



Federal Government
Commissioner for the
New Federal States



Annual Report of the Federal Government on the Status of German Unity in 2015

DEUTSCHE
TEILNAHME

Imprint

Publisher

Federal Ministry for Economic
Affairs and Energy (BMWi)
Public Relations
D-11019 Berlin, Germany
www.bmwi.de

Text and editing

Federal Ministry for Economic
Affairs and Energy (BMWi)
Task Force on the New Federal States

Design and production

PRpetuum GmbH, Munich

Status

September 2015

Print

BMWi

Illustrations

picture alliance/dpa (Titel)

This brochure is published as part of the public relations work of the Federal Ministry for Economic Affairs and Energy. It is distributed free of charge and is not intended for sale. The distribution of this brochure at campaign events or at information stands run by political parties is prohibited, and political party-related information or advertising shall not be inserted in, printed on, or affixed to this publication.



The Federal Ministry for Economic Affairs and Energy was awarded the audit berufundfamilie® for its family-friendly staff policy. The certificate is granted by berufundfamilie gGmbH, an initiative of the Hertie Foundation.



This publication as well as further publications can be obtained from:

Federal Ministry for Economic Affairs
and Energy (BMWi)
Public Relations
E-mail: publikationen@bundesregierung.de
www.bmwi.de

Central procurement service:

Tel.: +49 30 182722721

Fax: +49 30 18102722721



Federal Government
Commissioner for the
New Federal States



Annual Report of the Federal Government on the Status of German Unity in 2015

DEUTSCHE
EINIGUNG

Contents

Part A	6
1. Historical overview: from the fall of the Berlin Wall to reunification	7
Liberated – divided – united	7
The Peaceful Revolution and the issue of reunification	7
The Round Tables as precursor of democratic structures	8
The “Government of national responsibility”	9
The People’s Chamber elections of 18 March 1990	9
The first freely elected People’s Chamber	9
International embedding of reunification	10
The Unification Treaty	11
2. Selected decisions during the reunification and transformation process from a current perspective	12
Monetary, economic and social union	12
The disbandment of the State Security Service (Stasi) and the securing of its documents	15
Reunification by accession or by a constitutive national assembly?	16
3. An attempt at an evaluation	18
Part B Report	20
The huge task of rebuilding the East after reunification	21
Legal differences	21
Population takes a clearly positive view of German unity today	21
25 years of the German armed forces as an “army of unity” – a successful example	22
1. Economic development and labour market in eastern Germany	23
25 years of economic development	23
Regional development in eastern Germany – similarities and differences	27
Sectoral differences	30
Research and innovation in eastern Germany	32
Measures to overcome structural weakness	32
Development of the labour market	41
Infrastructure – transport, energy, communication	50
Transport	50
Energy	52
Communication	52
Environmental protection and contaminated site remediation	53
2. Completing social unity	53
Health system	53
Companies covered by collective bargaining and wage trends	56
Differences in earnings of men and women	57
Minimum wage	57
Unity of pensions in Germany moves closer	59
Income and wealth situation of private households	60
Family life in east and west: similarities and continuing differences	63

3. Legal capacity of the state/public structures in eastern Germany	67
Foundations and objectives of federal revenue equalisation	67
Current financial situation of the eastern federal states and municipalities	68
4. Urban and rural quality of life	70
Specific demographic development in the eastern federal states	70
Eastern Germany – pioneer in demographic change	73
Urban development and the supply of residential housing	74
Rural regions – the challenge for providing vital services	78
5. Social cohesion	82
Strengthening democracy and internal cohesion	82
Maintenance of the national cultural heritage – the promotion of culture in the eastern federal states	85
6. Engaging in GDR history and the 25th anniversary of German unity	86
Monument to Freedom and Unity	86
Reappraisal of the SED dictatorship	86
Future of the Federal Commissioner for Files of the State Security Service of the Former German Democratic Republic (BStU) – panel of experts set up	86
Increase in GDR victims’ pensions	87
More money for institutionalised children in the GDR	87
Clinical Drug Research in the GDR from 1961 to 1989 research project	87
Research projects on forced labour in the GDR	88
New permanent exhibition: State Security in the SED Dictatorship in Berlin-Lichtenberg	88
Memorial to victims of Communist tyranny	88
Activities of the Federal Government for the 25th anniversary of German unity	88
Poster exhibition The Path to German Unity by the Foundation for the Reappraisal of the SED Dictatorship	89
Online documentation on the last GDR government	89
New permanent exhibition in the GDR Museum in Pforzheim	89
Exhibition: Unification. German Society in Transition	89
7. Central need for action	90
Restructuring of the financial relationships between Federal Government and the federal states	90
Funding system for economically less developed regions for 2020 and beyond	90
Convergence of the pension systems in east and west	90
Part C: Economic Data of the New Federal States in 2015	91

Directory of figures, tables and maps

Figure 1:	Per capita investments	24
Figure 2:	Per capita development of the gross domestic product: New federal states as a percentage of the old federal states (=100%)	24
Figure 3:	Percentage of manufacturing in total value added (2013)	25
Figure 4:	Per capita gross value added in the new federal states (index: 1991 = 100%)	26
Figure 5:	Number of companies per 100,000 inhabitants in the manufacturing industry in 2012	27
Figure 6:	Per capita gross domestic product, disparity	28
Figure 7:	Per capita gross domestic product and growth from 2000 to 2012 in eastern German districts	30
Figure 8:	Growth in value added (2005 to 2012) in service areas	31
Figure 9:	Tourism intensity in the new federal states and in Bavaria from 1992 to 2013	31
Figure 10:	Value added percentage in the economy as a whole 1991, 2000 and 2013	33
Figure 11:	Research & Development expenditure in 2013	33
Figure 12:	Map of GRW support areas from 2014 to 2020	35
Figure 13:	Unemployment trend from 1994 to 2014	42
Figure 14:	Development of number of employees subject to mandatory social insurance from 2004 to 2013	44
Figure 15:	Employment trend from 1991 to 2014	45
Figure 16:	Pupils with special teaching assistance in special-need schools and other general education schools, percentage receiving special teaching assistance and percentage of pupils visiting special-needs schools 2000/01 and 2013/14 according to federal states	49
Figure 17:	Investments in transport infrastructure from 1991 to 2014	51
Figure 18:	Schematic map showing network corridors	51
Figure 19:	Businesses with collectively bargained salaries and wages as a percentage of all businesses, and employees in businesses with collectively bargained salaries and wages as a percentage of all employees in eastern and western Germany from 1998 to 2014	56
Figure 20:	Equivalence-weighted net annual income	61
Figure 21:	Development of poverty risk ratios in eastern and western Germany with respect to an all-German poverty risk threshold	61
Figure 22:	Unequal distribution of net income in east and west (Gini coefficient)	62
Figure 23:	Total net wealth of private households	62

Figure 24:	Development of total birth rate from 1990 to 2013, old and new federal states	64
Figure 25:	Family forms in the new and old federal states in 2013	65
Figure 26:	Children under the age of three in day care facilities in western and eastern Germany as a percentage of all children of the same age from 2008 to 2014	65
Figure 27:	Child care quota, child care requirements and difference between child care requirements and child care quota for children under the age of three in western and eastern Germany from 2012 to 2014	66
Figure 28:	Solidarity Pact II	68
Figure 29:	Past and future population development of the districts	71
Figure 30:	Life expectancy on birth in Germany (average life expectancy on birth)	72
Figure 31:	Domestic and external migration percentages according to federal states in 2013	73
Figure 32:	Financial aid from the Federal Government for urban reconstruction and development from 1990 to 2014	75
Figure 33:	Development in the new let and re-let rents for residential housing 2009 to 2014 p.a.	77
Table 1:	Districts with high/low per capita gross domestic product (2012)	29
Table 2:	Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act	58

Notes on the delineations used

New federal states:	Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt, Thuringia
Eastern Germany:	New federal states and Berlin
Old federal states:	Baden-Württemberg, Bavaria, Bremen, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Saarland, Schleswig-Holstein
Western Germany/western federal states:	Old federal states excluding Berlin

Whenever deviations had to be made from these, it has been noted.

Part A

1. Historical overview: from the fall of the Berlin Wall to reunification

Liberated – divided – united

The German Democratic Republic joined the territory governed by the Basic Law of the Federal Republic of Germany on 3 October 1990. The unification with the Federal Republic had been preceded by a sovereign resolution of the first freely elected GDR People's Chamber on 23 August 1990. With the consent of the United States of America, the United Kingdom, France and the then Soviet Union – the victorious powers which had held responsibility for the whole of Germany and Berlin since 1945 – the division of Germany had also been brought to a conclusion under international law: the Two-Plus-Four Treaty bestowed full sovereignty over the internal and external affairs of a united Germany 45 years after its defeat in the Second World War and its liberation from National Socialist tyranny. The overwhelming majority of Germans from East and West wanted reunification and celebrated their regained state unity on 3 October 1990.

The Peaceful Revolution and the issue of reunification

Reunification was sparked by the Peaceful Revolution in the GDR in the autumn of 1989.¹ The demand for political changes and the peaceful mass demonstrations of the GDR's citizens against the power monopoly of the Socialist Unity Party of Germany (SED) shook the very foundations of the regime. After Erich Honecker was replaced on 18 October 1989, the attempts of his successor, Egon Krenz as General Secretary of the SED's Central Committee, at stabilising and therefore rescuing the state party's hegemony failed. Added to this was the fact that in view of the events taking place in the GDR, the Federal Government began to support the systemic transformation and pressure for change. Up to this point in time all Federal Governments had supported a

“transformation of the other side by cooperation” (Willy Brandt) since the start of détente policy.

In return for the immediate financial aid of ten billion German marks and further annual support payments of two billion German marks starting in 1991 requested by the GDR leadership under Egon Krenz on 6 November 1989, Federal Chancellor Kohl called for fundamental reforms in the GDR, including in particular relinquishing the SED's power monopoly, admitting free parties and conducting free elections. These were the very same demands made by the demonstrators on the streets of the GDR. Finally, on the evening of 9 November 1989, following Günter Schabovsk's historic press conference on the same day, the Berlin Wall fell in the face of the courageous pressure from the citizens of the GDR. This was the finest hour in Germany's history which accelerated the collapse of the SED dictatorship and engendered decisive steps towards democratisation.

With the opening of the border, the question of the future relationship between the two German states increasingly called for answers. On 28 November 1989, Federal Chancellor Helmut Kohl presented his ideas on the further political process to the German Bundestag in a Ten-Point Programme for Overcoming the Division of Germany and Europe². Reunification was now on the national and international agenda. Although the Federal Chancellor wrote and published the Ten-Point Programme without consulting his western partners and was therefore ready to accept any associated annoyance on their part, as the EC summit in Strasbourg on 8/9 December 1989 showed, US President Bush did signalise his support on the proviso that a reunited Germany would not question its outer borders and would integrate into the western alliance.

During a press conference on 29 November 1989, 31 GDR intellectuals presented their Call to Our Country (*Aufruf für unser Land*)³, which advocated the continued independence

1 An assessment of the Peaceful Revolution in the GDR in 1989 is provided in Part A of the Annual Report of the Federal Government on the Status of Germany Unity in 2014.

2 The Ten-Point Programme contained (1) emergency measures, (2) the continuation of the economic, technological and cultural cooperation, (3) a comprehensive expansion of assistance from the Federal Republic if the GDR made a binding decision in favour of a fundamental change to the political and economic system and put it irrevocably into practice, (4) the “contractual association” (Vertragsgemeinschaft) addressed by Hans Modrov in his government speech on 17 November 1989, (5) beyond this, “confederative structures between the two states in Germany” with the “objective of creating a federal state system in Germany”, (6) the further development of East-West relations, (7) the continuation of European unity and its extension to the former Communist states of central and south-eastern Europe, (8) the further development of the CSECE process, (9) “extensive and rapid steps in the fields of disarmament and armament control”, (10) working towards a “state of peace in Europe” in which Germany “can regain its unification.” See <http://webarchiv.bundestag.de/archive/2009/0109/geschichte/parlhist/dokumente/dok09.html>.

3 The initial signatories to the call were as follows: Götz Berger, lawyer; Wolfgang Berghofer, local politician; Frank Beyer, director; Volker Braun, author; Reinhard Brühl, military historian; Tamara Danz, rock singer; Christoph Demke, Bishop; Siegrid England, teacher; Bernd Gehrke, economist; Sighard Gille, painter; Stefan Heym, author; Uwe Jahn, chief designer; Gerda Jun, doctor/psychotherapist; Dieter Klein, political economist; Günter Krusche, general superintendent; Brigitte Lebentrau, biologist; Bernd P. Löwe, peace researcher; Thomas Montag, doctor; Andreas Pella, construction engineer; Sebastian Pflugbeil, physicist; Ulrike Poppe, housewife; Martin Schmidt, economist; Friedrich Schorlemmer, clergyman; Andree Türpe, philosopher; Jutta Wachowiak, actor; Heinz Warzecha, director general; Konrad Weiss, film-maker; Angela Wintgen, dentist; Christa Wolf, author; Ingeborg Graße, nurse. See <http://www.chronik-der-mauer.de/material/178900/aufruf-fuer-unser-land-neues-deutschland-26-november-1989>.

of the GDR. It was to remain in existence as a “socialist alternative to the Federal Republic”. Otherwise, the signatories feared that the accession to the Federal Republic of Germany would lead to a “sell-out of our material and moral values”. The call polarised the political powers in the GDR because on the one hand it had been signed by several hundred thousand advocates but on the other exercised harsh criticism. Despite this, it would probably have found even more supporters if it had not also been signed by the SED powers that be, which was seen as an attempt at instrumentalisation. At the same time the concept of reunification moved from the realm of utopia to be a real possibility.

The Ten-Point Programme presented by Federal Chancellor Helmut Kohl ranged from emergency humanitarian measures through thoughts on a “contractual association” (*Vertragsgemeinschaft*) (which was favoured by GDR head of government Hans Modrov) and the establishment of confederative structures to the objective of a de facto restoration of a common German state. During the large rally with Federal Chancellor Kohl on 19 December 1989 in front of the ruins of the Frauenkirche in Dresden, it became clear that the people had long been on the path to a reunified Germany and that both the “Call to Our Country” and the roadmap in the Ten-Point Programme had been snow-balled by the dynamics of reality. In the weeks after the fall of the Berlin Wall and later more intensely in the elections to the People’s Chamber, the slogan of “We are the people” (*Wir sind das Volk*) changed to “We are one people” (*Wir sind ein Volk*), attracting support and sympathy.

The Round Tables as precursor of democratic structures

In the course of the Peaceful Revolution, the so-called Central Round Table was established at the initiative of the citizens’ movement Democracy Now (*Demokratie Jetzt*). It met for the first time on 7 December 1989. In addition to the Initiative for Peace and Human Rights (*Initiative Frieden und Menschenrechte – FM*) that had been in existence since 1986, there were six newly founded groupings (New Forum, Democracy Now, United Left, Social Democratic Party in the GDR (SDP)⁴, Democratic Party, Green Party), which together with representatives of the SED⁵ and the four bloc parties German Christian Democratic Union (CDU), German Liberal-Democratic Party (LDPD), German National-Democratic Party (NDPD) and German Democratic Farmers Party (DBD) were involved in the Round Table. It was therefore composed equally of the representatives of the parties which were unified in the National Front but were now gradually leaving the party bloc and of representatives of the opposition parties. The Central

Round Table was convened and hosted by representatives of the churches.

Based on the model of the Central Round Table, many Round Tables were subsequently established at different state levels through to the local level, which usually worked up to the local elections on 6 May 1990. There were also Round Tables in companies and for different subjects such as environment, youth, sport, health, education and the East German Army (NVA). Their common denominator was that they were established independently of each other and acted largely autonomously. They were not incorporated in the hierarchy but merely acted at the respective administrative levels. They negotiated the composition and scope of the Round Tables themselves and were supported in some cases by Protestant theologians who had quasi-parliamentary experience from their work in the ecclesiastical synods⁶. The peaceful protest and the political will to change were put into political practice in the Round Tables. Parties, associations and interest groups were able at last to form and openly articulate their issues without impediment. A broad variety of views, wishes and hopes came together here. East Germany society proved to be extremely complex because the Round Tables reflected the broad spectrum of opinion in GDR society which was free of ideological constraints for the very first time.

Committees were established with the Round Tables which assumed the tasks of the control bodies because, unlike the constitutional bodies which continued to exist such as the People’s Chamber or the Highest Court, they enjoyed real support from the population. Above all, the respectful dialogue with each other, marked by non-violence, tolerance and responsibility and focusing on an exchange of opinions, understanding and compromise, was an important characteristic of the Round Tables, which at the same time established a new form of democratic public life.

At the highest level of state, in the period up to the People’s Chamber elections, the Central Round Table exercised great influence on the work of the Modrov government which had been in office since 13 November 1989. Even before its first meeting, deep changes in the SED state party had already been seen: on 1 December 1989, its claim to leadership was removed from the constitution and on 3 December 1989 the Politburo and the Central Committee of the SED all stood down. Egon Krenz lost his office as General Secretary of the SED, and on 6 December 1989 also his offices as Chairman of the State Council of the GDR and of the National Defence Council. All in all the Central Round Table met sixteen times and almost weekly up to its final meeting on 12 March 1990. During its first meeting on

4 Now under the altered name of SPD since 13 January 1990.

5 Renamed in December 1989 firstly to SED-PDS and then to PDS – Democratic Socialist Party on 4 February 1990.

6 Synods = councils of ecclesiastical self-administration.

7 December 1989 it decided to shut down and disarm the National Security Office (AfNS) – the SED had renamed the Ministry for State Security (MfS), its secret police, in November 1989. The Round Table also decided to hold People’s Chamber elections on 6 May 1990 and to prepare a new constitution.

The “Government of national responsibility”

In view of the crisis in the country and to stabilise the situation in the GDR in which the opposition groups with the exception of the Unified Left accepted Modrov’s offer of 15 January 1990, the participants of the Round Table decided on 28 January 1990 to participate in the “Government of national responsibility” and to each send a delegate to the Government. In this way the Government was to gain the backing of the population up to the People’s Chamber elections. During the meeting of the “old” People’s Chamber on 5 February 1990, eight members of the opposition parties and groupings of the Central Round Table were elected to the GDR government as “ministers without portfolio”⁷. Up to then it had been composed of 28 ministries by port-folio. The ministers had hitherto all belonged to the SED, which had been renamed SED-PDS in mid-December 1989, or the bloc parties CDU, LDPD, NDPD and DBD. From now on, therefore, the opposition parties sat around the governing table although the important ministries such as interior, foreign affairs, finance and justice, remained closed to them.

The government was faced with a desolate economic and political situation. On 31 October 1989 the head of the State Planning Committee, Gerhard Schürer, presented an “analysis of the economic situation of the GDR with conclusions” to a meeting of the Politburo. The analysis had been commissioned by Egon Krenz in an effort to obtain a realistic and unadorned view of the economic situation in the GDR. This document, which became known as the Schürer Paper, disclosed the GDR’s economic situation which had worsened even further since the fall of the Berlin Wall on 9 November 1989 due to massive exodus, strikes and walkouts. In January 1990 alone, 73,000 people left the GDR, corresponding to the size of a large town. During his state visit to Bonn on 13/14 February 1990 with a large delegation, Minister President Modrov presented Federal Chancellor Kohl with a position paper which had been prepared by the Central Round Table and requested an immediate “solidarity contribution” of DM 10 to 15 billion from the Federal Govern-

ment. Kohl refused this request. Instead, he made Modrov the offer to immediately commence negotiations to create a monetary, economic and social union on the condition that the GDR government was democratically legitimated.

The People’s Chamber elections of 18 March 1990

During the negotiations between the opposition groups and the government on the creation of the “Government of national responsibility”, the People’s Chamber elections proposed for 6 May 1990 by the Round Table had been brought forward to 18 March 1990, the date of the Berlin uprising in the 1848 revolution. The first and at the same time last free People’s Chamber elections signified the introduction of parliamentary democracy as the most important outcome of the Peaceful Revolution in the GDR. The population’s high expectations of these elections were reflected in the remarkable turnout of 93.4 %.

Contrary to the demoscopic forecasts, the Alliance for Germany, a merger of CDU, German Social Union (DSU) and the Democratic Party (DA), was the surprising winner with a total of 48 %. The CDU won 40.8 %, the DSU 6.3 % and the DA 0.9 % of the votes. The SPD achieved 21.9 %, the PDS 16.4 % and the liberal List Alliance 5.3 % of the votes. By contrast, representatives of the citizen’s movement such as Alliance 90 (*Bündnis 90*) (New Forum, Democracy Now and Initiative for Peace and Human Rights Initiative (IFM))⁸ and the Green Party + the Independent Women’s League (*Unabhängiger Frauenverband – UFV*) received 2.9 % and 2.0 % of the votes respectively.

The election results sealed the end of SED hegemony and made a decisive contribution to the process of unification. They were unanimously interpreted as a vote of the people in favour of rapid reunification on the basis of Article 23 of the Basic Law.

The first freely elected People’s Chamber

Under the SED dictatorship, the People’s Chamber assumed the function of a sham parliament and first became a democratically legitimised parliament by the elections of 18 March 1990. On 5 April 1990 it came together for its constitutive meeting. Within one week, the government was formed under Premier Lothar de Maizière (CDU).

7 Tatjana Böhm (Independent Women’s League), Rainer Eppelmann (Democracy Party), Sebastian Pflugbeil (New Forum), Matthias Platzbeck (Green Party), Gerd Poppe (Initiative for Peace and Human Rights), Walter Romberg (SPD), Klaus Schlüter (Green League) und Wolfgang Ullmann (Democracy Now).

