

EMPLOYMENT OBSERVATORY

EAST GERMANY

Labour Market Developments and Policies
in the new German Länder

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EDITORIAL

East Germany – the poor house of the new Federal Republic of Germany? As always, a closer look shows that the real picture is more complex and cannot be reduced to banner headlines. Although it is undeniable that the promised upward adjustment of East living standards to West German welfare and income levels is still a long way from completion, the material living conditions of the vast majority of the East German population have improved, despite the massive drop in the level of employment. Not least the introduction of the West German system of social security has prevented a rapid slide into poverty, such as has occurred in other central and east European transformation countries, during the four years after Unification. Poverty in old age, for instance, a problem in the GDR, has now virtually disappeared.

At the same time, these findings are no grounds for inaction. The introduction of the western-style market economy has induced a process of social differentiation in the former GDR which has significantly increased the risk of poverty and social marginalisation for certain groups of the population, in particular single parents and large families. As unemployment becomes

increasingly entrenched, empirical studies have shown that, as in the West, a section of the population characterised by long-term unemployment and relative poverty has begun to emerge. This clearly implies new burdens and challenges for Germany as a welfare society.

In this, Germany's so-called "super election" year, other questions dominate the political agenda, however. One example is the influence of economic factors on East German voting behaviour. In this respect, at least, harmonisation between East and West appears to have been successfully accomplished: since the 1990 general election, regional differences in voters' reactions to economic factors have narrowed. At the same time it has become evident that the West German party political system cannot be simply transposed onto the new federal states.

Employment in

ECONOMIC AND LABOUR MARKET STATISTICS

	1st half- year 1989	2nd half- year 1990	1st half- year 1991	2nd half- year 1991	1st half- year 1992	2nd half- year 1992	1st half- year 1993	2nd half- year 1993	1st half- year 1994
Economy									
1. Gross Domestic Product in 1991 prices (billions of DM)	149.1	105.2	85.0	95.9	92.8	105.6	99.1	113.4	
2. Gross value added by sector in 1991 prices (billions of DM)									
2.1 Agriculture and forestry	2.6	4.9	-1.7	4.2	-1.0	4.0	-0.6	4.8	
2.2 Energy and mining	9.5	8.3	8.1	7.1	6.6	6.7	6.3	6.4	
2.3 Manufacturing	45.6	19.4	14.6	16.9	17.4	19.6	18.4	22.5	
2.4 Construction	13.3	12.9	10.9	11.7	13.9	15.1	16.5	18.1	
2.5 Trade and transport	28.6	18.3	14.1	15.3	13.8	14.8	14.8	15.8	
2.6 Services	21.5	18.8	21.7	24.2	26.1	27.5	26.8	28.2	
2.7 Government	22.3	23.8	22.3	21.3	21.2	21.4	21.5	21.3	
3. Expenditure on the Gross National Product in 1991 prices (billions of DM)									
3.1 Private consumption	82.1	93.0	84.8	94.6	92.0	100.6	94.6	100.9	
3.2 Government consumption	39.3	44.1	38.4	47.2	42.6	49.1	43.7	50.5	
3.3 Fixed capital formation	28.5	36.7	39.8	47.4	51.5	56.6	58.4	66.6	
3.4 Exports minus imports	-4.2	-49.5	-74.0	-88.2	-89.3	-92.8	-92.2	-100.6	
Labour market									
4. Working-age population (in thousands)	10721								
4.1 Migrations to West Germany (in thousands)	49	138	102	148	94	106			
4.2 Commuters to West Germany (in thousands)		206	446	541	451	506		607	
5. Total employment (in thousands)	9932	8035	7369	6767	6354	6276	6135	6116	6113
5.1 Share of female employment (%)	49	46	46	46	46	46		44	
5.2 Employees in <i>Treuhand</i> companies (in thousands)	-	2979	2115	1404	1070	458	296	187	132
6. Employment by sector (in thousands)									
6.1 Agriculture and forestry	985	656	468	361	290	251	229	218	204
6.2 Energy and mining	306	271	243	222	212	197	178	157	147
6.3 Manufacturing	3265	2653	2364	1836	1404	1342	1206	1153	1100
6.4 Construction	846	660	569	570	706	749	757	791	800
6.5 Trade and transport	1652	1320	1292	1218	1162	1158	1154	1189	1205
6.6 Services	962	670	870	966	992	996	1036	1065	1090
6.7 Government (incl. <i>ABMs</i>)	1750	1705	1458	1454	1436	1427	1412	1380	1403
7. Employment in labour market measures (in thousands)									
7.1 Employed in job creation measures (<i>ABMs</i>)	-	20	148	390	402	355	237	177	198
7.2 Includes "wage-cost subsidies East" (§ 249h AFG)	-	-	-	-	-	-	14	63	91
7.3 Short-time workers	-	1794	1899	1035	417	233	201	125	105
7.4 Full-time equivalent of loss of working hours in case of short-time working	-	866	1078	594	223	109	89	56	46
8. Non-active population in labour market measures (in thousands)									
8.1 In full-time further training measures		45	170	310	442	434	368	271	234
8.2 In early retirement		460	521	705	806	834	857	778	643
9. Total persons in labour market measures (7.1 + 7.3 + 8.1 + 8.2) (in thousands)		1391	1917	1999	1873	1732	1565	1346	1212
9.1 As % of potential labour force		15	22	23	21	20	18	15	14
10. Total unemployment (in thousands)		642	843	1038	1123	1101	1100	1175	1117
10.1 Unemployed women (in thousands)		352	482	635	715	704	708	754	734
10.2 Unemployed women (%)		55.2	59.5	61.6	63.6	63.9	64.4	64.1	65.7
10.3 Unemployment rate (%)		7.3	9.5	11.8	14.2	13.9	15.1	16.2	15.7
10.4 Male unemployment rate (%)		6.4	8.0	8.9	10.0	9.7	10.4	11.2	10.4
10.5 Female unemployment rate (%)		8.2	11.2	14.7	18.9	18.6	20.2	21.5	21.3
11. Shortfall of "regular" employment (9.+10.) (in thousands)		2033	2760	3037	2996	2833	2665	2521	2329
11.1 As % of potential labour force		22	31	34	34	32	30	29	26

Sources:

National accounts of the German Economic Research Institute (*DIW*), April/July 1994 (rows 1.-3.4, 5., 6.-6.7); Official Reports and Press Releases of the Federal Employment Service (rows 7.1-7.3, 8.2, 10.-10.5); Institute for Employment Research (*IAB*), *IAB-Kurzberichte* and *IAB-Werkstattberichte* (rows 4., 4.1, 5.2, 8.1); Infratest Social Research, labour market monitor for the new Federal states, Munich/Nuremberg 1991-93 (rows 4.2, 5.1); monthly information sheet of the *Treuhandanstalt* (row 5.2); calculations by the editors.

