

Economic structures of East Germany – selected issues

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Abstract

The problem of unfinished unification of East and West Germany is still very important even though the Berlin Wall fell 20 years ago. The objective of this paper is diagnosis of unification of East and West Germany economic structures. The analysis refers to period from 1991 till 2008. Diagnostic procedure was applied in the research as well as the analyzed issues were logically explained and statistical and monographic methods were also applied.

Key words: East Germany, economic structures, economic unification

JEL Classification: R1

1 Introduction

The year 1989 saw the crumbling down of the Berlin wall, and in 1990 took place the German unification. These events initiated systemic and structural transformation in the economy of the Eastern lands, for which the legal foundation were the two acts: National Agreement (*Staatsvertrag*) of the 18th of May, 1990 [1] and the Unification Treaty (*Einigungsvertrag*) of the 31st of August, 1990 [2].

The creating of the monetary, economic, and social union between West Germany and East Germany was recorded in the first of these. The monetary union meant that East Germany assumes the West German mark as its currency, unit of account, and store of value. The exchange rate was differentiated with respect to object and nature of credit and debt. In effect, the average rate of 1,8:1 meant devaluation of the East German currency with respect to the official rate, and revaluation with respect to the market rate [3], [4]. Subsequently, this had negative repercussions for the competitiveness of East German enterprises, and in reality, it was also one of the factors of deindustrialization of the economy. The record regarding economic union meant, for that matter, that DDR assumes and accepts the instruments of economic policy applicable with the logic of the social market economy, and especially, that it shall be obliged to create the framework conditions for the development of free market and private economic initiative. [5]. Then, the social union was concerned with the acceptance of the rules of labour market order and system of social security (old age benefits, health insurance, accident insurance, unemployment benefits and healthcare security). Formally speaking, the unification took place on the 2nd of October, 1990 by right of the Unification Treaty, when "...DDR acceded the Republic of Federal Germany..." („... *Beitritt der DDR zur BRD ...*”, art. 1, *Einigungsvertrag*) [6].

From that time, the economic structures of the former East German lands are under the influence of the processes of real and system convergence, where, at the same time, they are under the influence of the processes of globalization and European integration. These forces - the system transformation, real convergence, globalization, European integration – determine the transition which undergo the structures of production, employment, finances, and other. Isolating of one of the causes of structural transformation is almost impossible. This is so, since national economy is a complex system, in which particular elements interact, there is

also interaction observed between system and elements, and element forms impact on the final outcome of the system, as a whole. Hence, the analysis of structural transformation takes place always in a larger scope, which comes to produce various economic theories.

The article shall outline certain selected theoretical aspects of structural transformation, then, an attempt of diagnosis shall be made of the condition of the cohesion of the economic structures (the structures of production) of the East and the West lands of Germany. The analysis covers the period of the years 1991 – 2008. Diagnostic study procedure was made use of and the phenomena undergoing analysis were given logical explanation. Statistical methods and monographic method have been applied.

2 Economic structures – selected theoretical aspects

The structure of national economy is a relationship between its elements and the economy as a whole, as well as any relations between its individual elements [7]. The structure understood in that sense may be regarded from the real and regulatory side, alike. This dual approach to national economy was suggested by J. Kornai [8]. Real processes are material processes, the essence of which are changes in the natural magnitudes in the sphere of production, trade, and consumption. They are concerned with the processing of the factors of production into goods and services, their storage, transportation, and usage. On the other hand, the processes of regulation are thinking processes, i.e. perception, communication, as well as processing of information and preparation of decisions.

Due to the above, structural transition which takes place in a long run, as well as transition essential enough to exert influence on the economic system as a whole, we relate to the real and regulatory spheres, jointly. [8, p. 18]. The structure of the economy understood like this, is, then, broken down to the following types of structures :

- structure of creation and distribution of national income
- structure of production capital
- structure of employment
- ownership structure and relationship between the public and the private sector.

If, in turn, structural transition relates to just material elements of the economic system, then, we refer them solely to the real sphere. This study approach incorporates analysis of macroeconomic structure, i.e. production in its most aggregated form, as well as international trade and the sphere of distribution. Long term changes in macroeconomic structures mean:

- in relation to production – changes in the quantitative relationships between sectors or divisions of production,
- in relation to international trade – changes in magnitudes, direction and object of foreign trade,
- in relation to distribution – changes undergoing between group and individual consumption patterns, investments and exports.

Structural transition are changes accompanying the processes of economic development, since they evoke both, quantitative, and qualitative changes of the elements of the economy, and they modify the interdependencies between individual elements and the elements and the whole lot of the economy. The qualitative structural changes take place through increased efficiency of management, introduction of new technologies and new products, whereas, quantitative structural changes relate to changes in production magnitudes and numbers of economic enterprises.

The regularities of the shaping up of economic structures and structural transition are backed up by several economic theories, since there is lack of a single comprehensive and

cohesive theory relating solely and exclusively to the structures and their changes. Most adequate for the studying of structures seem to be:

- theories of economic growth (e.g. W. Rostow's theory of developmental stages, C.Clarc and J. Fourastie's three sector theory, S. Kutznets study) [9]
- modern international trade theories: technological gap theory, product life cycle theory, intra-branch trade theories, concept of comparative advantage, concept of advantage in virtue of possessing of products and factors of production [9;10],
- institutional economy and transaction costs theory [9].