See http://deutschlandreise.freiheit-und-einheit.de/Content/DE/Artikel/2014_Deutsche_Einheit/1990-02-05-acht-zusaetzliche-mitglieder-fuer-den-ministerrat.html

8 The MPs of the New Forum formed an alliance with the MPs of the Green Party in the GDR to form the Alliance 90/The Greens parliamentary party.

The government was created from a broad cross-party coalition of CDU, DA, DSU, SPD, the League of Free Democrats (*Bund Freier Demokraten*), the German Forum Party (*Deutsche Forumpartei*) and the East FDP. The accession of the GDR was agreed in the Coalition Agreement in accordance with Article 23 Basic Law. In his Government Statement on 19 April 1990, de Maizière noted: “The task given to the government by the voters demands the establishment of German unity in an undivided, peaceful Europe. This demand includes conditions regarding speed and quality. Unity must come as quickly as possible but under conditions that are as good, reasonable, and workable as necessary.”

In the only 181 days of the legislative period from 5 April 1990 to 2 October 1990 the members of the 10th People’s Chamber got through a sheer incredible amount of work. All in all, the People’s Chamber met for 38 sessions which were almost all broadcast on television and radio. Parliament adopted over 150 bills and passed around 100 resolutions. It internally created the foundation for a democratic constitutional state based on free market principles. These included the constitutional principles of the GDR adopted on 17 June 1990 through which the socialistic elements of the old GDR constitution were quashed, the Federal State Establishment Act of 22 July 1990 which came into force with the Unification Treaty, the Act on the Municipal Self-Administration of the Local Authorities and Districts (municipal constitution) of 17 May 1990, the Trusteeship Act of 17 June 1990, the Municipal Wealth Act of 6 July 1990, the Act on the Settlement of Unresolved Property Issues of 23 September 1990, the Act on the Securing and Use of Personal Data of the Former Ministry of State Security/ National Security Office of 24 August 1990 and the Rehabilitation Act of 6 September 1990 which regulated the rehabilitation of political prisoners.

Externally, the People’s Chamber courted the trust of the neighbouring countries of the GDR by acknowledging co-responsibility for the extermination of the Jews, the suffering caused to people in the Soviet Union in the Second World War and the complicity of the GDR in the suppression of the Prague Spring in 1968 by troops of the Warsaw Pact and emphasised the inviolability of the Oder-Neisse line in its joint declaration of 12 April 1990 “on behalf of the citizens of this country”. The parliamentarians therefore also broke with the antifascist myth surrounding the foundation of the GDR that essentially reflected the Communist assertion that the GDR as an anti-fascist state was free of any historical guilt for Nazi crimes per se. Finally, the People’s Chamber prepared for accession to the Federal Republic by adopting the Act on the Treaty between the GDR and the Federal Republic of Germany on the Creation of a Monetary, Economic and Social Union on 21 June 1990 and the Act on the Treaty between the GDR and the Federal Republic of Germany on the Creation of German Unification on 20 September 1990.

The decisions of the People’s Chamber had far-reaching effects, incalculable in part, some of which will be considered later by way of example.

International embedding of reunification

From the outset, the negotiations which finally led to reunification were subject to enormous practical constraints and pressures of time. The consent of all four victorious powers who had assumed the rights and responsibilities for the whole of Germany at the end of the War was essential for unification. For the first time in decades there were signs that the Soviet Union could also agree to a reunification of Germany and the incorporation of the Federal Republic into the European Community and NATO. However, it was completely uncertain how long the window for a political agreement would stay open. It was therefore important to use the favourable international constellation and to avoid doing anything which would have delayed the unification of the two German states.

Therefore negotiations were taking place constantly at an international level parallel to those between the Federal Republic and the GDR. On 10 February 1990, only a few days before Modrov’s visit to Bonn, Federal Chancellor Kohl met the General Secretary of the Communist Party of the Soviet Union, Michail S. Gorbachev, in Moscow. The meeting resulted in an understanding on the unification of Germany even if the future involvement of Germany in the alliance remained open. Gorbachev also agreed to meetings in the so-called two-plus-four format which had already been agreed by the two German states with the western allies at that time in order to talk about the conditions of German unity including the security of the neighbouring states. In four rounds of negotiation, agreement between the six states was finally achieved. During a ground-breaking meeting in Camp David on 24 and 25 February 1990, US President Bush and Federal Chancellor Kohl agreed that German unity should be advanced as quickly as possible whilst simultaneously aspiring to the full membership of a unified Germany in NATO.

In view of the clear result of the People’s Chamber elections on 18 March 1990, first the British and then the French government shortly afterwards relinquished their reservations about unification on 13 and 19 April 1990 respectively. From this point in time, all three western powers were willing to relinquish their rights and responsibilities for Berlin and to bestow full sovereignty on a unified Germany. The European Community also advocated German unification. During the meeting of the European Council on 28 April 1990, the heads of state and government welcomed the intended unification and declared their will to incorporate the territory of the GDR into the Community smoothly and harmoniously.

The question of future membership in the alliance proved to be the decisive negotiation issue. The simultaneous membership in the Warsaw Pact and NATO suggested by President Gorbachev initially overshadowed the two-plus-four talks between the two German states and the four former allies of the Second World War. The break-through came in Washington on 31 May 1990 when the Soviet President surprisingly abandoned his resistance to an all-German membership of NATO.⁹ On 6 July 1990, the participating heads of state and government then released the London Declaration On A Transformed North Atlantic Alliance during a meeting of the North Atlantic Council in London.¹⁰ They affirmed that the West would “never in any circumstance” be the first to use military force and that NATO strategy would be examined to consider the use of nuclear weapons only as a last resort. Finally, both military alliances should provide mutual non-attack declarations. The West had therefore done much to accommodate the Soviet Union. A number of fundamental agreements could be made during a meeting between Federal Chancellor Kohl and President Gorbachev in the Caucasus on 16 July 1990, such as the withdrawal of Soviet troops from the unified Germany, the stationing of German units on GDR territory and the ceiling for the all-German armed forces.¹¹ The Soviet troops which had been stationed in the GDR, totalling some 340,000 soldiers and officers, were to have withdrawn by 1994, for example.

The Unification Treaty

The process of unification between the GDR and the Federal Republic gathered further momentum following the successful German-Soviet summit meeting in the Caucasus. A few days after monetary, economic and social union came into force, inner-German negotiations on a unification treaty were commenced on 6 July 1990. Since two-thirds majorities were required to adopt the treaty in the People’s Chamber and in the Bundestag and Bundesrat, the West German federal states had to be incorporated in the negotiations. Important negotiation points were the constitutional form of unification, the continued existence of GDR law in part, the reorganisation of administration and educational institutions on GDR territory and the handling of the legacy left by GDR state security.

Following a turbulent meeting during the night of 23 August 1990, the People’s Chamber cleared the way with a majority of 80 % of votes cast. Of the 363 representatives present, 294 voted for the accession of the GDR to the territory governed by the Basic Law of the Federal Republic of Germany; 62 voted against and there were 7 abstentions. The Unification Treaty could therefore be signed on 31 August 1990. On some 1000 pages, it regulated the accession of the GDR and contained the necessary amendments of the law including the changes to be made to the Basic Law as a result of the accession and the legal approximation and reorganisation of public administration and public wealth.¹² Particularly in view of the short period available for preparation and negotiation, the Treaty was a great political and administrative achievement which would not have been possible without an enormous effort on the part of all involved. On 20/21 September 1990, the German Bundestag and the People’s Chamber of the GDR adopted the Treaty.

With the Unification Treaty, the Federal State Establishment Act adopted by the People’s Chamber on 22 July 1990 became effective so that the federal states of Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia took the place of the 14 GDR districts. They had been formed after the end of the war in the Soviet occupation zone but replaced in the GDR in 1952 by a so-called Democratisation Act. On the accession coming into force, they were to become federal states of the Federal Republic of Germany and part of the European Community, and the 23 districts of the Berlin at that time were to form the federal state of Berlin. Berlin was chosen as Germany’s capital. It was decided to make 3 October the Day of German Unity and a public holiday.

Likewise, the reunification was agreed in a binding manner under international law in September. The Foreign Secretary of the Federal Republic of Germany, Hans-Dietrich Genscher, and GDR Premier Lothar de Maizière, together with the four victorious powers, signed the Treaty on the Final Settlement with Respect to Germany (Two-Plus-Four Treaty), in Moscow on 12 September 1990 which prepared the path for German unity and the unrestricted sovereignty of a reunified Germany. It came into force on 15 March 1991 after ratification by the six parliaments of the six signatory states; the Four Powers had already suspended their rights and responsibilities with respect to Germany on 3 October 1990.

9 Andreas Rödder, *Deutschland einig Vaterland. Die Geschichte der Wiedervereinigung*, Munich 2009, p. 249.

10 http://www.nato.diplo.de/contentblob/1940774/Daten/189388/1990_07_London_DownlDat.pdf.

11 Rödder, *Wiedervereinigung*, p. 259.

12 <http://www.bpb.de/nachschlagen/gesetze/einigungsvertrag/>.

The recognition of the Oder-Neisse line anchored in the Two-Plus-Four Treaty was endorsed under international law in the bilateral German-Polish Border Treaty of 14 November 1990 which came into force on 16 January 1992.

Germany's unification was facilitated by the consent and support of all of its partners and neighbours in West and East alike. Only one year before, almost no one would have dared dream that this could be possible. The division of Germany and Europe ended with German reunification on 3 October 1990.

2. Selected decisions during the reunification and transformation process from a current perspective

As time progresses the Peaceful Revolution in the GDR and reunification almost seem to have been inevitable. But on closer consideration, it becomes clear that the historical situation at that time was open. The politicians had to make responsible decisions under an enormous pressure of time on an almost daily basis. A quarter of a century after reunification it is similarly clear that many of these decisions had consequences which are the subject of controversial discussion in politics and society through to this very day. The following important factors will be examined more closely: the monetary, economic and social union, the disbandment of the State Security Service (Stasi) and the securing of its documents, the debate on the possibility of reunification by accession or by a constitutive national assembly and the regulation of the unresolved property issues following the principle of "restitution before compensation".

Monetary, economic and social union

The so-called Schürer Paper (see above) laid open the desolate economic and financial situation in the GDR at the end of October 1989. The analysis result was therefore in contradiction to the constantly underlined supposed high economic strength of the GDR, the myth of the tenth largest industrial nation in the world. In practice, the Socialist planned economy had proven to be inefficient. Shortages and waste were the dominant characteristics of an economy without competition and free pricing. Only few products could compete on the international markets. The capital stock was antiquated and worn out, the state and administrative apparatus over-dimensioned and an efficient small and medium-sized sector no longer existed. There was also a concealed level of unemployment with more people in employment than there was work. Not least, a desolate infra-

structure that had been neglected for years impeded economic development and, combined with the obsolete capital stock, was causing serious damage to the environment.

Responsible for the disastrous economic situation was the planned economy and its controllers – the Socialist political elite in the GDR and in the Council for Mutual Economic Aid under the leadership of the Soviet Union. In an effort to counteract the growing divide in the standard of living compared to the Federal Republic, the GDR regime had since the beginning of the seventies increasingly favoured improving the supply to the population to the detriment of investment in industry as part of the guidelines on Unity of Economy and Social Policy. This accelerated the deterioration of the capital stock and the productivity shortcomings. Even by the second half of the seventies, the GDR's dependence on the Soviet Union for basic commodities and materials was exacerbating the poor supply situation in the GDR because payment was made not in cash but through the export of goods. This drew a large share of finished and consumer goods from the GDR domestic market and caused great dissatisfaction amongst the population.

The decade-long incorporation into this system and the associated orientation of economic decisions to central government requirements instead of to prices on the world market led not only to a modernisation deficit in capital stock. It also meant that people in the GDR were hardly able to use their talents and skills or their education and expertise to develop internationally competitive products in the industrial sector. They were successful in producing high quality consumer goods in some cases, such as refrigerators, washing machines and vacuum cleaners, which were exported to the West to obtain urgently needed currency. All in all, however, the low productivity and the absence of competitive products with which wages could be generated to motivate the people to stay after 1989 proved to be one of the decisive liabilities in privatising the GDR economy and in the rebuilding of the East.

A further starting factor was also of central importance for the development of the eastern federal states and the fundamental decisions taken in 1990 for their economic and social renewal: unlike all other states in central and eastern Europe, all citizens of the GDR who were at the same time citizens of the Federal Republic were not only able to move about freely after the fall of the Berlin Wall, they also had the opportunity to work in the west and to live there. Therefore, if qualified workers were to be kept in the new federal states and the east rebuilt, it was essential to close the wage gap between the western and eastern parts of Germany.¹³ The increasing departures (legal exits and in particular buying out and failure to return from approved

13 See Karl-Heinz Paqué (2009) Die Bilanz. Eine wirtschaftliche Analyse der Deutschen Einheit.

travel abroad) to the Federal Republic in the eighties and the associated loss of well-trained citizens clearly revealed the increasing dissatisfaction with the material shortages and the dominating state control of their individual plans for life. It was not therefore surprising that a continuous flow of resettlers commenced on the fall of the Berlin Wall. Every day, two to three thousand people left the GDR in a westerly direction.

The Federal Government therefore made the GDR government the offer of monetary, economic and social union on 13 February, not least so as to give people in the GDR an economic perspective and to stop the migration. On 24 April, five days after the declaration of Lothar de Maizière's new government, both sides set out the road plan for this union. By the time of the first free local elections in the GDR on 6 May¹⁴ the citizens were to be able to approximately see what the future held for them. In order to secure the basic funding of the eastern German local authorities, the German Unity Fund was already set up in May with a volume of DM 115 billion which was then increased to DM 146 billion in August 1990 as part of the Unification Treaty negotiations. The State Treaty on the Creation of a Monetary, Economic and Social Union which was to bring about a radical change from the Socialist planned economy to a social market economy was signed on 18 May and came into force on 1 July 1990.

Monetary union

The decision in favour of monetary union was preceded by a broad and controversial debate on its pros and cons. Some economists along with the German Council of Economic Experts were against it. In an expert opinion of 20 January 1990, the latter proposed keeping the mark, setting up a central GDR bank and tying the mark to the D-mark as lead currency, expecting to strengthen the GDR economy as a result of the favourable exchange rate and to facilitate restructuring.

The main arguments against rapid monetary union were that the external value of the currency could then no longer be controlled by the GDR, that a high level of wages would result from an exchange rate of 1:1, competitiveness would be lost quickly as a consequence and thus production in the GDR would slump on a massive scale. Other economists,

however, above all the Scientific Advisory Board at the Federal Ministry for Economics, spoke out in favour of monetary union as a basic condition for economic renewal and emphasised the absolute necessity to offer the citizens of the GDR a clear monetary perspective for all future economic decisions. After intensive and controversial debate, primarily on monetary union, the two German states finally agreed to convert all ongoing payments such as wages, salaries, pensions and rents at a rate of 1:1 and all savings and debts depending on amount, type and date of origin at a rate of 1:1, 2:1 or 3:1¹⁵.

The implementation of monetary union enabled the initial discussion on the distribution effects of currency conversion and the initial concerns about monetary stability to be quickly pacified and dispelled. However, in economic respect it was associated with a serious adjustment crisis: it was usually impossible for the businesses in eastern Germany to drastically increase their competitiveness within only a few months whilst simultaneously holding their position on the old markets and even developing new ones. In view of the fact that its products were no longer in demand, the East German economy finally collapsed, followed by a massive wave of redundancies. This enormous upheaval was cushioned by the stabilising effects of labour market policy measures and transfer payments (including job-creating measures, unemployment benefit, pension payments and welfare assistance). Nevertheless, this period of change was a traumatic experience for many East Germans.

Economic union

Economic union laid the legal foundation for the social market economy. The provisions of the Treaty determined that the social market economy was the common foundation for economic union (Art. 1 (3)) and that the GDR would create the framework conditions for the development of market forces and private initiative (Art. 11 (2)). The GDR adopted all important laws which characterise the economic order of the Federal Republic of Germany or undertook to introduce them whilst simultaneously abolishing all contrary legal provisions. The determining elements of any free market economy – private ownership, effective competition, free pricing, freedom of contract, freedom of trade and right of establishment, and in principle free movement of labour, capital and services – became the

14 There was a 73% turnout for the local elections. The clear winner in these elections too was the CDU with 34.3%, which however represented a loss of over six percentage points throughout the GDR compared to the elections to the People's Chamber. On the whole, all large parties lost whilst the small ones were able to gain votes.

15 The exchange rate was graduated and varied depending on age and circumstances. For example, citizens of 60 and over were allowed to exchange up to 6,000, adults up to 4,000 and children under 14 up to 2000 GDR marks at a rate of 1:1. Any savings above that were exchanged at a rate of 2:1 and debts were similarly halved. Wages, salaries, grants, pensions, rents and leases as well as other recurrent payments were converted at a rate of 1:1. The monies of people and companies whose domicile was not the GDR were exchanged at a rate of 3:1.

basic economic principles in eastern Germany on 1 July 1990. Further details were provided in the headnote protocol¹⁶ to the Treaty. The adoption of the guidelines set out therein rejected any endeavours to combine free market economy elements with those of a planned economy.

Social union

The social market economy combines freedom on the markets with social policy aspects. Economic efficiency and social security are interdependent. Prosperity and social security are predicated on a successful economy. Monetary, economic and social union therefore created a unit. Accordingly, social union in the Treaty meant the unification of the social standards in eastern and western Germany on the basis of the labour and social law order of the Federal Republic of Germany. The Treaty initiated the gradual transfer of the federal social security system to the territory of the GDR on the basis of wage and salary conversion from GDR marks to DM at a rate of 1:1. This was associated with the restructuring of the GDR's social security system according to the West German model. The aim, as set out in the Treaty, was to integrate the principles of equal opportunities and social equity into the social security system. In addition to the new rules in employment law, the GDR's standard social insurance was also divided into pension, health, unemployment and accident insurance, the institutions of which are self-regulatory bodies under public law which are subject to the legal supervision of the state.

The Act Extending the Pension Legislation to the Acceding Territories (RÜG) of 25 July 1991 played an outstanding role in the social union context. As of 1 January 1992, the pension law of the Social Code Volume VI was transferred to the new federal states, thereby introducing the system of contribution and wage-related pensions. Special features of GDR law which were not compatible with the fundamental principles of statutory pension insurance were continued up to 1996 as part of generous ownership and legitimate expectations protection regulations.

The Treaty also created the constitutive framework under employment law for a social market economy. This signified freedom of contact, freedom to exercise a profession and the freedom to enter into associations to preserve and promote work and economic conditions. Wages and other conditions of work were no longer to be determined by the state but by free agreements between the parties to collectively bargained agreements. The framework which had proven successful in western Germany for the development of private initiative, the restructuring of the economy and

social security was now available. The Treaty also stipulated the adoption of West German environmental law, thereby creating the basis for the ecological rehabilitation of the GDR. The foundations for West and East to grow together economically and socially had thus been laid.

Conclusion

The economic upheaval at the beginning of the nineties demanded huge adjustments on the part of many East Germans. Many had to leave their job and professional direction to do something completely different. They took personal risks. They assumed responsibility as entrepreneurs and employees in science or politics.

In many cases, however, the great expectations placed on economic, monetary and social union were initially not satisfied. With the rapid onset of mass unemployment at the beginning of the nineties, many men and women lost their jobs. The extensive use of instruments of employment policy and the social support with transfer payments were unable to prevent deep disappointment and embitterment in many cases.

There have been discussions time and time again about whether the extent of the adjustment crisis could have been prevented by taking a different path. This appears improbable from today's perspective. In many areas, the economy in eastern Germany was simply not competitive not only for reasons of cost. The consumers viewed the GDR products to be inferior and wanted to buy western products instead of those from the GDR. The former sales markets in Eastern Europe broke off as a result of the new economic orientation in these countries. An exchange rate which would have kept the East-West relationship of industrial wages at the level of around one third existing at the beginning of 1990 for a lengthy period of time would have led to a further swelling of the flow of resettlers and a massive migration of skilled labour. "If we get the deutschmark, we will stay; if we don't, we will go to it!" was the motto of many East German demonstrators.

The monetary, economic and social union laid the foundation for the development of the social market economy in the new federal states. This not only paved the way for German unity, but also made room for hope and trust in an economic renewal in the foreseeable future and therefore the hope that it was worth staying. Today, we can say that this hope and trust have proven to be justified.

16 <http://www.gesetze-im-internet.de/wvsuvtr/BjNR205370990BjNE004900301.html>.

The disbandment of the State Security Service (Stasi) and the securing of its documents

The Ministry of State Security (MfS) – popularly known as the Stasi – maintained a gigantic surveillance apparatus, last with some 90,000¹⁷ full time and around 180,000¹⁸ “undercover collaborators” at the end. In view of its responsibility for pursuing political opponents, the Stasi was a political secret police which operated its own detention centres. From 1945 to 1990, between 170,000 and 280,000¹⁹ East Germans were imprisoned for political reasons. Since the Stasi also closely observed all social and private areas through the use of undercover collaborators and therefore seeded mistrust and poisoned the social climate, the disbandment of the odious Stasi had been a central demand of the demonstrators. Slogans such as “Stasi Go To Work” or “Stasi Take Your Turn In The Factories” appeared on banners.