Comments:

In general, stock data in the table correspond with figures drawn up at the end of the given half-year periods (except: rows 4.2, 5.1: data for May or November; rows 5., 6.1-6.7: averages of the 2nd and 4th quarters respectively; row 5.2: 1990/91 1 January and 1 July after the end of the half-years).

Row 5.2: initial figure mid 1990 ca. 4 million; row 7.4: number of short-time workers multiplied by the average amount of working time lost; row 8.1: until mid 1992 estimated; rows 9.1, 11.1: potential labour force defined as the sum of resident wage and salary earners, self-employed, unemployed and the participants in further training and early retirement; rows 10.3-10.5: from 1994 onwards the basis of the unemployment rate has been changed (dependent civilian working population in June 1993; earlier basis dated from the end of 1989, then from November 1990 and then from June 1992).

Unemployment-induced Poverty – Social Change and the Risk of Impoverishment in the New Federal States

The reconstruction of the East German economy is associated with processes of social differentiation and an increased risk of poverty for a section of the East German population. At the same time, the staged rise of average incomes to the West German level and the introduction of the West German welfare state system have prevented the problem of poverty assuming the dimensions reached in other post-socialist countries. Long-term unemployment and restrictions on labour market policy measures, though, are grounds for the fear that a section of the East German population characterised by unemployment-induced poverty could develop on the West German pattern.

The economic transformation and adjustment crisis in the new federal states is being accompanied by a far-reaching process of social change. The transition to the market economy has initiated a process of social differentiation which threatens to leave certain sub-groups of the population behind in the general rise in living standards, excluding them from this process. The rapid rise in unemployment since economic and monetary union, in particular, poses serious risks of exclusion and impoverishment for various social groups in East Germany. It is not absolute poverty, such as is to be found in the Third world or, more recently, in central and eastern Europe, and where poverty is not infrequently a matter of physical survival, that is under consideration here. The problem facing developed industrialised societies, among them the Federal Republic of Germany, is that of relative poverty. This is defined as a level of subsistence below threshold values that are set relative to the wealth of the population as a whole. Thus relative poverty is an expression of social inequality and disadvantage. According to a definition drawn up by the European Community, those individuals whose material, cultural and social resources are so inadequate that they are excluded from a way of life considered, in the society in which they live, as the minimum are termed poor. Relative poverty can exist with respect to income, consumption, household furnishing and fittings, education, vocational training, employment,

working conditions, housing situation or health.

The scientific discussion of poverty has always suffered from the central theoretical problem of defining poverty with sufficient precision, and from the empirical problem of ascertaining its various dimensions. The point at which under-provision in central life spheres is classified as poverty is not merely a technical question, but rather a matter of social convention.

The easiest form of poverty to survey in statistical terms is so-called income-poverty. This is often used as a rough indicator for other forms of poverty, as inadequate income frequently prevents access to other central life spheres. Statistical surveys of income-poverty are based on the disposable monthly income of private households weighted by the number of persons in the households. Generally a figure of 50% of the average income of all households is taken as the poverty threshold, whereby in the case of East Germany this immediately poses the question of which average income is to be used as a benchmark. Given the still prevailing differences in income levels in the two halves of the united Germany, it might seem appropriate to continue to use the average income level in East Germany as a point of reference. Bearing in mind the political demands for, and commitment to the upwards adjustment of East German living conditions to those prevailing in West Germany, on the other hand, West German income levels would appear appropriate.

The choice of yard-stick leads, as will be shown, to differing conclusions regarding poverty trends.

The statistics on German social benefit (*„Sozialhilfe“*) are often used in empirical work on income-poverty. *Sozialhilfe*, which is largely financed by local authorities, is the “last net” of the social security system in Germany. It can be applied for by all those whose income (whether from paid employment, property or other social transfer benefits) is below a minimum level: *Sozialhilfe* then raises the income level to this minimum. The statistics on *Sozialhilfe*-recipients thus provide information on those sections of the population living near the poverty line. However, these figures do not cover those who, whether out of shame or the fear of state interference, do not apply for this transfer benefit: estimates suggest that this group is almost as large as that of recipients.

Poverty in the former GDR

According to the available statistics, poverty, especially income-poverty, was a marginal occurrence in the former GDR. Apart from the privileges enjoyed by the nomenclature, there was little visible social inequality. Because poverty was considered incompatible with the ideals of a socialist society, the reduction of social differentiation to a minimum was an important aim of state policy. An extensive social security system and a general obligation to work, leading to high participation rates, together ensured a relatively balanced welfare and income distribution. The benefits available from the *„Sozialfürsorge“*, comparable in character to the West German *Sozialhilfe*, were thus of only marginal quantitative importance; in 1989, for instance, just 5,500 persons were in receipt of *Sozialfürsorge*. By means of a range of social policy measures, among others the introduction of minimum wages and pension levels and the subsidisation of basic goods, the state ensured the provision of at least minimum requirements in the central life spheres (e.g. basic food products, housing, health and education). Compared with the former Federal Republic, though, the level

of provision achieved was in some cases rather low. This is particularly true of housing: many housing units were – and indeed still are – relatively small, in a poor state of repair and lacking in modern comforts.

Income distribution in the GDR was, although at a lower level, less unequal than in West Germany. In the 1980s just 3-5% of the population were affected by income-poverty. In the former Federal Republic, on the other hand, average levels of income poverty remained relatively constant during the 1980s at around 11%. In both cases the poverty line is defined as 50% of the average income in each case.

Even so, the threat of relative poverty was not precluded altogether in the GDR. Because socialist social policy concentrated its activities on those in employment, non-working groups were particularly disadvantaged: pensioners, school-children, students, trainees and the disabled, i.e. groups not, or no longer, economically active, faced below-average incomes and marked disadvantages in certain areas of provision. Households with more than five members and families in which only one person was in paid employment also did relatively badly. In view of the relatively low income level, most households were dependent on at least two wage-earners. Particularly hard hit by poverty were thus pensioners living alone and single parents who usually had to cover the costs of maintaining a household alone and were unable to fall back on another source of income. At the start of 1990, as many as 16% of single parents were living below the threshold of 50% of average income. As in West Germany, they thus constituted the social group hardest hit by poverty. One in eight households with more than five members lived below the poverty line in the GDR. Women were affected by poverty more than proportionately. This fact was due primarily to the lower wages earned by women, subsequently leading to lower pension entitlements. Yet due to the relatively low level of general provision, even low-income groups did not lag all that far behind the GDR-average in central areas such as housing, household furnishing and fittings or consumption. Moreover, underpro-

vision did not usually spill over into several life spheres, so that social marginalisation was very rare.