Due to the above, the factors of structural transformations may be classified as: a) supply factors, b) demand factors and c) institutional-systemic factors. And wide array of factors should comprise: [9, pp.38-46]:

- level and rate of economic development
- dynamics and nature of economic growth,
- dynamics and structure of national income distribution,
- organizational progress,
- transfer and diffusion of technologies and innovations,
- structure, magnitude, and directions of international trade,
- changes in nations' stock of the factors of production, and especially, qualitative and quantitative changes in the stock of labour force,
- microeconomic calculus,
- structure, directions, and magnitude of consumption,
- structure, magnitude, and dynamics of investments,
- external economic and socio-political climate generated by globalization and economic integration,
- social and cultural factors.

Moreover, a really important factor behind structural transformation is economic policy, and especially, structural policy, which is its integral component. It is about such general issues as institutional and systemic solutions leading the economic system in a direction of desirable structures, fostering by organs of public administration of structural changes in the economy with a view of consolidation of high rate of growth and increasing international competitiveness. In particular, action of public administration should encourage the processes of restructuring and of structural development. What is needed, then, is structural policy, both offensive (stimulation of the market in order to activate desirable changes) and adjustment type (strengthening of the market and countering external effects), and from the perspective of long term development, defensive policy is inadequate (blocking of market action, countering the effects of the market processes, e.g. defending of certain selected sectors in decline). At the same time, one should keep in mind that on each count, the objectives of structural policy are closely linked to macroeconomic objectives (objectives of magic polygons) and that they depend on economic development level and on conditions of development.

The evaluation of structural changes may take place with the use of political and economic criteria. The latter shall be discussed in here [7, pp. 25-27]. Economic evaluation of structural changes means:

- qualitative analysis of direction and pace of changes in production. Qualitative measures of structural changes are linked to the effectiveness of management, e.g. capital intensity, fixed assets productivity, investment effectiveness, material intensity and power intensity of investments .
- quantitative analysis of direction and pace of changes in production. Quantitative measures of structural changes are used for the calculating of changes in quantitative relationships between elements of economic structures singled out from perspective

of certain specific criteria, e.g. magnitude and dynamics of GDP, production, consumption, industrial contribution in the creation of GDP, foreign trade break down, employment break down.

- analysis of efficiency and effectiveness of economic institutions, i.e. searching for the causal-result dependencies between certain specific institutional changes and structural adaptations. This analysis, eventhough highly attractive for cognitive reasons, is very difficult to perform due to methodological reasons.

The complexity, multi-aspect nature, and extent of the problem of economic structures and their transformation does not let us to perform a comprehensive analysis here in this article. Due to this reason, going after the cognitive motives, the analysis covered macroeconomic indications and measures understood in a broad sense, pointing to the fact of structural adaptation of the former East German lands to the structures of the West German lands. Moreover, some more light has been shed on the sectorial break down of production and its dynamics.

3 Economic unification of East and West Germany

In a way, it is obvious that the initial conditions of the commenced in the East German lands in the year 1990 process of transformation were very difficult. The structure of the economy, and most of all, that of the industry as was shaped in East Germany was typical for the socialist countries, and in that sense, completely inadequate to the requirements posed before effective and modern market economies. For the East German lands the characteristic traits were: the technology gap, poor telecommunications and transport network, worn out machinery stock, and sectors producing low-processed goods being in the prime. The East German industry failed to satisfy the country's final demand, it was also uncompetitive on the world market of highly-processed goods [11]. This uncompetitiveness was further embedded by the monetary union and the process of rapid equalization of pay, in effect of which, enterprises lost their cost advantage, as labour productivity increase did not follow.

Economic changes were accompanied by demographic changes. The transformation shock, favourable perspectives of living and employment conditions in the West German lands were factors spurring on migration. During the last 17 years the population of the former East German lands decreased, dramatically – in Saxony-Anhalt by almost 20%, in Saxony, Mecklenburg, and Thüringen by approx. 15%, and in Brandenburg by 5% [12]. In total, the population of the former East German lands with respect to the West German lands was in the year 2008 by 4 per cent lower than in the year 1991 (table 1). Hence, we speak of the transfer of the human factor from the East to the West lands.

Further unfavourable demographic changes in East German lands shall be, probably, also taking place in the nearest future. What is expected is the decreasing of the population in the productive age group, in some regions even by almost 38% (figure 1). This phenomenon shall refer to approx. 40 such districts in the former East German lands. First of all, this is a really significant problem from the social perspective, because the decreasing of the population in productive age group shall make the inter-generation conflict worse. And from the point of view of entrepreneurs the perspectives of finding adequate, young, labour force shall be getting worse.

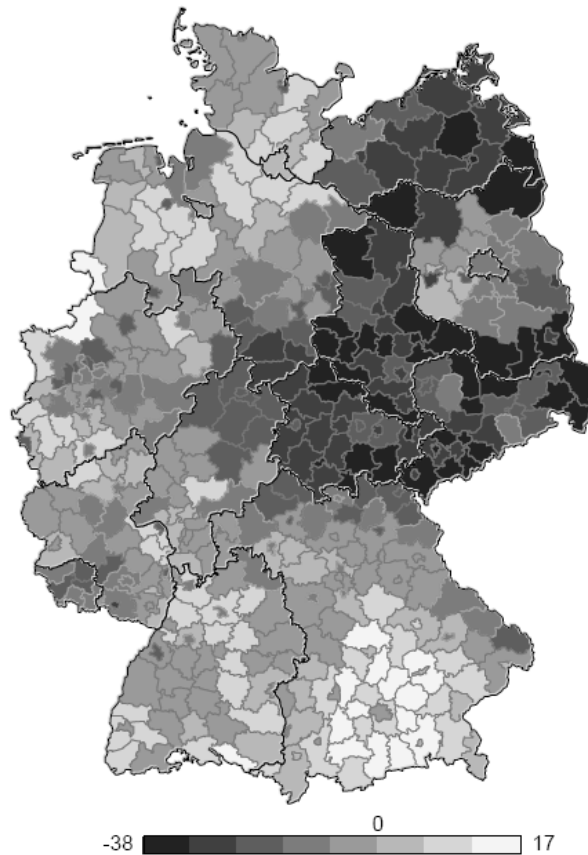


Figure 1. Changes of 20-59 years old population by region – forecast, in %

Source: M. Sunder, A. Kubi.: *Herbst in den „Blühenden Landschaften“? Alterung als Standortrisiko. In: IWH-Pressemitteilung (2008), Vol. 20, p. 2-3.*

