrastructure as early as 1993.<sup>13</sup>

## 2. Promotion of Trade and Industry

The base of renewal of the eastern German structure of production are capital-oriented measures. Thus, through 1996, DM 94 billion worth of investment aid was made in the form of investment grants (DM 33 billion), investment premiums (DM 21 billion), and special depreciation allowances (revenue losses: DM 40 billion). To this, the federal government contributed approximately DM 42 billion. Regarding

further measures, special mention should be made of credit programs from the *Kreditanstalt für Wiederaufbau* and the *Deutsche Ausgleichsbank* in the amount of around DM 80 billion.<sup>14</sup>

From a purely quantitative perspective, spurring private investments was a success. Since 1993 there was considerably more invested per capita in eastern than in western Germany; in 1993 the west German investment level was surpassed by one tenth, and in 1996 by as much as one half. Admittedly, investment activity was primarily directed toward the development of regional and local markets, so that one may assume that there were substantial bandwagon effects. Branches oriented toward the world market have thus far conspicuously lost importance (measured in terms of the sectoral structure of employment).<sup>15</sup>

On the other hand, these investment incentives were presumably necessary to compensate quickly for weaknesses in site location (infrastructural deficiencies, low productivity). According to estimates by the federal government, the largest effect, measured in terms of the total government “induced” investment volume, resulted from tax relief: the (simple arithmetic) counterpart to DM 1 billion of investment subsidies and special depreciation allowances was an investment volume of DM 7 billion (cf. figure 2). The Joint Task “Improvement of Regional Economic Structure” (*Gemeinschaftsaufgabe “Verbesserung der regionalen Wirtschaftsstruktur”*) is the only one to register a similarly favorable relationship between assistance and the backed volume of investment. This is hardly surprising in as much as the special depreciation allowances leave investors great freedom with respect to type, scope and location of their investments.

The capital-oriented approach to promoting economic development, biased in favor of capital intensive development, has presumably prevented an even stronger decline in eastern Germany’s capital-

intensive branches. In addition, the special appreciation allowances—in conjunction with the need to catch up with construction in housing, business, and infrastructure—have favored investments in housing and construction excessively. Hence, the construction sector made a growing contribution to gross value added in eastern Germany (11.6 percent in 1991, 17.5 percent in 1995; compared with 5.3 percent for western Germany). On the whole, the sectoral structure of eastern Germany is approaching that of western Germany.<sup>16</sup>

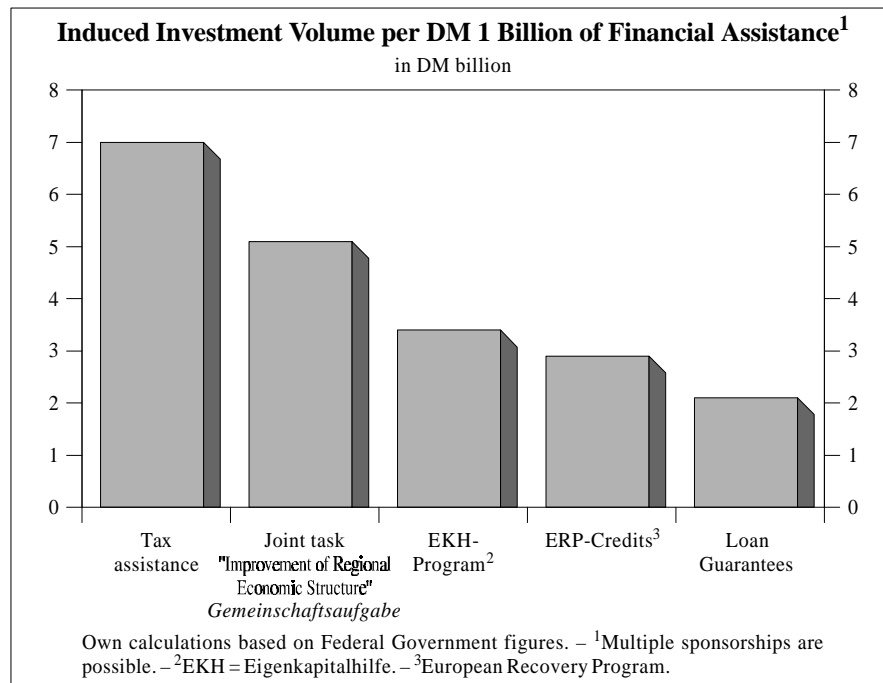


figure 2

As experience shows the effectiveness of these kinds of programs is somewhat impaired initially by mismanagement. In this regard the risk loomed especially large in eastern Germany thus far because competent administration was initially lacking. Thus, the Federal Court of Audit (*Bundesrechnungshof*) found serious shortcomings in the way that

special depreciation allowances and investment subsidies were granted. Of 448 tax cases, examiners found fault with more than two-thirds; an examination of applications for investment premiums for the business years 1993 and 1994 resulted in finding fault in one-third of the cases examined.<sup>17</sup>

For the time being, any definitive assessment of these support measures' effectiveness and efficiency is still bound to be hampered by inadequate data, the multiple ways in which the varieties of assistance overlap, and the time spans, as said before, that are still too short for measuring impact. Nor do the growing number of insolvencies permit a definitive assessment about the success of the support effort, since they are often just the expression of a market adjustment that could be expected sooner or later. Nevertheless, two things may be confidently asserted: first, one will have to offer a rather more critical judgment (not least from the standpoint of practicality) about measures discussed at the beginning of unification, such as wage subsidies or value-added tax breaks. Secondly, in light of western German experiences, regional and sectoral aid in eastern Germany must be viewed primarily as a case of help for self-help. It looks, therefore, as though the regional as well as sectoral concentration of assistance in the east is something called for now, problems involving first principles of economic policy (*Ordnungspolitik*) notwithstanding.

### 3. Social Security

Along with other western German institutions, the social security and transfer system of the old Federal Republic was carried over into eastern Germany. Simultaneously, however, this system was assigned new tasks for which it was not really conceived. It was to provide a social welfare cushion for the transformation process in eastern Germany, to bring

living standards up to the western German level more quickly (than would otherwise have been the case), and thereby also to stop the population drain initially feared.

Public transfers are of great significance for household incomes in eastern Germany. In 1993 the share of transfers in the net income of eastern German households ran to 36 percent while western German households amounted only to 24 percent (cf. figure 3a). This can be explained by the lower incomes (compared to the west) that eastern German households derive from wage labor and self-employment, but also from higher unemployment, which attracts substantial running transfers from labor market policy (unemployment and subsistence payments). Another important role is played by the significantly lower asset incomes of eastern German households. Pension payments, as in the west, are the most substantial public transfers (cf. figure 3b).