Even under Hans Modrov’s new government the Stasi was to continue to exist under a different name. In his policy statement on 17 November 1989, Modrov announced the creation of a National Security Office (AfNS) instead of the MfS, but opposition and population correctly saw this as pretence. This is why the negotiations of the opposition groups with the GDR government about disbanding the AfNS were so difficult. At the end of November 1989 the AfNS had already started to destroy or move the extensive Stasi files. On 4 December 1989, angered citizens occupied several district offices of the AfNS to stop the destruction of controversial documents. Just how many files were moved out of the country and destroyed in this period is unknown to this very day and will no longer be discovered. The by far greatest share of the files and documents could be rescued from destruction, however.

Nevertheless, the Modrov government²⁰ decided on 14 December 1989 to set up an intelligence agency and used the incident on the night of 27 to 28 December 1989 to justify its existence by the threat from the extreme right: in Treptower Park, parts of the Soviet war monument in memory of the Red Army soldiers killed in the battle for Berlin in 1945 had been besmeared with slogans from the political far right. A memo written by the National Security Office on 2 January 1990 attributed the act to the Young National Democrats (JN) of the Federal Republic but the GDR security authorities were unable to identify the perpetrators.

The situation came to a head in January 1990. The continuing refusal to bring about a rapid disbandment of the National Security Office led to the opposition issuing the ultimatum at the Central Round Table to monitor the bodies responsible for disbanding the National Security Office more effectively. During a demonstration before the headquarters of the former Ministry of State Security in Normannenstraße on 15 January 1990 called by the New Forum, the building complex was stormed under circumstances which are still unclear even today. The SED-PDS-led government finally relented and announced that it would not be setting up a new secret service. The control over the disbandment of the Stasi was finally facilitated by the installation of four government representatives. Three were appointed by the Round Table and one by the Modrov government. The underlying structures of the surveillance apparatus had thus been successfully broken up. Under the government led by Lothar de Maizière, the GDR Council of Ministers transferred responsibility for the further disbandment of the Stasi to the Ministry for the Interior und Peter-Michael Diestel on 16 May 1990. The People’s Chamber also created a committee for parliamentary control over the final disbandment of the National Security Office. Today’s Federal President Joachim Gauck was elected to chair the committee on 7 June 1990.

However, after rescuing the files from destruction and the decision to wind up the National Security Office, it continued to be unclear how to deal with the Stasi legacies. On 24 August 1990, the People’s Chamber therefore adopted the “Act on Securing and Using the Personal Data of the Former Ministry of State Security” which was intended to regulate the handling of Stasi files.

After the failure of the Unification Treaty to initially provide for a regulation here, and following protests from the People’s Chamber and a hunger strike by DDR civil rights campaigners who occupied the building in Normannenstraße once again, an additional clause was incorporated in the Unification Treaty on 18 September 1990 which facilitated the adoption of the Stasi Files Act in 1991. The files were handed over to the Federal Commissioner for the Files of the State Security Service of the Former German Democratic Republic (BStU) for archiving, development and provision to persons concerned, the public and for scientific research.

17 Jens Gieseke, Die hauptamtlichen Mitarbeiter des Ministeriums für Staatssicherheit (MfS-Handbuch), published by BStU Berlin, 1996, <http://www.nbn-resolving.org/urn:nbn:de:0292-97839421302572>.

18 BStU http://www.bstu.bund.de/DE/BundesbeauftragterUndBehoerde/Aktuelles/20140623_im-zahlen_inoffizielle-mitarbeiter_forschung.html.

19 The estimates here differ greatly depending on definition – the above figures are from Jens Gieseke 2009, see Jens Gieseke: Deutsche Demokratische Republik. In Lukasz Kaminski/Krzysztof Persak/Jens Gieseke (editor): Handbuch der kommunistischen Geheimdienste in Osteuropa 1944–1991 – Analysen und Dokumente. Wissenschaftliche Reihe der BStU Volume 33, Göttingen 2009, p. 199–264, here p. 248.

20 The Modrov government was in office from 13 November 1989 to 18 March 1990.

Reunification by accession or by a constitutive national assembly?

On 4 April 1990 a working group of the Round Table delivered a draft constitution it had prepared for the newly elected People's Chamber. After the election results of the first free elections to the People's Chamber on 18 March 1990 had been understood as a clear vote in favour of rapid reunification, it was no longer dealt with.

The electoral Alliance for Germany (*Allianz für Deutschland*) had already announced in February 1990 together with the national CDU that, if it won the election, it would aspire to reunification by way of accession in accordance with Article 23 Basic Law²¹. Large parts of the GDR civil rights and opposition movement alongside the West German Left Party, the Greens and many social democrats campaigned for reunification in accordance with Article 146 Basic Law²², i.e. the replacement of the Basic Law by a new constitution by referendum.

Under constitutional law, both paths could have been taken in principle. Since the path via a new constitution would have been more complicated and time-consuming, this solution was given only little chances of realisation from the very beginning. In view of the turbulent concomitant circumstances and the foreign policy situation, the decision-makers had only a small time window in which to successfully conduct the process of unification so that there was little room for public debate. What is more, the Basic Law in the Federal Republic had long lost its initial temporary nature and enjoyed high regard amongst the population as a symbol of a stable free democratic basic order. Ultimately, the majority vote of the GDR population in the elections to the People's Chamber in March 1990, the commitment of the government under Lothar de Maizière to the rapid achievement of German unity on the foundation of Article 23 Basic Law and the quickly agreed monetary, economic and social union spoke in favour of this path and against taking the path of a new constitution. Accession via Article 23 Basic Law and not Article 146 Basic Law was therefore chosen for good reason.

However, as provided for in Art. 5 of the Unification Treaty, Bundestag and Bundesrat installed a Joint Constitutional Commission a good year after reunification in November 1991. Its instructions were to examine the Basic Law for possible amendments or supplements and to make corresponding proposals, particularly with respect to the distri-

bution of competencies between the Federal Government and the federal states in legislation, a possible unification of the federal states of Berlin and Brandenburg, changes with respect to the European process of unification, further constitutional goals in the Basic Law and the question of an all-German referendum on a new constitution. The outcome was merely a strengthening of federalism and further unavoidable changes. Further reaching proposals, such as the adoption of social state goals in the Basic Law or the introduction of plebiscitary elements, were preponderantly rejected.²³ There was no fundamental constitutional reform.

Regulation of unresolved property issues

The unresolved property issues and the principle of "restitution before compensation" are some of the most difficult and politically contentious subjects of the Unification Treaty. The issue was essentially the reparation for the injustices of the Nazi reign of terror and the SED dictatorship on German soil. Firstly, there were the injustices committed by the Nazis which had not been compensated in the GDR with a few exceptions. Secondly, there was damage which had been caused to West Germans who had property in the territory of the GDR by the division of the country alongside injustices suffered by GDR citizens who had fled to the Federal Republic.

At the same time it was important to restore decentralised property structures which complied with the principles of the market economy in the new federal states. However, the writers of the Unification Treaty also had to consider that the law had developed differently over almost 45 years and for many reasons could not simply be "rolled back". Socially acceptable solutions had to be found.

Reparation for expropriations

The parameters for the reparation of expropriations were already set by the joint policy statement of both German states on 15 June 1990.

It set out basic solutions for conflicts of interest between the protection of vested rights of the owners and users in East Germany and also the public-law legal successors to property of the people on the one side (local authorities, federal states, government) and the interests of the damaged parties in restitution (interest in return of property)

21 Article 23 Basic Law in the version applicable up to 29.09.1990: "This Basic Law shall apply initially in the territory of the federal states of Baden, Bavaria, Bremen, Greater-Berlin, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Schleswig-Holstein, Württemberg-Baden and Württemberg-Hohenzollern. In all other parts of Germany it is to apply following their accession."

22 Article 146 Basic Law old version read as follows: "This Basic Law shall no longer apply on the day on which a constitution comes into force which has been freely decided by the German people."

23 See Fischer, Peter: Reform statt Revolution. Die Gemeinsame Verfassungskommission von Bundestag und Bundesrat. Munich 1995, p. 111–127.

on the other. This was to be achieved in particular by restricting the principle of restitution (principle of return) by the protection of bonafide buyers and specific public interests. It was also determined that the expropriations made in the period between 1945 and 1949 on the basis of occupation law could no longer be reversed. The joint policy statement then became part of the Unification Treaty.

It was clear from the outset that a policy which had been directed against private ownership for over 45 years could not be totally reversed by the Act on the Regulation of Unresolved Property Issues which had come into force in the GDR shortly before accession and then incorporated in the Unification Treaty. The matter essentially referred to making amends for the injustice caused by the division of Germany to owners who had also always lived outside the GDR as well as refugees and resettlers and the victims of compulsory resettlement. However, it also concerned the former owners of rental properties who were forced to give up their properties for financial reasons due to the deliberate state policy of financially burdening the properties for which the owners were later responsible, as well as the victims of the last major nationalisation activities in the corporate area in 1972 which were directed at the many small and medium-sized enterprises still in existence in the GDR at that time, and the East German citizens who were the victims of unfair machinations and who had been forced to relinquish their property in connection with the granting of exit permits, for example.

The Property Act continues to exist as federal law and even today provides the basis for the restitution of expropriated property. In an effort to return to legal certainty as soon as possible and to obtain clarity as to the extent of the restitution claims, the registration of claims under property law was restricted to 31 December 1992 and for movable property to 30 June 1993.

The restitution is made by returning the value of the expropriated property where this is still actually and legally possible. The Property Act specifically determines cases in which a return is to be ruled out to protect private or public interests and thus breaches the principle of “restitution before compensation“. The confidence of East Germans in their continued rights which they acquired according to the rules which applied to all in the GDR was therefore protected. This protection of East Germans was guided by the legislative intent to create a contractual equilibrium between the former owners and the buyers of assets in the GDR.

If the return of an asset is impossible for the above reasons, there is a claim to compensation, in which case the old

owner receives monetary compensation by way of restitution. However, the amount of the compensation is below the market value. This is firstly justified by fiscal reasons and secondly because it is a restitution payment: in such cases it is not a matter to compensate pecuniary damage but primarily to recognise an injustice. The amount of compensation for all parties concerned is regulated in the Indemnification and Compensation Act which came into force in 1994.

There have been numerous cases in which property has not been returned in the late application of the Act by the authorities for the above reasons, which has meant that the originally pursued principle of “restitution before compensation” has not been broadly practised. According to the statistics of the Federal Office for Central Services and Unresolved Property Issues (BADV), of the some 2.3 million registered claims for parcels of land, only some 25 % had been returned by the end of 2014²⁴.

The registration of claims to reassignment has led to a situation in which the properties concerned have been removed from the property market and have no longer been available in the new federal states for urgently needed investments. For conflicts of this nature, an investment primacy solution was decided in the Act on the Elimination of Impediments in the Privatisation of Companies and for the Promotion of Investments of 22 March 1991 according to the principle of “investment before return”. A comprehensive solution was then created with the Investment Primacy Act which came into force on 14 July 1992, permitting a far-reaching deviation from the principle of “restitution before compensation” if jobs or living space had been secured or created or for infrastructure measures. If the property was provided for such projects within the scope of investment primacy, the parties entitled to reassignment were entitled to the proceeds or market value in these cases.

Situation regarding ownership and use of property²⁵

In addition to the endeavour to make amends for non-constitutional expropriations, the legislator was also faced with the task of transferring the ownership and use of property in the territory of accession to the system of civil law. During the years of division, property law in the GDR had greatly distanced itself from the property law²⁶ set out in the Civil Code (BGB) of the Federal Republic. Here too, it was primarily necessary to find a socially compatible balance of interests between the owners and the users of the properties. As far as residential homes on third-party land was concerned, independent building ownership had

24 www.badv.bund.de/DE/OffeneVermoegensfragen/Statistik/start.html.

25 In legal terms, ownership is a matter of property law and use refers to rights under the law of obligations.

26 Property law describes an area of the law which regulates the legal relationships pertaining to property. Property includes movable objects and land.

arisen in many cases separate from the land ownership. The GDR authorities had frequently permitted de facto building on third-party plots of land without concerning themselves with the necessity to adequately secure these rights of use. The legal uncertainty of the land users was initially eliminated by transitional provisions (moratorium regulations) in the Introductory Act to the German Civil Code (EGBGB). The Act to Update Regulations concerning Physical Property which was adopted only on 21 September 1994, provided the legal instrument to unify land and building ownership: the user may demand from the land owner that he purchases the land at half of the market value or alternatively the creation of a hereditary building right at half of the usual ground rent (splitting principle).

Recreational property and garages

The legislator was also faced with enormous challenges in the transfer of contractual rights of use to land to the new legal system of the German Civil Code. Here, too, transitional provisions existed to protect landed property users. This area referred primarily to the many thousands of recreational properties (weekend houses or “dachas”) and also rights of use for the construction of garages. A regulation was first found with the Act on the Adjustment of the Law of Obligations of 21 September 1994 which contained a special protection against termination for recreational properties up to a maximum of 3 October 2015 and investment protection applicable up to 2022 after which the owner has to pay the present value of the building after termination of the contract by the land owner. Users who were already over 60 on 3 October 1990 basically enjoy lifelong protection from terminations. It was also determined that the user is not obliged to remove a building if the contract is terminated before 31 December 2022. Special regulations also refer to the costs of demolishing a building. In 2002, the Act had to be adjusted following a judgement passed by the Federal Constitutional Court which strengthened the rights of land owners. A partial right of termination was introduced for owners of very large plots of land and regulated that in future the public charges referring to the land are no longer to be solely borne by the land owners.

In summary it can be said that these very complicated issues placed high demands on the parties affected by the regulations and have therefore caused considerable uncertainty and fears amongst them. Considerable controversies arose with respect to these issues between eastern and western Germany in the initial years of unity. This has also been exacerbated by the complexity of the frequently amended statutory provisions with which these unresolved issues were to be addressed.

3. An attempt at an evaluation

Notwithstanding all difficulties of the reunification process, we as Germans have every reason to be proud and thankful that the division of Germany and Europe as a result of the Second World War started by Germany could be overcome 25 years ago peacefully and with the approval of the victorious powers and our European neighbours. The fall of the Berlin Wall and reunification were achieved without a shot being fired.

All Germans can be proud of the decisive momentum for reunification which was provided by East Germans. Their will to change and their moral courage in the Peaceful Revolution of 1989 were decisive for the all-embracing changes which were to follow. The weeks and months in which state unity was regained after decades of division justifiably count among the best and most exhilarating phases of German history to this very day. The creation of unity was an enormous joint achievement of Germans in East and West alike. It required not least the willingness to accept deep changes and the necessity to adjust in the East and the willingness of the West to provide full backing and support for the changes. This applies, for example, to the transition of pensions which was and is a remarkable achievement and a great testimony to the community of solidarity. And this also applies to the broad support and willingness to help experienced by the eastern German local authorities within the framework of town twinning in which friendships for life were formed.

Germans in East and West may never forget that unity could only become reality with the support of our partners as part of the great European process of peace and unification.

Freedom, democracy and the rule of law – the demands of the demonstrators in 1989 – have now become reality and indeed a matter of course in a unified Germany. All Germans are called upon to ensure that things stay this way, which is why resolute and differentiated reappraisal of the SED dictatorship in the GDR is a necessary task for state and society in order to counteract the creation of legends and subsequent attempts at justification. The GDR was an unjust state because a dictatorship is, by its very nature, an unjust state. But to reduce it solely to the SED dictatorship, secret police, firing orders and barbed wire is just as wrong as to ignore it or to make light of it.

The legacy of the GDR is manifold. It covers the victims of dictatorship, some of whom even today suffer greatly from the consequences of the repression at that time. And it also extends to the perpetrators who publicly show only little understanding or remorse to this very day. The legacy also refers to the achievements of the great majority who tried to live a decent life and to build something for themselves and their children.

The social upheaval extending to the many decisive changes in the personal lives of East Germans demanded much of them. They have mastered this challenge admirably. Thanks to this transformation and the solidarity of the West and despite many an error, mistake and misunderstanding, we can be proud of that achieved as East and West Germans together – and we are certain we will manage the things still to come.

The younger generations, some of whom were born and grew up in the GDR and those born in a unified Germany only know about the difficult sensitivities in East and West Germany from stories and books – if at all. The ease with which they deal with each other can and must be an example to the older ones. Their task remains to pass on the memories of a past which is neither over nor gone.

In the past 25 years, much of the mutual respect has grown which is required to complete German unity in the future. Respect between those who lived and grew up under the extremely difficult conditions of dictatorship and those who had the luck to experience nothing but democracy. Germans in East and West can still learn much from each other.

Part B

Report

The huge task of rebuilding the East after reunification

After 40 years of socialism, the GDR was left with an inefficient and internationally uncompetitive economy. Living conditions were unattractive in many respects. The capital stock was worn out, transport and telecommunications infrastructure underdeveloped, the state and administrative apparatus over-dimensioned, large parts of the residential stock in need of rehabilitation and the environment greatly polluted. Even on the path to German unity it was clear that only if living circumstances in East and West could be harmonised would it be possible to prevent a massive exodus particularly of young and well-trained people. It was necessary to make the eastern federal states attractive places to live and work so that they provided a perspective to the people there.

Monetary, economic and social union together with the Unification Treaty had created the legal framework for the transformation of the centrally managed planned economy system to a social market economy and the accession of the GDR to the scope of the Basic Law. The actual reconstruction work – of the economy for example which had essentially collapsed with monetary union – was still to be done. Direct investments were hardly to be expected in view of the clouding of the global economic situation at the beginning of the nineties and free production capacities that already existed in many places throughout the world. *Aufbau Ost* – the term used for the rebuilding of eastern Germany – generated an economic boost from reunification in the West which postponed the impact of a faltering global economy.

Legal differences

Germany unity had been created through the Unification Treaty of 31 August 1990, the 25th anniversary of which was honoured this year with a celebratory event at the site of its signing in the Crown Prince's Palace. However, the annexes to the Unification Treaty contained numerous regulations according to which legal provisions of federal law only came into force in the accession territory under the conditions set out therein. This was necessary because an immediate and complete transfer of the law of the old Federal Republic to the new federal states would not have been appropriate. Over the past 25 years corresponding legal provisions regulating the legal differences between the old and new federal states at a national level have been largely declared to be no longer applicable. It is therefore possible to refer to broad legal unity in east and west today, at least

as far as legal differences in national competencies are concerned.

The legal differences which still exist are of lesser significance. However, differences continue to exist outside the legal differences regulated in the Unification Treaty, as is the case in the area of pension law. According to the Coalition Agreement, the road map to complete convergence of pensions is to be stipulated by law. Further details here are provided in the section "Unity of pensions in Germany moves closer".

Likewise, legal differences exist in sub-constitutional law, in contracts, in collective bargaining law and at a regional level.

Population takes a clearly positive view of German unity today

Asked today about their political and social attitudes, the picture painted by the people of reunification and the growing-together of Germans in east and west is consistently positive true to Willy Brandt's postulate: "Now what belongs together will grow together." This is the result of an extensive empirical study entitled *Germany 2014–25 Years of Peaceful Revolution and German Unity*²⁷, commissioned by the Federal Government Commissioner for the New Federal States on the occasion of the anniversary of the Peaceful Revolution and German unity.

Despite many a mistake in the process of reunification, four fifths of those asked in the east and in the west of the country believed that reunification was positive for Germany on the whole. The majority of the people surveyed also assess their own economic situation since 1990 as positive. Some 77% of eastern Germans and 62% of western Germans personally saw reunification as a positive experience. The general satisfaction with life is also high in the west (83%) and in the east (76%) alike.

But there are also differences: overall, almost three quarters of western Germans feel "politically at home" in the Federal Republic whilst this is the case for only just under half of eastern Germans. However, this only applies in the overall view. If only the group of 14 to 29 year olds is considered, the picture is already noticeably more positive. In this group, some 65% in east and west view their political home to be the Federal Republic of Germany.

27 The study provides a unique review of the development of the political culture in Germany on the basis of a comprehensive meta-analysis never before conducted in this depth. In addition, the instrument of indirect research (*Stellvertreterforschung*) into the attitudes and sentiments in the GDR before 1990 is used for the first time in this breadth. For the first time, selected print media were also examined with respect to reporting on the subject of reunification. A population survey was also conducted in the autumn of 2014.

The results on so-called trust in institutions must give food for thought. In terms of trust in the Federal Government, a rather low level with great fluctuations is determined even if a slightly upward meta-trend can be discerned in the long term in east and west. The trust of those in eastern Germany is always somewhat lower and also rises slightly less steeply. The well-known pattern is also recognised here of the eastern Germans being more sceptical, critical and distanced across the board. The gap has become smaller, however, in recent years. The confidence placed in politicians and parties is equally low in both parts of Germany.

The image of women has changed distinctly in eastern and western Germany. With respect to the attitudes on the role of women and the image of the family, the study generally documents a progressive move away from traditional role models to partnership-based ones. This has become apparent in questions of professional career opportunities for women, division of labour within families and compatibility of the mother role and career since 1990. It cannot be overlooked that western Germany has moved towards the east here without catching up entirely. Western Germany is currently undergoing a modernisation of the role image.

25 years of the German armed forces as an “army of unity” – a successful example

The German armed forces have been transformed as a result of reunification to an “army of unity”. This is therefore a successful example of an accomplished transformation in the period of transition which was difficult for all of society and a good example of the integration process for a reunified Germany. There were no historical precedents for a task of this magnitude and thus no prepared plan. What was the starting point?

In autumn of 1989, the East German Army (NVA) still had around 175,000 soldiers. It was a conscripted army and the strongest armed body in the SED state. Following the first free elections to the People’s Chamber on 18 March 1990, the newly elected East German government began to distinctly reduce the troop strengths of the NVA. On German reunification on 3 October, some 90,000 soldiers and 47,000 civilian staff presented themselves to the command of the Federal Ministry of Defence. The German armed forces then numbered 585,000 soldiers - a military strength which had to be reduced by 31 December 1994 in line with international obligations.