The processes of structural changes taking place in the former East German lands, both, were, and still are determined by the systemic transformation, European integration, globalization, and dynamics accompanying every single market economy being under the influence of technical and technological changes. However, in case of new federal states of the Republic of Federal Germany there is also one more specific factor, which determined the form of at least of a part of economic structures. What is concerned here is the fact that together with the unification, the East German lands have been incorporated into the economic structures of highly developed market economy. In the sphere of regulation, there were moved to the new lands the institutions, which were the outcomes of the evolutionary changes in the former Federal Republic, and which the citizens and the economy produced throughout 40 years. The institutions, of which we speak in here are mainly regulation mechanisms of the labour market (i.a tariff regulations, unemployment insurance), as well as the social system (health insurance, social insurance, etc...). The mentioned uniqueness in the shaping up of the structure of the East German lands and of the current state of it was, then, remaining under the influence of the so-called social aspect of unification (*Soziale Frage*).

Table 1. Comparison of East and West Germany in 1991-2008

	1991	1995	2000	2008
	West Germany = 100			
Total population	25	23	23	21
GDP per capita ¹	33	59	60	69
Labour costs ¹ : compensation of employees	49	74	77	77
Labour productivity ¹ (GDP price-adjusted, by persons in employment)	42	65	69	78
Income (gross wages and salaries by employees)	56,9	N/A	77,0	78
Structure of GDP ¹ :				
• Agriculture, hunting and forestry; fishing	259	195	225	195
• Mining	290	147	178	160
• Manufacturing	47	46	62	80
• Construction	222	311	225	145
• Trade, transport and communications	101	89	90	96
• Financial, real-estate, renting and business activities	51	73	85	85
• Other service activities	171	145	139	129
Gross capital formation per capita	66	149	110	77 ^{1,7}
Export (% GDP) ¹	52	40	56	70
Unemployment rate	216	186	250	218 ¹
Expenditures of Bundesagentur für Arbeit for 1 person on work force	282	257	281	149 ⁵
Social expenditure ratio (Social expenditure total, in relation to GDP)	184	157	164	161 ⁶
Social expenditure per capita	61	94	98	102 ⁶
Average disability pension and retirement pension for men	56	90	104	97 ⁵
Average disability pension and retirement pension for women	94	130	135	136 ⁵
Expenditures of federal lands per capita ²	120	145	140	129
Debt of federal lands per capita ²	0	74	107	110

¹ without Berlin; ² without Stadtstaaten (Hamburg, Bremen, Berlin); ³ 2005; ⁴ 2004; ⁵ East Germany with Berlin; ⁶ 2003 (since the year 2004, social expenditure is not calculated in consideration of the East and West lands break down, but just the German total statistic is taken); ⁷ 2006

Source: *Deutschland in Zahlen 2009*. Institut der deutschen Wirtschaft, Köln 2009, p. 131; *Wirtschaftsdaten. Neue Bundesländer*. Bundesministerium für Wirtschaft und Technologie, Berlin, Stand: Dezember 2001, p. 3; *Wirtschaftsdaten. Neue Bundesländer*. Bundesministerium für Wirtschaft und Technologie, Berlin, Stand: Juli 2008, p. 3.

The economic structures of the former East German lands, in spite of the passing of almost 19 years from the time of unification are still different from the structures of the West

German lands, less effective and less competitive, and the dynamic of the economic processes from the year 1996 was too slow, for the development gap to be closed down.