Up to now it looks as though east German pensioners are among the major winners of unification. In 1996 the eastern German base pension (*Eckrente*) comes to more than 80 percent of the western pension while in 1990 it amounted only to 40 percent.<sup>18</sup> This holds in particular for women in retirement. Their average pension now comes to 128 percent of the corresponding pension in western Germany, and future adjustments in wages and salaries are going to increase this gap. The immediate cause for this may be found in the longer working life of east German women, while a more indirect cause was supplied by more favorable conditions for working mothers in the GDR. To this extent we are given a new perspective of how limited opportunities of west German females to earn a living outside the family and thus independent pension entitlements affect retirement incomes.<sup>19</sup> On the whole, though, the impression of special privileges for pensioners must be qualified. First of all, the rapid development of east German pensions is a consequence of

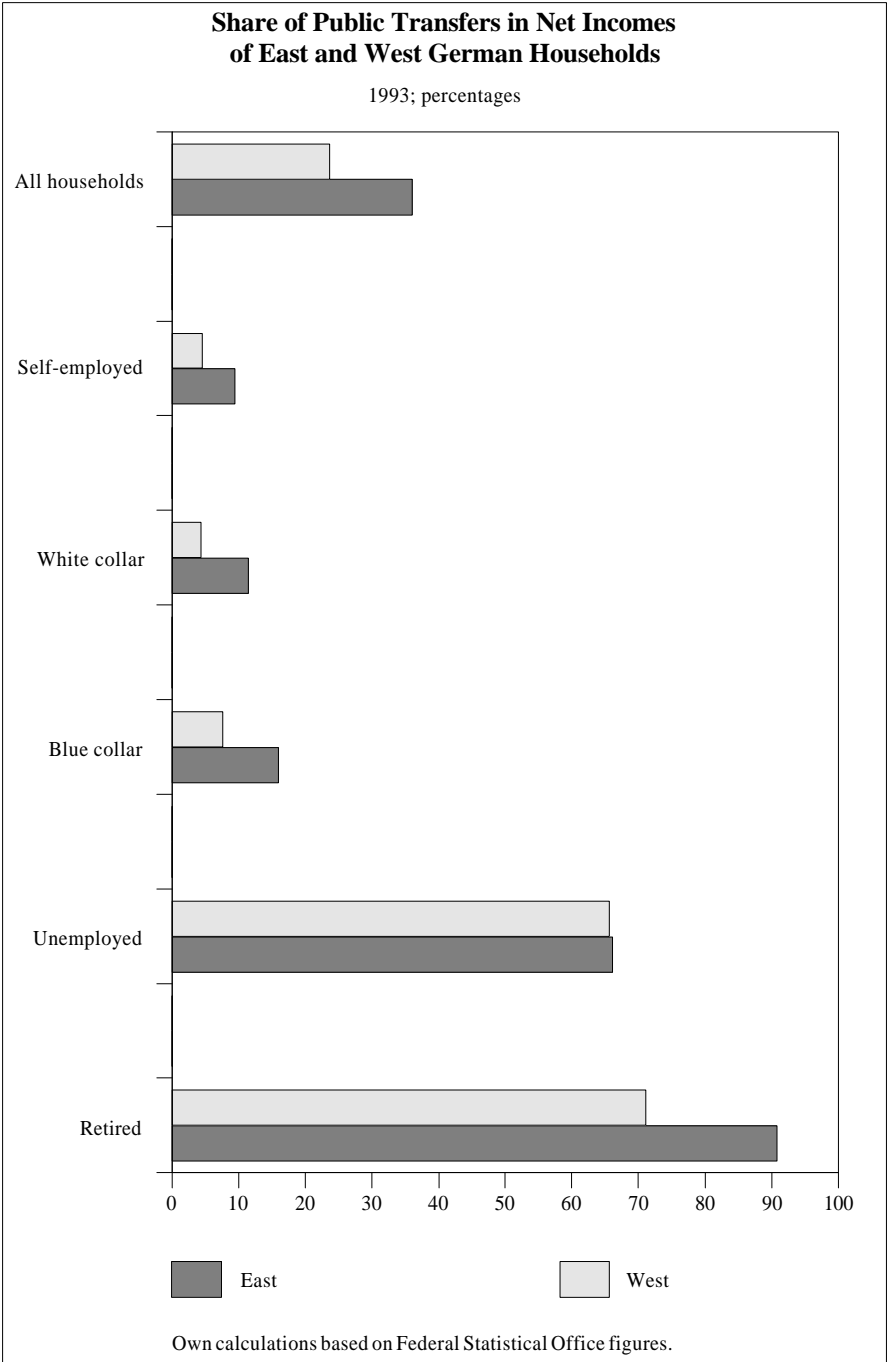
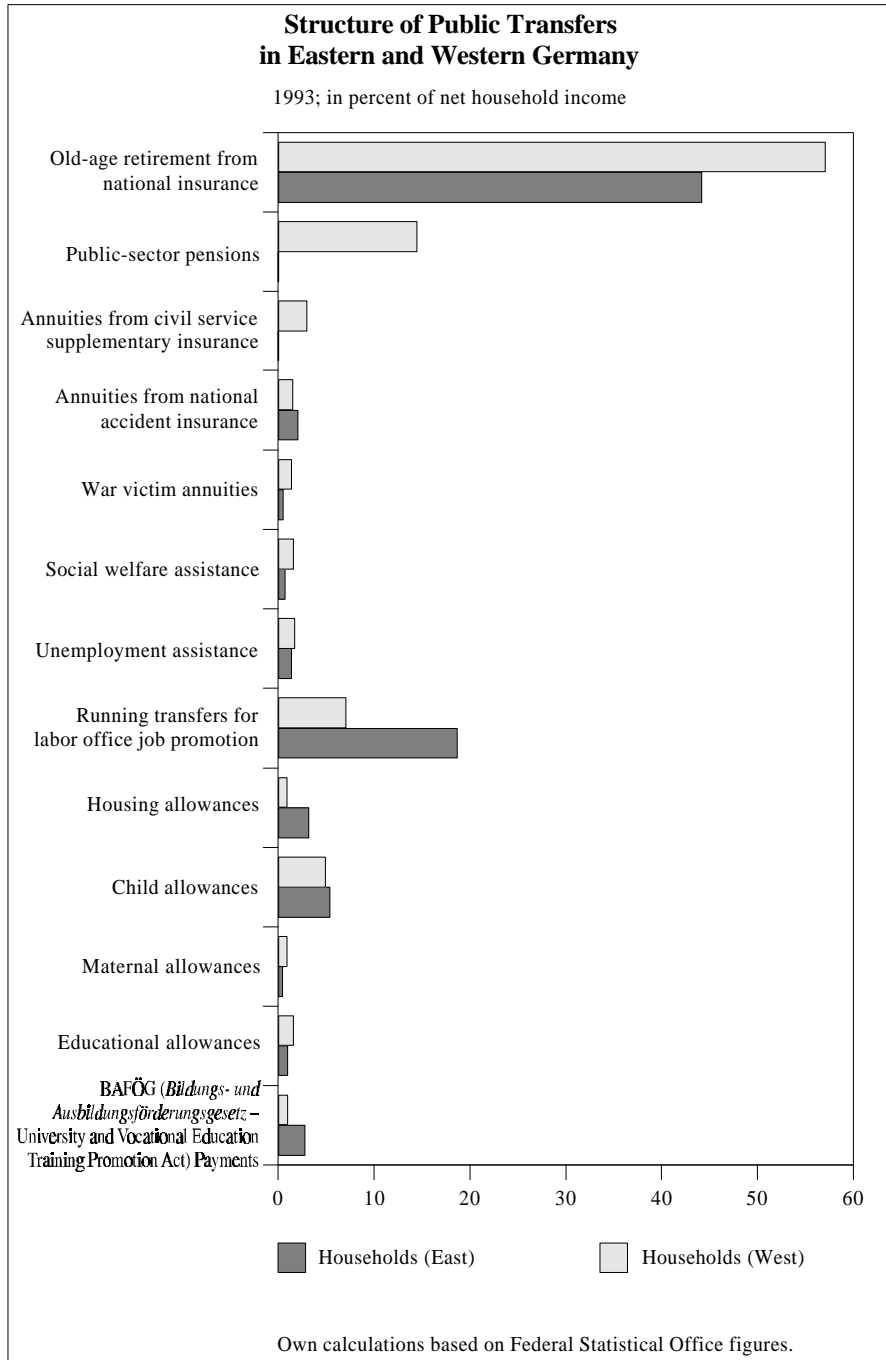