Poverty trends in East Germany

With economic and monetary union and subsequent political unification, East Germany adopted the welfare state system of the old Federal Republic. This fact has helped to ensure that the income situation and the material living conditions of the majority of the population have improved markedly. At the same time, the almost complete dissolution of the economic, social and cultural structures of the GDR has imposed considerable pressure on the social situation of a not inconsiderable section of the East German population. In particular, the fall in the level of employment by almost 40% between 1989 and 1993 has led to a sharp increase in the risk of poverty.

Taking average income levels in East Germany as a bench-mark – 50% of average East German income as the poverty line –, the incidence of poverty increased from 3.5% to 6% of the population of the new *Länder* between 1990 and 1992 (cf. table). In absolute terms, the number of persons suffering income-poverty has increased from around 600,000 to around 1 million, the figure stabilising at this level in 1993. The finding that income-pov-

erty has thus increased to only a limited extent is due partly to the fact that income differentials in East Germany are still relatively small. There is virtually no significant group of top-earners, with medium-range incomes dominating the distribution, so that the majority of those on low incomes have been able to keep pace with overall income trends. This, in turn, must partly be put down to the introduction in 1990 of a temporary special provision in German social security law, applying only in the new *Länder*: in order to prevent poverty – in the sense of dependence on *Sozialhilfe* – an absolute minimum level was guaranteed for the wage-linked benefits paid by the unemployment, accident, and pension insurance institutions. This provision, known as the “*Sozialzuschlag*” (social bonus), took account, at least temporarily, of the low levels of pay and pensions, and initially guaranteed those with low pension entitlements and other transfer benefits (such as unemployment benefit) a minimum income.

Even now, wealth and income levels in East and West Germany differ significantly. If average West German income is taken as the bench-mark for income-poverty in East Germany, the proportion of the East German population classified as poor is significantly higher than

Selected Indicators of Poverty in East Germany, 1990 to 1993				
	1990	1991	1992	1993
Income-poverty: % share of persons in households with less than 50% of average income				
– as measured against East German average income	3.5	4.3	6.1	5.9
– as measured against West German average income	65.0	48.0	30.2	23.9
Underprovision with employment (%)				
– Unemployment rate in 1st half year	1.6	9.5	14.2	15.1
– Unemployment rate in 2nd half year	7.3	11.8	13.9	16.2
Underprovision with housing: % share of households with less than 1 living room per household member	25.4	24.7	22.5	21.6
Underprovision with education: % share of persons aged 25–60 lacking vocational training certificate	5.8	5.0	4.5	4.0
<i>Sozialhilfe</i> (minimum social benefit)				
– Recipients of current maintenance support (in thous at year's end)	128	217	331	
– Recipients per 1,000 inhabitants	8.1	14.0	18.4	
Sources: Socio-economic Panel 1990-1993; Labour Market Statistics 1990-1993; <i>Sozialhilfe</i> statistics 1990-1992.				

using the East German benchmark. Due to the progressive rise in East German incomes to West German levels, however, the proportions are declining over time: in 1990 65% of the East German population were below the poverty line of 50% of average West German incomes; by 1993 this had fallen to 23.9%. Moreover, if the differences in purchasing-power parity between the two regions, due largely to the still lower level of housing and other rents in East Germany, are taken into account, the poverty rates fell from 26.7% to 16% over the

same period. On these figures, while income poverty in East Germany was still twice as high as in West Germany in 1993, it has fallen significantly over the last four years.

The fact that, despite the harmonisation of income trends, the income situation facing many East Germans is problematic can be seen from the rapid rise in the number of *Sozialhilfe*-recipients. The number drawing this minimum benefit rose from 128,000 at the end of 1990 to 331,000 at the end of 1992. Even so, the *Sozialhilfe*-"density" in East Germany, at 18.4 recipients per

1,000 inhabitants (1992), was still substantially below the West German figure of 31.6. Dependence on *Sozialhilfe* in East Germany is in the overwhelming majority of cases – and thus to a much greater extent than in West Germany – a consequence of unemployment: in 1992 unemployment was established as the main reason for dependence on *Sozialhilfe* for 55% of recipients and was one of a number of causes for an estimated further 30%. The much closer link than in West Germany between dependence on *Sozialhilfe* and unemployment is due primarily

East-West Comparison of Unemployment and Poverty

A new, as yet unpublished, study by Klaus Müller (University of Frankfurt am Main) and Joachim Frick (German Institute for Economic Research, Berlin) provides detailed coverage of the link between unemployment and poverty in East and West Germany. As a measure of the extent to which entire households are affected by unemployment, the researchers constructed an "unemployment index". This index measures the relationship between the number of months that the members of a household of working age spent in unemployment between June 1990 and March 1993 and the total number of months these individuals were available to the labour market (i.e. either employed or unemployed). If in a given household no-one was unemployed during the entire period, the index value for all household members is 0%. If all the household members of working age were unemployed throughout the period, the index value is 100%. On this basis the extent to which individuals with different unemployment-index values were affected by poverty in 1993 was studied, the poverty line was defined as 50% of average East or West German incomes. A distinction was made between those whose households, while they had been affected by unemployment during the period, were no longer affected in March 1993 ("unemployment overcome") and those whose households were still affected by unemployment in March 1993 ("on-going unemployment").

The result presented in the figure show that poverty is more common the greater the incidence of unemployment in a household. It is also apparent that the fact of having overcome unemployment tends to reduce the poverty risk. For a given incidence of unemployment, West Germans are very much more frequently affected by poverty than East Germans. For instance, of those suffering on-going unemployment and with an unemployment index of over 30%, in West Germany 42.9% were under the poverty line, compared to just 23.4% in East Germany. This difference can be put down to the following factors, among others:

- Due to higher participation rates of East German women, an additional earned income is more often available in East German households.
- Because most of the unemployed in East Germany had been employed for a long period, they are more likely than those in the West to be in receipt of the higher income-linked *Arbeitslosengeld* (unem-

