

Analysis and Optimization of Labor Market Policy in East Germany After German Reunification

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Abstract: The merger of East and West Germany in 1991 was a very important event in world history and had a great impact not only on the world but also on Germany itself. In particular, the transition of the former GDR is of great concern. Among them, the labor market problem in eastern Germany is one of the important challenges that the former GDR has to face in the transition. Using documentary and comparative analysis, this paper focuses on the excessive unemployment rate and the lack of public welfare policies in the labor market of eastern Germany after 1991. This paper aims to analyze whether the policies adopted by the German government to alleviate the problem are effective in the long run. Although these policies were controversial at the beginning of their implementation, some scholars consider them a failure. However, in view of the current development, these policies are beneficial and feasible for developing the eastern part of Germany in the long run.

Keywords: labor market policy, east Germany, German reunification, optimization

1. Introduction

1.1. Research Background

It's been more than 30 years since the fall of the Berlin Wall, but it still stands like a ghost wall between East and West Germany. Germany's east and west development has not balanced for a long time. Even before German reunification, East Germany, which the Soviet Union controlled, had a huge wealth gap with West Germany, which was controlled by the United States, Britain, and France. After reunification in 1990, East Germany attempted economic and structural restructuring in its Labour market. However, in the 11 years from 2009 to 2020, the GDP per Capital of East Germany is still around 10K lower than that of West Germany on average [1-2].

1.2. Literature Review

Ketzmerick analyzed that after German reunification, it was necessary to restructure and develop the East German labor market. He pointed out that although not all policies adopted had good long-term effects, the Labour market in East Germany required intervention by public policy measures because of the risk of prolonged inequality between East and West. The problems and shortcomings of public policy will need to be overcome slowly by the German government [3].

However, Solga and Diewald found that the change in the social-political system should lead to a change in the social employment structure. After German reunification, East Germany's Labour market was regularised and restructured. Vocational qualifications became an important restrictive regulator in the East German labor market. They also believe that supervision in the Labour market is conducive to orderly, safe, and predictable "structural" adjustment [4].

In their article, Lechner, Miquel and Wunsch used econometric matching methods to analyze East German labor market policies from 2000 to 2002. They point out that all the East German Labour market policy schemes failed under the criteria of improving job opportunities and incomes. The government needs to lower its target and reduce costs by alternative means, such as putting the unemployed on short courses and taking temporary jobs [5].

In the article Zhao on unemployment in the eastern part of Germany after reunification, the situation of unemployment in the eastern part of the country is described. And its manifestations in the eastern part of Germany are analyzed in detail from three perspectives: the causes, the effects, and the measures taken by the government [6].

Tu looks at the differences between the GDR and the Federal Republic of Germany's social security systems and discusses the unification of the two German social security systems. Moreover, this paper analyses the problems that have arisen in integrating the social security systems and their effects and finally refers to the positive measures taken by the German federal government. The integration and development of the social security systems in Germany after reunification are discussed in this way [7].

Du analyses the fiscal, employment, and monetary policies and economic growth of the eastern part of Germany in the decade after reunification, intending to achieve market-efficient economic autonomy in the East and synergy with the West. It is also compared with the development of western China. The aim is to find a direction from which to draw [8].

Some scholars, represented by the scholars mentioned above, focus on the necessity and effectiveness of restructuring the labor market in East Germany after the reunification of Germany. The conclusion is that structural reforms of the labor market in East Germany were necessary and that the relevant public policies implemented by the government had limited or even failed. Another group of scholars aims to analyze the difficulties faced by the labor market in the eastern part of Germany after reunification, the impact on society, and the corresponding measures taken by the government. However, the former scholars are not specific enough in their analysis of policies. At the same time, the latter does not focus on the effectiveness of the public policies adopted by the German government. These studies are limited by their time and do not meet the needs of the current post-epidemic era. This paper will focus on the problems faced by the labor market in eastern Germany after reunification with newer data and determine whether the measures taken by the German government are reasonable and effective in the long run.