Added to this was a new stationing concept which had to take the altered situation into consideration – around 58,000 soldiers were stationed in the new federal states along with their own defence administration. The transfer of 15 units from the portfolio of the Federal Defence Minis-

try to eastern Germany fostered the growing-together of the two parts of the country.

The German armed forces not only took on personnel on 3 October 1990 but also extensive material from the stocks of the East German Army and paramilitary organisations and infrastructure. Most of the material was decommissioned and not much could continue to be used.

Even if the organisational and logistical tasks already presented a challenge, the actual Herculean task was to master the impact on the former soldiers in the East German Army. Former professional soldiers had the opportunity to run through a two-year probationary period in the German armed forces up to the end of 1990. The majority decided, however, to leave the German armed forces flanked by social measures. Finally, some 18,000 former soldiers from the East German Army were taken on.

During training, in courses and during everyday service at different locations, the soldiers from east and west very quickly got to know each other and were therefore able to overcome any existing prejudices and build up mutual trust. The concept of internal leadership with the role model of a citizen in uniform and compulsory military service, which had been reduced to twelve months since October 1990, promoted this growing together. The assistance provided by the soldiers in the floods of the Rivers Oder (1997) and Elbe (2002 and 2006) also increased social acceptance of the German armed forces in the eastern federal states.

The special achievement of the German armed forces was to disband the East German Army, permanently take on former NVA soldiers whilst simultaneously stationing units and offices in the new federal states in an impressively smooth manner. It therefore serves as model and pioneer in the growing together of the old and new federal states.

After the end of bloc confrontation in Europe, the German armed forces were transformed into an operational army as from 1990. They were now focused on crisis management and conflict prevention abroad. This also included and includes armed deployments, in Kosovo and Afghanistan for example.

The Act Amending Military Law came into force on 1 July 2011. It suspended compulsory military service after over 50 years. Obligation was now replaced by a voluntary approach and the principle of opportunity. Many have taken advantage of this in recent years, precisely young men and women from the new federal states. They show that the German armed forces are solidly anchored in our society even today and that a vibrant dialogue is taking place between our members of the German armed forces and the citizens of our country.

Against the background of progressive demographic changes, the German armed forces must position themselves even better as an attractive employer in order to compete for qualified, motivated and stress-resilient staff in future. This is why on 30 May 2014, by way of introduction to the attractiveness offensive set out in the Coalition Agreement, the Federal Defence Ministry published the Agenda “ARMED FORCES IN LEADERSHIP – Active. Attractive. Different”. In a first step, some 30 sub-legislative measures improve the working conditions in the German armed forces. These measures are aimed amongst other things at better harmonising the interests of family and career, making better use of working independently of place and time and of modern working time models and at providing more modern accommodation.

A further element of the attractiveness offensive is the Act to Increase the Attractiveness of Serving in the German Armed Forces which came into force on 22 May 2015. The individual measures covered by the Act are aimed at improvements both in working conditions and the shaping of service and in the area of pay (including allowances) and social protection for soldiers.

The German armed forces as an attractive employer have close ties and are in direct contact with our citizens – as shown during the first “Day of the Armed Forces” held on 13 June 2015. Some 250,000 visitors came – also to four locations in the new federal states. And the reason for the two significant anniversaries celebrated by the German armed forces: 60 years of German armed forces and 25 years of the army of the unity. The achievements of the German armed forces will also be a subject of regional exhibitions and presented to the public. The first of these exhibitions will be opened on 9 November 2015 in Frankenberg/Saxony.

The reunification on 3 October 1990 after over 40 years of division marks the aspiration of the Germans to unity in peace and freedom. Soldiers and civilian staff from all regions of Germany work together today in different departments of military administration, troop units and staffs.

From the outset, the German armed forces have made a substantial contribution to the completion of German unity. From a human and organisational point of view, the development of the German armed forces of unity was one of its most characteristic and most successful achievements in its history.

1. Economic development and labour market in eastern Germany

25 years of economic development

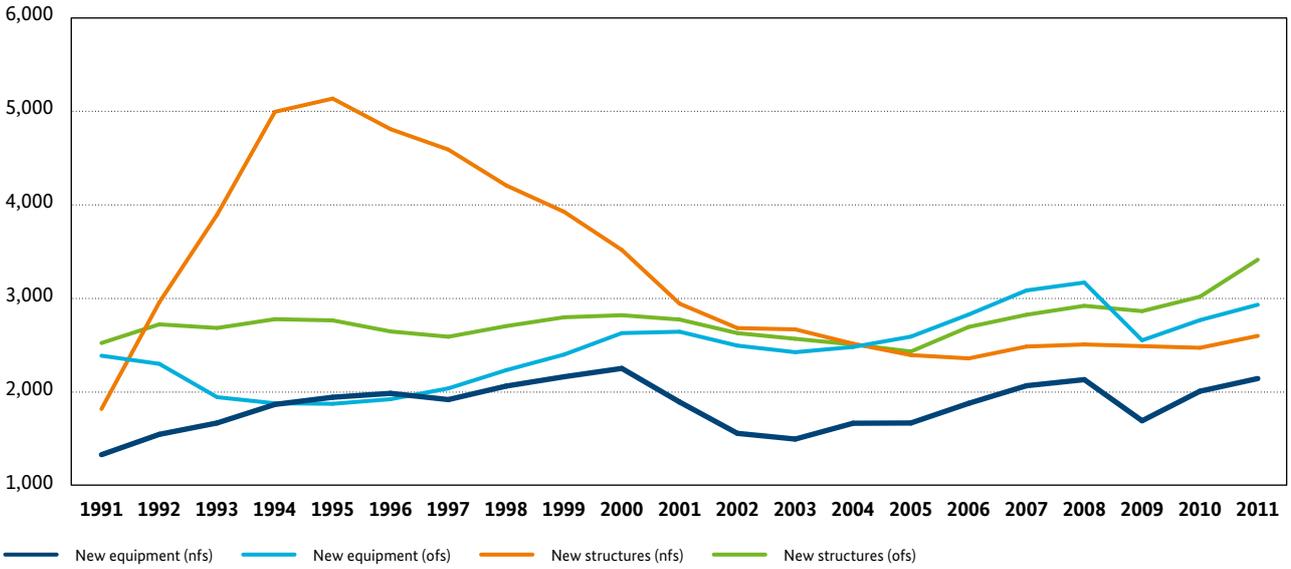
Monetary, economic and social union a quarter of a century ago represented the important step towards a social market economy in eastern Germany. It marked the start of a comprehensive structural transformation which has persisted through to this very day and has led to remarkable changes and successes in eastern Germany. However, experience has shown that a fundamental economic structural transformation takes a very long time. Looking back to the beginnings is at the same time intended to bring to mind the decisions made then which continue to have an impact today and which characterise the contemporary structure of the economy in eastern Germany in many respects.

Impressive catch-up growth – economic output has more than doubled since 1991

Eastern Germany has considerably boosted economic growth since reunification. Real gross domestic product (GDP), which measures the total value of all economic outputs after deduction of price increases, has more than doubled since 1991. Competitive companies and jobs have been created, the transport infrastructure has been fundamentally renewed and extended, the living situation noticeably improved and the decay of the inner cities stopped. The reconstruction of the east, the development of a social and ecologically oriented market economy in the federal states of eastern Germany, has been successful on the whole.

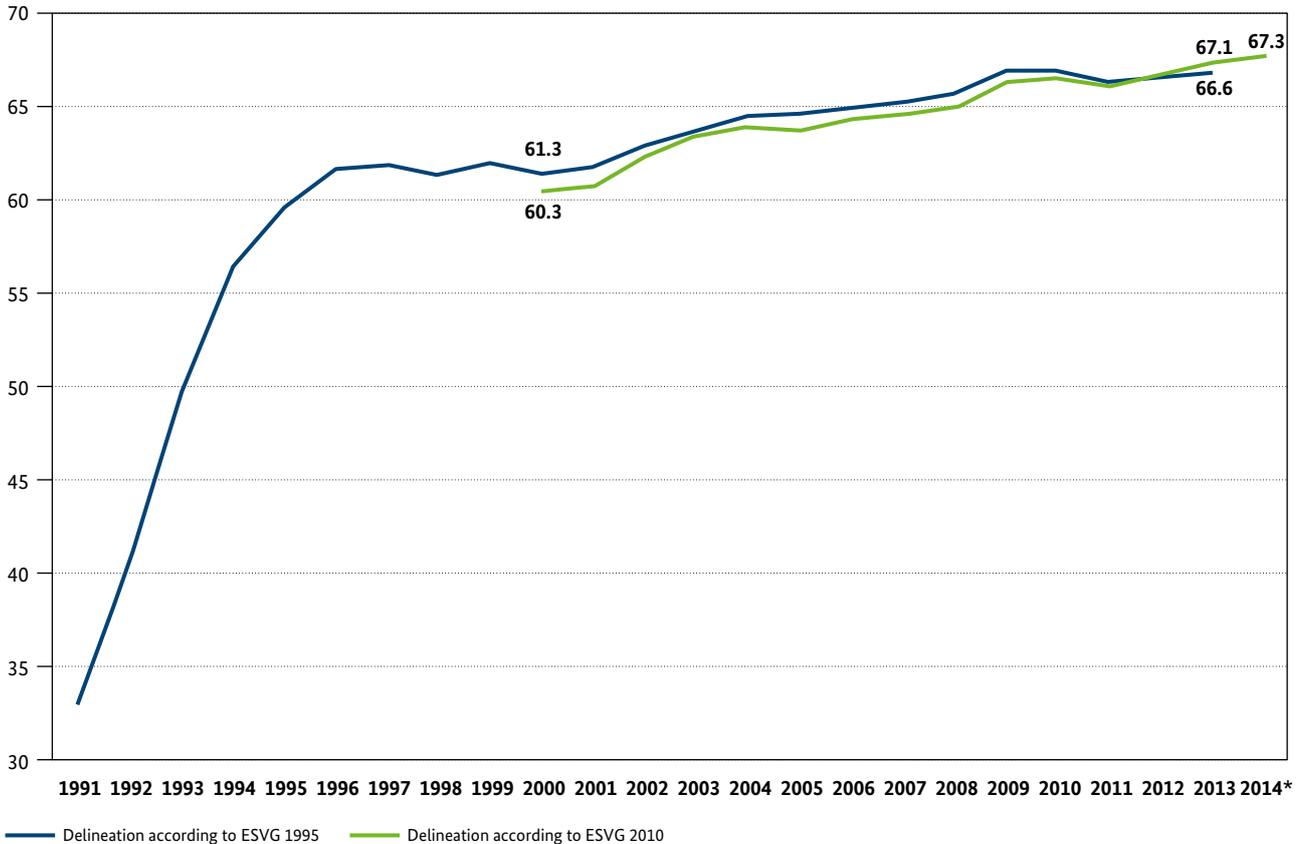
However, the economic starting situation in the post-reunification period was anything but simple. Large parts of the eastern German economy collapsed; industrial production in particular shrank up to the end of 1992 by a quarter of its starting level. A new entrepreneurial foundation for economic development arose with privatisation and new company formations. In order to provide people in eastern Germany with a perspective, the question asked was how the growth of the many small and medium-sized enterprises could be promoted and in general a competitive economic base with attractive jobs developed as quickly as possible. An important approach here was to renew and extend the capital stock of the companies. Impressive catch-up growth was achieved with state support for private investments and high public spending on housing construction and infrastructure. Consequently, the first years of the post-reunification period were ones of high investments. Total per capita investments in the new federal states were distinctly higher than those in western Germany. At the beginning, many observers therefore felt that their expectations of a rapid and successful catch-up process had been confirmed.

Figure 1: Per capita investments
Euro/inhabitant



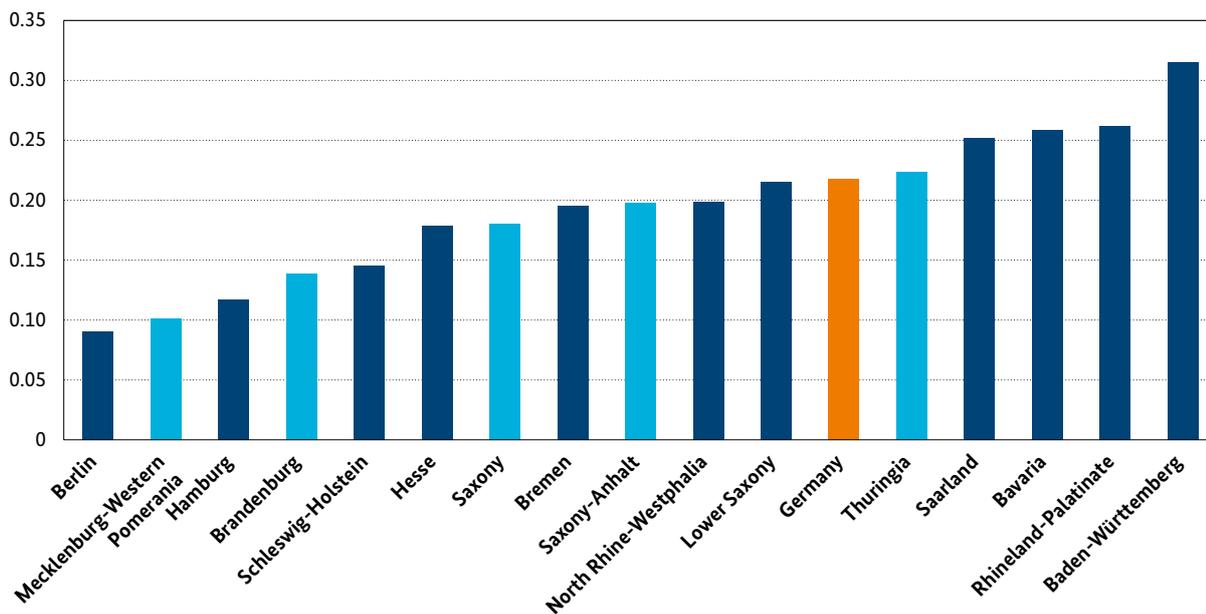
Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

Figure 2: Per capita development of the gross domestic product:
New federal states as a percentage of the old federal states (=100 %)
as a percentage



*The value for 2014 is based on the population figure of 30.06.2014
Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

Figure 3: Percentage of manufacturing in total value added (2013)
as a percentage



Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

Great significance of the construction industry in the initial phase

The foundations for impressive catch-up growth were laid primarily as a result of the high growth rates in the construction industry which were initially also able to stabilise the difficult situation on the employment market somewhat. However, the construction industry had grown as a result of public infrastructure measures and the backlog of private demand. This was not sustainable. Over-capacities, particularly in the residential sector, quickly developed and contributed substantially to the vacant properties later down the line. Compared to the construction investments, growth in equipment investments (i.e. investments in plant and machinery and in vehicles) were far lower. However, seen overall, the investment rate (i.e. share of investments in gross domestic product) is still higher than in the old federal states to this very day. This is an important prerequisite for the further catching-up process.

This high economic growth triggered by the construction industry is still frequently seen today as a particularly successful phase of convergence. It ought to be clear to every observer here that the development of a competitive economic structure called for far much more: namely the development of a competitive service industry and above all a competitive industrial base. The consolidation in the construction industry started in the mid-nineties and burdened economic development for around a decade.

Over-capacities in the construction industry, which had been created previously with fiscal incentives, were substantially reduced up to 2005. This is a main reason for the weak overall economic growth in the federal states of eastern Germany from 1995.

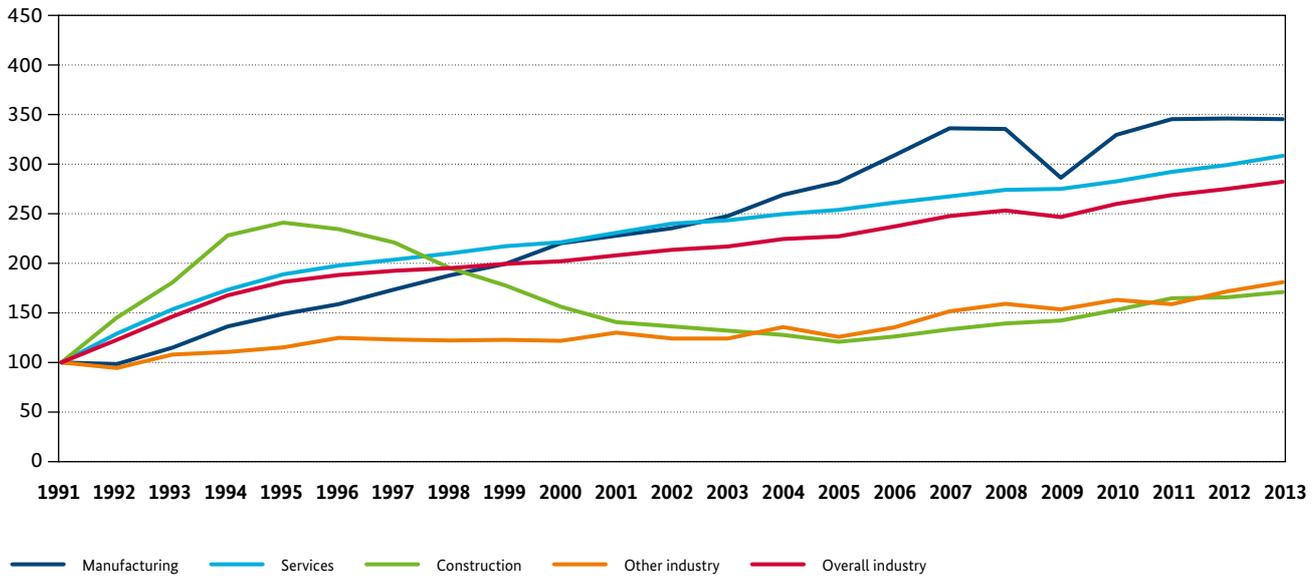
There were also phases time and time again of slightly stronger and less strong convergence after the end of the nineties. As figure 2 on the previous page shows, the convergence process can be divided into several phases. Following a phase of strong catch-up growth, the convergence process stagnated from around 1995 for several years and from around the start of the new millennium there has been a slight catching-up process once again to the present day with an average annual reduction in the gap in economic strength of approximately 0.5 percentage points.²⁸

High growth in industry...

Since the mid-nineties, the role of economic growth engine has increasingly passed from the construction industry to other economic branches. Industry in particular, which is understood to be the manufacturing sector here, and which is the focal recipient of economic assistance then as now, has contributed to eastern Germany's economic strength more than doubling since 1991. Real gross value added of the manufacturing industry in the new federal states increased approximately 2.5 fold from 1995 to 2008, the

²⁸ The national accounting system was comprehensively revised at a national level in 2014. Up to now the data have been prepared according to the European System of National Accounts 1995 (ESA 1995) which has now been converted to the current ESA 2010. According to the new concept, the data of the NAS are available to the federal states for the years since 2000 to 2014.

Figure 4: Per capita gross value added in the new federal states (index: 1991 = 100 %)
as a percentage



Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

year of the global financial and economic crisis. This signifies the process of gradual return of the lost industrial base.

The manufacturing industry has special significance because in addition to regional, it also serves national sales markets to a particular extent, thereby generating income for the region. For eastern Germany, the manufacturing industry is therefore attributed a key role also in further economic development. A few new federal states, above all Thuringia, can look back on a good development in recent years also compared with federal states of western Germany, particularly if the size of the manufacturing industry is measured as a percentage of gross value added.

...and likewise in the services sector

There has also been further differentiation in the services sector, the role of which in economic success has also been substantial. After all, similar to the situation in western Germany, almost three quarters of value added is generated in the services sector. Taken as a whole, the services sector in the new federal states has grown a little less dynamically than the manufacturing industry but for all that the growth has been continuous and essentially without interruption from the financial and economic crisis of 2008/2009.

However, the services sector is very heterogeneous with services of high value added (e.g. research, consulting, financing) alongside simple services (e.g. facility cleaning).

The economic branch of “financial, insurance and business service providers; property and residential area” is particularly important for economic development here. It should be considered in this context that a considerable part of these services is only made possible through growth in the manufacturing industry which requires near-to-business services in particular.

As a result, both the manufacturing industry and services have developed into the most important growth drivers in the economy of eastern Germany following the abatement of the construction boom.

But: the economic output is still distinctly lower than in the old federal states

However, these generally very positive developments cannot conceal the fact that the gap between the new and the old federal states in terms of average economic strength is still large even today. Measured in terms of per capita GDP, the economic output of the new federal states is around 67% of the western level. The output is around 71% in eastern Germany, including Berlin.

The gap between the old and the new federal states is also considerable in terms of the relative labour productivity in east and west, another frequently used indicator to measure the progress in economic convergence. Labour productivity²⁹ in the new federal states is currently 71% of the west-

ern German level, and 74 % if Berlin is included in eastern Germany.

Reasons for a cautious convergence process

In the search for reasons for the cautious process of convergence it must first be considered that the economy of western Germany also continues to develop and grow. It has been particularly successful on the global markets in recent years, particularly in Asia, and has been able to generate growth stimulus here better than the eastern German economy, which has a lower export rate of less than two thirds of western German industry. Further reasons are to be found in a comparatively low level of innovative activity amongst eastern German companies. The share of R&D expenditure of the eastern German economy in total value added is only just half that of the comparable western German level.

