

Reunification—An Economic Success Story

by Karl Brenke, Marcel Fratzscher, Markus M. Grabka, Elke Holst, Sebastian Hülle, Stefan Liebig, Maximilian Priem, Anika Rasner, Pia S. Schober, Jürgen Schupp, Juliane F. Stahl, and Anna Wieber

People's expectations after the fall of the Berlin Wall 25 years ago and of reunification in 1990 were huge. The government promised to create "flourishing landscapes" within a few years. The euphoria of reunification came not only through the desire to finally become one country and one nation again but also had tangible economic reasons: the people from East Germany wanted better economic prospects, more opportunities to realize their potential, and ultimately to create more well-being for themselves and future generations. West Germans were hoping for a boom.

This promise very quickly proved to be an illusion. And, solely from an economic perspective, economic policy errors were made, such as monetary union at an exchange rate that caused East Germany's economic competitiveness to fall rapidly and, at least initially, contributed to a sharp rise in unemployment. In addition, privatization through the Treuhandanstalt was probably premature. Nevertheless, did reunification fail from an economic policy perspective? It would be misguided to take the political promises of whirlwind prosperity as a measure of the success of reunification.

It is difficult to answer the question as to what are realistic objectives and criteria for a systematic economic policy evaluation of reunification. The convergence of living conditions in eastern and western Germany is a measure that comes close to assessing this objective. It would be misleading, however, to equate convergence with complete equa-

lity of all economic indicators. Equality of income, productivity, or assets will never be achieved in any economy or country. There will always be differences between regions, and even within regions, in any small or highly integrated country. The different regions in western Germany have not undergone this process since 1945, which would have led to full economic convergence, had the country not been divided.

Quite the contrary: there are often temporary divergences, i.e., diverging living and economic conditions, sometimes relatively poor regions transform into the most productive. Bavaria is just one example of western Germany experiencing such a process. Countries such as Italy and Spain have very large and persistent differences across regions that have not evened out for centuries but have actually become even greater through globalization.

This present DIW Economic Bulletin is intended as an initial contribution to the economic policy evaluation of reunification. To what extent have income, productivity, and wages converged in western and eastern Germany? How has reunification influenced different population groups? How have assets and well-being developed in both parts of Germany? These are the key questions analyzed in the first part of this DIW Economic Bulletin.

The article entitled "Eastern Germany Still Playing Economic Catch-Up" by Karl Brenke shows that the east still lags far behind the west in terms of economic output and income. The greatest structural pro-

blem is the low level of productivity and the strong focus on executive functions. The greatest success has been effective re-industrialization.

The second article by Markus Grabka “Private Net Worth in Eastern and Western Germany Only Converging Slowly” analyzes the net worth of Germans in both parts of the country.¹ Even 25 years after the fall of the Wall, households in eastern Germany hold assets of 67,400 euros, less than half that of western Germans. Real estate ownership, the most important asset type quantitatively, has been rising significantly in both parts of the country since 1990, yet there is still a gap of 15 percentage points in ownership rates between east and west. However, both in terms of average living space and of real estate furnishings and refurbishment, there has been significant convergence since the fall of the Wall.

In short, the first two articles show clearly that economic convergence between eastern and western Germany has indeed taken place, but that we are still far from achieving full equality.

Nevertheless, as demonstrated, full equality of living conditions across regions cannot be a realistic measure for the economic policy assessment of reunification, although a comparison of regional differences in western Germany or, alternatively, in other countries such as France or Italy is meaningful. After 40 years of planned economy, it is in many ways astounding that the eastern German economy has been so successfully reinvented and opened up favorable economic prospects for people in eastern Germany.

When we speak of a convergence of living conditions in western Germany and eastern Germany, it is frequently assumed that the changes are taking place in eastern Germany with the aim of conver-

ging with western Germany. In macroeconomic terms, there is certainly an economic convergence of eastern Germany toward western German conditions. But does this apply to individual economic situations and, in particular, to community and social developments? Did West Germany actually represent the ideal for East Germany in all aspects? Or were there also areas in which West Germany learned from East Germany?