figure 3a



the development in wages; secondly, it should be noted that pensions are the sole source of income for a large share of east German pensioners, while west German pensioners have other forms of income at their disposal besides their pension from social security, such as company pensions and, as mentioned before, income from capital assets. In 1993, the average annual income of a west German pensioner's household from capital assets alone (according to an income and random sample survey) of around DM 7,690 was more than four times the figure for its eastern German counterpart (at approximately DM 1,820). In 1993 the income backlog of an east German retired couple compared to the west German counterpart amounted to 32 percent; for widows it was 38 percent.

In light of the economy's development, revenues from contributions in eastern Germany do not even begin to cover payments: The unemployment and pension insurance funds have run up deficits of DM 127 billion and DM 78 billion respectively. These deficits are not merely a reflection of developments in the incomes subject to social insurance taxation on the one hand, and entitlements on the other. They are also the result of attempts to relieve the labor market using early retirement, job creation schemes, etc. While the number of unemployed in the years 1991 through 1996 ran to 1.1 million on average, the labor market in each year of the same time period was unburdened of 1.5 million employees—via early retirement (570,000 annually), job creation (380,000 annually) and continuous training (270,000 annually) measures, as well as short-time work (210,000). Without these measures, eastern Germany's official unemployment rate of about 15 percent (annual average) would have more than doubled. According to estimates by the *Institut für Arbeitsmarkt- und Berufsforschung* (a research institute associated with the Federal Labor Office), job creation and training measures reduce public supplemental income transfers to the unemployed (*Arbeitslosengeld*

or *Arbeitslosenhilfe*) and raise tax and societal insurance revenues to an extent that refines sixty-two percent of initial expenditures. These estimates do not account for macroeconomic impacts of active labor market policies, however.<sup>20</sup> Social security transfers have thereby contributed massively to social stability in eastern Germany. To what extent they—as opposed to poorer working conditions in western Germany—should be held responsible for the ebbing of the migration wave (see below), remains an open question.

### **C. Revenue-Raising and Burden-Sharing**

By the end of 1997, the various regional governing bodies (including the “German Unity Fund”) will have put up more than one trillion DM in transfers. The federal government carries a generous 85 percent of the financing burden, if one takes into account the effects of the revisions that were made (effective 1995, and amounting to about DM 32 billion annually) in the *Finanzausgleich* (the Federal Republic’s system of revenue-sharing through grants-in-aid). The federal government’s big burden, however, looks smaller when one considers the numerous changes made in the tax laws between 1991 and 1995, which brought in DM 147 billion in additional federal revenues, or 30 percent of the unification burdens of the federal budget. State and municipal governments, by contrast, only had to absorb revenue losses amounting to DM 1 billion and DM 5 billion, respectively. However, their shares of the financing (at 10 percent and 5 percent, respectively) are significantly smaller.

At the beginning of the unification process, the governing camp (and others) cherished the expectation that these transfer payments could be financed by expenditure cuts as well as by growth-induced revenues from taxes and social insurance contributions. In fact, the transfers were

at first overwhelmingly financed by credit—a way to cope with sudden, unexpected expenditures as pointed out already by Adam Smith.<sup>21</sup> Only gradually did increased revenues from taxes and social insurance contributions—as well as from lower expenditures owing to savings—gain in importance (cf. figure 4). The credit financing quotient sank from its 1991 level of nearly two-thirds to one-fifth by 1995, and (by contrast) the amount secured by higher tax revenues, social insurance contributions and expenditure savings doubled from two-fifths to four-fifths. The total contribution made by expenditure cuts—measured against original expectations—comes out looking rather modest. Only about 15 percent was financed by way of spending cuts between 1991 to 1995, whereas credits as well as higher taxes and social contributions each contributed about 43 percent.<sup>22</sup>

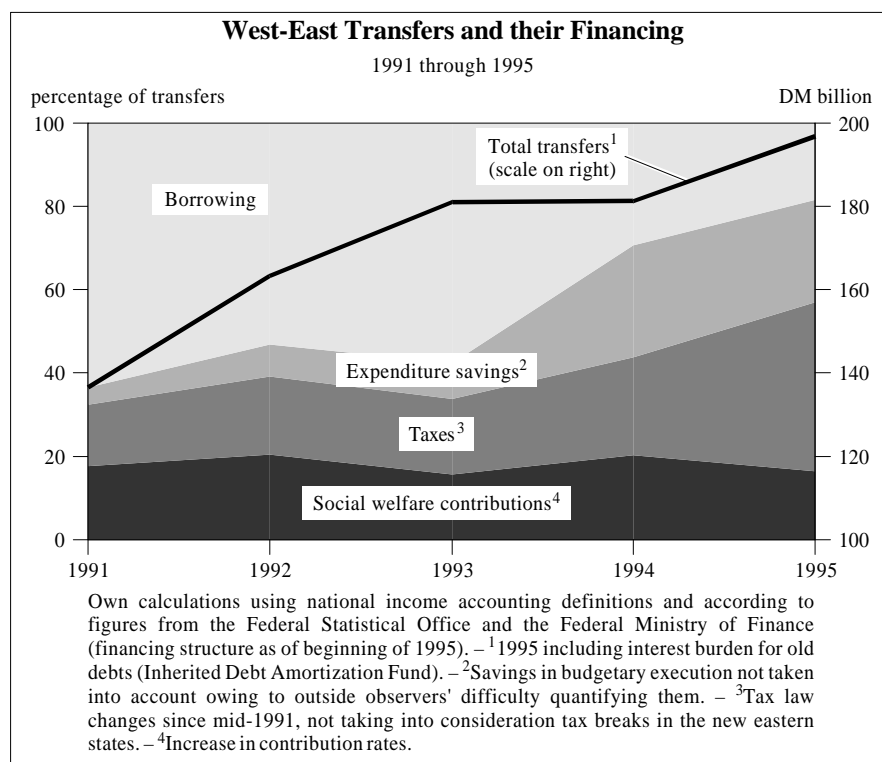


figure 4

One result of the weight carried by the systems of unemployment and old-age insurance within the framework of west-to-east transfers was that employees paying social insurance contributions initially provided a disproportionately large share of the financing. This is also reflected in the personal distribution of burdens within western Germany: In 1992, those in the three lower quarters of the income distribution scale had, at over 3 percent of their gross income, a bigger burden than those in the highest quarter, at 2.5 percent. The burden for households with the highest incomes (5 percent of all households) stood at about 2 percent. In 1995 the situation was more balanced. The top 5 percent of income earners' relative burden was, at 4.7 percent, only a bit smaller than the average (5.1 percent), a consequence of the recent increase in the solidarity surtax.<sup>23</sup>