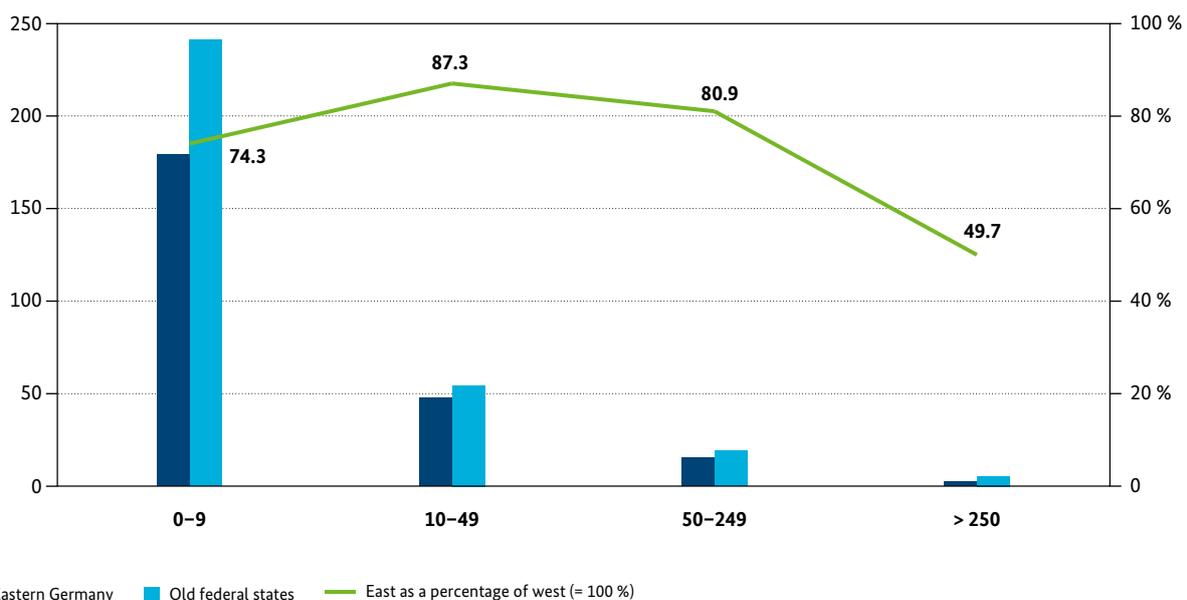
A further central cause is the fact that the eastern German economy is very “fragmented”. Larger and in particular very large companies are still very rare. For example, eastern Germany still has no company noted on German stock index DAX-30. But even beneath the threshold of corporate groups, the shortage of large entrepreneurial units is clearly visible. Even starting from a company size of over 250 employees, the number of manufacturing companies per 100,000 inhabitants is only around half of the western German figure. Approximately half of all employees

required to pay social insurance contributions in companies with 250 employees and more are located in western Germany; the figure is just around 20 % in the new federal states. However, it is precisely the larger companies which in many cases assume a higher share in research and development, exports and value creation. They also act as a bridge for small and medium-sized companies, enabling them to develop further, open up markets and grow themselves.³⁰

Regional development in eastern Germany – similarities and differences

At a regional level, it is noticeable that the differences in the economy between the territorial eastern federal states are only small. The per capita GDP in Mecklenburg-Western Pomerania is only around 6 % lower than in Saxony, which has the highest per capita GDP of all new federal states. By contrast, the differences between the old federal states are distinctly larger. The gap between the economically weakest territorial state of Schleswig-Holstein and Bavaria, an economically powerful federal state, is around 39%. It is interesting to note that the disparity³¹ in the economic strength between the eastern federal states has steadily decreased in recent years as economic strength has increased (see Figure 6, right-hand scale). In terms of per capita economic strength, the federal states of eastern Germany are therefore closer together in 2013 than they were in 1991.

Figure 5: Number of companies per 100,000 inhabitants in the manufacturing industry in 2012

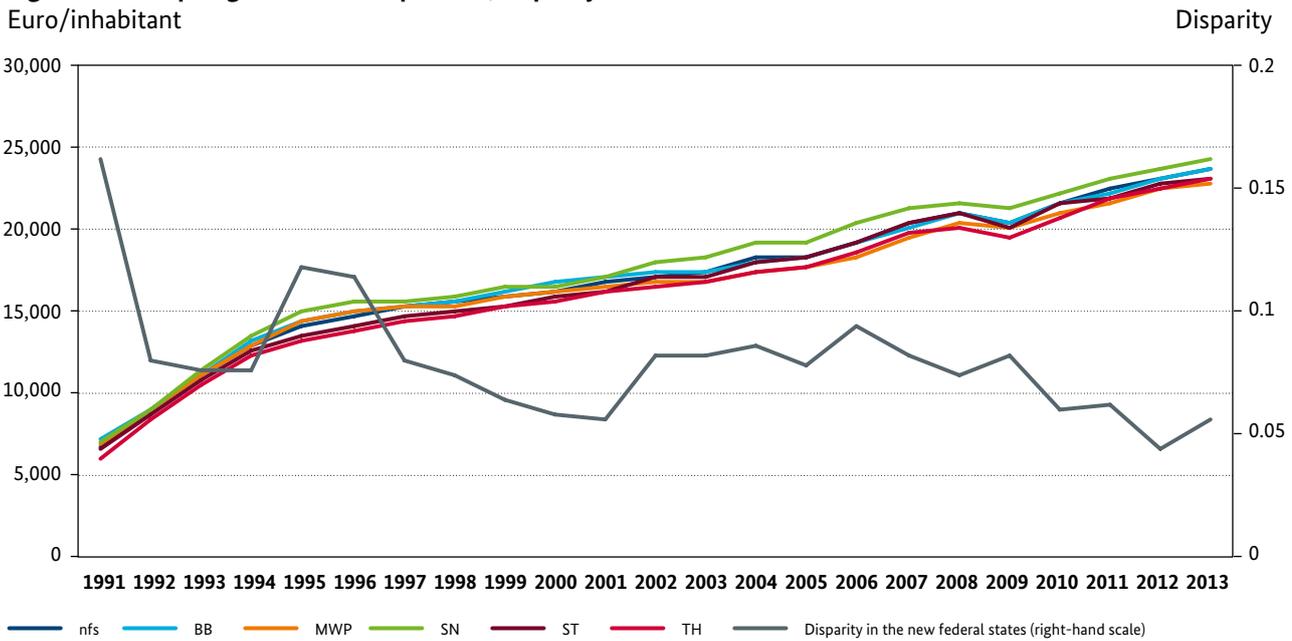


Source: Volkswirtschaftliche Gesamtrechnungen der Länder, Federal Statistical Office, own calculations

30 See German Institute for Economic Research (DIW): “Kleinteiligkeit der ostdeutschen Wirtschaft. Gibt es spezifische Wachstumshemmnisse für die Bildung größerer Unternehmenseinheiten?”, Berlin, June 2015.

31 The disparity distribution is measured here by the difference between the highest and the lowest per capita GDP of all territorial eastern federal states divided by the median of these federal states.

Figure 6: Per capita gross domestic product, disparity
Euro/inhabitant



Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

The comparatively small differences after some 25 years of reconstruction work indicate that, despite all their differences in economic and branch structures, the eastern federal states continue to face very similar fundamental challenges, such as the necessity for greater internationalisation.

The fact that this applies also if the regional level is considered, is shown by the classification of the eastern German regions by the Joint Programme for the Improvement of Regional Economic Structures (GRW). Accordingly, all eastern German regions belong to economically less developed assistance regions (see also Figure 12). There are economically less developed regions in western Germany, such as former industrial areas with special challenges of sectoral structural change (e.g. steel and coal industry in the Ruhr area and Saarland), border regions (Bavarian regions along the Czech border) and thinly populated rural areas (e.g. in Lower Saxony, Schleswig-Holstein). Broad structural weakness – to differing degrees – is characteristic of eastern federal states and influences the development potential here: for example, whether there are structurally strong regions within reach with an internationally high quality and differentiated offer of jobs is also decisive for the quality of life. However, with the exception of Berlin and a few cities such as Leipzig, strong and easily reachable counter-poles of this type are frequently absent precisely in eastern Germany.

The economic strength of these cities is comparatively small, however. For example, Leipzig as the strongest economic city in Saxony, cannot assume the function of anchorage point and catalyst for the surrounding region

to the same extent as Nuremberg for instance. Both cities have a comparable size and a similar structure and are traditionally trade fair and industrial cities. The comparison of the per capita GDP generated in the two cities shows that at € 45,443 in 2012 for Nuremberg, this figure is more than half higher than the one for Leipzig (€ 28,964). The large cities in the new federal states are still themselves economically less developed units by comparison with the whole of Germany.

This absence of strong economic and therefore highly productive cities is of decisive importance, however, not just for the region but also for the respective federal state because it means that funds are not available to organise structural transformation from own resources.

The policy for the economically less developed regions must therefore take account of the broad structural weakness.

To describe eastern Germany as a large structurally weak region does not mean, however, that there are no regional differences in economic strength. Ultimately, many positive examples have arisen in recent years such as Jena, Dresden, Potsdam and the chemicals region of central Germany and the tourism area along the Baltic. The following Table 1 shows the difference in economic strength between regions with a comparatively stronger structure (usually cities and industrial rural regions) and structurally weak regions (usually regions with an agricultural character) within the eastern federal states. The ratio is around 1:2 and is therefore distinctly smaller than between corresponding western German regions where the difference can be 1:6. This, too, clearly shows that the structurally stronger regions in the

Table 1: Districts with high/low per capita gross domestic product (2012)

Federal state	Strongest districts	Euro/inhabitant	Weakest districts	Euro/inhabitant
BB	Spree-Neiße	31,139	Märkisch-Oderland	16,433
	Frankfurt/Oder	33,868	Havelland	16,625
	Potsdam	34,874	Barnim	17,009
MV	Mecklenb. Seenplatte	22,208	Vorpommern-Greifswald	19,086
	Rostock	30,496	Ludwigslust-Parchim	19,617
	Schwerin	31,432	Nordwestmecklenburg	20,112
SN	Chemnitz	28,678	S. Schweiz-Osterzgebirge	18,458
	Dresden	28,694	Erzgebirgskreis	19,108
	Leipzig	28,964	Vogtlandkreis	20,681
ST	Dessau-Roßlau	25,596	Mansfeld-Südharz	17,866
	Saalekreis	27,955	Harz	19,586
	Magdeburg	29,265	Burgenlandkreis	20,312
TH	Eisenach	25,593	Kyffhäuserkreis	17,464
	Erfurt	29,844	Greiz	17,604
	Jena	34,136	Altenburger Land	18,293

new federal states have not so far been able to assume the locomotive function for their surrounding areas or their federal state, as is the case in western Germany with Munich, Stuttgart, Frankfurt, Düsseldorf or Hamburg for example.

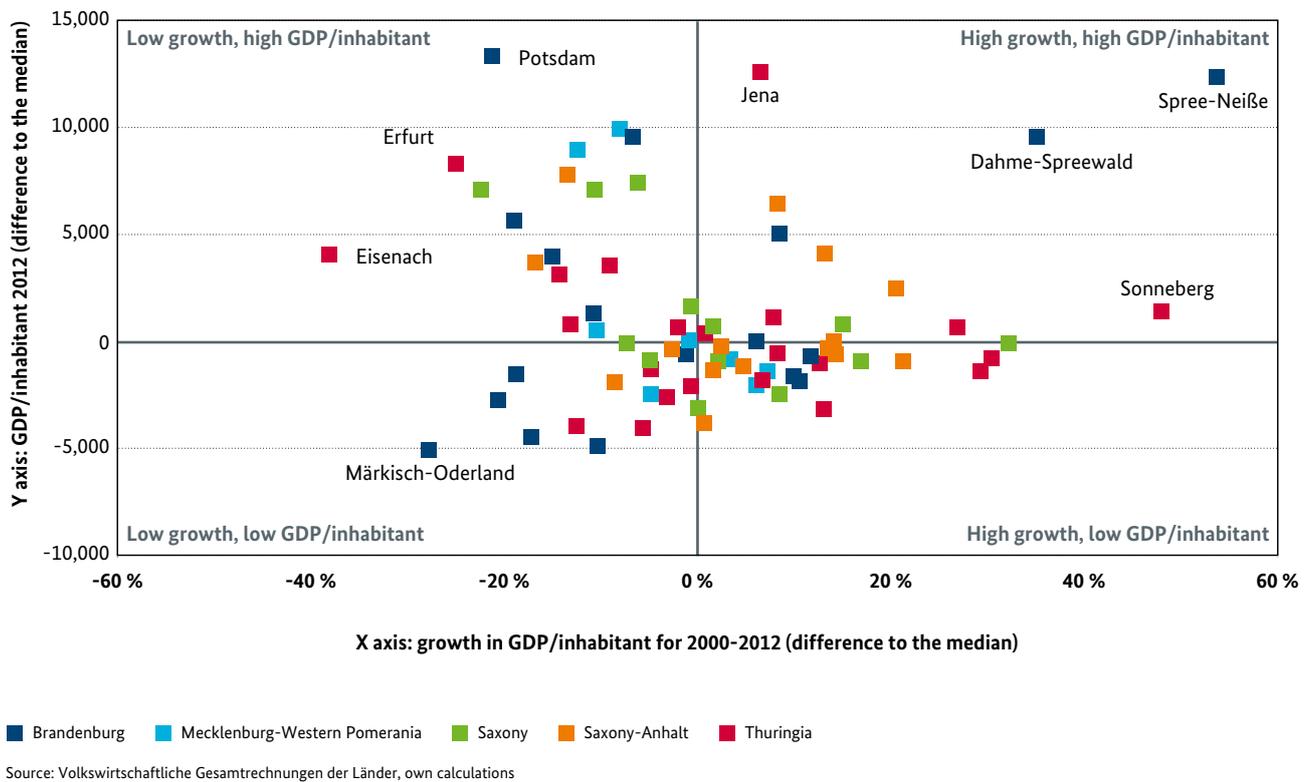
As Figure 7 shows, Brandenburg has the greatest differences amongst the eastern federal states in terms of level and change in regional economic strength³². On the one hand, the strongest economic district of Potsdam is located here together with the strongest growth districts of Spree-Neiße and Dahme-Spreewald. On the other hand, districts with a particularly weak economy and growth are also to be found in Brandenburg. In Mecklenburg-Western Pomerania, by contrast, the majority of districts are essentially close to the median of all districts both in terms of growth and economic strength. Only the two cities of Rostock and Schwerin stand out with a higher per capita gross domestic product.

The situation is very similar in Saxony but there are a few districts here with above average growth. The cities of Chemnitz, Dresden and Leipzig have the highest economic strength. Saxony-Anhalt in its turn has a larger scatter, whereby only the two Harz districts show low growth and economic strength. There are districts in the form of Börde, Dessau-Rosslau and Saale which achieve “above average” values both in growth and economic strength. Then again, there is a comparatively large distribution in Thuringia. On the one hand, there are the strong districts in economic terms (Sonneberg) and growing cities (Jena), whilst on the other the district of Eisenach with the lowest growth, and the districts of Greiz and Kyffhäuser belong to the economically weakest in eastern Germany.

All in all, it is evident that, unlike the regional level, there is a considerable disparity at district level, but the picture is not the same in every federal state. Whilst there are very great differences in Brandenburg, the difference in Mecklenburg-Western Pomerania, for example, is very small. It is also worthy of note that the growth of many eastern German cities is weaker than that of the rural districts.

32 Each dot represents a district or a city constituting a district in its own right. The X axis shows the growth of the districts between 2000 and 2012 and the Y axis the per capita gross domestic product in 2012. The absolute figures are not used here but rather the deviations from the respective average value (median). This results in the four quadrants. Districts in the top right grew very strongly in the period and also achieved a high per capita gross domestic product in 2012. Districts in the top left grew “below average” but because they had already been quite strong beforehand they nevertheless have a high per capita gross domestic product. Districts in the bottom left hardly grew and are also very weak economically. Districts in the bottom right grew strongly but are nevertheless only able to achieve a comparatively low per capita gross domestic product due to the very low starting value.

Figure 7: Per capita gross domestic product and growth from 2000 to 2012 in eastern German districts



Sectoral differences

The sectoral view shows that there are clear differences between the federal states in eastern Germany.

The largest share in value added is assumed by the services sector in all federal states in east and west³³. The new federal states have a share of between 65% and 76%. Mecklenburg-Western Pomerania achieves the top value (76%), which is also attributable to the great importance of tourism. This value is also high in an all-German comparison because only in the city states of Berlin (83.7%) and Hamburg (83.5%) is the significance of the services sector even higher.

Tourism

Since German reunification, the tourism industry in eastern Germany has developed into a dynamic economic sector with over 355,000 employees³⁴ in the hospitality and tourist accommodation trade alone. Tourism is therefore an important pillar of the eastern German economy and still has great development potential both in the cities and in

the rural areas. Many regions and cities in the new federal states – such as the Baltic coast, Berlin/Brandenburg, Dresden and Weimar – are now amongst the most popular travel destinations for Germans and foreigners alike.

The travel destinations in Mecklenburg-Western Pomerania are well established and make this federal state into an important destination for German tourism. How important tourism is for the region is shown by a comparison of tourism intensity (number of overnight stays compared with the local population) with the strongest state of Bavaria in terms of overnight stays (see Figure 9).

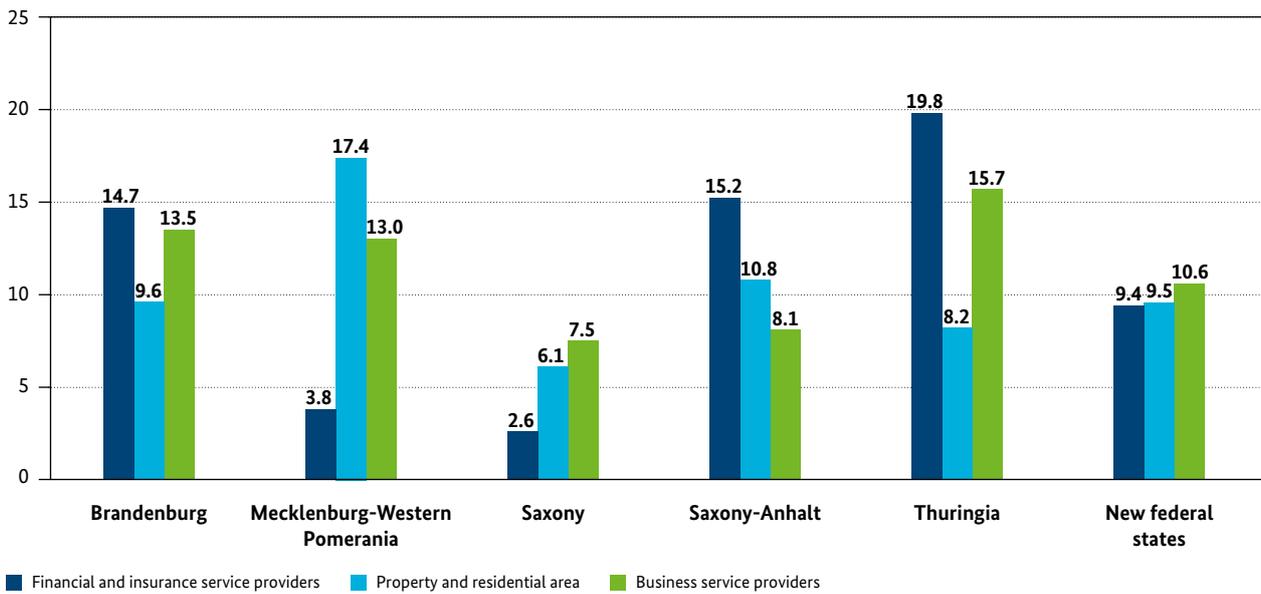
Industry

The main difference in the sectoral economic structure of the eastern federal states is attributable to the manufacturing industry, where the spread of the share in total value added is between 10% in Mecklenburg-Western Pomerania and 22% in Thuringia. The difference in the growth of the manufacturing industry is the largest in these federal states. Whilst Mecklenburg-Western Pomerania had to take a

33 This includes: commerce, transport and warehousing, hospitality, information and communication, finance, insurance and business service providers, property and residential area, public and other service providers, education and health, private households.

34 Reporting year 2013/new federal states and Berlin/source: Working Group “Erwerbstätigenrechnung des Bundes und der Länder” on behalf of the Statistics Offices of the Government and of the federal states 2015.