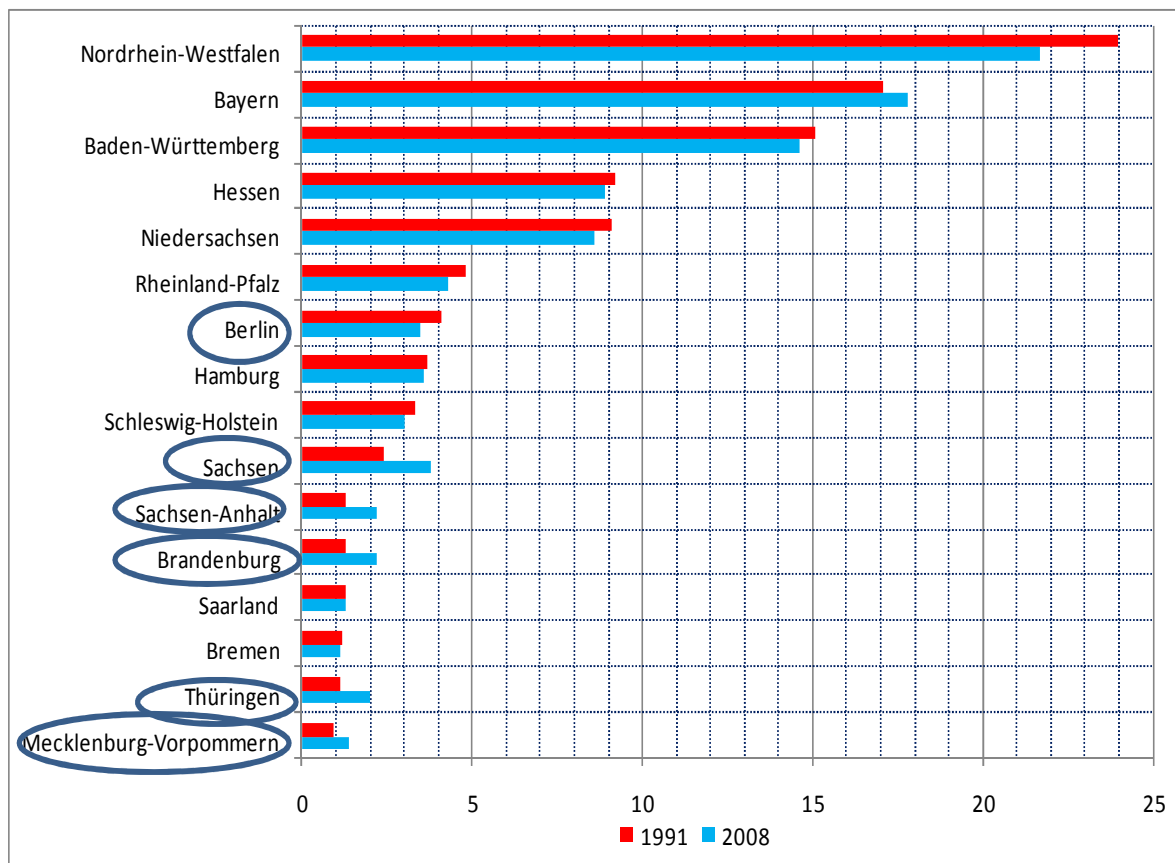
Until the mid 1990s of the XX century, the process of unification of the East and West lands was progressing relatively rapidly. In the year 1995, the GDP per capita was in the former East German lands that of 59% of the corresponding figure in the West, and the labour productivity calculated in terms of the real GDP per person employed – 65%. During the next 13 years, these indices amounted to barely 69% and 78%, respectively. Unfortunately, in that same time, the pay in the East was rising relatively fast, reaching in the year 2008, 78% of the West German level – the relationship to the labour productivity was, thus, a factor weakening the competitiveness of the Eastern enterprises. Changes in the structure of production by kind of activity boiled down, anyway, to the transfer of factors, especially that of the labour force, from agriculture to industry and the services sector, but when a break down is made into individual branches, and when compared to the Western lands, they were not that intensive, anymore. If the West lands constitute 100%, then, in the East lands in the year 2008, the agricultural sector and forestry constituted 195%, mining – 160%, construction industry – 145%, and processing industry 80%, whereas financial, real-estate, renting and business activities merely 85%.

Another aspect of divergence in economic structures is the level of investment and exports. In general, until the year 1994, the investment dynamic was relatively high (over 15%), in effect of which, in 1995, investments per capita in the former East German lands amounted to 145% of that same statistic for the West lands [table 1.; 13]. In the following years, investment dynamic was negative and it even amounted to -15,6% (2001) and -13% (2002) [13], and investment per capita expenditure for the East lands shrunk to 77% of that in the West [table 1.]. And for the German economy, overall, the rate of export (calculated in terms of the share of international trade in the overall trade) in the year 2008 amounted to 44,6%, for the West lands 45,9%, and for the East lands 33,1% [14]. For individual lands, the rate of export was highly differentiated, from 25,6% for Brandenburg and 27% for Mecklenburg, through 29,3% for Saxony-Anhalt and 32,7% for Thüringen. Only Saxony and Berlin had better result than the average for the 6 East lands – 37% and 39,5%, respectively [14].

Unfavourable, from the perspective of the state and economy's competitiveness, and positive, from the perspective of the citizens, is the level of social expenditure, as well as pensions and old-age benefits. In this respect, there followed a relatively rapid and full scale unification. As early as in the mid-nineties, the average old-age benefits for women, and from the year 2000, for men, were not just equal to their levels in the West lands, but even somewhat higher. In turn, social expenditure calculated in GDP percentage terms in the East lands were almost double that figure for the West lands [table 1]. Simultaneously, this expenditure per capita was made equal in the year 2003, and since that time it is no longer calculated in consideration of the East lands – West lands break down. The shaping up in the East lands of the first measure (social expenditure as % of GDP) at a level of almost double of that in the West means that the citizens of the new lands consumed a high level of social benefits at the expense of the citizens of the West lands, whereas the high figure of social expenditure per capita (over 90% in the 90s of the XX c. and 102% in 2003) means that they made use of the social security in that same or more or less the same dimension. The social aspect seems to be one of a few, in which the cohesion of East and West lands was achieved. However, the effectiveness of that state of matter rises certain doubts, intuitively, and thus, it constitutes an interesting study area for the future.

4 Structures and dynamics of production

From the perspective of the shaping up of economic structures, of essential importance is the increasing of the contribution of the East lands in the overall, German national income. Between the year 1991 and 2008, only 4 lands managed to achieve this, however the increments in the contribution of the East lands in the gross value added of Germany, overall, were no greater than 1 percentage point (figure 2). At the same time, the contribution of Berlin went down from 4,1% to 3,5%. The rise in value added produced in the new lands was at the expense of the old federal states. Nordrhein-Westfalen (by 2,3 percentage point), as well as Baden-Württemberg and Rhein Palatinate (both by half per cent) were the ones to have their contribution in the German national income decreased, most of all. The other West lands had their contribution decreased, too, but less significantly so. Thus, no significant transfer of production from the West lands to the East lands has taken place.