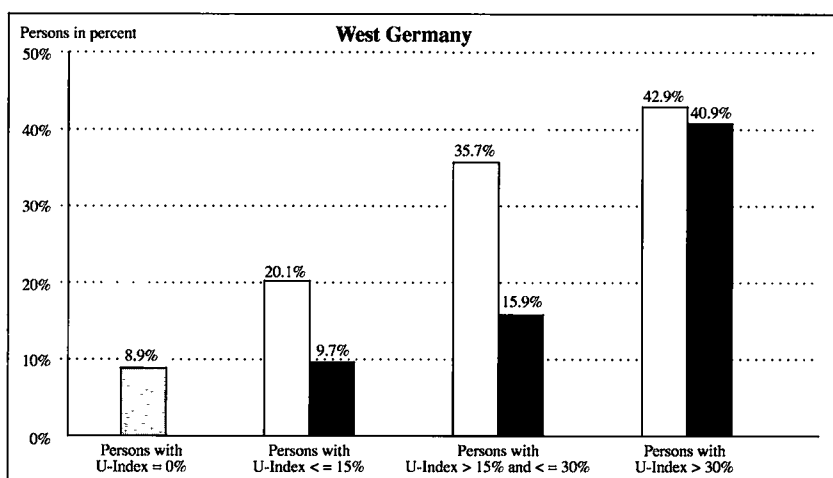
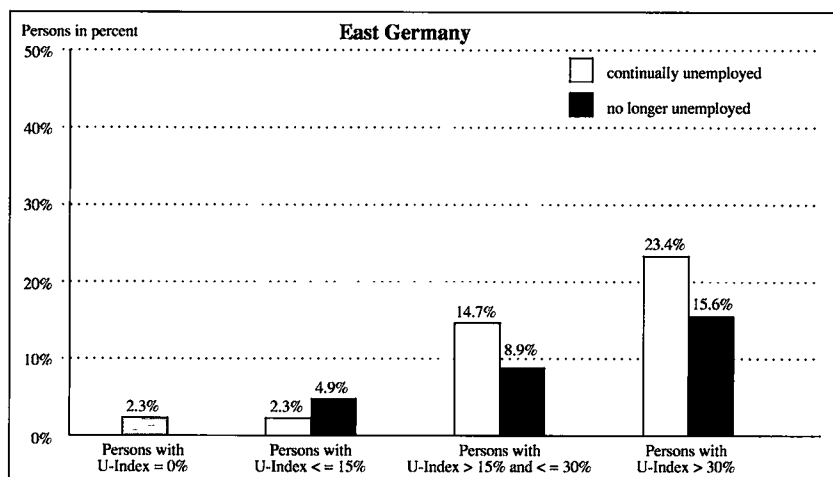
ployment benefit), and less likely to receive the lower, means tested *Arbeitslosenhilfe* (unemployment aid).

- In East Germany personal experience of unemployment goes back a maximum of three years, in West Germany often much longer. Clearly therefore the risk of poverty from long (or often repeated) periods of individual un-

employment is lower in East than West Germany.

As unemployment persists, however, these special factors in East Germany will at least partially disappear. It can therefore be expected that the risk of poverty associated with unemployment will gradually approach the West German level.

Proportion of persons below the poverty line according to the "Unemployment Index" (U-Index) 1993



Source: Socio-economic Panel, calculations by Klaus Müller (Universität Frankfurt am Main) and Joachim Frick (DIW Berlin).

to the higher incidence on unemployment and the lower wages in the new *Länder*: the forms of unemployment transfer benefits which are linked to the previous wage are much more likely to fall below the minimum subsistence level (i.e. the level as defined by the value of *Sozialhilfe*, which, due to the progressive equalisation of living costs, is almost identical in East and West); in such cases wage-linked unemployment benefits are topped up by *Sozialhilfe*-payments.

The findings with regard to other life spheres, such as work, housing and education, are broadly in line with those for income poverty (cf. table). On the one hand, the declining figures for under-provision reflect the gradual harmonisation between East and West Germany. On the other, the individuals who have become "de-coupled" from the adjustment process and forced into poverty and under-provision are beginning to concentrate in certain social groups.

Social groups most threatened by poverty

The structure of poverty in the new *Länder* is broadly similar to the West German pattern, although it does exhibit certain specific characteristics. In West Germany the leading risk groups are single parents, large families and unemployed households. These groups are also disadvantaged in East Germany. The higher average incidence of poverty among single parents and large families which existed in the GDR, has increased drastically since unification. Poverty due to unemployment, on the other hand, is a new phenomenon in the eastern half of Germany. The dramatic decline in employment during 1990 and 1991 initially affected almost all social groups in East Germany to more or less the same extent, distributing the income-poverty resulting from unemployment among a broad section of the population. More recently, though, unemployment has begun to concentrate among labour market problem groups, roughly on the West German pattern (cf. East Germany no. 9, pp. 6-7). Besides women and those lacking adequate qualifications, new entrants to the labour market, single parents, the elderly and the disabled exhibit a dispro-

portionately high incidence of unemployment and thus of the poverty to which it gives rise (see box, p. 5).

Households containing children and adolescents are more likely to suffer from income-poverty and housing under-provision. At 40%, children and adolescents (under 15) make up a significantly higher proportion of *Sozialhilfe*-recipients than in West Germany (around 30%). Married couples with children and single parents also constitute a higher proportion of recipients. Thus the risk of poverty is concentrated among single parents and large families to a greater extent in East than in West Germany. The lower income levels and the greater number of persons per household living on this income in East, than in West Germany make their effects felt particularly strongly among these social groups.

Decline in poverty in old age

In contrast to West Germany, poverty in old age is a marginal phenomenon in the new *Länder*. The elderly (over 60) make up a very small proportion of *Sozialhilfe*-recipients – just 3%. The difference to the situation of the elderly in West Germany results primarily from the fact that almost all East German pensioners had been in uninterrupted employment in the GDR, and now, on the basis of this occupational biography and under West German pension-insurance law, enjoy a relatively high (and compared with the GDR significantly improved) level of old-age provision.

Outlook and social policy considerations

The transformation process in East Germany has led to a significant increase in the number affected by (relative) poverty, although poverty has not developed into a serious social problem to the same degree as in other post-socialist countries. Indeed, in some cases group-specific disadvantage under the previous regime has been reduced; pensioners, in particular, no longer belong to the poverty risk groups. The progressive rise in average income to West German levels, the introduction of the West German social security system and a number of temporary social policy provisions specially tailored for East German needs have avoided a dramatic dete-

rioration in material living conditions, at least in the years immediately following monetary union.

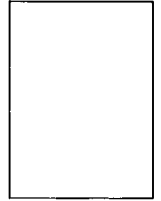
Yet this does not mean that no further action is required. The rise in long-term unemployment, the end of special provisions on short-time working and early retirement, and the restrictions imposed on other labour market policy measures will mean that increasing numbers of people will no longer be entitled to wage-compensation benefits above *Sozialhilfe*-level. And in future those factors which until now have kept the poverty risk down in the new *Länder* – such as relatively minor social inequality, the adequate level of provision in central life spheres and favourable entitlement conditions under social-insurance law due to long periods of employment – will decline in importance. There are already signs that the risk of poverty is concentrating among certain groups of the East German population. The need for social policy action to combat poverty should therefore also focus on these risk groups, in particular the unemployed, single parents and large families.