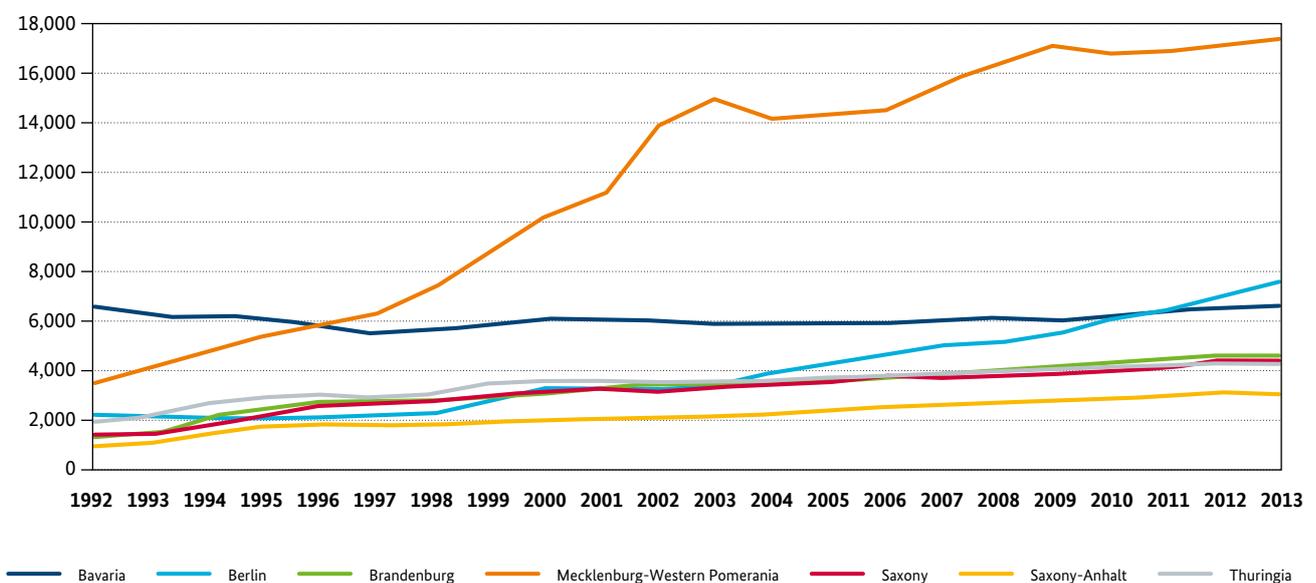
Figure 8: Growth in value added (2005 to 2012) in service areas as a percentage



Source: Volkswirtschaftliche Gesamtrechnungen der Länder, own calculations

Figure 9: Tourism intensity in the new federal states and in Bavaria from 1992 to 2013

Overnight stays per 1,000 inhabitants^{1,2}



¹ Population: status 31.12. of the respective previous year

² 1992 to 2001 overnight stays in tourist accommodation with nine or more beds

From 2002 to 2011 overnight stays in tourist accommodation with nine or more beds or on camping sites with three or more lots

From 2012 overnight stays in tourist accommodation with ten or more beds or on camping sites with ten or more lots

Source: Federal Statistical Office, Tourismus in Zahlen of 10 July 2014

considerable decline in its industrial share in value creation from 14.5% to 10.1% in the period between 1992 and 2013 due to the demise of the dockyards, Thuringia distinctly increased its share from 14.0 to 22.4%. However, on the whole the share assumed by manufacturing in the total value added in eastern Germany, excluding Thuringia, continues to be below the all-German level.

Construction industry, mining and energy

The construction sector and the mining and energy area still have a comparatively strong position in the new federal states. The respective shares in the gross domestic product in 2013 range between 14% in Brandenburg and 10% in Mecklenburg-Western Pomerania. The western German states then follow.

All in all, the share of value creation in the entire economy of the new federal states since 1991 has shifted considerably since 1991 (see Figure 10).

Agriculture

Agriculture has also developed well in the eastern federal states. At 1.2% in 2014, its share of value creation in the economy as a whole was distinctly higher than in the old federal states (0.7%).

In general, the sectoral economic structure in the new federal states has moved closer to the western German level in recent years without, however, the overall economic performance being able to reach that of western Germany, as has already been explained.

Research and innovation in eastern Germany

Spending on research and development (R&D) in Germany was € 79.7 billion in 2013. Of this figure, € 10.5 billion was attributable to the new federal states (including Berlin). The R&D intensity, i.e. the share of R&D expenditure in the GDP, was a good 2.8% on average in Germany for 2013, with considerable differences between the federal states. In the federal states of eastern Germany, the R&D intensity fluctuated between around 3.6% (Berlin) and some 1.4% (Saxony-Anhalt). The figure for Saxony (a good 2.7%) was approximately on the level of the all-German average, whilst Thuringia (2.2%), Mecklenburg-Western Pomerania (some 1.8%) and Brandenburg (some 1.6%) had distinctly lower R&D intensities.³⁵

A special eastern German feature is the high quality of the public research infrastructure. It can be said in this connection that the R&D expenditure in the east is predominantly made in the publicly financed sectors (“state” and “universities”). This is also reflected in the R&D staff deployed. Of the some 94,000 full-time jobs in R&D in eastern Germany, approximately 59,000 are to be found in the universities and in the non-university institutions.³⁶ By contrast, R&D activities in the industrial sector play a smaller role compared with the national average.

The picture presented by eastern German companies can be completed by examining their innovative activity.³⁷ Expenditure on the focal area of innovation includes, in addition to the R&D expenses, the costs of marketing, dis-

tribution and design. The expenditure on innovation of companies in eastern Germany once again exceeded the € 10 billion mark in 2013. Compared with the previous year, it increased steeply by 14%. This meant that 2.3% of sales were reinvested in the development and launch of new products and processes. This innovation intensity is particularly high in the eastern German electrical industry, in the engineering offices and R&D services and in information services.

The share of companies with product and process innovations was 36% in 2013 and therefore approximately on the all-German level (37%). In 2013, the eastern German economy recorded sales with product innovations of € 39.8 billion. This corresponds to 9% of total sales. A total of € 6.6 billion or 1.5% of sales was attributable to new products on the market, i.e. originally new product innovations. In addition to product innovations, innovations in process technology also play a large role. In 2013, they contributed to a 2.5% reduction in average costs. This indicator rose for the second year in succession. Cost reductions based on process innovations provide an essential foundation for an increase in productivity and the enhancement of competitiveness.

In summary, it can be said that the innovation behaviour of eastern German companies has aligned more strongly with that of western Germany in recent years. The differences which continue to exist are primarily attributable to the different sector and size structure of the eastern German economy.

Measures to overcome structural weakness

Eastern Germany continues to be an economically less developed region by all-German comparison. Numerous offers of support at a national and European level are aimed at strengthening the regional economic and innovative strength. This includes the assistance for investments and start-ups and state aid for innovation.

Investment and start-up assistance

The Joint Programme for the Improvement of Regional Economic Structures

The Joint Programme for the Improvement of Regional Economic Structures (GRW) is the main instrument of national economic aid for the regions.

35 Source: Destatis website, status: July 2015, <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/BildungForschungKultur/ForschungEntwicklung/Tabellen/ForschungEntwicklungSektoren.html>.

36 Source: Federal Statistical Office, website, status: July 2015, <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/BildungForschungKultur/ForschungEntwicklung/Tabellen/FuEPersonalBundeslaenderSektoren.html>.

37 All figures on innovation are based on the “Indikatorenbericht zur Innovationserhebung 2014”, ZEW Mannheim, 2015.

Figure 10: Value added share in the economy as a whole 1991, 2000 and 2013 as a percentage

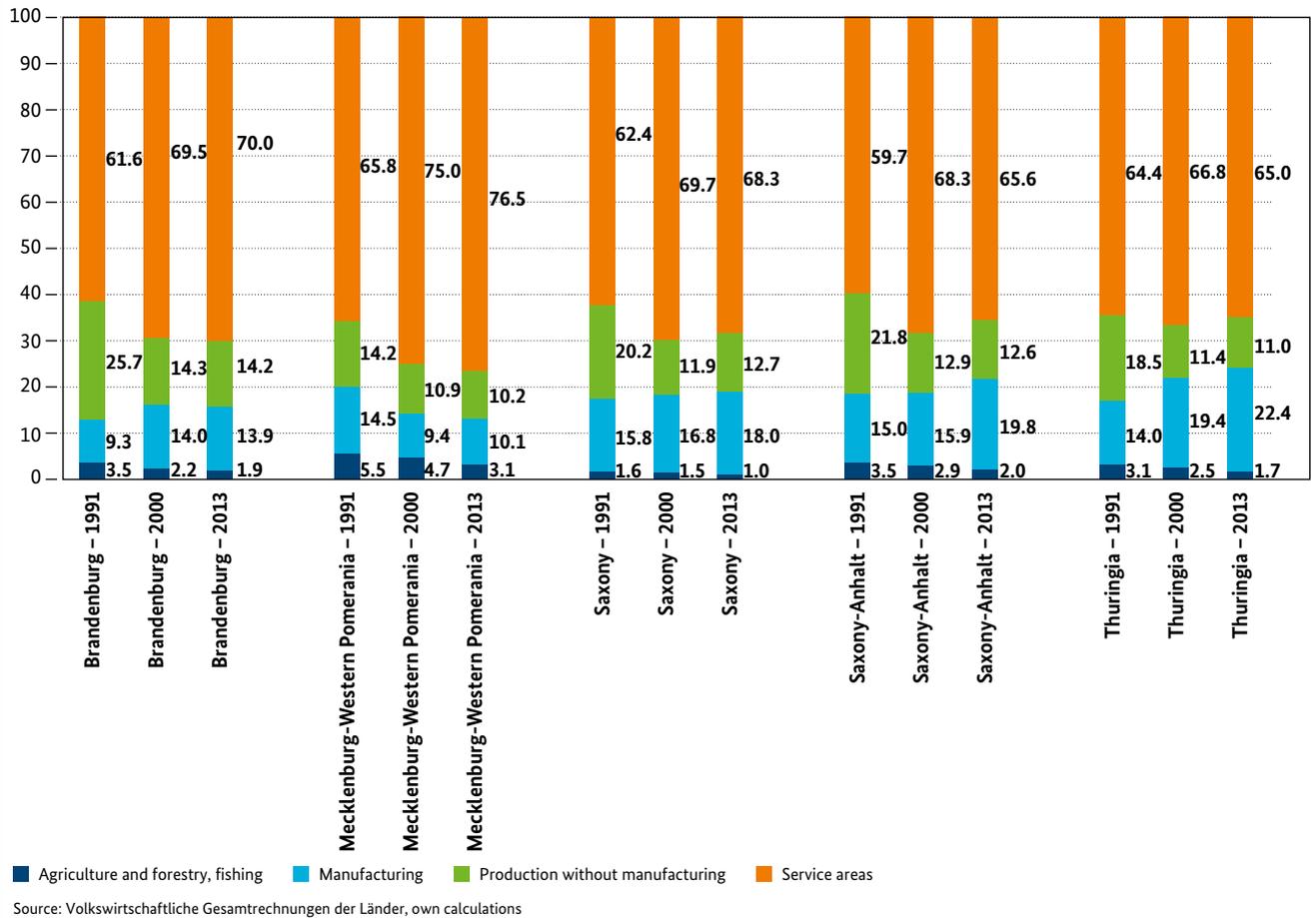
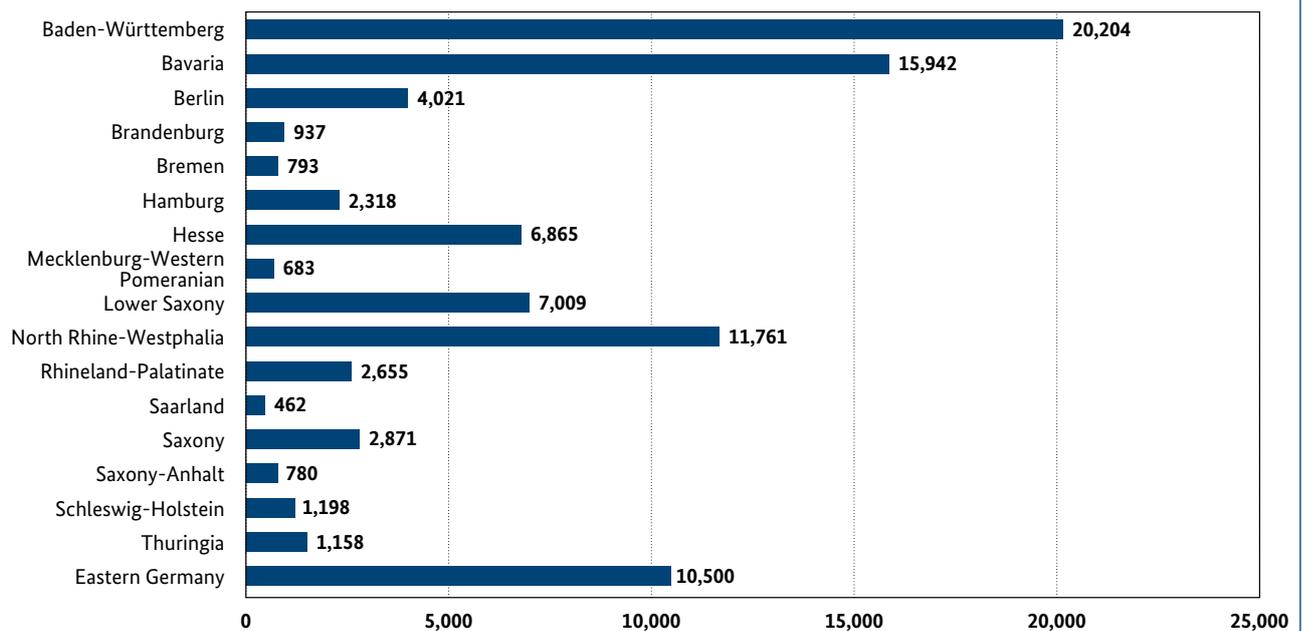


Figure 11: Research & Development expenditure in 2013 in euro/millions



Initially restricted to the structurally weak regions in the former Federal Republic since 1969 and as from 1990 transferred to the new federal states, it has had an important role in helping the regions of eastern Germany to catch up economically with the West over the past 25 years.

The primary regional policy aim of the GRW is to compensate for locational disadvantages of these less developed regions and reduce regional disparities. The structural weakness of regions is assessed on the basis of an all-German regional indicator model. Whilst the new federal states lost their maximum aid status on 1 July 2014 (start of the current aid period), they generally remain an area of assistance with subsidy status in accordance with European law governing regional assistance.

By promoting commercial investment, investment in business-relevant municipal infrastructure and measures in the area of networking and cooperation with regional stakeholders, the GRW stimulates regional growth and therefore helps create and safeguard competitive jobs in less developed regions. In this way, it is helping bring about equivalent living conditions throughout Germany. In view of its growth promotion policy, the GRW has supported many regions especially in the new federal states in the process of catching up and structural transformation.

In accordance with the importance of the GRW, the Federal Government has gradually increased the funding so that it will earmark € 624 million for the GRW in 2016. The GRW state funds have been exclusively distributed in federal states of east and west since the start of the new assistance period on 1 July 2014 according to regional structural weakness on the basis of a uniform system of calculation. In view of the special structural weakness of the new federal states, around 80% of the state funds go to the new federal states even in accordance with the new method of calculation. With this change, the GRW is already taking a path to which the government parties committed in the Coalition Agreement: since it is foreseeable that the adjustment problems in the less developed regions in east and west will continue to exist even after the Solidarity Pact 2019 comes to an end, an all-German system for economically less developed regions is to be introduced on the basis of uniform criteria throughout the country starting from 2020. The preparatory work for an assistance system of this nature is already in progress.

The set of rules upon which GRW support is founded provides the coordination framework which was agreed upon by federal and state governments for the funding period from 1 July 2014 to 31 December 2020 on the basis of EU law governing state aid. The assistance rules will be continuously further developed to further enhance the efficacy of the GRW's growth and innovation policy, such as the inclusion of a new assistance catalogue for innovative clusters in the summer of 2015.

GRW funds (government and regional aid including EFRD co-funding) totalling € 61 billion have been provided in the years from 1991 to 2014 (2014: € 1.1 billion). Of this figure, grants totalling just under € 41 billion (2014: € 0.88 billion) for investments in industry, some € 20 billion (2014: € 0.19 billion) for near-to-business infrastructure investments and € 135 million (2014: € 3.8 million) for projects on networking and cooperation of local stakeholders have been approved. The investment volume set in motion in the eastern federal states has amounted to approximately € 231 billion since 1991 (2014: € 5.4 billion).

Support possibilities and maximum rates for the GRW are closely oriented to the structural weakness or need of the respective region. One significant aspect of the new support period is to be noted with regard to support for large enterprises in C support regions. As a result of changes in regulations governing state aid, only investments in new economic activities in the respective region are still eligible for investment.

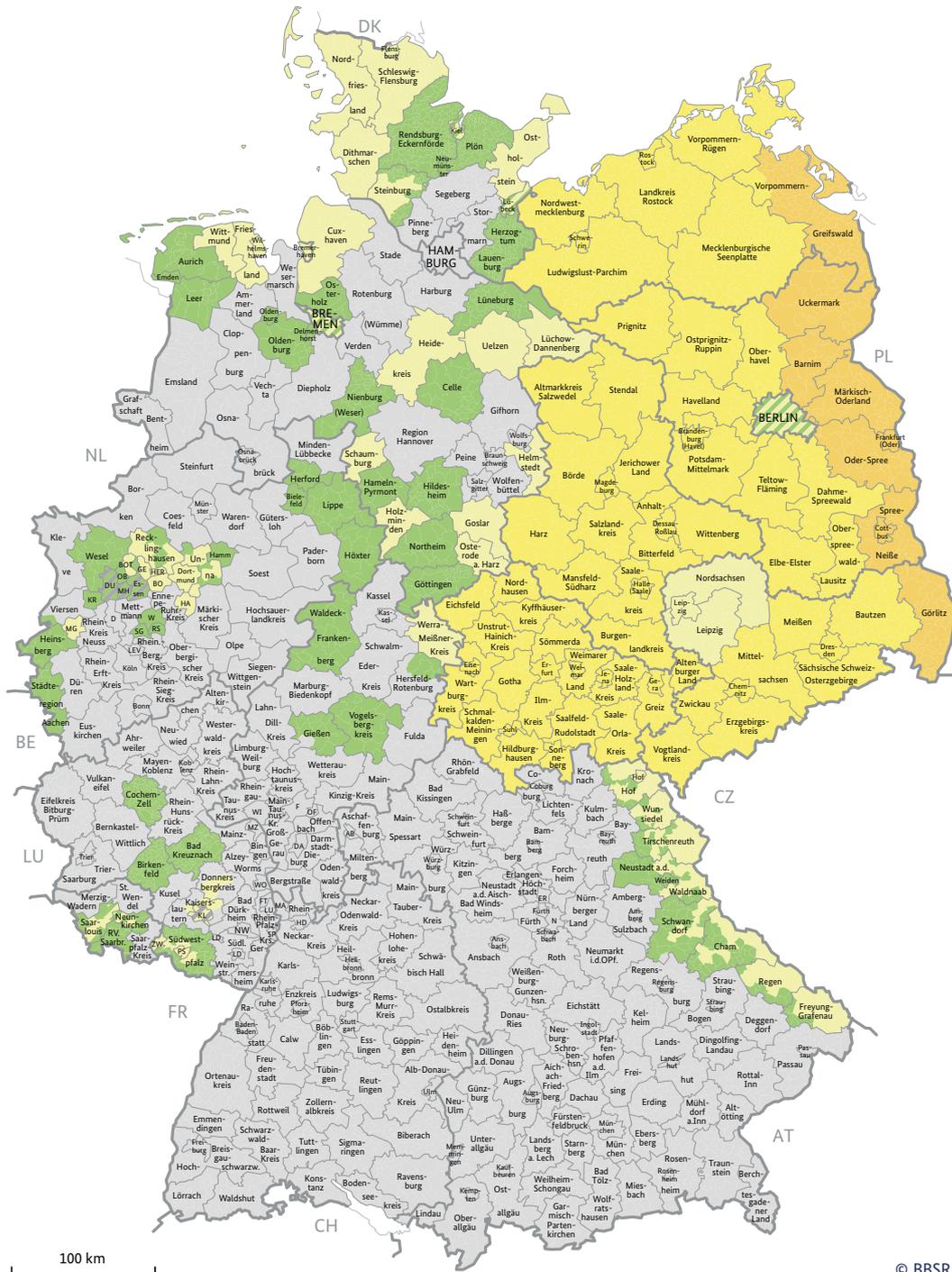
The following map (Figure 12) shows the distribution of support assigned to regions for the support period 2014–2020.

EU structural policy in support of regions

Improving the economic structure, thereby generating growth, jobs and competitiveness is not only the mission of the Federal Government, but a European objective as well. The European Structural and Investment Fund (ESI), in Germany the European Fund for Regional Development (EFRD), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Fund for Fisheries (EFF), have been established precisely for this purpose. The ESI flows especially into economically weaker regions with the aim of eliminating locational disadvantages and helping regions keep up with the pace of general economic development at the national and European levels. That is why especially eastern Germany profits from the ESI fund.

In view of the fact that in the funding period of 2007–2013, economic growth in eastern Germany picked up in comparison to the EU average, the eastern German regions with the exception of Berlin and the region of Leipzig are among the “transition regions” in the funding period 2014–2020. The intensity of funding in these regions is higher than in the other “more strongly developed” German regions. This higher intensity of funding also applies to the transition region of Lüneburg and – as outgoing phasing-out region – also to the “more strongly developed” region of Leipzig.

Figure 12: Map of GRW support areas from 2014 to 2020



© BBSR Bonn 2014

Support areas of the Joint Programme for the Improvement of Regional Economic Structures in the period from 2014 to 2020
Delineated according to municipalities

- Predefined C support area
- Predefined C support area with border supplement according to paragraph 176 of the regional guidelines
- Non-predefined C support area
- Non-predefined C support area (of which towns/municipalities in part)

- D support area
- D support area (of which towns/municipalities in part)
- Partially non-predefined C, partially D support area
- Non-support area

Database: Federal Ministry for Economic Affairs
Geometric foundation: BKG, municipalities 31.12.2011
Author: G. Lackmann

Name of district
Name of district-free town (alternatively the car number plate if there is a shortage of space)
— Border of district or district-free town
— Border of federal state

Germany's regions will receive a total of € 28.8 billion from the ESI fund in the funding period of 2014–2020. Of this figure, approximately € 13.4 billion is going to the regions of eastern Germany. The EFRD and ESF contributions amount to a total of € 18.3 billion for Germany as a whole; added to this are funds for European Territorial Cooperation (ETC) in an amount of € 900 million. Of this amount, approximately € 9 billion is earmarked for eastern Germany. Another € 9.4 billion is being channelled to Germany from the European Agricultural Fund for Rural Development (EAFRD), of which € 4.4 billion is going to eastern Germany. On top of this there are financial resources provided for under the EMFF, which amount to € 220 million. The ESI fund is co-financed with national public or private resources.