**Figure 2. Share of federal land in production, 1991 and 2007, in %
(gross value added, current prices, Germany = 100)**

Sources: *Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern und Ost-West-Großraumregionen Deutschlands 1991 bis 2008. Reihe 1, Band 1. Berechnungsstand: August 2008/Februar 2009. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" im Auftrag der Statistischen Ämter der 16 Bundesländer, des Statistischen Bundesamtes und des Bürgeramtes, Statistik und Wahlen, Frankfurt a. M. 2009, Table 2.1.*

Changes in the structure of production taking place in the East lands are expressed in them becoming similar to the structures of the West lands, i.e. typical for highly developed market economy. They mean the decreasing of the sphere of the primary sector (agriculture, forestry and fishing) in the gross value added – from 3,3% in the year 1991 to 1,6% in the year 2008 – and of the secondary sector (industry) from 34,5% to 29,1% in the respective years, as well as rise of the share of the tertiary sector (services) from 62,2% to 69,3% (table

2.). Ultimately, one may say that on average, the sectorial structure of production of both parts of Germany is relatively cohesive. This looks different when we take a closer look at the individual lands in the East and West of the country.

Table 2. Sectorial structure of production in Germany 1991-2008
(share of gross value added by sectors in total gross value added, current prices)

Year	Germany			West Germany without Berlin			East Germany with Berlin		
	sector I	sector II	sector III	sector I	sector II	sector III	sector I	sector II	sector III
1991	1,4	36,6	62	1,3	36,8	62	3,3	34,5	62,2
2008	0,9	30,1	69	0,8	30,3	68,5	1,6	29,1	69,3

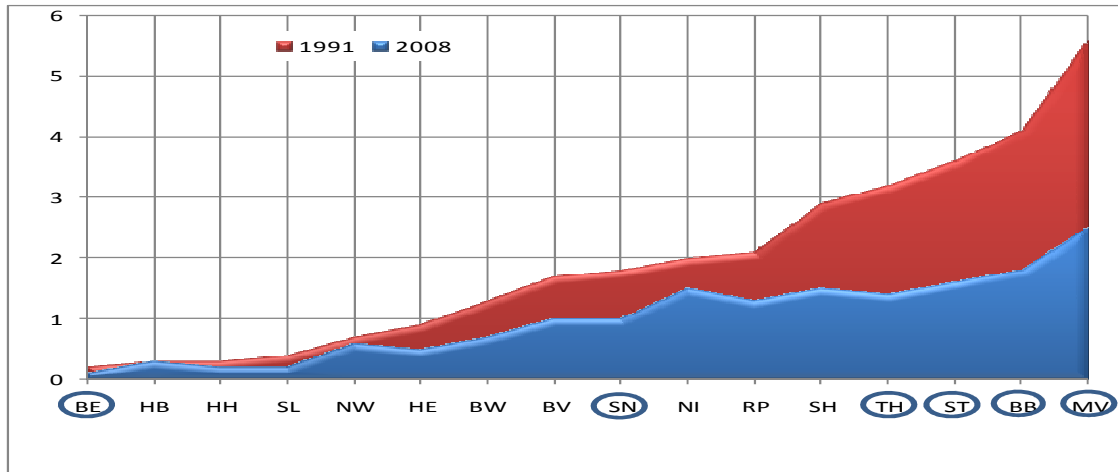
Source: Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern und Ost-West-Großraumregionen Deutschlands 1991 bis 2008. Reihe 1, Band 1. Berechnungsstand: August 2008/Februar 2009. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" im Auftrag der Statistischen Ämter der 16 Bundesländer, des Statistischen Bundesamtes und des Bürgeramtes, Statistik und Wahlen, Frankfurt a. M. 2009, Table: 2.2., 2.3., 2.4.

In the individual lands, the share of the sectors in the creating of valued added was and still is highly differentiated. In the year 1991, the greatest share in industry had the lands such as: Baden Württemberg – 44,6%, Saarland – 39,6% and Rhein Palatinate – 39,4%, whereas the least: Hamburg – 22,2%, Berlin – 27,1% and Schleswig Holstein – 28,9% (figure 3.). After 17 years, the first three lands with the greatest contribution of the secondary sector in production changed: Baden Württemberg – 39,3%, Saarland – 35,9% and Tübingen – 33,1%. Conversely, the smallest contribution in industry had: Hamburg – 16,4%, Berlin – 18,5% and Mecklenburg-Vorpommern – 20,5% (figure 3.)¹.