## II. SOCIAL COSTS

Political unification and the transformation of the economic system represent, each by itself, fundamental changes with enormous "social costs." There have been frequent reports on this effect coming from those affected as well as from observers of these changes. These costs range from disorientation caused by setbacks to life-long plans and a fundamental transformation of the societal value system, through major professional disqualification (or considerable need for requalification<sup>24</sup>), all the way to the extraordinary demands of professional, sectoral or regional mobility (leaving aside, for now, immediate economic problems). From a western German perspective one might, for example, find the mobility requirements "normal," but eastern German experiences and standards were different. Of course mobility and labor effort are now highly economically rewarded. But, in this particular

context, anyone with a significant portion of his working life behind him can calculate for himself how slim his chances are. Thus, half of those fifty-two years old or over who were still gainfully employed in November 1989 found themselves in early retirement just three years later, and one-fourth were drawing old-age pensions.<sup>25</sup> In 1994, according to figures provided by the Association of German Pension Insurance Carriers (*Verband Deutscher Rentenversicherungsträger—VDR*), one-fourth of the new old-age pensions were granted as a result of unemployment; in western Germany this share—in a growing trend—amounted to one-eighth. Economists tend to ignore this type of cost, although those affected feel it at least as intensely as they do immediate economic burdens, which the social insurance systems at least help to shoulder.

#### **A. Mobility Requirements**

The demands placed on the mobility of eastern German employees become evident in looking at the development of the unemployment rate in eastern Germany: Starting from practically nothing prior to unification, it rose continually to 16 percent in 1994, then sank to 14.9 percent in 1995, and is expected to climb to 18.1 percent in 1997. This developed to the detriment of women. From 1991 to 1995 the eastern labor market lost 1.4 million jobs—among these more than 640,000 jobs for women.<sup>26</sup> Moreover, women make up 77 percent of the long-term unemployed in eastern Germany (compared to 45 percent in western Germany). However, as already mentioned, unemployment rates only give an inadequate picture of the situation in the eastern German labor market. Hidden unemployment is considerable, even if declining.

The fact that all those gainfully employed need to make adjustments is demonstrated, not least of all, by migration and commuting behavior.

From 1989 to 1995, about 1.1 million eastern Germans (on balance) resettled in western Germany; in 1995, however, the migration balance was reduced again to 25,000 (cf. figure 5). At least in this respect one goal of “early unification” had been reached. In 1991/2 more than 55 percent of eastern migration across state borders was connected with a change of jobs, while in 1993/4 this ratio fell to 42 percent, which corresponds to western Germany’s level of mobility.<sup>27</sup> Since 1990 about 500,000 workers commuted annually to western Germany, with at least one third to West Berlin. In doing so, they continue to put up with commuting times lasting several hours despite shrinking income gains. In 1990, commuters to the west, according to figures provided by the Nuremberg-based *Institut für Arbeitsmarkt- und Berufsforschung*, were able to achieve net incomes that were 156 percent of what those staying east were earning, by 1994 this advantage amounted only to 113 percent.<sup>28</sup> While the number of those eastern Germans gainfully employed as commuters “only” came to 31.5 percent in 1991, by 1994 it was already 40 percent, as against 43 percent of the gainfully employed in western Germany.<sup>29</sup>

## **B. Social Differentiation**

The “price” paid for eastern Germany’s indisputable “welfare gains” is, among other things, a considerable increase in social differentiation. Using western German experiences as a yardstick, one would have to say that this process is far from being ended. Income differentiation will and must increase considerably in light of the occupational, sectoral and regional allocation that is economically required. Thus, there was an increase in the disparity of eastern Germany’s gross wage and salary income, measured by GINI coefficients of 0.198 (1990) and 0.229 (1994); but this hardly even came close to the western German level

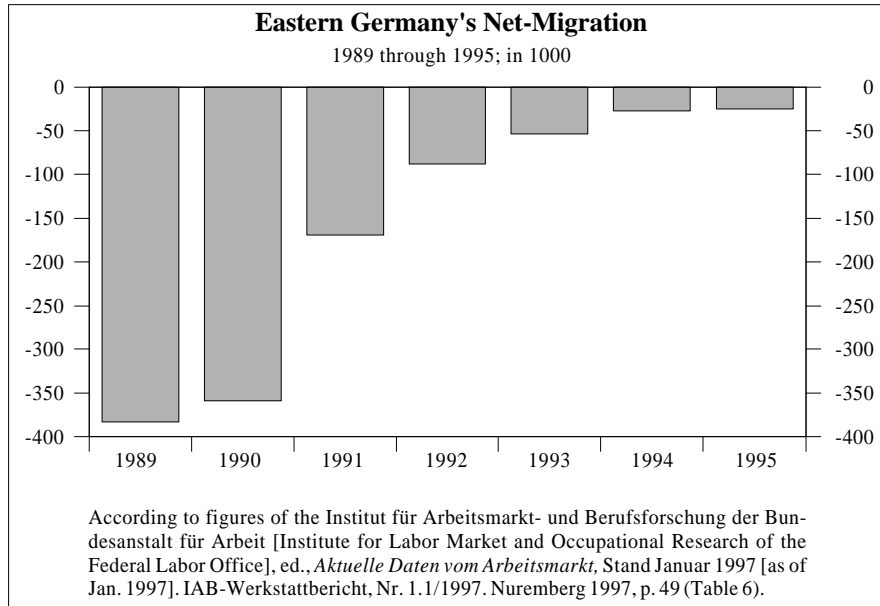


figure 5

(0.273 in 1992).<sup>30</sup> Significant differentiation in living situations is bound to accompany the necessary (and consciously promoted) formation of what is still a very underrepresented middle class. It goes without saying that, in light of decades of egalitarian rhetoric in eastern Germany, these varieties of differentiation will require considerable personal and societal changes. Surprisingly, however, opinion poll results indicate that east Germans accord greater significance to income differences corresponding to performance than do west Germans. The latter tend to emphasize equality, a priority one would more likely have suspected to find in eastern Germany as a result of life experiences there.<sup>31</sup> In this context it is also noteworthy that with a presumably equal sense of entitlement in both parts of the country, fewer claims are made for social welfare assistance in eastern Germany than in western Germany. However, it remains to be seen how long-lasting this difference will be.<sup>32</sup>

