

Federal Government Annual Report on Rebuilding the East (2017)

Abstract

Government economists claim that a quarter century of transfer payments had finally enabled the Eastern economy to grow again, thereby improving the living standard in the new states in spite of some lingering structural problems.

Source

Economy and labor market show favorable development

“Aufbau Ost,” the German federal government program to subsidize investment, develop infrastructure and create new businesses in eastern Germany, continues to make progress. Overall, the eastern German economy has developed well and is internationally competitive. The share of gross value added by eastern German industry now lies somewhat higher than the EU average. The region’s economic strength has since grown to slightly less than the EU average. This is a remarkable success.

The favorable development of the labor market is also a positive sign. The number of employed has risen and the unemployment rate has continued to fall. In 2016, the unemployment rate in eastern Germany stood at 8.5 percent compared to 5.6 percent in western Germany. Since its peak in 2005, unemployment in the eastern federal states has fallen by more than half. The encouraging improvement in the labor market has also led to considerable progress towards the alignment of wages between East and West. Gross earnings in the five new federal states in 2016 have risen by 3 percent, once again showing a greater increase than in the rest of Germany.

The same is true with respect to the harmonization of pensions. As a result of the significant pension increase on July 1, 2016, the current pension value in the eastern German federal states is 28.66 euros (formerly 27.05 euros) while the figure for the western German federal states lies at 30.45 euros (formerly 29.21 euros). With the pension adjustment of July 1, 2017, the statutory pension rose by 3.59 percent in the eastern German states and by 1.90 percent in the western German states. The higher pension adjustment in the East is based on the higher wage development there. The current pension value in the East has thereby risen to 95.7 percent of the value in the West.

On February 15, 2017, the federal cabinet passed a draft law on completing the alignment of pensions. The Bundestag, the lower house of the parliament, and the Bundesrat, the German upper house, both ratified the law. As of 2025, pensions in Germany will be calculated uniformly.

Structural weaknesses despite positive developments

Despite the enormous process of closing the gap in economic terms, the majority of regions in the new federal states are still regarded as structurally weak. In 2016, the average per capita GDP amounted to 73.2 percent of that in the western German federal states. In addition, the regions suffer from a higher rate of unemployment, a lower wage level, and a lower level of tax revenue per inhabitant. The absence of large industries and their headquarters, as well as the low population density in the new federal states have impeded economic growth. Such growth would have been necessary in order to attain a more rapid alignment of eastern Germany’s economic output to the level of western Germany.

The strengthening of economic output in structurally weak regions of Germany remains a key goal of the federal government. As such, companies in eastern Germany also benefit from measures applicable to the whole of Germany that essentially aim to promote investment, innovation, and internationalization. The support programs are primarily intended for small and medium-sized businesses, and this especially benefits firms in eastern Germany because of their small-scale economic structure. In 2017, the “Transformation through Innovation in the Region” program was launched with the aim of supporting innovation in structurally weak regions. Up to 2019, the program has focused on the eastern German federal states in particular. As of 2020, support for further regions will be possible.

Overhaul of fiscal relations meets the needs of the eastern German federal states

In 2019, both the previous fiscal equalization system between the states and the solidarity pact for the new federal states will expire. The overhaul of fiscal relations between the federal government and the states, which was adopted in 2017, regulates horizontal and vertical equalization payments in Germany as of 2020. It meets the particular needs of the eastern German federal states and ensures that they will be provided with financial resources at the same level as in 2019, before the cessation of the last benefits from the solidarity pact.

Source: The German Federal Government, “Annual Report 2016/2017: Aufbau Ost,”
https://www.bundesregierung.de/Webs/Breg/DE/Themen/Jahresbericht_2016_2017/01_Arbeit-Wirtschaft/4_Aufbau-Ost/_node.html

Translation: Pam Selwyn

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