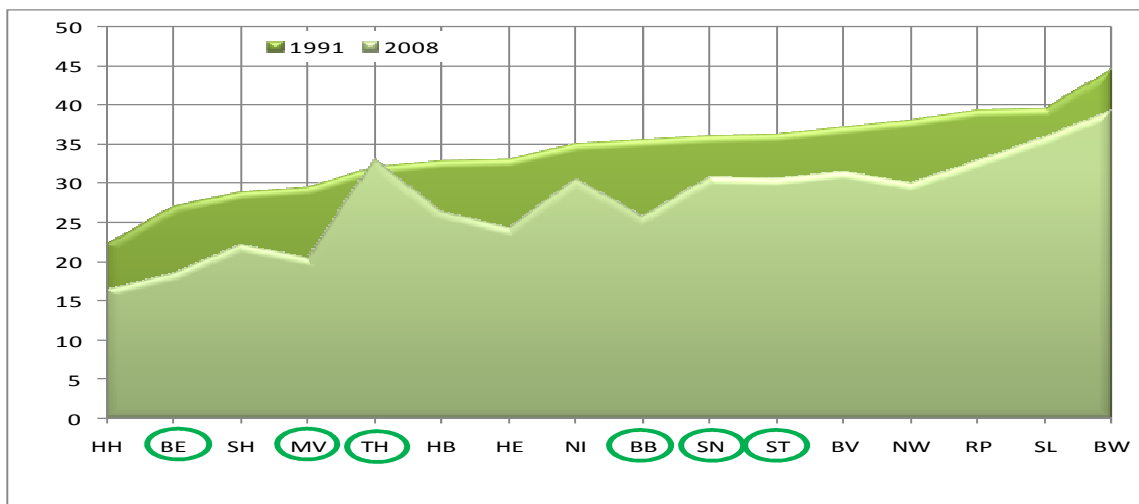
It should be emphasised that East lands have relatively high share of services in the creating of value added, higher than the strongest economically lands such as Baden Württemberg or Bavaria, which, nevertheless, does not turn out to be the decisive factor when it comes to rapid catching up in terms of development. As long as high share of industry in the creating of value added in Bavaria and Baden is translated into high contribution of these lands in the German export (in the year 2006, the contribution of Nordrhein-Westfalen in the German export total amounted to 17,9%, that of Baden Württemberg – 15,9%, Bavaria 15,77% and Mecklenburg – 0,4%), then, a significant share of services in the creating of value added in Mecklenburg should be explained by high contribution and dynamics of tourism (in the chart measuring “intensity of tourist services” constructed on the basis of tourist accommodation numbers per 1000 inhabitants, Mecklenburg came first in the year 2006) [15].

Sector I

¹ West Germany: BV – Bavaria, BW – Baden-Württemberg, HH – Hamburg, RP – Rheinland-Pfalz, NI – Niedersachsen, SH – Schleswig Holstein, HE – Hessen, NW – NordrheinWestfalen, HB – Bremen, SL – Saarland. East Germany: BE – Berlin, BB – Brandenburg, SN – Sachsen, MV – Mecklenburg-Vorpommern, TH – Thüringen, ST – Sachsen-Anhalt.



Sector II



Sector III

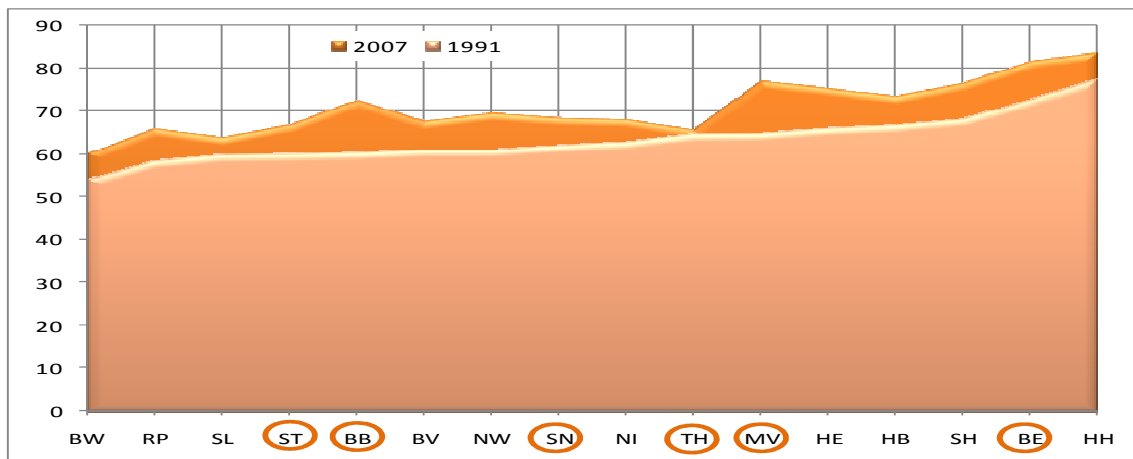


Figure 3. Structure of production according to sector and federal land, in % (share of gross value added by sector in total gross value added)

Source: *Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern und Ost-West Großraumregionen Deutschlands 1991 bis 2008. Reihe 1, Band 1. Berechnungsstand: August 2008/Februar 2009. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" im Auftrag der Statistischen Ämter der 16 Bundesländer, des Statistischen Bundesamtes und des Bürgeramtes, Statistik und Wahlen, Frankfurt a. M. 2009, Table: 2.2., 2.3., 2.4.*

The dynamics of production calculated in terms of increases in value added in the years 1992-2008 was for Germany, overall, in general, a positive figure, excluding the year 1993 (-1%) and the year 2003 (-0,2%) [16]. The recession, first of all, post-transformation one, and then, one that was linked to the deterioration at the turn of the centuries of the situation in the world economy, affected the West lands, that were more industrialized and more open than the East lands – the negative dynamic of creating of value added for Germany in the years 1993 and 2003 was generated mainly by the old lands (-2,2% and -0,3%, respectively), eventhough, in the year 2003, also by Brandenburg (-0,2%), Mecklenburg (-0,1%), Saxony-Anhalt (-0,1%). Only Berlin – the land, which is formed by both East and West structures was characterised by negative production dynamic in the years 1996-1999 and 2001-2004.

In the 90s, the value added created by the economy of the East lands was rising by far more rapidly than that in the West lands – the advantage was that of a few percentage points (figure 4.). It was a process that was desirable and positive from the perspective of convergence of the economic structures. Unfortunately, this state of affairs lasted only until 1996-1997. Eventhough, in the following years, the dynamic of gross value added produced in the East lands was positive, it was lower than that in the old federal states or equal to it, and this did not favour the process of economic convergence.