The partnership agreement for the implementation of the ESI fund in the period 2014–2020 in Germany was approved by the EU Commission on 22 May 2014. Within this framework, the individual operational programmes (federal programme ESF and regional ERDF and ESF-OPs of the federal states) have been approved by the EU Commission since September 2014. This is the crucial step for ERDF and ESF funds to be used at the federal and federal state levels. The competent federal and regional authorities are working on the requirements for the implementation of funding, the installation of administrative and monitoring systems, drafting of evaluation and communication plans and the preparation of funding guidelines and project selection criteria. The regionally adapted financial instruments of the ERDF primarily for SMEs but also for other areas of assistance play an important role here.

Funding of small and medium-sized enterprises

Access to funding may present a large challenge precisely to small and medium-sized enterprises (SMEs). This applies all the more so if the companies need to prove themselves on the market for the first time or finance high investments in innovations. The Government has therefore set up different funding programmes to compensate for these disadvantages of size and to close funding gaps. The eastern German economy benefits particularly from this because the SMEs are represented here in comparatively high number. The Government's funding and guarantee programmes can therefore provide companies in eastern Germany in particular with important stimulus even if they are aimed at companies throughout the Federal Republic.

Financing through normal bank credits is often not possible especially for small, young and innovative enterprises, as they lack the collateral and experience, or the earnings

potential of their products is difficult to estimate for providers of loans. This is especially where the financing programmes of the Federal Government help bridge gaps in financing or, in the case of a high risk estimate, make loans possible in the first place. One focal point in financing programmes is therefore in the area of funding for business start-ups. This also includes support in company take-overs due to a change in generation, something which is also becoming increasingly important for companies in eastern Germany against the backdrop of demographic change. A special priority here in the federal programmes is assigned to innovative start-ups, with this form of support being used disproportionately frequently in the new federal states and Berlin (EXIST, High-Tech Gründerfonds, INVEST). Most programmes providing financing are made available via the Kreditanstalt für Wiederaufbau (KfW). For companies from eastern Germany, the ERP³⁸ regional assistance programme is of special significance with its special conditions for growth investments in economically less developed regions. It is precisely in coping with large or difficult-to-estimate risks that guarantees can lend a helping hand. This is where the federal states' guarantee banks play a crucial role. In addition to these "classic" financing instruments, which usually offer lower interest rates, attractive terms or assume risk, funding from equity and mezzanine capital is gaining increasing importance. This includes not only support from venture capital funding, but also mezzanine financing, a hybrid made up of equity and outside loan capital, such as provided by the SME investment companies or the micro-mezzanine fund.

Supporting start-ups

Economic growth does not develop solely from the growth of successful companies. The founding of new and the support of economically threatened companies is also an important approach. The Federal Government has provided two valuable aids with this aim in mind in the form of the advisory programmes Start-up Coaching for Germany and Turn Around Consulting. These programmes have been funded from KfW resources since May 2015 and starting in 2016 will be integrated into a consistent advisory programme for small and medium sized enterprises (SMEs) at the Federal Office for Economic Affairs and Export Control (BAFA).

In the new federal states – with the exception of the Leipzig region – 75 % of funding is provided for Start-up Coaching for Germany compared with 50 % in the old federal states. The aim is primarily to secure the future viability of the start-ups through professional coaching.

In Turn Around Consulting, SMEs in economic difficulties are provided with funding for 65 % of the the advisory costs in eastern Germany compared with 50 % in western Germany. The aim is to secure the level of SMEs and to restore competitiveness and economic efficiency through external consulting services.

Promoting innovation

An efficient research infrastructure and productive corporate research and development are decisive factors for the competitiveness of companies and permanent jobs in eastern Germany. The restructuring of the economy of eastern Germany at the start of the nineties was associated with a substantial loss of in-house corporate R&D structures. R&D expenditure as a percentage of GDP is considerably smaller in eastern Germany than in western Germany. A special feature of eastern Germany is the external non-profit industrial research facilities (referred to in the following as industrial research facilities) which in many cases originated from the research departments of the former combines. The industrial research facilities which arose in the transformation process of the eastern German economy are therefore a supporting pillar in SME-dominated industrial research of eastern Germany. These facilities transfer results produced by their R&D work to companies, in particular SMEs, and serve as initiators and facilitators for regional and national networks as well as brokers between research institutions and enterprises. They are market oriented and therefore reduce the structural locational disadvantages of the eastern German economy and strengthen its competitiveness. This is because the large-scale absence of research-intensive large companies is a structural competitive disadvantage for the eastern German economy and for industrial research in particular.

The Federal Government has supported the development of an efficient R&D in the economy of the new federal states since the mid-nineties with a coordinated package of measures. These measures aimed and aim at creating and enhancing technological competitiveness of the companies of eastern Germany, restructuring near-to-industry R&D capacities, strengthening innovative SMEs and creating a near-to-business infrastructure which promotes R&D.

The resultant efficient structure must be maintained and further developed. The Government selectively promotes the federal states of eastern Germany – in addition to the assistance measures intended for Germany as a whole – with the following programmes.

The INNO-KOM-Ost programme – promotion of external non-profit industrial research facilities in eastern Germany

It was agreed in the Coalition Agreement to continue the tried and tested instrument of external non-profit industrial research facilities.

Because industrial research facilities do not receive basic funding and as non-profit institutes have to finance their work primarily from public contracts, they depend on a special funding programme.

Accordingly, the R&D support programme for external non-profit industrial research facilities in eastern Germany (INNO-KOM-Ost) is of major importance to industrial research facilities. On average, more than 50 % of their R&D assistance comes from the programme. Approximately 60 industrial research facilities are assisted by INNO-KOM-Ost. About 12 % of total industrial research staff working at SMEs in eastern Germany are concentrated in these.

INNO-KOM-Ost is specially tailored to the needs of industrial research facilities. It provides support for around 200 new projects approved annually, in particular for market-oriented research, but also initial and basic research and investment in the scientific and technical infrastructure of industrial research facilities (with a programme volume of € 65.5 million).

The programme is intended to enhance the innovative strength and competitiveness of eastern Germany and thus the economic catch-up process of this region on a permanent basis. The programme's main module is strictly oriented towards bringing funded R&D results to market, generally by means of transfer to industrial SMEs. It thus targets important weak points in the eastern German economy dominated by SMEs, satisfying an essential precondition for further intensification of innovative momentum and securing the competitiveness of eastern Germany. The second part of INNO-KOM-Ost seeks to secure preparatory research at external industrial research facilities. The third module aims at maintaining the scientific and technical infrastructure of industrial research facilities at a competitive level, thereby securing the basis for effective and efficient research work.

1,080 R&D projects with funding of around € 312 million have since been approved from the beginning of the programme in January 2009 to June 2014. Independent evaluators have endorsed the necessity, efficacy and efficiency of the programme. They have recommended that the programme be continued and opened up to similar facilities in the old federal states. An extension of the programme to economically less developed regions in western Germany is planned starting in 2017.

Entrepreneurial Regions

The Federal Government currently offers five funding programmes under the heading Entrepreneurial Regions which target various stages of the innovation process in order to take account of structural idiosyncrasies within the eastern German research landscape (many innovative SMEs, few large companies with in-house R&D departments, recognised research sites in sometimes less-developed regions). So far, more than 3,000 projects with funding of just under € 1.3 billion have been approved as part of the Entrepreneurial Regions programme:

- “Innovation forums” promote the development or re-orientation of regional innovation networks. So far, more than 170 innovation forums have received or will receive funding of up to € 85,000.
- The Innovative Regional Growth Cores or Growth Core Potential programme is intended to strengthen profit-oriented regional alliances with shared technology or unique problem-solving platforms. Fifty growth cores have been and will be funded with over 1,000 individual projects and 35 growth core potentials with over 160 individual projects, whereby in particular initiatives from Saxony have successfully applied for funding; at over € 120 million, around one third of funding goes to Saxony.
- The Centres for Innovation Competence Creating Excellence – Securing Talent programme is aimed at establishing internationally powerful research centres which set standards through excellent research, entrepreneurial strategy and innovative approaches. There are now 14 centres attracting talented researchers from Germany and other countries. Three centres conducting research in the areas of biotechnology/chemistry and medical technology/health industry have been won by Greifswald-based institutions.
- The InnoProfile or InnoProfile-Transfer programme is intended to strengthen the capacity for innovation in eastern German regions through collaboration between young researchers and regional enterprises. Some € 157 million was earmarked in the InnoProfile programme (term: 2006–2013) for 42 groups of young researchers. The InnoProfile-Transfer programme started in 2012 with the aim of creating stronger ties between regional companies and research groups by means of greater financial involvement. This follow-up programme supports 28 young researcher groups and 23 alliances from regional companies and universities or R&D facilities with a total of € 123 million.
- The Twenty20 – Partnership for Innovation programme started in 2012 with the aim of systematically building on the excellent business and research skills in eastern

Germany by means of interregional and interdisciplinary cooperation. The Federal Government primarily provides funding of up to € 500 million to ten Twenty20 project syndicates which bring together skills from science and business and which were selected by a jury in a special competition. An important aspect here is that the syndicates work together on solutions across sectoral and federal state borders for important future problems in an effort to concentrate the skills that exist in different places for a particular task. Nine Twenty20 forums are also assisted with up to € 1 million each with the aim of supporting these syndicates in their selective strategy development.

Top-level Research and Innovation in the New Federal States (2008–2014)

Since 2008, the Top-level Research and Innovation in the New Federal States programme has provided further incentive to strengthen the capacity for innovation in the new federal states, build long-term research collaborations and support universities in defining their profiles. For this purpose, 17 cross-organisational, subject-oriented networks of universities, research facilities and companies were selected and funded with almost € 230 million.

Top-level cluster competition (term: 2007–2017)

With a solid research infrastructure, eastern Germany is also successful with respect to large support measures of the Federal Government focusing on intensive cooperation between private business and research awarded on a competitive basis: the top-level cluster competition embedded in the high-tech strategy of the Federal Government was launched in 2007 and is aimed amongst other things at an internationally competitive consolidation and professionalisation of the innovation structures in regions. Two of the three clusters in eastern Germany - the microelectronic cluster, Cool Silicon, in Dresden and the photovoltaic cluster, Solarvalley, in central Germany - have in the meantime successfully completed their projects which have had funding for five years. They are carrying on with their strategy, will also be working with other top clusters in the future and already now are serving as visible anchorage sites in their region. The third eastern German cluster, BioEconomy, located in the region around Leuna and exploring renewable raw materials for industrial production, will continue to receive funding until 2017.

The Research Campus funding initiative (2011–2027)

Four of the nine research campuses in the funding initiative Research Campus – Public-Private Partnership for Innovation come from eastern Germany: the Modal – Mathematical Optimization and Data Analysis Laboratory for process optimisation and the Mobility2Grid to support a sustainable energy and mobility development by coupling intelligent networks and electromobility – both in Berlin, the medical technology research campus STIMULATE – Solution Centre for Image Guided Local Therapies in Magdeburg, and the InfectoGnostics research campus for new methods of diagnosing infections in Jena. R&D projects in the new federal states and Berlin have been funded with some € 5 million (2013 to 2014) as part of the Research Campus research initiative.

Central Innovation Programme for SMEs (ZIM) (term: 2008–2019)

The Central Innovation Programme for SMEs (ZIM) provides support for ambitious small and medium-sized businesses, resulting in new products, processes or technical services. The development work can be conducted either in a company with own staff or in cooperation with other enterprises or research facilities. Furthermore, SMEs can form networks in order to implement a joint project. Management and organisation of the networks is funded in addition to the research and development projects.

Support from ZIM helps SMEs finance research projects, thereby intensifying their involvement in the development of new products and more efficient processes. This money encourages further industry investment in R&D, having positive effects on the market and employment in the medium to long term. In many cases, cooperation in networks can make up for size-related disadvantages.

Since mid-2008, more than 31,000 applications for funding were approved, amounting to grants of more than € 4.2 billion to spur investment of more than € 8.4 billion in research and development. Over 13,400 businesses and 1,660 research institutions cooperating with them, such as technical university institutes or Fraunhofer institutes, were reached, while more than 4,000 businesses were active in innovation networks.

In view of the positive effects of the programme and many project applications worthy of assistance, the Federal Government has increased the budget for ZIM for 2015 by € 30 million to € 543 million. This will enable even more exacting projects of companies and research facilities to be funded.

ZIM is a demand-oriented programme open to all technologies and sectors. The federal states of eastern Germany participate with a disproportionately high share of 40%. The projects of the companies are predominantly concentrated on future technologies: in particular subjects such as energy and resource efficiency, nanotechnology, electromobility and new energies as well as Industry 4.0 are ones which many SMEs view to have chances of market success. As a result, increased research activities not only increase companies' competitiveness but also speed up finding solutions to technological challenges.

The project form most requested by companies is that of cooperation with research institutes. ZIM therefore plays a major role in expanding cooperation between research and business and in increasing technology transfer.

The new ZIM guideline came into force on 15 April 2015. The continuation of ZIM was agreed in the Coalition Agreement. The fundamental direction of the programme has been kept in the new guideline. Funding will be optimised under consideration of the following targets: to increase innovation potential, strengthen and simplify internationalisation and shape the programme structure transparently.

Internationalisation

Market Development Programme

The Market Development Programme for Small and Medium-sized Enterprises is intended to help businesses to develop international markets. As part of the programme, market information events, market prospecting and business contact trips are conducted for German companies, and for foreign businesses buyer and multiplier trips to Germany arranged. Depending on module, the participation rate of eastern German companies in the different measures is approximately 25% on average. In view of the existing economic structure, the participation of eastern German companies is comparatively high and positive all in all.

Germany Trade and Invest

Greater international integration of the eastern German economy is a key source of further growth. The internationalisation strategy of the Federal Government relates both to support for exports – in particular for small and medium-scale enterprises – as well as the international marketing of eastern Germany as a promising location for investment.

The development of international markets and the increase in exports provides eastern German companies with considerable growth potential and a reduced dependence on the domestic market and economy.

Germany Trade & Invest (GTAI) has supported the internationalisation of the eastern German economy particularly through location marketing since 2009³⁹. Important formats here include road shows, image-creating events, publications and advertisements. With the creation of the umbrella brand “Powerhouse Eastern Germany”, the image film “25 Jahre Mauerfall“ (25 years after the Berlin Wall fell) and the special edition on the locational advantages of all new federal states, the know-how which is specific to the east is presented and explicitly marketed as such. The recruitment of investors for the new federal states builds on this, with presentations to potential investors from selected sectors as well as follow-up advice on legal and fiscal issues and the funding opportunities. This year, the focus here is placed on China, the United States and Canada, India, Japan and South Korea.

GTAI organises company trips to set up business contacts and cooperative ventures within the framework of export promotion. This year they will be going to China, Vietnam and Romania (Transylvania). The offer is completed by a broad range of information for eastern German companies on the current situation on different international markets and trade fair participations.

New foreign investors contribute to strengthening the economic structure of eastern Germany because they bring international networks with them, open up new markets and provide new possibilities for network and cluster formation in view of the so far fragmented economic structure. As a result of selectively addressing foreign investors from sectors in which successful clusters or networks have already been formed, the endeavours of the Federal Government to promote innovation and industrial research facilities in eastern Germany are used to mitigate the structural competitive disadvantage of the eastern German economy. The industrial research facilities are an incentive to interest innovative sectors in eastern Germany as an industrial location.

The specific regional advantages are to be given greater prominence through the close collaboration of Germany Trade and Invest with the economic promotion companies of the new federal states both in the investor conferences and in trade fair appearances and business reconnaissance trips.

Development of a funding system from 2020

On expiry of the Solidarity Pact II at the end of 2019, the agreements between Federal Government and the federal states also come to an end according to which the reconstruction programme for eastern Germany is supported with disproportionately high funding by the Government in the policy fields of economy, innovation/education, transport, housing and urban construction, ecological contaminated site remediation and sport (basket II of the Solidarity Pact II). Despite the progress made in the reconstruction of eastern Germany and in the handling of the structural transformation in old industrialised and rural regions of the old federal states, considerable regional disparities continue to exist in Germany. The regional disparities can be expected to sharpen in the coming years as a result of globalisation and demographic change in particular.

It will therefore be necessary to support economically less developed regions after the Solidarity Pact II expires in order to create equivalent living conditions throughout Germany. To this end, the Federal Government in coordination with the federal states will develop an all-German funding system to eliminate the existing differences in east and west. The Federal Government decided on the key issues here at the beginning of May 2015. With these key issues for a comprehensive and integrated all-German funding system, it clarifies its regional policy responsibility also for the period beyond 2020. The central elements of the key issues paper are as follows:

- Measures to strengthen the growth and innovation potential of economically less developed regions. These include an extended Joint Programme for the Improvement of Regional Economic Structures/GRW which will be supplemented by further programmes to support economic strength. Further measures also include programmes to promote innovation with instruments of business and region-oriented innovation support.
- Measures to promote the infrastructure and provision of essential community services. These include measures for the basic provision of services in the development of broadband, the further development of the community task of improving the agricultural structure and coastal protection and to improve urban attractiveness.

The regional indicator model of the GRW which facilitates an assessment of the economic structural weakness of the German regions using national standard criteria could serve as a starting point to distinguish structurally weak regions. However, this does not rule out programmes using

39 The establishment of the New German Länder Industrial Investment Council (IIC) by the Federal Government and the new federal states back in 1997 pursued the objective of winning foreign investors for eastern Germany and thus creating jobs in industry and services. The GTAI originated from the IIC and other organisations in 2009

other regional distinctions to shape funding conditions for regions requiring special assistance. The common denominator of the funding system instruments is that they are either aimed exclusively at economically less developed regions, have funding preferences for economically less developed regions or that a disproportionately high level of funding flows to these regions.

In further developing the funding system, the Federal Government wishes to support economically less developed regions in Germany as part of an integrated approach which includes the following elements: multi-year funding provisions, report on the status of economically less developed regions, evaluation of the impact made by the funding system, inter-ministerial working group.

The key issues have been communicated to the federal states; the further specification of content of the individual programmes set out in the key issues will first be possible once the discussions on the restructuring of the financial relationships between the Federal Government and the federal states have been brought to an end. The significance of promoting economically less developed regions in eastern and western federal states will have to be given equal consideration here. In their position paper on the restructuring of the financial relationships between the Federal Government and the federal states of May 2015, the heads of the eastern federal states pointed out the significance of promoting economically less developed regions in the eastern and western federal states.

Development of the labour market

The development of registered unemployment has been statistically documented for a unified Germany as from 1991 on the base of annual average figures. There were 2.6 million job seekers in 1991. The figure rose from year to year to encompass almost 4.4 million people seeking work in 1997. Following an ensuing downward trend, a phase of rising unemployment figures started anew in 2003 which peaked in 2005 with almost 4.9 million registered unemployed. The merging of welfare assistance and unemployment benefit to produce a basic benefit for job seekers (introduction of SGB II) contributed to the rise in 2005 because this resulted in more people being registered as unemployed. It was possible to achieve a distinct decline in unemployment in subsequent years. In 2014, the number of persons registered unemployed was around 2.9 million with an unemployment rate of 6.7%.

In eastern Germany, the number of registered unemployed of 1.0 million in 1991 increased to 1.5 million in 1997, after which this rise slowed down. Eastern Germany reached the highest level of registered unemployed of 1.6 million people in 2003. Only starting in 2006 could clear successes in

the reduction of unemployment be achieved: the number of unemployed in eastern Germany has since steadily receded and, at 0.8 million people in 2014, was therefore 18% lower than in 1991. The unemployment rate in eastern Germany dropped within 20 years (1994–2014) from 14.8% to 9.8%.

The unemployment rate in eastern Germany continues to be above the western German level but the gap has narrowed considerably: at 8.1% in 1994, the rate in western Germany was almost 7 percentage points lower than in eastern Germany. The greatest gap was measured in the period 2001 to 2003 with almost 10 percentage points separating eastern and western Germany. The difference had narrowed to just under 4 percentage points by 2014. Whilst many eastern federal states continue to have higher unemployment rates than the western federal states, the regional differences within the two regions are now more distinct than the differences in the levels between eastern and western Germany.