### **C. Psycho-social Consequences**

All these adjustments, both those already undertaken and those yet to come, add up to a major stress factor, which also affected the eastern German population's state of health. If mortality statistics, classified by cause of death, are viewed from this angle, it is not just the sharp increase in "illness-related" causes of death that is so conspicuous, since this could have a number of causes. More meaningful is the unusually conspicuous increase in causes of death by "malignant tumors" and—even more significant—as a result of circulatory illnesses, namely as a result of acute myocardial infarction. It is striking how life expectancy for the male population—in contrast to women—has fallen again since the end of the Wall. At 69.9 years, it has fallen back to the level of 1987/89.<sup>33</sup> Remarkably, by contrast, the trend for cases of deaths resulting from "suicide and self-inflicted injuries" has—contrary to a very widespread impression—fallen in significant measure. Only among men in the age group between 50 and 60—that is, the very age group from which the GDR's leadership cadres emerged—may we observe a distinct increase in 1990 and 1991. Fortunately, in the meantime, normalization has set in here. On the whole, however, the state of health has declined. Eastern Germans, especially women, complain increasingly about physical ailments. This is especially the case with respect to fatigue and rheumatism. The German Heart and Circulation Study of 1991 still came to the conclusion that physical well-being in eastern Germany is better than in western Germany.<sup>34</sup>

Also alarming is the fact that the number of births in the new states has gone down from 200,000 in 1989 to less than 80,000 in 1994. This development is understandable against the background of labor market problems: In 1994 one-fourth of all east German children lived in households receiving unemployment insurance support.<sup>35</sup> The decline in

new marriages, which went from 130,000 in 1989 to 50,000 per year (1992-1994), hardly testified to east Germans' thoroughgoing confidence in the way things have been going—at least up until 1994.

### **III. OUTLOOK**

#### **A. The Recovery Process Falters**

From the outset, there was a wide divergence among forecasts concerning the amount of time eastern Germany would need to catch up with the western German economy. Optimistic estimates put the time required for adjustment at three to ten years; more pessimistic estimations came to twenty years, and even to more than seventy years at the extreme end of the range.<sup>36</sup> It should be noted that with the passage of time estimates have lengthened. Where do we stand today?

Various East-West macroeconomic ratios seem to indicate that eastern Germany's productive capacity has grown from what was originally one third of the western German level to what is now about one-half (cf. table 1). Meanwhile, since 1995 the dynamism of growth in eastern Germany has been noticeably slackening. In 1997, for the first time, (real) east German GDP is actually going to increase by less (2 percent) than in western Germany (2.5 percent), and in 1998 the western German economy is also expected to have stronger growth (3 percent) than in eastern Germany (2.5 percent).<sup>37</sup> Is this a breathing space, or has the process of convergence in general been called into question?

This setback is, above all, the result of declining investments in construction. To be sure, adjustments made by the construction industry and related sectors were expected because of their overextension in relation to other sectors (see above). Stronger doubts about self-sustaining economic development are fed by the persistently large gap

### The Seven Year Itch?

Selected Macroeconomic Ratios		
	1991	1996
	old (western) German states = 100	
GDP per inhabitant in current prices	31	54
GDP per gainfully employed in current prices	31	57
Wage-productivity gap (gross income from wagework per employee/GDP per gainfully employed)	151	130
Wage costs (gross income from wagework/DM 100 GDP)	160	134
Net capital assets of all economic sectors (excluding public excavation) per inhabitant in 1991	36	52 <sup>1</sup>
Degree of self-sufficiency (CDP/domestic demand)	57	64

<sup>1</sup> Own calculations according to figures from Federal Ministry of the Economy and Federal Statistical Office. 1995.

table 1

between demand and eastern German production (the degree of economic self-sufficiency). One of the causes comes from unit labor costs, which are one-third higher than the western German level (cf. table 1). It remains to be seen to what extent—and with what results—the recent relaxation in eastern Germany’s wage bargaining pattern will continue or even grow stronger. In brief, without an improvement in the competitiveness of the eastern German economy, the overall recovery process hardly has a chance of moving forward.

Assuming that western Germany is on a real growth path of 2.5 percent, and that the eastern German economy is growing at 4 percent annually, productive capacity will have adjusted by the year 2038/39 (cf. figure 6). The recovery process would then have taken about fifty years, or two generations. By comparison: Bavaria needed fourteen years in order to make up for a backlog of 6 percentage points in the old Federal Republic’s average economic strength in 1970. Even if growth rates in eastern Germany soon return to speed, it will still require growth differences of more than 3 percentage points in order to reach

convergence within less than twenty years, and 5.5 percentage points to do this within ten years—the latter expectation being hardly realistic from today’s perspective: Real east German GDP is expected to grow by 3 percent annually between 1997 und 2001, as against 2.5 percent in western Germany.<sup>38</sup>

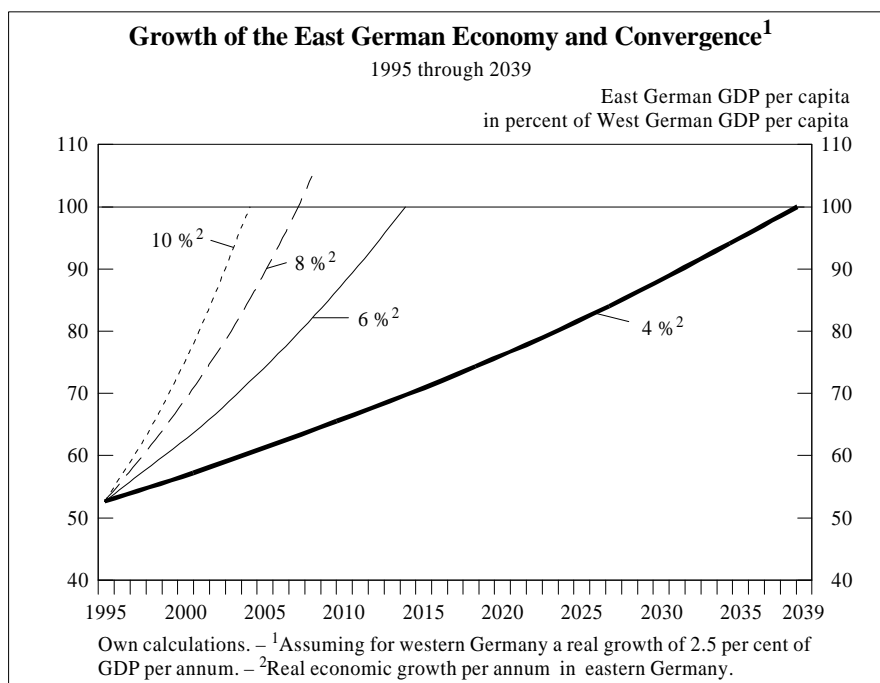


figure 6

This general observation should not, however, prevent an appreciation of significant regional differences within eastern Germany: There are a number of indicators that some urban regions will succeed more rapidly than others in latching onto western German development. In eastern Germany a noticeable South-North divide becomes apparent. From the outset, Berlin’s and Dresden’s surroundings were given the best chances for development. Along with Leipzig—as measured against the developmental criteria for regional structural policy (cf. table 2)—

The Seven Year Itch?