It would be presumptuous to see reunification merely as an extension of West Germany’s economic, social, and socio-political system. Although the social market economy of West Germany was undoubtedly more productive than East Germany’s planned economy, the former German Democratic Republic (GDR) still had a number of important social and societal models and characteristics that it brought to reunified Germany which have since become a recognized standard.

The other articles therefore address the question as to whether Germany has become a different country through reunification. There are two areas in which East Germany has strongly influenced the thinking and actions of the past 25 years throughout Germany—first, the question of the family model and childcare and, second, the role of women. The final two articles tackle the issues of wages and living standards in the east and west.

The first article in the second part by Elke Holst and Anna Wieber entitled “Eastern Germany Ahead in Employment of Women” shows that while labor market participation rates in eastern and western Germany have largely converged, the desired and actual hours of work among eastern German women are, however, significantly greater. This is most clearly evident among mothers. Little difference, however, has been observed among men.

These gender differences are also reflected in pension provisions and, in particular, in the pension entitlements of men and women in western and eastern Germany. The article by Anika Rasner enti-

¹ This article is based on data collected by TNS Infratest Sozialforschung on behalf of DIW Berlin from the Socio-Economic Panel (SOEP) study, which was launched in 1984 as an annual survey of the same individuals in West Germany and in June 1990—that is, immediately prior to economic, monetary, and social union—expanded its collected data to include the GDR.

tled "Gender Pension Gap in Eastern and Western Germany" shows that gender-specific differences in old-age pensions have generally diminished. But in western Germany, they are still greater than in eastern Germany. Pensions are also predicted to be significantly higher for western German women than for eastern German women in the future, whereas eastern German men must expect declining pension claims.

There were marked differences between West and East Germany before reunification, particularly in terms of the family model and childcare. The third article entitled "Childcare Trends in Germany—Increasing Socio-Economic Disparities in East and West" by Pia Schober and Juliane Stahl studies how the use of child day care and informal care for children under three years of age has changed in both parts of the country since reunification. The article places special emphasis on varying developments according to the different socio-economic family backgrounds. The main finding is that socio-economic differences in the use of childcare have intensified in the context of continuing east-west differences.

These two areas are only selected examples of East Germany indeed having and continuing to have a significant impact on social and societal life in a reunified Germany. Although these two areas are viewed primarily as socio-political issues, they have nevertheless had a major impact on the German economy and its performance. One resounding success that Germany is seeing today is its employment miracle. It was not just the achievement of reducing unemployment from more than ten percent in the early 2000s to well under seven percent today, but also that nowadays many more people, and women in particular, are able to join the workforce. Although there are still major weaknesses and a need to catch up, reunification and the influence of East Germany on the whole economy has contributed to more success and momentum.

It is not only income and assets that remain unevenly distributed in Germany, and especially between western and eastern Germany, it is also the sense of justice for which there are clear differences between eastern and western Germany. In the next article entitled "Wages in Eastern Germany Still Considered Less Fair Than in the West," Stefan Liebig, Sebastian Hülle, and Jürgen Schupp analyze perceived injustices with respect to wages. In 2013, about 44 percent of the workforce in eastern Germany rated their incomes as unfair, while in western Germany the corresponding figure was one-third. The analyses clearly show that it is recipients of low to moderate incomes and, in particular, skilled workers who feel their net incomes, which have remained stable over time, are unjust. Income tax also contributes to this view.

The last article by Maximilian Priem and Jürgen Schupp examines the levels of life satisfaction and concerns of people in eastern and western Germany. Despite rising life satisfaction in eastern Germany compared to western Germany, the east-west difference has still not been completely eradicated. In 2013, people in eastern Germany were significantly less satisfied with their lives overall than those in western Germany, although general satisfaction in the former East German Länder is higher than it has ever been in the history of the survey which first included the east in June 1990. Satisfaction with residential situations, household activities, work, and leisure has now converged. People in eastern Germany are more concerned about their own economic situations and about crime while, throughout Germany, concerns about xenophobia and for individuals' own jobs have decreased.

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