2. Methods

2.1. Comparative Analysis

Comparative analysis studies the ability to compare and contrast themes or ideas. Comparative research analyses and compares how two or more objects or ideas are similar or different from each other [9]. In this paper, we will conduct a two-by-two comparative study and draw further comparative conclusions from the perspectives of the systems of the former GDR and the former Federal Republic of Germany. And the policies of the former GDR and the current eastern part of Germany, the unemployment rate when Germany was first unified, and the unemployment rate in Germany ten years later.

2.2. Literature Research Method

The literature research method reads through, sorts out, and analyzes the literature. Find out the nature of commonality or difference between literature, and continue the research on this basis [10]. This paper has read many articles about the development and obstacles of the labor market in eastern Germany after the reunification of the two countries. And on this basis to conclude.

3. Results

The changes in the social structure resulting from the fundamental institutional changes that followed the reunification of Germany led to the sudden formation of a labor market in the eastern part of the country. In what is now the eastern part of Germany, the GDR, before German reunification in 1990, there was no market economy. The former GDR allocated labor resources through planning, with planned control of labor employment and wage distribution, without the need for labor market regulation [11]. After the economic integration of the eastern and western parts of Germany, the labor market in the East developed in line with the former Federal Republic of Germany's system, and the east labor market was formed.

One of the first major problems faced at the beginning of the transition in eastern Germany was the rise in unemployment. Until 1990, people in the GDR's grasp were at the mercy of arrangements for the distribution of work, so naturally, there was no such thing as unemployment. But by the time Germany was reunified, a market economy had suddenly taken shape in the East, and the eastern market was brought to bear alongside the West. In a unified national labor market, the fledgling labor market in the East did not have a competitive advantage, and unemployment rates have soared since their emergence [11].

As shown in figure 1, the unemployment rate in eastern Germany has always been higher than in western Germany, and there is a clear gap between the two. In figure 1, it can be more specifically understood that in 1991, the first year of German reunification, the overall unemployment rate in Germany was 7.3%. The unemployment rate in western Germany (formerly the Federal Republic of Germany) was 6.2 percent, and in eastern Germany (formerly the GDR), it was 10.2 percent. Since then, the unemployment rate has been rising, especially in eastern Germany, where it reached a high of 20.6% in 2005, approximately twice the rate in western Germany (11%) in the same year.

The reasons for such a high unemployment rate are varied and complex. External factors are, as mentioned above, the lack of competitiveness compared to the western German or overseas labor markets. Internal factors include the rapid privatization during the transition period in eastern Germany, which caused an accelerated increase in unemployment [6]. The pursuit of speedy privatization without a strong basis for private ownership in the East led to a lack of linkages between many new enterprises, which went out of business and consequently to fewer jobs. The invisible unemployed within former East Germany also affected the unemployment rate in the unified eastern part of Germany [6]. Under the originally planned economy of the GDR, much of the working population was held in reserve by enterprises as a means of production, and this working population was the invisible unemployed [11]. This became visible after the reunification of East and West Germany and became a figure in the unemployment rate.

Another problem is the mismatch between social security or employment policies related to the labor market and the new environment. A fundamental change in the social system is also a process of a dramatic restructuring of interests. For the ordinary working people in eastern Germany, the social transition led to a rise in unemployment and a greater need for the government to provide a social security system that would safeguard their rights and interests and reconcile interests within the state [7].

Before German reunification, the GDR and the FRG used very different social security systems. The GDR's social security system was based on Marx's "doctrine of necessary deductions" for social labor and was generally based on the former Soviet model, and was centrally administered. On the other hand, the Federal Republic of Germany emphasizes individual self-help, with the costs borne mainly by employers and employees, and follows the social insurance model established under Bismarck [7]. Thus, the differences between the two are enormous, and the road to unification of the social insurance systems in the East and West of Germany is difficult. The government saw internal German unification as the first and foremost task for the government. Hence the 'solidarity pact' to narrow the gap between the two regions and subsidize the more backward eastern part of Germany [6]. Germany is a high welfare state. And to stabilize its image, welfare pacts for its citizens are realized. Some data point out that since the 1990s, almost 50% of the wages of German workers have been used to pay various taxes. The burden of social welfare expenditures alone amounted to an average of 13,083 marks per person in 1993 [12]. Excessive taxation has led to high labor costs, causing an outflow of capital from firms and reducing the demand for labor [13]. The persistent economic recession in eastern Germany caused by corporate exodus has also led to massive migration from the East to the West [14]. In addition, the high welfare benefits in Germany will make some of the unemployed less motivated to find jobs and become "voluntarily unemployed" [13], which makes the unemployment rate in eastern Germany decrease rather than increase, as mentioned in the previous section. The poor public welfare policy also leads to a lower unemployment rate chain reaction.