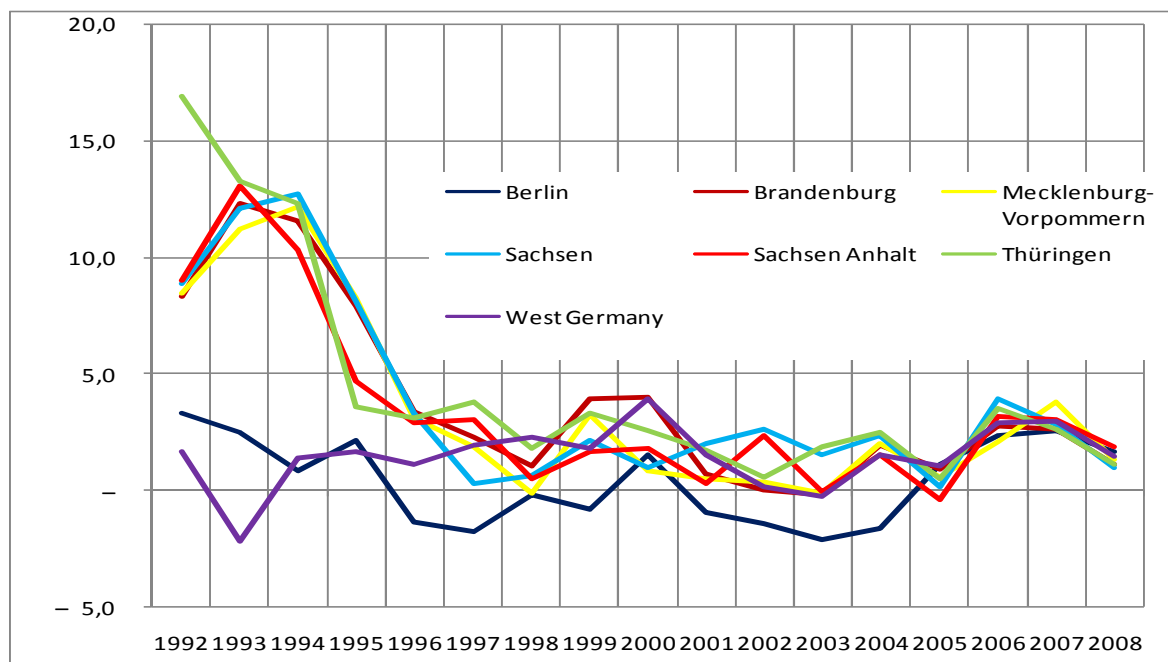


Figure 4. Dynamics of production in East Germany, 1992-2008 (change of total gross value added, year/year in %, fixed prices)

Source: *Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern und Ost-West-Großraumregionen Deutschlands 1991 bis 2008. Reihe 1, Band 1. Berechnungsstand: August 2008/Februar 2009. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" im Auftrag der Statistischen Ämter der 16 Bundesländer, des Statistischen Bundesamtes und des Bürgeramtes, Statistik und Wahlen, Frankfurt a. M. 2008, Table 7.1.*

Further on, in the analysis of the production dynamic a measure has been applied in the form of gross value added per one person employed. Such measure not only is better at

reflecting the changes in production in the sectors, but it also considers the aspect of labour productivity.

In the years 1992-2008, not just the contribution of individual sectors in the creating of value added was highly differentiated in the individual lands, but also from year to year, production in the sectors showed different dynamic. Industrial production was rising dynamically only until the year 1995, which was linked to the post-unification boom, and then, it slowed down markedly (below 10%). Lower dynamic of gross value added per 1 person employed resulted from, both, the weakening of the rate of production growth, and lower employment. The branch that was affected by the slow down, the least, and de facto remained the engine of the global value added of the East lands was the processing industry. To the exclusion of the substantial slow down in the years 2001, 2002 and 2008– the processing industry was characterised by relatively high annual increases of value added (even approx. 9% in the years 2004-2006) – figure 5. Whereas, the smallest production increases and greatest downfalls in the East German sectors were recorded in the construction industry and financial services. To the exclusion of the year 2002, the dynamic of construction sector production was negative, and when it was positive, then, it was so, but at a very low level only. In turn, financial services (to the exclusion of the years 2001-2002) were not contributing to output increase – in extreme circumstance, in the year 2004, their contribution in the total output was by almost 4% less than in the previous year.