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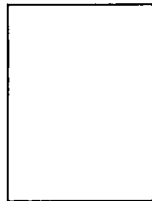
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The Impact of Economic Recession and Unemployment on Voting Behaviour in East Germany in Election Year 1994

Four years after Unification, the second general election to the Lower House (*Bundestag*) of the unified Germany is to be held this autumn. Within the framework of a comprehensive analysis of the election process, the "Projekt Bundestagswahlen 1994" is looking at the way in which economic factors influence the voting behaviour of East and West German electors. How important are the economic recession and unemployment, and what effects will such issues have? How can voting trends in the new federal states be expected to differ from those in the 1990 general election?

Economic factors frequently exert, although to a varying extent, an influence on voting behaviour. This is especially the case when the current economic situation and the prospects are difficult. The 1994 general election, to be held on 16 October, comes at a time which, in economic terms, must be seen as one of the worst in Germany's post-war history: an unemployment rate of around 10% (15.5% in East, 8.6% in West Germany; all figures are annual averages), sluggish economic growth and high levels of public borrowing are the outstanding features of the German economy at present. What effects will this situation have on voting behaviour in East and West? Can changes be observed compared with the 1990 general election, now that the euphoria of Unification has dissipated and voters have experienced the unified Germany for themselves?

The first step is to distinguish between the various economic factors and to accord each its place in the explanation of voting behaviour. One fundamental distinction is that between objective and subjective economic variables, i.e. between an *objectively given situation* (e.g. low income) and the *subjective perception of a situation* (e.g. dissatisfaction with one's income). A further distinction is between variables which refer to the *situation of the individual* and those relating to the *general state of the economy* as a whole.

Research has shown that a relatively strong correlation holds between individual, objective factors (income, occupation, unemployment) and support for a given political

party. As far as subjective perceptions are concerned, it appears that those referring to the state of society or the community at large have greater relevance for voting behaviour than perception of individual economic situation. During the 1990 general election, these two behavioural patterns were observed for West Germany, but not to the same extent for East Germany. The voting behaviour of the unemployed and low-income electors, in particular, differed.

The 1990 general election

Four years ago East and West German voting patterns were largely convergent with respect to the *subjective view of the overall economic situation*: for instance, voters expecting a deterioration in the economic situation during the next twelve months tended not to vote for the governing conservative-liberal coalition (CDU/CSU and FDP), but rather for the opposition parties, and in particular for the largest of them, the Social-Democratic Party (SPD). The influence of the *objective individual situation*, on the other hand, differed considerably, the effect being much stronger in West Germany, leading to rather different voting patterns among the unemployed and those on low incomes. In West Germany, both the governing and opposition parties obtained a less than proportional number of votes from among these groups, with a disproportionately large number of unemployed and low-income voters staying away from the polls. The picture for East German voters from these groups is less clear-cut, with only a weak trend

towards non-voting. On average, the unemployed tended to the two governing parties, while low-income voters favoured the opposition SPD and PDS**. This difference between electoral behaviour in East and West was closely linked to the specific situation prevailing immediately after Unification. The positive reactions to the unification of the two German states and the competence attributed to the conservative-liberal governing parties regarding Unification and in economic affairs led to a different distribution of optimism, and thus of votes, in East compared to West Germany. Since then the situation has changed, however. We are now in the fourth year of a unified Germany; unity is now reality. Will economic factors have the same effects on voting patterns in East and West?

Outlook for the 1994 general election

The political context for the 1994 general election is dominated by, among other things, the perception of unemployment and the difficult situation facing the economy as a whole as the problems to which priority must be accorded. Asked which three problems are currently most pressing for Germany, since the start of the year a relatively constant proportion of over 80% of East German and around 70% of West German respondents have mentioned unemployment, the problem most frequently reported. In second place in terms of the frequency with which they were recorded were right-wing extremism and racism. Third place is taken by the economic situation, although it

* The project "Bundestagswahl 1994: Wahlabsitzenz, Wählerwanderung und politische Issues" (General election 1994, non-voting, voting patterns and political issues) is analysing in a longitudinal study the causes and effects of political issues in Germany's "super election year". It is a cooperation project run jointly by the WZB (dept. Institutions and Social Change), the Zentralinstitut für sozialwissenschaftliche Forschung (Central Institute for Social Science Research) and the Faculty of Communication Science at the Free University Berlin. Based on a weekly sample, 500 representative telephone surveys are being conducted by FORSA.

** The successor to the former ruling party of the GDR, the SED, and virtually insignificant in West Germany.

is now being mentioned as a central problem less and less frequently in both East and West.

What then will the generally negative perception of the economic situation and objective, individual economic situations affect voting patterns at the 1994 general election?

As far as the *objective individual situation* is concerned, trends in East and West have harmonised to a surprising extent (cf. table). The evidence suggests that unemployed and low-income voters in East Germany now also tend to adopt a similar pattern of voting behaviour to those groups in West Germany in 1990. Compared with the economically active population as a whole, the unemployed in both halves of Germany are more likely to stay away from the polls, the proportion reporting an intention not to vote being three percentage points higher among the unemployed than the employed. The only difference here between East and West Germany is that the PDS, which is increasingly taking on the role of a party of regional protest and interest articulation, can count on a disproportionate share of the unemployed vote (+2.5 percentage points). The influence of personal income on electoral behaviour is now also relatively similar in both East and West; in both regions low-income groups are somewhat more inclined to abstain from voting than the average.

The *subjective view taken of problems* will also, to the extent that it is

possible to deduce voting behaviour this October from past developments, also influence the chances of the various parties in both East and West. The perception of the – still – difficult economic situation has, however, declined in significance. Among those persons seeing the economic situation as problematic, the CDU/CSU takes a very slightly less than proportional share of the vote, while the SPD, FDP and Bündnis 90/Greens* do very slightly better. The impact of the perception of unemployment as a significant problem, on the other hand, is stronger: such a perception is linked to a tendency to vote for the SPD. On annual averages, the Social Democrats can expect to attract, in both East and West, a share of the vote which is five to six percentage points higher among those voters seeing unemployment as a problem than among those not considering it so (cf. table). In recent weeks, though, this positive effect for the SPD has weakened substantially in East Germany; it seems that at present neither the PD nor the CDU, the two major “people’s parties”, are able to derive an electoral advantage from the problem of unemployment.