Real Development Differences in Eastern Germany			
Labor market region	Underemployment quotient <sup>1</sup>	Gross annual wage of employees making mandatory social insurance contributions per capita 1995 in DM	Infrastructure indicator <sup>2</sup>
	in percentage of federal average-east		
Berlin	76	118	125
Dresden	73	103	138
Leipzig	92	102	124
Federal average-east	22,5 vH	32868	84

Source: <sup>1</sup> Federal Government Information, Twenty-Sixth Framework Plan for the Joint Federal-Local Community Project "Improvement of Regional Economic Infrastructure" for the period 1997 through 2000 (2001), *Deutscher Bundestag, Drucksache 13/7205*. <sup>2</sup> Unemployment and discharge quotient (short-term workers, job creation measures, participants in continuous training and retraining, as well as job creation measures. Federal average-east (arithmetic mean).

table 2

they display the highest values. Therefore, the maximum investment premium in these labor market areas as well as in Jena, Erfurt, Weimar, Schwerin, and Halle has been reduced: Medium and small business will be able to get financial aid limited to 43 percent (50 percent thus far) of their investment; other investors 28 percent (35 percent thus far).

These regional differences raise the question as to whether it is a realistic goal for eastern Germany to adjust its economic productive capacity to the average level of the old *Länder*. After all, the economic performance in western Germany, measured in GDP per capita, varies between 79 percent in the Saarland and 130 percent in Hamburg.

## B. Fiscal Policy Options

As far as the fiscal dimensions of the adjustment process are concerned, a fiscal acceleration of the recovery process—leaving aside questions of *Ordnungspolitik* and of the political process—has to be ruled out simply on the basis of current pressures for consolidating public

budgets. On the contrary: The federal government uses its political leeway in shaping the budget both to push economic development and cut labor market services. Through the year 2000 it intends to more than halve its 1996 level of payments to the eastern German states in the context of the Joint Task “Improving in Regional Economic Structure.” Investment aid, especially to promote urban and residential housing, is supposed to be cut by 2.9 percent annually (cf. table 3). Beyond that, the federal government intends to use a reduction in unemployment as well as greater savings—among other measures, by incrementally adjusting labor market services (job creation and continuous training measures) in eastern Germany to the western German level—as a means of ending its subsidies to the Federal Labor Office (*Bundesanstalt für Arbeit*—or *BA*)

Payments by Federal Government to the New Eastern States 1996-2000; per DM million						
	1996	1997	1998	1999	2000	2000/ 1996
Joint tasks according to Articles 91a and 91b of Basic Law	5496	5162	5010	3979	2890	-14,8
Payment laws	1213	1129	1137	1109	1094	-2,6
Investment assistance	9540	7940	8730	8698	8641	-2,9
Remaining payments of federal government to states	815	921	1161	1163	1106	7,9
Federal supplementary appropriations	16107	16201	16342	16538	16740	1,0
Compensation payment regionalization OEPNV	2545	3376	3656	3795	3937	11,5
Total	35715	34730	36041	35283	34408	-0,9

According to figures of the *Zentrale Datenstelle der Laenderfinanzminister*. Annual average rate of change.  
table 3

in Nuremberg. But these labor market services amount to about 50 percent of the *BA*'s expenditures in eastern Germany. The planned savings come to DM 1.7 billion in 1997 and rise to DM 8.3 billion by the

year 2000. However, in light of current labor market developments and of the 130,000 persons affected by these services annually, any lightening of the *BA*'s and federal government's burden worth mentioning seems more than dubious. Unfortunately, it is more likely that previously hidden employment will be transformed into open unemployment.

Parallel to these cuts, the federal government is trying to improve the effectiveness of tax policy to promote development in eastern Germany. A first step in this direction is the concentration of investment subsidies on manufacturing and services close to production, restricting the subsidization of residential construction to measures for renovation and revitalization of inner cities, as well as differentiating subsidies. The policy shift authorizing the application of special depreciation rules to additional investment allowances—while holding the investment volume constant—favors new company startups and middle-class small business firms. But, these promotional measures are scheduled to end by 2001 or 2004.<sup>39</sup>

The fiscal leeway of the eastern German states is becoming increasingly narrower. Their budgets are coming under pressure from both the revenue and expenditure sides. Federal payments to the eastern German states are going to decline by 1 percent annually in the period from 1996 to 2000 (cf. table 3). Occasional additional revenues are only to be found in areas the federal government can regulate by agreement with the states. Federal supplementary payments will increase by 1 percent annually, and compensation payments for the regionalization of local public transportation by 11.5 percent annually. To be sure, the taxing power of the eastern German states is increasing. Their contribution to total federal German taxation is going up slightly from nearly 9 percent in 1996 to around 10 percent in 2000. But, of course,

they suffer from weak revenues dynamism. It is, therefore, not surprising to find that adding up all the financial plans for the east German states in the period from 1996 to 2000 merely produces an expenditure increase of 0.7 percent annually. As a reaction to the unfavorable development of revenues, it can be anticipated that expenditures through the year 2000 will stagnate at around DM 120 billion. The leeway for fiscal policy will accordingly shrink noticeably. According to fiscal plans, the interest burden quotient is going to double within just 5 years to 6.8 percent in the year 2000 (for western German states the figure is 8.5). Thus it is not surprising that the eastern German states cannot maintain their high investment quotient. It will be sinking by 4.5 percentage points to 24.3 percent in the year 2000.<sup>40</sup> Probably the fiscal strain will get even stronger because the medium-term tax yield will be smaller than predicted. Against this background the *Länder* are starting to revise their financial planning.

Although convergence is still beyond the horizon, the pressure for consolidation is pushing the capital-oriented sponsorship of economic development up against this policy's financial limits. In all likelihood, joint federal-local community projects are going to be drastically cut—not least as a consequence of the European Union's policies of regional aid. The public purse's investment dynamic will decline perceptibly, despite considerable regional deficiencies in public infrastructure. Though it is hard to assess just in what way this development might hurt eastern Germany's economic chances, it will definitely not enhance them.

### **C. West German Economy and Unification Process**

The initially favorable effects of unification should not foster any illusions about the fact that economic development was principally

attributable to financing on credit, and was in no way a specific outcome of German unification. The bill for this is coming due in the form of a higher tax burden and nonincome charges and—in western Germany—of more or less stagnating government expenditures (in real terms) and (ultimately, therefore) of lost growth. *Ceteris paribus*, fiscal policy's leeway will be extraordinarily restricted for the foreseeable future. By the turn of the century, interest charges are expected to amount to more than 15 percent of tax revenues (in 1990 the figure was 11 percent) and to exceed gross public investments—in absolute terms—by about one half. Especially with regard to growth in eastern Germany, it makes little sense to dismantle infrastructural deficits in the east while allowing new gaps to arise in the west. In the first place, growing economic ties lead to stronger interdependence; secondly, one has to pay attention to the networking effects of infrastructural projects, as the example of east-west connections in road and highway networks makes especially clear.

Maintaining the transformation process in eastern Germany does not just mean giving up on public services. German unification inevitably led to an interruption in the consolidation process initiated at the start of the 1980s. However, netting out the financial burden of reunification, the current ratio of government expenditures to GNP would amount to forty-three percent (forty-six percent in 1989). In light of labor market problems in western Germany, and especially of the risks in eastern Germany's development, it seems, questionable that the actual public sector's share of the economy will be reduced—as originally intended—back to its 1989 level by the turn of the century.