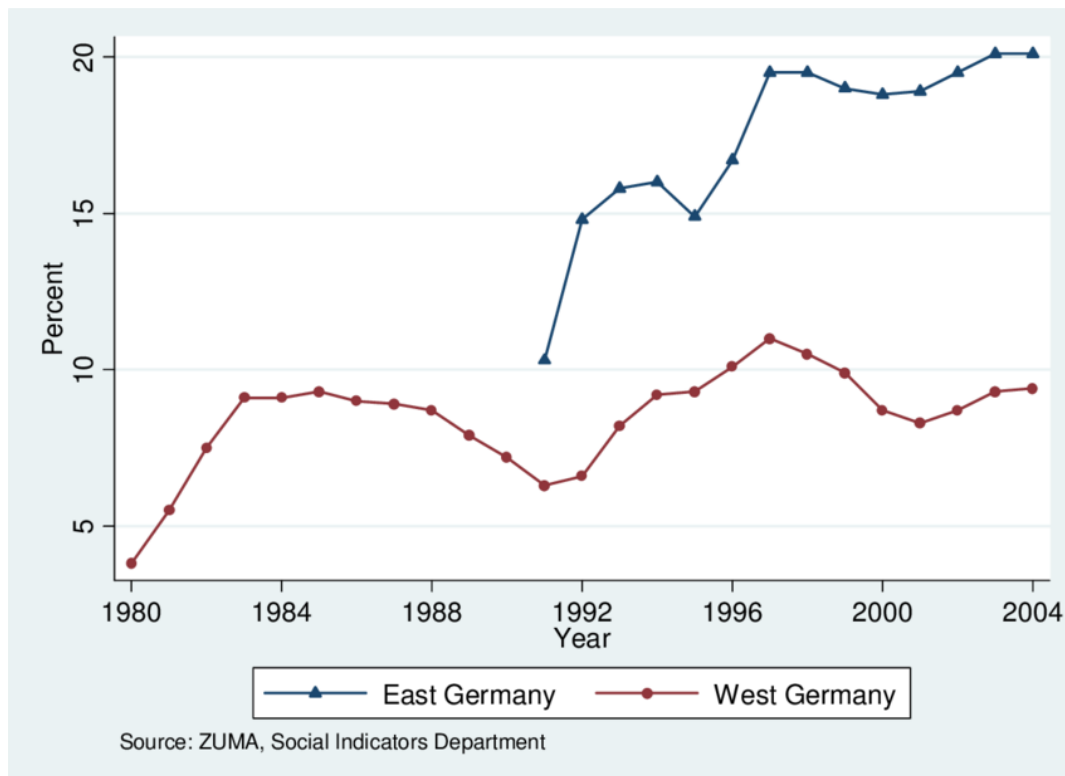


Figure 1: The unemployment rate in eastern Germany and West Germany (Source: ZUMA, Social Indicators Department: https://www.researchgate.net/figure/Unemployment-Rate-in-East-and-West-Germany_fig2_5136723)

4. Discussion

4.1. Unemployment

Ketzmerick argues that despite all the achievements of homogeneity and convergence of living standards in eastern and western Germany, differences will always exist. Only two possibilities exist for such differences to remain the same forever or disappear slowly [3].

The high unemployment rate, as one of the main problems facing the labor market in East Germany after the German reorganization, made it one of the criteria to measure the soundness of the policies implemented by the German government in the East at a later stage. After more than two decades of development since reunification, Germany still maintains a strong momentum and holds a certain voice in the international arena. Germany's overall unemployment rate has also performed relatively well, with the numbers decreasing over the years and the unemployment rate falling below 4%. However, when looking at the eastern and western parts of Germany separately, there is still a considerable gap between the unemployment rates in the eastern and western parts of Germany over the last decade. Although the unemployment rate in eastern Germany has dropped from 11.5% to a recent 7% over the past decade, it still differs significantly from the 4.75% in western Germany, and the unemployment rate in eastern Germany is still about one-third higher than that in the West.