Overall political trend during the summer

It is still unclear whether the influence of economic factors will be so strong as to decide the election in October. In terms of the electorate as a whole the effects amount to just a few percentage points. The overall

political trend is currently running in favour of the governing CDU/CSU. Following its popularity trough at the start of the year, survey evidence suggests that the CDU/CSU is staging a comeback, and by the summer had established a slight lead in both East and West over the SPD. This largely seems to reflect the fact that the CDU/CSU is better able to mobilise the electoral potential of the undecided and non-voters. This mitigates the danger that the “don’t knows” and the potential non-voters will be attracted to radical political groupings. The extreme right-wing “Republikaner”, at least, have on current evidence no chance of clearing the 5% hurdle necessary to gain representation in the Bundestag. The PDS, on the other hand, can expect a major increase in its share of the East German vote, an indicator that the West German party political system cannot be merely transposed onto the new federal states.

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* An alternative, ecologically oriented alliance party consisting of former GDR civil rights activists and the West German, ecologically oriented Greens.

Differences in Voting Intentions between Population Sub-groups in East and West Germany													
Difference (in percentage points) in voting intentions between	CDU/CSU		SPD		FDP		B90/Greens		PDS		Non-voters		
	West	East	West	East	West	East	West	East	West	East	West	East	
Unemployed and employed	-6.1	-5.7	+0.9	+1.5	-0.9	-0.8	-0.3	-0.5	+0.5	+2.5	+3.1	+3.1	
Low and high-income groups	-4.8	-4.3	+1.2	-1.0	-2.3	-1.1	-1.9	-2.8	-0.1	+0.5	+2.3	+1.2	
Persons considering the economic situation to be problematic/unproblematic	-1.5	-0.2	+0.9	+1.4	+0.5	+0.6	+0.5	+1.0	0.0	-1.2	-0.2	0.0	
Persons considering the problem of unemployment to be important/unimportant	-1.1	-0.4	+5.8	+4.5	+0.1	-0.3	-0.2	-0.2	-0.1	-0.8	-1.7	-0.8	
A guide to interpreting the table: In West Germany CDU/CSU voters make up 6.1 percentage points less of the unemployed vote than of the employed vote; in East Germany the CDU/CSU's share of the employed vote is 5.7 percentage points lower than that of the employed vote. In both East and West Germany the proportion of non-voters is 3.1 percentage points higher among the unemployed than among the employed.													
Source: Projekt Bundestagswahl 1994 (Social Science Centre Berlin, Zentralinstitut für sozialwissenschaftliche Forschung and the Faculty of Communication Sciences at the Free University Berlin); based on a daily survey, Monday to Friday; average figures for weeks 1 to 23, 1994. Number of respondents: in West Germany 43.239; in East Germany 10.918.													

Dogma rather than Creativity in the Search for Full Employment

The Employment and Economic Policy Strategies of the Council of Economic Experts and the Alternative Economic Policy Work Group

For different reasons, East and West Germany have a common problem: the demand for labour on both regional labour markets is lower than the supply. Adding to the official unemployment total of 3.6 million (June 1994) in East and West all those persons of working age on short-time working, in vocational further training, early retirement or publicly funded job creation schemes, around 6 million people in Germany are currently without work. This employment shortfall has given rise to a broad-based discussion dominated by two contrary positions, one based strictly on market forces, with only minor state involvement in the economy, the other on an equally strict strategy of state intervention. These two poles are embodied by the market-liberal Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung – SVR*) and the keynesian-oriented Alternative Economic Policy Work group (*Arbeitsgruppe Alternative Wirtschaftspolitik*). The positions taken by the two bodies also illustrate the different transformation strategies for East Germany, which are the subject of such controversial discussion in Germany.

The five members of the SVR are economists proposed by the Federal Government and appointed by the Federal President. Despite this selection procedure, they are, in formal terms, independent of government. Usually once a year, the SVR produces a report on current economic developments, a prognosis of future trends and strictly market-oriented proposals for the economic policy course to be taken. These reports have in the past exerted a considerable influence on the public debate and, although to a lesser extent, on government economic policy. Since 1977 the *Arbeitsgruppe Alternative Wirtschaftspolitik* (in the following: Work Group), a political grouping of social scientists and trade unionists, has taken on the opposing role to the SVR: immediately after the publication of the SVR's annual report, it presents to the public a "Memorandum" containing alternative proposals for government economic policy. The proposals made by the Work Group focus on full employment, social justice and, more recently, the inclusion of ecological concerns into economic processes.

The SVR has remained faithful to the economic policy line it took in 1990 in the context of monetary and economic union between the two German states. The SVR takes the view that, following the adjustment shock in the new federal states caused by currency conversion, the task of government economic policy is actively to support the market-oriented creation of a new and competitive capital stock, and to initiate compensatory measures for the process of structural change to which this gives rise. The point of departure for this supply-side policy is a wide range of direct or indirect capital

subsidies. In this concept, unemployment, ignoring for a moment the frictional unemployment inevitable during the transformation process, is due to obstacles blocking the creation of a competitive capital stock and/or to market prices, particularly those on labour market, which do not accurately reflect relative scarcities. This explains the sharp criticism of the policy, initially supported by the Federal Government, and for a long time pursued by the trade unions, of wage equalisation between East and West Germany. This policy, it is argued, has led to growth rates of real and effective wages and salaries far in excess of average productivity growth, and is thus responsible for a drastic increase in unit wage costs: "Wages influence the chances for the future. A choice must be made. Rapid wage growth today means that it will be more difficult to create jobs tomorrow; moderate wage growth today means more jobs tomorrow. Many of the unemployed in the new federal states would benefit if those in work were to accept a slower pace of collectively agreed pay increases" (SVR 1993, fig. 353). True to the maxim that, in the final analysis, the employment level of an economy is determined on the labour market, the SVR argues for collective agreements of longer duration and for pay settlements oriented to low-productivity firms in each branch, even if this leads to a fall in real incomes. The provision of generalised wage subsidies, a proposal made, for example, in the context of the discussions surrounding a publicly supported, so-called "second" labour market, or the model, proposed at an early stage by Akerlof and others for degressive wage-subsidisation of employment in *Treuhand*-companies as an alternative to the prevailing policy of capital subsidies, are rejected with the argument that such policies would have the effect of stabilising excessive manning levels, and would thus hinder the most urgent task at hand – raising labour productivity. The only public labour market policy measures considered admissible by the SVR are support for employment relations that are subject to strict time limits, restricted to clearly defined problem groups and where pay levels are at least 20% below collectively agreed rates (SVR 1993, fig. 384).

