

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.

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UNIVERSITY OF PITTSBURGH
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)									
9.1 As % of potential labour force		1391	1917	1999	1873	1732	1565	1346	1212
		15	22	23	21	20	18	15	14
10. Total unemployment (in thousands)									
10.1 Unemployed women (in thousands)		642	843	1038	1123	1101	1100	1175	1117
10.2 Unemployed women (%)		352	482	635	715	704	708	754	734
10.3 Unemployment rate (%)		55.2	59.5	61.6	63.6	63.9	64.4	64.1	65.7
10.4 Male unemployment rate (%)		7.3	9.5	11.8	14.2	13.9	15.1	16.2	15.7
10.5 Female unemployment rate (%)		6.4	8.0	8.9	10.0	9.7	10.4	11.2	10.4
11. Shortfall of "regular" employment (9.+10.) (in thousands)									
11.1 As % of potential labour force		2033	2760	3037	2996	2833	2665	2521	2329
		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-

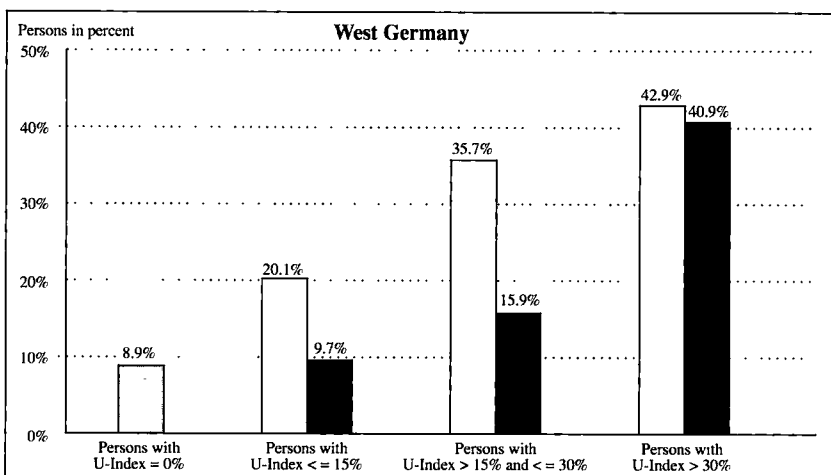
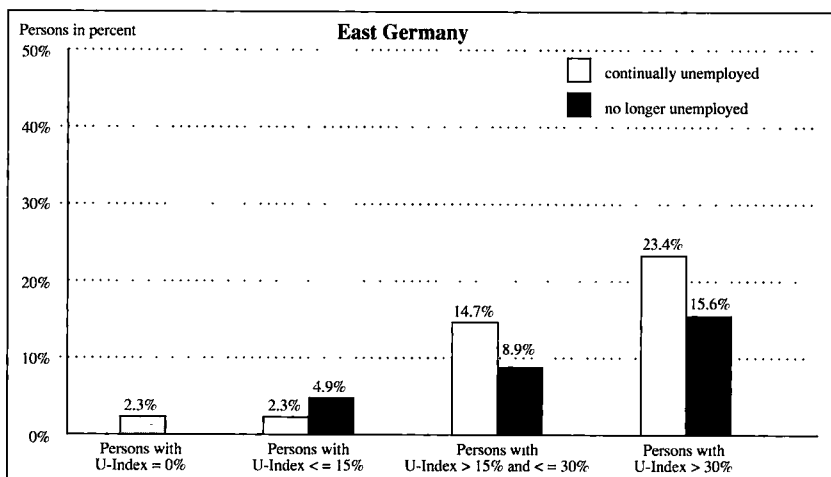
ployment benefit), and less likely to receive the lower, means tested *Arbeitslosenhilfe* (unemployment aid).

- 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 dispropor-

tionately 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.

Eckhard Priller

The author is a researcher at the WZB.

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