#### IV. CONCLUSION

During the first seven years of German unification, the move toward economic parity between eastern and western Germany took some powerful steps forward, even if its dimensions and breadth did not match initial expectations. Without question, the adjustment process will continue to require major fiscal support, even if the status of public budgets and current plans lead one to expect a relative decline in their dimensions. To be sure, it is assumed that the original economic recovery dynamic will resume at some point. In 1996 alone, the faltering recovery process caused a rise of 120,000 in the number of eastern Germans unemployed and fiscal costs (wage compensation and payments, declining revenues for the state and social insurance funds) in the amount DM 4.3 billion. Caution is advisable, not least, because the structure of aid is only malleable to a small degree (in the short run), and even then, net budgetary effects are far smaller than overall effects (measured in gross terms). In any event, expanding infrastructure beyond the year 2000 will require significant funds. Frankly, and with all due recognition of the state's accomplishments in the adjustment process, previous economic developments are also making it increasingly clear just how limited the future effects of policy will be. What happens to the adjustment process from now on will depend much more than heretofore on what the private sector can accomplish. A great deal of evidence speaks for the fact that all the players are aware of this. It is also becoming increasingly clear that economic development is not a zero-sum game. Without solid economic growth in western Germany, progress in the eastern *Länder* will be slow.

## ENDNOTES

<sup>1</sup>. Cf. U. Heilemann and R. Jochimsen, Christmas in July? The Political Economy of German Unification Reconsidered. (Brookings Occasional Papers.) Washington, D.C. 1993, p.1.

<sup>2</sup>. Cf. Ibid, p.8ff.

<sup>3</sup>. Cf. the introductory remarks in U. Heilemann and H. Rappen, "Was kostet uns die Einheit?" *Hamburger Jahrbuch*, volume 41 (1996), pp. 85ff. The literature of the economics of German unification are hardly looked over anymore. Without claiming completeness: K. v. Dohnanyi, *Das deutsche Wagnis*. München 1991; J. Priewe und R. Hickel, *Der Preis der Einheit*. Frankfurt a. M. 1991; G. Sinn und H.W. Sinn, *Kaltstart - Volkswirtschaftliche Aspekte der deutschen Vereinigung*. Tübingen 1991; M. Stolpe, *Schwieriger Aufbruch*. Berlin 1992; P.J.J. Welfens, *Economic Aspects of German Unification. Expectations, Transition Dynamics and International Perspective*. 2<sup>nd</sup>, revised and enlarged edition, Berlin u.a. 1996; R. Graskamp, U. Heilemann und K. Löbbe, *Die strukturelle Erneuerung Ostdeutschlands - Versuch einer Zwischenbilanz*, RWI-Mitteilungen, vol. 47 (1996), pp. 53ff.

<sup>4</sup>. On the fiscal costs, revenue raising and expenditures, their financing, the macroeconomic and social costs, cf. U. Heilemann and H. Rappen (see note 3), pp. 85 ff. For an update of this article, cf. the same authors' "Die Hilfe für die Ostdeutschen ist auch Selbsthilfe," *Das Parlament*, Nr. 3-4, January 1997, p. 18.

<sup>5</sup>. Cf. Ibid, p.89.

<sup>6</sup>. Cf. D.H. Aldcroft, *Die zwanziger Jahre*. (Geschichte des Weltwirtschaft im 20. Jahrhundert, 3.) München 1978, pp. 105ff.

<sup>7</sup>. Cf. W. Jann, Art. Öffentliche Verwaltung. In: W. Weidenfeld und K.-R. Karte (eds.), *Handbuch zur deutschen Einheit*. Aktualisierte Neuauflage, Bonn 1966, p. 532.

<sup>8</sup>. This is the conclusion reached by D. Biehl and P. Ungar, "Kapazitätsausstattung und Kapazitätsengpässe an großräumig bedeutsamer Infrastruktur," *Bundesforschungsanstalt für Landeskunde und Raumordnung* (eds.), *Raumordnung in Deutschland. Teil 2: Aufgaben und Lösungsansätze (Materialien zur Raumentwicklung, Heft 40)*, Bonn, 1991, pp. 237ff.

<sup>9</sup>. On the scope and structure of public investments, cf. Bundesministerium für Wirtschaft (ed.), *Bilanz der Wirtschaftsförderung des Bundes in Ostdeutschland bis Ende 1996. BMWi-Dokumentation Nr. 419*, Bonn, 1997, p. 5ff.

<sup>10</sup>. Cf. F. Stille, "Transfers und Infrastruktur - Entwicklung und Perspektiven in den neuen Bundesländern," Institut für Wirtschaftsforschung Halle (ed.), *Transferleistungen, Wirtschaftsstruktur und Wachstum in den neuen Bundesländern—Tagungsband—*Halle, 1996, p. 31.

<sup>11</sup>. For details, cf. M. Zarth, *Die Bedeutung des Infrastrukturindikators für die Abgrenzung von Fördergebieten der regionalen Strukturpolitik. Informationen zur Raumentwicklung*, (1996), Heft 9, p. 600 (Übersicht 1).

<sup>12</sup>. Cf. *Unterrichtung durch die Bundesregierung. Jahresgutachten des Sachverständigenrats zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Drucksache 13/6200*, Ziffer 267, as well as Bundesforschungsanstalt für Landeskunde und Raumordnung (ed.), *Regionalbarometer neuer Länder. Zweiter zusammenfassender Bericht. Materialien zur Raumentwicklung, Heft 69*, Bonn 1995, pp. 105ff.

<sup>13</sup>. Cf. M. Zarth, (see note 10) p. 609, as well as *Bundesforschungsanstalt für Landeskunde und Raumordnung* (ed.), pp. 111ff.

<sup>14</sup>. Cf. Bundesministerium für Wirtschaft (ed.), (see note 9), p. 5.

<sup>15</sup>. For a detailed picture of sectoral developments in eastern Germany, cf. R. Grasskamp, U. Heilemann, and K. Löbbe, (see note 3) pp. 53ff.

<sup>16</sup>. Cf. *ibid.*

<sup>17</sup>. On these figures, cf. Bundesministerium für Wirtschaft (ed.), (see note 9), p. 17.

<sup>18</sup>. An average earner who has a working life of forty-five years obtains the so-called "Eckrente." Cf. R. Habich, Art. Lebensbedingungen. In: W. Weidenfeld und K.-R. Korte (eds.), (see note 7) p.456.

<sup>19</sup>. On this point, cf. e.g. H. Ribhegge, "Herausforderungen der gesetzlichen Rentenversicherung," *Volkswirtschaftliche Korrespondenz der Adolf-Weber-Stiftung*, Munich, vol. 34 (1995), Nr. 6.

<sup>20</sup>. Cf. (Autorengemeinschaft), *Arbeitsmarktentwicklung und aktive Arbeitsmarktpolitik im ostdeutschen Transformationsprozeß 1990 - 1996. IAB-Werkstattbericht Nr. 5/ 21.2.1997*. Nürnberg 1997, p. 14 und table 17.

<sup>21</sup>. Cf. A. Smith, *Inquiry into the nature and causes of the wealth of nations*. Edited by E. Cannan. London 1950 (1904), pp. 455.

<sup>22</sup>. The authors had to dispense with any attempt at updating the structure of financing, since it gets more difficult with each passing day to use an unambiguous method for classifying fiscal decisions.