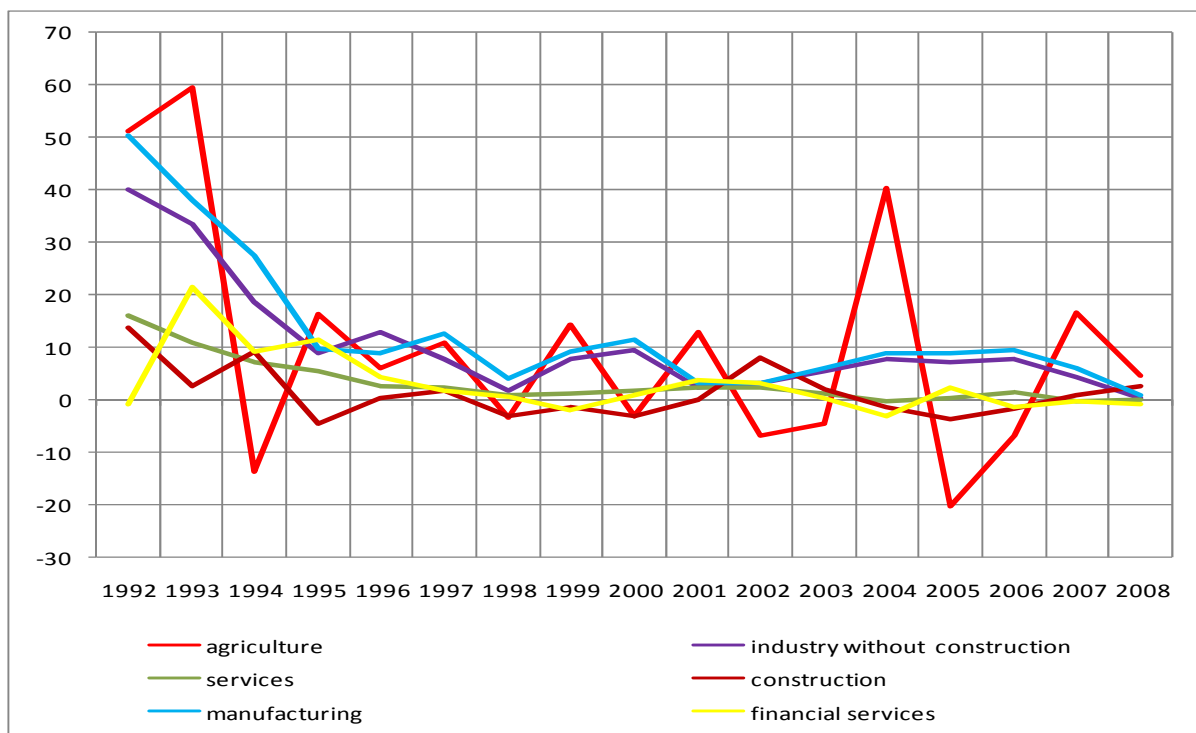


Figure 5. Production dynamic per one person employed in East Germany (without Berlin), 1992-2008 (change of total gross value added, year/year in %, fixed prices)

Source: *Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern und Ost-West-Großraumregionen Deutschlands 1991 bis 2008. Reihe 1, Band 1. Berechnungsstand: August 2008/Februar 2009. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" im Auftrag der Statistischen Ämter der 16 Bundesländer, des Statistischen Bundesamtes und des Bürgeramtes, Statistik und Wahlen, Frankfurt a. M. 2009, Table 9.2., 9.3.1., 9.3.1.2., 9.3.2., 9.4., 9.4.2.*

7 Conclusion

On the 20th anniversary of the downfall of the Berlin wall (November 2009) the issue of structural and systemic changes in the East lands of the Republic of Federal Germany is still not exhausted, and conversely – it is becoming attractive for the theory of economy that faces the challenge of constructing of the theory of transformation [20]. This is so, since the real convergence and structural and systemic changes taking place in the new lands are simultaneous processes that interact, and which also find themselves under the influence of such factors as globalization, European integration, as well as the shaping up of knowledge based economy.

After the period of dynamic GDP growth, economic activity in the East went down radically in the mid 90s of the XX c. Lower pace of GDP growth and lower productivity of labour, without doubt, did not favour rapid progress in the scope of the process of unification of the economic structures. A certain sign of weak optimism in the estimating of the prospects of the East lands for catching up may be the productivity dynamics, which is by far higher in the new lands (nevertheless not sufficient for it to compensate other weaknesses of the former East German lands), as well as improvement of the production structure in the direction of limitation of the share of the primary and secondary sector in favour of the services sector.

The unification of the structures was not favoured by: a) substantial intensity of transfers, which used to weaken the capacity to mobilize own strengths and to start enterprises [21], b) strong pressure (inclusive of political pressure) to equalize pay and transfer benefits in the East and West lands, c) over investing, mainly in the construction sector, and then, negative investment dynamic in the years 1996-2005.

In the process of unification of economic structures the state played a major role, eventhough its measures not always are regarded to have been positive [17;18], this being, mainly, due to the magnitude of transfers, which were immense, at lower than expected effectiveness. The combined net sum of the transfers, in the years 1991-2003, which were received by the lands of the former East Germany amounts to the magnitude of approx. EUR 980 billion, inclusive of 630 billion that constituted social benefits: pensions, old age benefits, student grants, and unemployment benefits [19]. Moreover, the subsidy mentality of enterprises was strengthened by the multiplicity of the assistance programmes and blown out of proportions mechanism of investment stimulation. In turn, the citizens participating in the “West German affluence” have forsaken and gave up their “individual responsibility for themselves” for “state responsibility for them”.

Thus, in order to stimulate structural changes in the former East German lands one should recommend the curbing of the state intervention based on subsidising of the enterprises, and spreading of measures geared at the freeing of the market mechanism and forces favouring the building of free market relationships between market participants. The programmes stimulating entrepreneurship, innovations, and increasing competitiveness should be addressed to the areas of high development potential, i.e. clusters or incubators of entrepreneurship. Amongst the unpopular or even unacceptable from political and social perspective measures favouring the shaping up of modern economic structures one may indicate also the limitation of social transfers and the maintenance of lower remuneration in the former East German lands.

Simultaneously, both, politicians, and the society, should, nevertheless, accept the fact that the differences between the former East German and West German lands may not be fully done away with. The economical explanation is such that the regions shall always be characterised by certain distinction in the economic potential and pace of growth, these in the West, these in the East, as well as the former and the latter shall also differ between themselves. The ultimate forecasts as to the finalization of the process of economic unification of the East and West German lands are very difficult to give, especially so, in the

context of the current crisis on the financial markets, which has led on to radical changes in the forecasts and prospects.

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