The strategy proposed by the Work Group is very different. In contrast to the SVR, it argues for an expansion of active labour market policy in favour of the primary labour market and for supportive wage subsidies in favour of a "second labour market". More specifically, it calls for a doubling of the funding for job creation measures to DM 12 billion p.a., and stronger institutional support for the so-called employment and training (ABS) companies. The aim of labour market policy measures should be to provide as many people as possible the opportunity of gaining regular work in either the private or public sector. At the same time, in

the Work Group concept active labour market policy fulfils only an "accompanying" function in the task of regaining full employment. Whereas the SVR seeks to achieve this aim by deregulation and according priority to untrammelled (labour) market processes, the Work Group focuses on non-market factors. Full employment is to be reattained primarily by combining two measures of government economic policy. Firstly by a "solidaristic" redistribution of the available work in the form of a one-step (or at most two-stage) reduction of weekly working time by 20%. In strict adherence to circulatory economic theories, it is argued that the employment and growth impulses associated with this policy will be the higher, the less working time reductions lead to loss of wage income: "In the current situation characterised by low levels of capacity utilisation, the increased demand resulting from higher wages raises capacity utilisation levels. This in turn enables unit wage costs to be reduced, at least offsetting to a considerable extent the increase in wage costs resulting from wage compensation. It would be sensible in economic, and desirable in social terms to ensure full wage compensation at least for lower-income groups. [...] More generally, less than full wage compensation for working time reduction should be seen as an extraordinary measure, and should therefore be limited to a fixed time period (e.g. two years)" (Work Group 1994, pp. 636 f.). The second element of the Work Group's full-employment policy involves a public "Programme for Germany's Future" (*Zukunftsprogramm Deutschland*), with a total annual volume of DM 100 billion for the years 1994 to 1997. The corner-stones of this program, which aims to initiate an active industrial and development policy for East Germany, involve saving and restructuring the few remaining "industrial cores" in the new Länder, accelerating infrastructural development and converting to ecologically advanced production processes. In addition, the firms still owned by the *Treuhandanstalt* are to be transferred to an "East German Agency for Development and Structural Policy", whose prime responsibility would be to safeguard jobs and to open up regional and international markets.

Neither set of measures is without its problems regarding both their likely pre-conditions and their effects. Resolving the dual nature of wages as a demand and cost factor by heavily preferencing the demand side, for instance, is hardly sound in scientific terms. Any cut in working times in excess of the rate of productivity growth with full wage compensation would *ceteris paribus* initially raise production costs and thus pose a threat to competitiveness, particularly for those firms struggling to survive in the new federal states. Last but not least, a four-year fiscal programme with a total volume of DM 400 billion would place further pressure on German and international capital markets, and would raise interest rates.

Yet it is not only the fine print of the economic and employment policy concepts of the SVR and the Work Group that is problematic. Their underlying economic policy "philosophies" are also unconvincing. The SVR philosophy places blind trust in Say's Law, the proposition that supply always finds its demand if all the obstacles alien to the market are removed: this is to

ignore virtually all the forms of market failure which have been observed and intensively studied since Say's time, and to ascribe to the market an idealised ability to steer economic processes which, in terms of both development theory and industrial policy criteria, is way behind the "state of the art". This is true, for instance, of the rigorous strategy of labour market deregulation and flexibilisation, which refuses to take account of the specific character of the "commodity" traded on the labour market or of the latter's dependent status in the hierarchy of markets. As far as the new federal states are concerned, the strategy favoured by the SVR of an "indirect" industrial policy via capital subsidies is also subject to critical objections, placing, as it does, the process of innovation and renewal almost exclusively in the hands of the private sector, despite the fact that the experiences of the south-east Asian "tigers" have convincingly shown the economic importance of a "developmental state".

Yet neither is the interventionist political philosophy of the Work Group convincing, as it is founded – for instance in the case of working time reduction with or without wage compensation – on a "hydraulic" form of Keynesianism and thus on immediate compensation of cost increases through demand effects. It is also informed by a view of the regulatory competence of government which ignores all the known forms of government failure. This objection is particularly telling with regard to the proposed transition of those firms still under the auspices of the *Treuhandanstalt* into a new government agency. While back in 1990 it may have been a good idea to set up a state holding company with explicit industrial-policy responsibilities, today little more can be expected of such an institution than state subsidies and the public administration of unprofitable firms.

It appears that both the SVR and the Work group intend, by dogmatising their economic policy philosophies, to maintain their theoretical purity even when practical problems and the experiences made by other economies in transition call for unconventional paths away from well-trodden dogma to be taken. Whatever their differences, the two institutions offer too little that is new to solve the employment problems of an economy and society struggling to "grow together".

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Selected Bibliography on the Transformation Process in East Germany

Labour market and employment

Hildegard-Maria Nickel, Jürgen Kühl, Sabine Schenk (eds): *Erwerbsarbeit und Beschäftigung im Umbruch. Zur Transformation von Arbeitsmarkt und Beschäftigung in den neuen Bundesländern* (Work and employment in transition. On the transformation of the labour market and employment in the new federal states). Berlin 1994, Akademie-Verlag. 344 pages

The labour market crisis in the new federal states has been accompanied by processes of structural change at sectoral and plant level. As yet little is known about the mechanisms of, and the course taken by such processes. It is the aim of this reader to begin to overcome this deficit and to depict change processes in East Germany by means of case studies. The contributions are grouped into three thematic areas:

1. Labour market dynamics in the transformation process. This section illustrates developments on the labour market and in employment policy, including developments on east European labour market.
2. Employment trends in selected branches. By means of case studies topics such as alternative employment opportunities in the areas of tourism and environmental protection and the consequences for the labour market of the privatisation policies of the *Treuhandanstalt* are discussed.
3. Adjustment conflict on the labour market: Here the particular risks and problems of women, elderly workers and youth are described.

The contributions to the reader present preliminary research findings by the "Kommission für die Erforschung des sozialen und politischen Wandels in den neuen Bundesländern" (KSPW – Commission for research into social and political change in the new federal states). This Commission, set up at the end of 1991, has been assigned the task of researching social and political change in East Germany, and thus of improving the empirical and theoretical basis for policy recommendations, and at the same time of supporting young researchers and the development of the social sciences in East German universities and colleges. The publications of the KSPW, which, like this reader, appear in the series "Transformation Processes" are aimed at readers in both the scientific and political-administrative communities.