<sup>23</sup>. Cf. U. Heilemann and W. Reinicke, *Welcome to Hard Times. The Fiscal Consequences of German Unity*. Washington, D.C. pp. 46ff.; U. Heilemann et. al., *Konsolidierungs- und Wachstumserfordernisse - Fiskalperspektiven der Bundesrepublik in den neunziger Jahren*. Untersuchungen des Rheinisch-Westfälischen Instituts für Wirtschaftsforschung, Heft 14. Essen, 1994, pp. 58ff. In 1998 the solidarity surtax will be reduced from 7.5 percent to 5.5 percent.

<sup>24</sup>. Among eastern German employees, a need for requalification no doubt exists. However, renewed qualification in general is not really called for. Existing deficiencies in job qualification may be attributed, on the one hand, to the relative technical

backwardness of the GDR, and, on the other hand, they are also determined by the system. Thus, the planned economy of the GDR depended far less than a market economy on the self-motivated responsibility and cooperation of employees. Also, much less emphasis was placed on factors like mobility and the flexibility of labor power, which are decisive at times of rapid structural change. For details, cf. M. Scheuer et. al., "Ein Beitrag zur Bewertung der in der DDR erworbenen beruflichen Qualifikationen in den Bereichen Metall und Elektro," in *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung*, Stuttgart, vol. 25 (1992), pp. 553ff.

<sup>25</sup>. Cf. K. Parmentier, "Die Arbeitsentwicklung in der Bundesrepublik Deutschland unter besonderer Berücksichtigung der Situation in den neuen Bundesländern," in W. Glatzer and H.H. Noll (eds.) *Getrennt vereint. Lebensverhältnisse in Deutschland seit der Wiedervereinigung*, (Soziale Indikatoren, Nr. 18), Frankfurt a.M. and New York, p. 15 (table 2).

<sup>26</sup>. Cf. G. Engelbrech und A. Reinberg, Frauen und Männer in der Beschäftigungskrise der 90er Jahre. Entwicklung der Erwerbstätigkeit in West und Ost nach Branchen, Berufen und Qualifikationen. - Eine Untersuchung auf Basis von Mikrozensusdaten. - (IAB-Werkstattbericht Nr. 11.) Nürnberg 1997, 21 (Übersicht 9).

<sup>27</sup>. Cf. W. Heinrichs (unter Mitarbeit von S. Jurkschat), Wohnortwechsel zwischen den Bundesländern im Kontext der Vereinigung. (WZB-Arbeitspapier FS III 96 - 407.) Berlin 1996, pp.22ff.

<sup>28</sup>. Cf. Institut für Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit (ed.), *Pendlerstrom von Ost nach West reißt nicht ab. Ergebnisse des letzten Arbeitsmarkt-Monitor vom November 1994*. (IAB-Kurzbericht Nr. 10/29), Nuremberg, 1995, p. 5 (table 2).

<sup>29</sup>. For further details on this point, cf. Deutsches Institut für Wirtschaftsforschung (ed.) [II], "Ost-West-Pendeln gehört zur Normalität des gesamtdeutschen Arbeitsmarktes" (author.: P. Krause), in *DIW-Wochenbericht*, Berlin, no. 51/52, vol. 61 (1994), pp. 861ff.

<sup>30</sup>. Cf. R. Hauser and I. Becker, "Zur Entwicklung der personellen Verteilung der Einkommen in West- und Ostdeutschland 1973 bzw. 1990 bis 1994," in *Sozialer Fortschritt*, v. 45 (1996), p. 289. For the economic mobility of persons living in the eastern and western states of Germany see R. Hauser and Hoyer Fabig, *Labor Earnings and Household Income Mobility in Reunified Germany: A Comparison of the Eastern and Western States*. (Syracuse University, Center for Policy Research Income Security Policy Series, Paper No. 15.) Syracuse, NY, 1997.

<sup>31</sup>. Cf. H. Meulemann, Aufholendenzen und Systemeffekte. Eine Übersicht über Wertunterschiede zwischen West- und Ostdeutschland," in *Aus Politik und*

*Zeitgeschichte*, Beilage zur Wochenzeitung *Das Parlament*, vol. 1995, Nr. B40-41/95, pp. 23ff.

<sup>32</sup>. Cf. Rheinisch-Westfälisches Institut für Wirtschaftsforschung (ed.), *Das Zusammenwirken von Steuern und Sozial-transfers in den jungen Bundesländern—eine empirische Analyse anhand von Fallbeispielen und Problemdarstellung. Gutachen im Auftrag des Bundesministers der Finanzen*, (Authors: B. Fritzsche and H.D. v. Loeffelholz), Essen, 1994, p. 38.

<sup>33</sup>. Cf. Institut für Wirtschaftsforschung Halle (ed.), *Wirtschaftliche und soziale Lebensverhältnisse in Ostdeutschland*, Indikatorenansammlung, erstellt im Auftrag des *Spiegel* (Sonderheft Nr. 2/1995), Halle 1995, p. 38.

<sup>34</sup>. Cf. E. Brähler and H.-E. Richter, “Deutsche Befindlichkeiten im Ost-West-Vergleich, Ergebnisse einer empirischen Untersuchung,” in *Aus Politik und Zeitgeschichte*, Beilage zur Wochenzeitung *Das Parlament*, vol. 1995, Nr. B40-41/95, p. 20.

<sup>35</sup>. Cf. (no author), “Immer mehr ostdeutsche Kinder wachsen in Armut auf - Unicef-Studie sieht sozialen Abstieg,” in *Neue Zürcher Zeitung*, August 26, 1995.

<sup>36</sup>. A comprehensive overview on the different forecasts is offered by Christian Thimann, *Aufbau von Kapitalstock und Vermögen in Ostdeutschland*, Schriften zur angewandten Wirtschaftsforschung 74, Tübingen 1996, pp. 34ff.

<sup>37</sup>. Die wirtschaftliche Entwicklung im Ausland und im Inland zur Jahresmitte 1997,” in *RWI-Konjunkturberichte*, vol. 48 (1997), Heft 1, p. 34. Die Lage der Weltwirtschaft und der Deutschen Wirtschaft im Herbst 1997. Beurteilung der Wirtschaftslage durch folgende Mitglieder der Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlichen Forschungsinstitut e.V., Berlin: Deutsches Institut für Wirtschaftsforschung, Berlin, HWWA-Institut für Wirtschaftsforschung, Hamburg, ifo Institut für Wirtschaftsforschung, München, Institut für Weltwirtschaft an der Universität Kiel, Institut für Wirtschaftsforschung Halle, Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen, Hamburg 1997, p. 17; Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung, Jahresgutachten 1997/98. Bonn 1997, s. 2.

<sup>38</sup>. Cf. Bundesministerium der Finanzen (ed.), *Finanzbericht 1998*. Bonn 1997, p. 70.

<sup>39</sup>. Cf. Presse- und Informationsdienst der Bundesregierung (ed.), “Bilanz der Wirtschaftsförderung des Bundes in Ostdeutschland bis Ende 1996,” *Aktuelle Beiträge zur Wirtschafts- und Finanzpolitik* Nr. 12, Bonn, May 26, 1997, pp. 9ff.

<sup>40</sup>. Our own calculations, based on official tax estimates and the states’ financial planning.



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