Living Conditions in the New Federal States (January 1997)

Abstract

Four years after unification, the results of a study on inequality and social policies in the former GDR showed considerable differences between the old and new federal states. Developments in the economic situation, income and wealth distribution, and the labor market are summarized below.

Source

Unification is Complete – Support for the East will Continue

The equalization of living conditions in the Western and Eastern federal states remains a challenge for politics and society in all of Germany.

German reunification was an extraordinary historic process. The question, however, is whether the equalization of objective living conditions and [the equalization] of subjective assessments thereof has already happened, too, or whether we, in this expanded German society, are still far removed from this.

Shortly after unity was achieved, the Science Council proposed establishing a “Commission for Research on Social and Political Change in the New Federal States” [Kommission für die Erforschung des sozialen und politischen Wandels in den neuen Bundesländern or KSPW] and giving it the task of undertaking an academic examination of the transformation process that had already started during GDR times. In the first phase of its activity, this interdisciplinary commission made up of sociologists, political scientists, psychologists, jurists, and economists used funds from the German Federal Ministry for Education, Science, Research, and Technology and the Ministry for Labor and Social Affairs to promote, in particular, research projects by East German social scientists to reclaim and preserve previously inaccessible data and diverse, unpublished information; in doing this, the commission sought to provide an impetus for the enrichment of the East German social science research landscape. In the second phase, the KSPW’s activities focused on drafting six summary reports aimed at tracing various dimensions of the transformation process up to 1995. Some of the major findings from Work Group II’s report on inequality and social policy are presented below.

The report examines fundamental developments in the socio-structural and sociopolitical dimensions of the transformation process in East Germany and sheds light on sociopolitical issues and the groups affected by them. Social policy played a particularly significant role in the changes to the political, social, and economic order that occurred in East Germany as a result of unification. Social policy’s decisive role in the transformation of the system consisted not only of a sociopolitical “buffering” of the economic and employment problems that emerged as a result of the transformation. As part of the intra-German integration process, social policy also – especially with respect to labor market policy and pensions – took on the role of ensuring the acceptance of the system transformation through [the issuance of] very large West-East transfer payments that brought income and social benefit levels up to the high standards in West Germany. This is the proper context for viewing the high West-East transfers, which, in net terms, amount to about 120–140 billion DM per year; this represents between four and five percent of the West German GDP.

The following major findings on the course and current status (as of 1994) of the transformation process can be noted:

The Course Thus Far

1. Socio-demographic developments were marked by a population decline brought on by resettlement to West Germany, permanent East-West commuter traffic, an extreme drop in the birthrate, and a decrease in average household size. The average life expectancy in Eastern Germany was (in the GDR) and still is (in the new federal states) several years lower than in the old federal states.

2. Economic development with respect to income and the availability of goods was very positive as compared with the situation at the outset but lagged behind the euphoric initial expectations. East German productivity reached half the West German level, up from its starting position of one-third. In order to achieve parity, annual productivity growth in the East would have to be three percent higher than in the West for about twenty-five years. Only then would equal wages be economically feasible. This is an extremely ambitious goal, whose attainment is by no means certain.

3. In 1991, the average available income of private households in East Germany was 47.7 percent of the average available income of private households in West Germany; in 1994 that figure jumped to 78 percent. There has been further convergence since then. Although there has also been considerable price inflation, price levels are still lower than in the West, so that differences in real income are somewhat smaller still. Gross income from employment still accounted for up 91.5 percent of the national income in the East in 1994, while the figure in the West was 70.1 percent. The share of household income received as cash transfer benefits is still much higher in the new federal states than in the West. On both of these points, there is a need for equalization, which can lead to serious social conflict.

4. The distribution of earned income and of weighted per capita net income was far less unequal in the former GDR than in the old federal states. However, inequality has increased considerably in the new federal states, even if it has not reached the level of West German income inequality. At first, moving up or down the economic ladder was more common than in the West, but this has since stabilized. Upper-class people have experienced the fewest plunges. The share of low-income individuals (50 percent of the average income or lower) as well as the share of welfare recipients has clearly increased in the new federal states but has not yet reached the West German level.

5. The distribution of wealth among private households is far more uneven in the new federal states than in the old ones. This, however, is not the result of a strong concentration of ownership of shares in company assets, which are just being accumulated in the East; rather, it is due to a strong concentration of real estate and buildings, which find themselves in the hands of about 25 percent of households. A significant portion of privatized national assets were transferred to West Germans and foreigners.

6. The situation on the labor market is marked by a decrease in employment from 9.7 million (1989) to 6.7 million (1995). Despite extensive measures for early retirement, retraining, and employment in special programs, the unemployment rate has risen to about 15 percent. Women, younger people, and older people have been particularly hard hit, as have unskilled workers. However, people over fifty-five have been offered the option of early retirement to a far greater extent than in the West.

7. The unemployed, single mothers, young people, and “involuntary” early retirees are among those groups with special problems and have been most affected by the transformation process; older people enjoyed particularly large increases in income.

8. Following the reorganization of the educational system, there was a rise in the percentage of students leaving high school with the highest qualification [*Abitur*] and of university students but also in the percentage of high-school drop-outs. In general, the educational system has become more differentiated.

9. Housing [in the East] is still characterized by smaller living spaces and inferior facilities; rent accounts

for a lower share of a household's net income, and the percentage of homeowners is far lower.

10. While there are regional disparities among the new federal states, these differences are – if East Berlin is regarded as an exception – much less pronounced than those among the old federal states. None of the new federal states lags behind in all areas.

11. East Germans' subjective satisfaction with specific aspects of their living situation, as determined by interviews, is on average lower than in the West. This also applies to the unemployed as a group.

12. Positive aspects of the perceived quality of life, such as happiness and contentment, exist in the new federal states in large measure as well, but they are noticeably rarer than in the old federal states. Negative aspects as expressed in symptoms of anxiety and anomie are significantly more widespread in East Germany.

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Source: Richard Hauser, "Die Vereinigung ist abgeschlossen – die Unterstützung für den Osten wird fortgeführt", Das Parlament (January 17/24, 1997), p. 1.

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