Kornelia Hagen, Volker Meinhardt, Wolfgang Scheremet, Angela Scherzinger: *Wirkungen der arbeitsmarktpolitischen Instrumente auf die wirtschaftliche Entwicklung in Ostdeutschland* (Effects of labour market policy instruments on economic developments in East Germany). Deutsches Institut für Wirtschaftsforschung, Beiträge zur Struktur-forschung, Heft 140. Berlin 1993, Dunker & Humblot. 170 pages

In 19 case studies conducted during 1992 and 1993, the volume describes both the operations and the effects of employment and training companies. Statistical representativeness was not a priority when selecting the case studies; rather the attempt was made to include as broad a spectrum of regions, industrial structures and institutional forms as possible. The aim of these so-called ABS companies (cf. East Germany no. 8, 1993) is both to ease pressure on the labour market and to initiate structural economic change. Although initially ABS companies provided almost exclusively publicly funded services, since 1993 a number of ABS companies have attempted to set up new companies operating according to market principles. The success of ABS companies is to be seen in the rapid way in which they ease pressure on the labour market, an effect which cannot be achieved by regional or structural policy measures in the short term. Their dependence on public funding, and thus their susceptibility to erratic changes in the willingness to provide finance, significantly restrict their scope, however.

Economic developments

Lutz Hoffmann: *Warten auf den Aufschwung – Eine ostdeutsche Bilanz* (Waiting for the upturn – taking stock of East Germany). Regensburg 1993, Transfer-Verlag. 160 pages

The author, President of the German Institute for Economic Research (DIW), Berlin, one of the six leading economic research institutes in Germany, provides a well-founded overview of economic trends in East Germany until mid-1993. The book is also an appeal for a change of course in German economic policy. The analysis is based on the numerous research and statistical work conducted by the DIW on the transformation process. From the very outset the DIW distanced itself from economic and monetary union, which it considered too precipitous: as early as February 1990 the DIW forecast that unemployment would rise to four-and-a-half to five million. In his introduction the author points to a generalised, but unavoidable problem with the largely

empirically oriented (research) literature, namely the "rapid pace" of change in East Germany which renders obsolete any data presented within a short space of time. An English translation is in preparation.

Horst Albach: *Zerrissene Netze – Eine Netzwerkanalyse des ostdeutschen Transformationsprozesses* (Torn nets – a network analysis of the East German transformation process). Berlin 1993, edition sigma. 133 pages

Based on the analysis of 18 case study firms in East Germany, this micro-oriented study develops a theory of the transformation process at firm level, the aim being to supplement the macro-economic perspective of the transformation process which has dominated the debate until now. Within this theoretical approach "... network analysis as an instrument with which to study transactions, transaction costs and the combination of transactions within a system of business relations" plays a major role. The significance of access to "protected" resources, such as product-quality know-how, production-technology know-how and marketing know-how, is identified as a major factor in determining success within the transformation process. The author is a director at the WZB.

Hansjörg Herr, Andreas Westphal: *Transformation in Mittel- und Osteuropa. Makroökonomische Konzepte und Fallstudien* (Transformation in central and eastern Europe. Macro-economic concepts and case studies). Frankfurt a.M., New York 1993, Campus. 370 pages

This volume is a collection of macro-economically oriented contributions to the theory of transformation, together with case studies from Poland, the former Czechoslovakia, Hungary and Russia. In the first part of the book, entitled "Zur Theorie der Transformation" (Towards a theory of transformation), the importance of reform of the financial system as a basis for successful transformation is elaborated. The fact that banks split off from the central bank have treated as assets financial demands on enterprises dating back to the planned economy, many of which cannot be paid, constitutes a major risk: if such debtor firms go bankrupt, this would threaten the very existence of the newly founded banks, leading to a generalised loss of confidence in the solidity of the banking system by potential depositors. Yet an effective financial sector is an important precondition of monetary policy and for the privatisation and restructuring of former state enterprises. The second part consists of case studies on monetary and fiscal policy and on the foreign trade strategies pursued by central and east European countries. Some of the contributions are from prominent social scientists from the transformation countries themselves.

SHORT NEWS

Resources from the European Regional Fund Can Now Be Used More Flexibly in East Germany

In the new federal states resources provided by the European Regional Development Fund (ERDF) can now be deployed outside the standard regional support programme, the joint central and state government programme to "improve regional economic structures" (*Gemeinschaftsaufgabe - GA*). This is the result of an agreement concluded in mid June, after month-long strife, between the European Commission and the Federal Ministry of the Economy.

Supported by some of the new *Länder* and environmental groups, the Commission in Brussels had raised criticism of the fact that, as in the previous support phase from 1991 to 1993, resources provided by the ERDF were to be coupled exclusively to the GA. This meant, it was argued, that research and further training support programmes and support for environmental projects would be largely disregarded. As the Commission emphasised, within the GA framework a large proportion of ERDF resources should continue to be deployed for plant-level investment and for infrastructural projects conducive to economic development. In addition, though, more active help should be offered to small and medium-sized firms, the R&D sector and environmental projects.

For the support phase from 1994 to 1999, ERDF funding for the new federal states, again classified as a priority development area, will total ECU 6.8 billion (cf. East Germany no. 10, pp. 10 f.). Previously, resources provided by the ERDF structural fund were largely used to

finance and supplement the GA. In the initial support period, the integration of EC funding into the GA had the prime advantage of enabling the available resources to be distributed as quickly as possible. As experts had pointed out, though, this practice limited the flexibility of EC support, as the conditions for support under the GA are much more strictly regimented than for the ERDF.

Support for Training in East Germany

A special programme will again be implemented in 1994 in order to increase the number of training places available in the new federal states. The Federal Government has decided to provide support, together with the new *Länder*, for around 12,000 supra-firm training opportunities in East Germany. The DM 670 million needed to finance the programme until 1998 is to be financed equally by central and state-level government, with additional support coming from the European Social Fund (ESF).

The specific aims of the training programme are to overcome the lack of training opportunities in service and commercial professions and to improve the training chances of girls and young women. In addition, support is to be concentrated on regions in which the market for in-firm training has largely collapsed and where the number of applicants

unable to acquire training is particularly high.

In contrast to West Germany the supply of in-firm training places in the new federal states remains significantly lower than the number of applicants for places. By June of this year the employment offices were able to acquire only 76,300 in-firm training places, compared with 156,500 applicants to date. Currently (June 1994), 68,000 applicants remain unplaced, whereas just 20,000 places remain vacant. As in West Germany, the majority of young people in the new *Länder* wish to train in commercial or service occupations, whereas the supply of training opportunities in the new *Länder* is dominated by industrial-technical trades. The training situation is particularly difficult along the Polish and Czech borders, in the North, and the area in and around Berlin.

INFORMATION

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