In order to improve the high unemployment rate in eastern Germany, the German government has taken many measures. First, the German government tried to improve the quality of the labor force. The East German government started systematically training unemployed people to help them obtain vocational qualifications and gain employment [4]. In addition, many policies implemented by the German government in the East are related to public policy welfare, such as the 'Solidarity Pact', and the German government has made many efforts [6].

In general, the unemployment rate in the East still differs from the West, but the long-term results seem to be well developed. The eastern part of Germany is now characterized by small and medium-sized enterprises (SMEs) as a development feature and continues to grow. Moreover, in the last two years, large companies such as Tesla and Intel started to set up factories in eastern Germany, which marks a major turnaround arriving to the government of eastern Germany [15]. The eastern part of Germany may have an amazing industrial renaissance in the future. The re-industrialization of the region will provide more jobs and attract more talents, which will positively impact the East's unemployment rate.

4.2. Public Welfare Policy

Public benefits policy is also one of the most important indicators of a region's good or bad labor market. When the East and West of Germany were first merged, the lack of labor market-related public welfare policies was a big problem for the government in eastern Germany to address.

In order to upgrade the level of public welfare policy in the former GDR regions, the government took several measures. For example, the solidarity, as mentioned above, the tax was levied to use part of the western region's tax revenue for the East's construction and development. However, this solidarity tax for building up the eastern regions is decreasing yearly and is intended to be converted into regional support funds for Germany. Since January 1, 2021, the application of the solidarity surcharge tax has been significantly reduced [16]. This may also show from the side that the gap between the East and West of Germany has narrowed and no longer requires huge government input and help. However, in reality, the economic development gap between the East and West still exists, where the GDP of eastern Germany was USD 32,422 in 2020, while western Germany was as high as USD 41,954.

The number of East German people migrating to West Germany peaked for the second time in 1991 at the time of German integration. Still, the second wave of East to West German migration reappeared after the fall of the Berlin Wall around 2000, with people migrating to live in West Germany in search of a better life. But finally, in 2017, for the first time in history, the number of people moving from West to East Germany exceeded that of people moving from East to West Germany [17]. The wave and direction of migration can show whether a region can retain its population and whether the local public welfare policies are attractive. It can be seen that although the process has had its ups and downs and climbs, the efforts made by the East German government in the area of public welfare policy have been successful and effective in the long run. Unfortunately, the income gap between East and West Germany remains pronounced. People in West Germany work less but earn more than people in East Germany [18]. The German government still needs to work harder on this issue, and public policy inputs may need to be tilted in this direction.

5. Conclusion

In this article, the perspective is placed on the labor market in the eastern part of Germany after the fall of the Berlin Wall and the merger of the former GDR and the former FRG in 1991. the labor market in the eastern part of Germany in 1991 was a process that came from nothing, and it was a rapid process that did not give the government and the people much time to prepare. Therefore, the difficulty and number of labor market-related issues the government faced were self-evidently huge. The German government has put a lot of effort and made many changes on such issues. However, this paper focuses more on the problems faced and the measures taken by the German government in two areas: the unemployment rate and public welfare policy.

At the beginning of the East-West merger, eastern Germany faced extremely high unemployment rates and a lack of labor market-related public welfare policies. The causes of these problems were complex, and the negative effects were enormous. In order to improve the high unemployment rate, the German government has adopted measures such as systematic training for the unemployed and increased public construction efforts to increase employment opportunities. The German government has also taken measures to address the eastern region's lack of public welfare policies. For example, a solidarity tax was levied to subsidize the development of the east. Although these policies were controversial at the beginning of their implementation, some scholars consider them a failure. However, in view of the current development, these policies are beneficial and feasible for developing the eastern part of Germany in the long run.

However, this article is mainly based on articles and research data from past scholars and lacks primary data. It is hoped that more fine-grained segmentation surveys on unemployment in Germany and direct surveys on satisfaction with public welfare policies will be available in the future to refine the findings of this article.

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