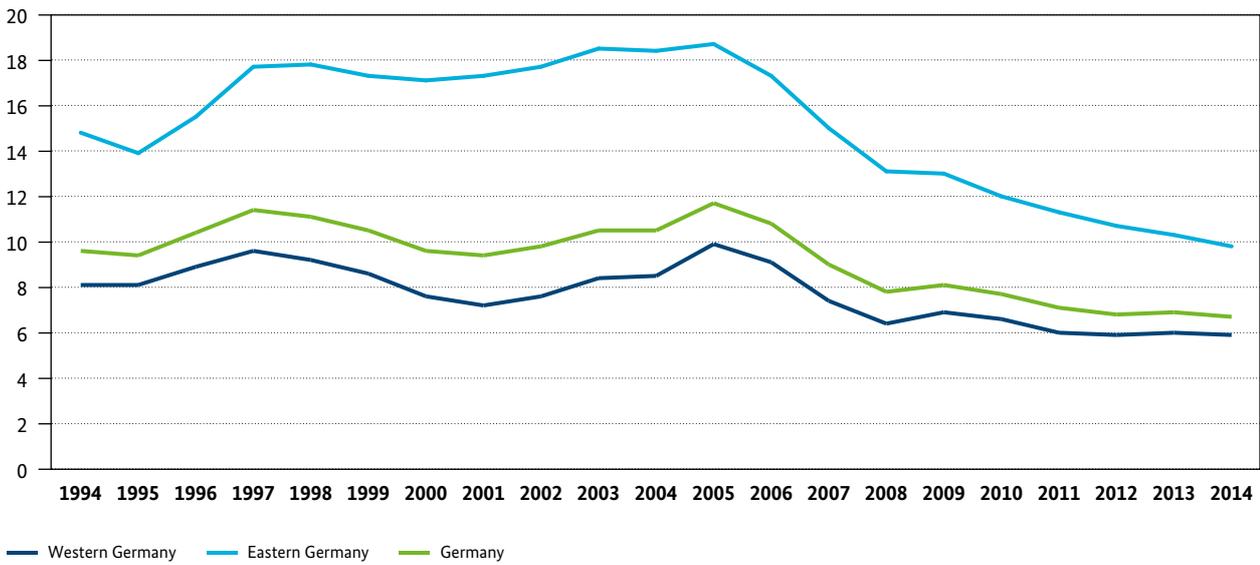
The unemployment rates of younger people (15–24 years of age) are constantly at a somewhat lower level in eastern and in western Germany than the unemployment rate as a whole. In 2014, the rate for young people in eastern Germany was 8.9%, in western Germany 5.1% and therefore 0.9 and 0.8 percentage points respectively below the unemployment rate as a whole. The group of older employees (50–64 years of age) has a somewhat higher unemployment rate compared with the population.

In the nineties the unemployment rate for women in eastern Germany was above that for the men, contrary to the figures in western Germany. Only since 2001 has the unemployment rate for women been below that for the men also in eastern Germany (2014: 9.3% compared with 10.1%).

The number of unemployed who have been registered without work for longer than 12 months continues to decline in eastern Germany. As an annual average, around 306,000 people were long-term unemployed in 2014. The number of long-term unemployed has therefore dropped by some 155,000 people compared with 2008 (approximately 34%). Nationwide, the number of long-term unemployed dropped between 2008 and 2014 by around 250,000 people (19%).

Around 37% of eastern German unemployed were long-term unemployed in 2014, which is almost 4 percentage points less than in 2008. The long-term unemployed as a percentage of all unemployed persons in eastern Germany was therefore on par with the western Germany level (2014: 37%); the decline since 2008 has been somewhat weaker in western Germany, however (-3 percentage points).

Figure 13: Unemployment trend from 1994 to 2014
as a percentage



Source: Own presentation based on statistics from the Federal Employment Agency (Bundesagentur für Arbeit)

Reducing long-term unemployment

In November 2014, the Federal Government presented its Creating Opportunities - Social Participation concept which is aimed at reducing long-term unemployment. The concept is intended to contribute to the sustainable reduction in the number of long-term unemployed people and to this end contains a broad-based package of measures with different focal areas, target groups and approaches. The concept includes a federal programme for long-term unemployed furthest removed from the labour market as part of the European Social Fund (ESF) and a federal programme for the social participation in the labour market.

ESF – Federal programme for the integration of long-term unemployed beneficiaries as defined in the second volume of the German Social Code (SGB II) on the general labour market

With the assistance of the programme, long-term beneficiaries of unemployment benefits with and without completed work training are to be given intensive support in their integration into the general labour market. Focus is placed on selectively approaching and advising employers, employee coaching also after they have commenced employment and structured wage cost allowances on a declining scale.

The ESF federal programme has already been in operation in the job centres since the second quarter of 2015. All in all, 341 job centres participate in the programme, including 56 job centres in eastern Germany (excluding Berlin).

A total of € 885 million for the programme is provided by the European Social Fund (€ 470 million) and the SGB II integration title (€ 415 million) as funding beyond 2015 probably up to 2020. For the current ESF funding period, the eastern federal states, with the exception of the regions of Leipzig and Berlin, have been classified as transitional regions. The federal states in eastern Germany therefore benefit particularly from this programme.

Federal programme for social participation in the labour market

With its programme for social participation in the labour market (since May 2015), the Federal Government for the first time places focal emphasis on the aspect of social participation. It is aimed at people who are furthest from the labour market, have drawn benefits for at least four years and who either have health restrictions or live in a joint household with children. The objective of the programme is to create social participation through subsidised employment and to improve the opportunities for the long-term unemployed in normal employment. To this end, around 10,000 employment relationships subject to mandatory social insurance, which are also competition-neutral and in the public interest, are subsidised. Flanking measures on the part of the job centres and other stakeholders, primarily the local authorities, are also necessary in addition to the state support, in the form of job preparatory and support measures.

The programme is a model intended to provide information on how to structure approaches to create social participation. An accompanying evaluation will be conducted

here. All job centres were able in principle to apply for participation in the programme. The programme is neither restricted to individual regions nor is a specific proportional representation envisaged, for example according to federal states. After the end of the participation competition, a total of 105 job centres, 36 of which in eastern Germany, were selected to participate in the programme.

Apprenticeship market

The end of the socialist planned economy and privatisation of the formerly state-owned enterprises also led to a completely new orientation of vocational training in eastern Germany. The first half of the nineties was characterised by the adjustment to the new applicable vocational training law and its transformation to a free market system determined by supply and demand.

The free market adjustment processes and the resultant large economic upheaval meant that many large enterprises in eastern Germany, in which vocational training was concentrated in GDR times, could not financially survive. The loss of apprenticeship places could not be compensated entirely by the newly formed companies.

The change in the period of apprenticeship from an average of two years to three to three and a half years was also new, calling for additional training capacities.

Against this background, the Federal Government made an important contribution to a continuous provision of training and ensured that young people in eastern Germany could be given a perspective in life through its joint reconstruction programme for the east – *Aufbau Ost* – in 1991 and 1992, the apprenticeship promotion programme for the east linked in with it, and the accelerated expansion of cross-industry training.

The state support provided to eastern Germany meant that it was possible to offer young people an apprenticeship in the nineties in the majority of cases. The share of non-company places and other state funded company places was around 60%, however, so that industry was far away from providing training autonomously at that time.

The process towards a self-sustaining training market in eastern Germany is long. Even in 2015 it has not yet been entirely completed although clear progress has been made. The share of non-company apprenticeships declined distinctly after 2010. In 2014, it was only 8.7%. The relationship between those seeking an apprenticeship and existing places is more or less balanced. Demographic change has made a substantial contribution to this trend. Whilst in 1999, some 160,000 young people were seeking an apprenticeship, the figure was less than 78,000 by 2014.

The number of school leavers who come into question for company or college training has now stabilised at a low level. A slight increase is even expected again in eastern Germany by 2025.

On the training market this year, the number of new apprentices taken on both in eastern and western Germany has dropped. By the end of September 2014, a total of 522,232 apprenticeship contracts had been signed throughout the country. In eastern Germany the number of new apprenticeship contracts dropped by 920 (-1.2%) to 73,324, and in western Germany by 6,390 (-1.4%) to 448,908. In the same period, the number of vacant apprenticeship places increased once again, in eastern Germany by 430 to 6,657 (western Germany: + 2,922 to 30,361). This was contrasted in eastern Germany by 4,088 applicants who did not find a place or found an alternative. This figure declined by 433 in the previous year comparison. By contrast, a slight rise of 273 to 16,574 was recorded in western Germany.

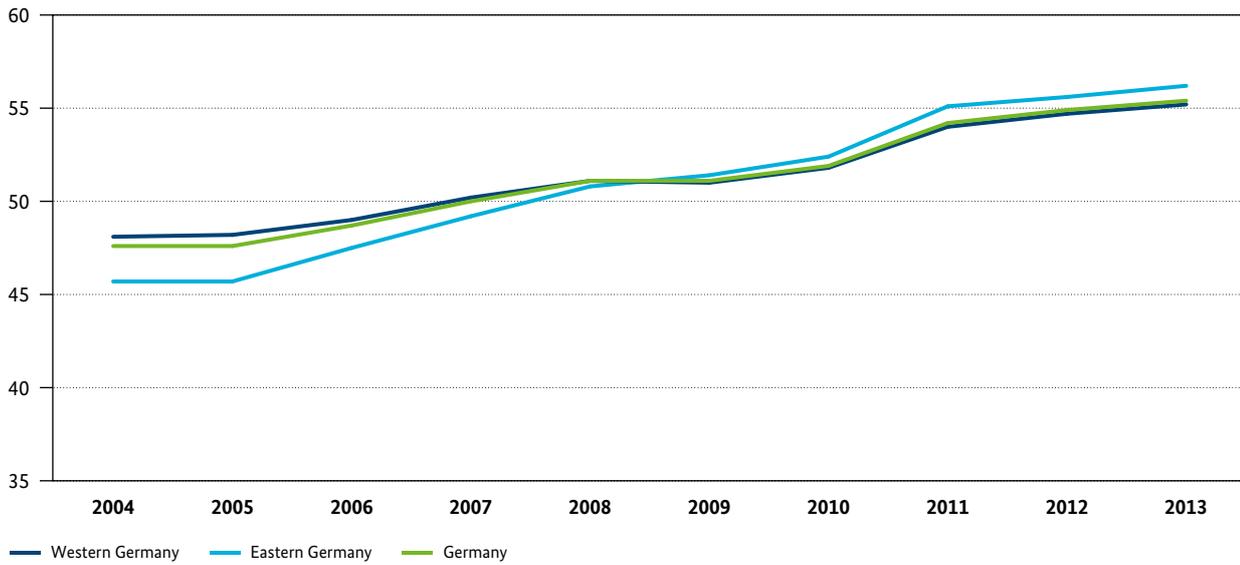
Federal Government, Federal Employment Agency, industry, trade unions and federal states entered into the training alliance at the end of 2014 with the objective of strengthening the dual training path and making it more attractive for young people. All alliance partners are making substantial contributions in the endeavour to jointly prepare the dual training path for the future. Every person interested in vocational training is to be shown a “path” which can lead him or her to a vocational qualification as early as possible. Two central measures have already been launched by the Federal Government: the statutory foundation for the expansion of assistance which accompanies training and came into force on 1 May 2015, and for the new support instrument of assisted vocational training. Assisted vocational training enables disadvantaged young people and their training companies to be supported intensively and continuously before and during a company apprenticeship.

Higher Education Pact

With the Higher Education Pact 2020, Federal Government and federal states invest additional funds in extending study possibilities and therefore provide a suitable response to a growing demand for higher education places. The aim is to provide the younger generation with the possibility to study in higher education, ensure that there are enough up-and-coming researchers and boost Germany’s innovative power.

The Higher Education Pact 2020 consists of a programme to accept additional new students who are provided a high quality range of courses in line with requirements through additional staff, and programme funding for successful competitive university research (€ 1.6 billion Government funds between 2011 and 2015) with financial assistance

Figure 14: Development of number of employees subject to mandatory social insurance from 2004 to 2013 as a percentage



Source: Own presentation based on statistics from the Federal Employment Agency (Bundesagentur für Arbeit)

from the German Research Foundation (DFG). In the period from 2011 to 2015, the Federal Government contributed a total of € 7.234 billion to the costs of expanding the study opportunities in Germany. Of this figure, € 1.007 billion is intended for the new federal states, and € 1.689 billion including Berlin.

The new federal states benefit disproportionately from the Higher Education Pact: the percentage of federal funds being channelled to the new federal states (excluding Berlin 13.9%; including Berlin 23.3%) is greater than the percentage of persons enrolling to study for the first time at schools of higher learning in the new federal states according to a KMK estimate from 2014 (excluding Berlin 11.3%; including Berlin 17.5%).

The third and final phase of the Higher Education Pact 2020 was adopted by the Federal Government and the federal states on 11 December 2014 and came into force at the beginning of 2015. In the third programme phase of the Higher Education Pact, Federal Government and federal states will provide study courses for some 760,000 additional new students by 2020 compared with 2005. This will ensure a demand-based offer of courses into the future. The universities thus have planning certainty throughout the entire third funding phase, including full funding to 2023.

Above and beyond this, the Federal Government has extended its support for the marketing campaign to promote studying in eastern Germany, providing an additional € 6 million by 2015. Total support from the Federal Government for the higher education marketing campaign amounted to approximately € 22 million over the period 2008–2015.

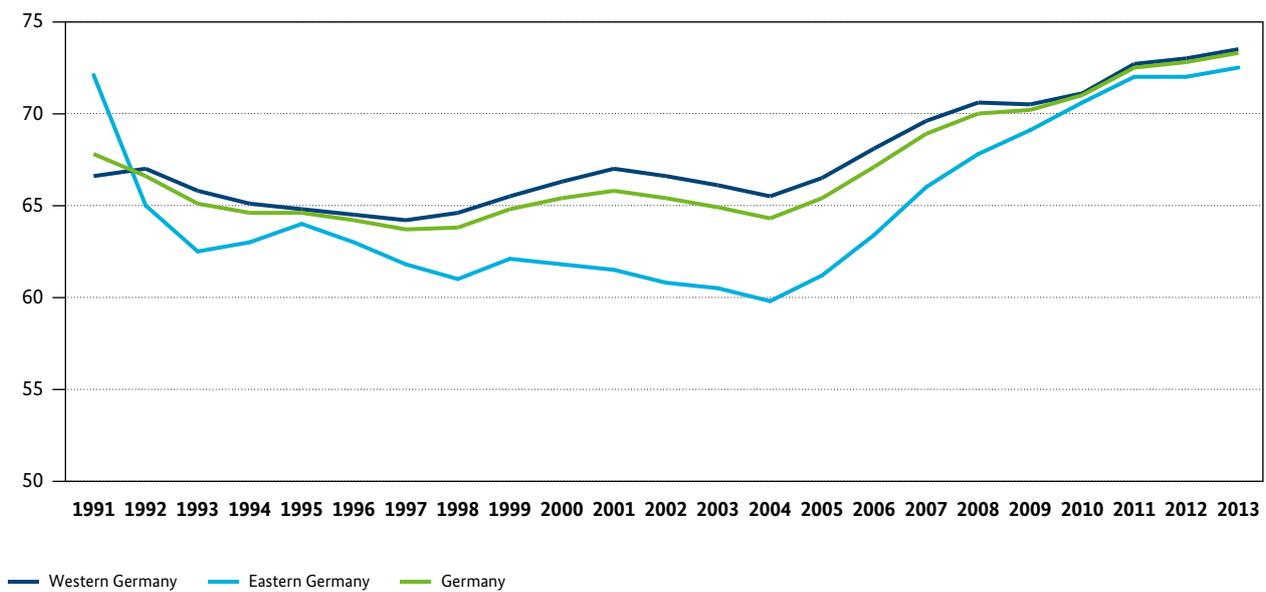
Employment and available jobs

Over the past ten years, the number of employees subject to mandatory social insurance in the eastern federal states has risen by 11% (2004 to 2014; key date 30 June). In June 2014, almost 5.7 million people in eastern Germany had jobs subject to mandatory social insurance. The rise was somewhat smaller than in western Germany where in the same period the number of employees subject to mandatory social insurance increased by 14.4% to around 24.5 million.

At + 11.3%, female employees benefited from the rise in employment in eastern Germany somewhat more than men at 10.6%. The percentage of women in all employees subject to mandatory social insurance is currently just under 50%. In western Germany, the gender-specific differences in the employment trend are even clearer: whilst the number of male employees subject to mandatory social insurance rose by 11.3%, the number of female employees in 2014 was 18.4% higher. Some 45% of all employees subject to mandatory social insurance in western Germany are now women with a large portion in part-time work.

The percentage of employees subject to mandatory social insurance in the population (key date 31 December; 15–64 year olds) increased more steeply in eastern Germany from 2004 to 2013 than in western Germany, and at some 56%, is even at a somewhat higher level than in western Germany with some 55%. However, the employment level at the beginning of the nineties is no longer achieved in east Germany today. At that time there were still more than 6 million employees subject to mandatory social insurance in eastern Germany – albeit also with a larger population.

Figure 15: Employment trend from 1991 to 2014
as a percentage



Source: Own presentation based on statistics from the Federal Employment Agency (Bundesagentur für Arbeit)

According to analyses of the micro-census, the number of people in gainful employment between 15 and 64 years of age in 2013 totalled almost 39 million, of which almost 7.5 million were in eastern Germany. In 1991, the working population still totalled some 8.8 million. This corresponds to a decline of almost 18%. The decline was more distinct amongst the men than the women (-20.4% versus -14.6%). The decline in the number of gainfully employed may essentially be explained by migration and the ageing of the population.

In terms of population size, more people are currently in gainful employment in eastern Germany than in 1991: the employment level (i.e. people in gainful employment as a percentage of the respective total population) rose in the same period in eastern Germany from 72.1% to 72.5%. Distinct differences between the genders are also apparent here (increase in the working population for women by 3.8 percentage points, reduction for the men by 3.3 percentage points).

In western Germany, the working population rose during the same period by 9.3% to a current 31.3 million people in gainful employment. This trend is essentially influenced by the steeper increase in the inclination of western German woman to take up gainful employment (22% more females in the working population). At 68.5%, the employment levels for women in the working population of western

Germany have now almost reached the level of eastern German women of 70.0%.

Since the start of all-German statistics of reported vacant jobs in 1991, the majority of the vacant positions is reported for the old federal states. However, the development in the old and new federal states was not parallel. In 2000,⁴⁰ the number of vacant jobs reported in western Germany was just under 400,000. Following declines up to 2004 and subsequent increases, just as many vacant jobs had been reported to the Federal Employment Agency on annual average for 2014 than in the year 2000. The trend has been distinctly more favourable in eastern Germany. From 2000 to 2014, the vacant jobs registered have doubled from some 47,000 to 94,000. The vacant jobs registered in eastern Germany as a percentage of all vacant jobs registered nationwide is currently just under 20%. This is a clear change compared to the year 2000; at that time only some 11% of all jobs were offered in eastern Germany. The distribution of vacant jobs registered over eastern and western Germany therefore corresponds approximately to the distribution of employees subject to mandatory social insurance (some 19% of all employees subject to mandatory social insurance worked in eastern Germany in 2014).

The jobs available in the entire economy, which also covers jobs⁴¹ which are not registered with the job agencies, numbered around 235,000 in the fourth quarter of 2014 for

40 Data are available for vacant jobs registered for the primary labour market as from 2000; the data from 1991 also contains jobs on the secondary labour market.

41 The jobs available in the entire economy are determined on a quarterly basis by a representative survey of business conducted by the Institut für Arbeitsmarkt- und Berufsforschung (IAB). HR managers are asked particularly about the number and structure of their vacant jobs and on job filling procedures in the 12 months before the survey period.

eastern Germany. This is more than double compared with the fourth quarter of 2005⁴². By comparison: in western Germany there was an almost 20% increase in vacant jobs between the two quarters. All in all, there is currently a high level of jobs available in the entire economy and this is currently also illustrated by a somewhat more favourable development in eastern than in western Germany.

Education and further training

The further training support provided as a matter of labour market policy over the past 25 years has made a substantial contribution to cushioning the deep structural changes on the labour market in the new federal states. Whilst the formal qualification level in the GDR was comparatively high, the fundamental rebuilding of the economic structure frequently called for new and other qualifications. Further training measures enabled workers to update and adapt the vocational skills they had acquired in GDR times, and the funding of occupational retraining also opened up new work perspectives. In an effort to provide broader access to further training in the new federal states, funding was accompanied by special regulations. At times, more than 750,000 unemployed people in eastern Germany took part in further training and occupational retraining measures. In the period from 1992 to 2014, this was a total of some 4.3 million unemployed people in the new federal states alone. However, the newly acquired qualifications could not always protect against unemployment due to the reduction in employment levels particularly in the initial years of reunification. In many cases, this led to “training in reserve” with the necessity to adjust further training funding better to the framework conditions on the labour market.

The situation has now changed greatly. In view of the demographic shift, the number of people in gainful employment will shrink distinctly by 2030. A pronounced decline is to be expected distinctly earlier particularly in eastern Germany compared to elsewhere.

For the Federal Government therefore, education and further training continue to be central elements of labour market policy and of great importance to secure skilled labour now and in the future. The Federal Government contributes in different ways to achieving the objective of securing the skilled labour base, which includes the intensification of vocational education and training. The Act on Improving the Integration Opportunities on the Labour Market, which essentially came into force on 1 April

2012, further developed the further training assistance anchored in the Third Volume of the Social Code particularly with respect to the further training opportunities provided to employees. The special programmes of the Federal Employment Agency, which are specially geared to assisting in catching up on work qualifications, will be further continued in 2015 with the Initiative to Accompany Structural Change (IFLAS) and the Further Training of the Low-qualified and Older Employees in Companies (WeGebAU). They also offer incentives to employers in the old and new federal states alike to step up their commitment to help young adults catch up on their qualifications. In February 2013, the Federal Government launched the joint initiative on education and training for late starters “AusBILDUNG wird was – Spätstarter gesucht”. The aim between 2013 and 2015 is to motivate a total of 100,000 young adults without vocational qualifications to catch up. Since the start of the initiative up to December 2014, some 66,600 young people aged between 25 and 35 have embarked on vocational qualification courses nationwide. According to the Federal Employment Agency, 13,300 of these young people came from the new federal states (excluding Berlin).

Securing of skilled labour

In view of the demographic shift, the number of people in gainful employment will decline distinctly by 2030. There are large major regional differences within Germany, however. A more pronounced decline in the workforce potential is to be expected distinctly earlier in eastern Germany in particular compared to the western federal states. According to forecasts, the eastern federal states (excluding Berlin) will have lost between 10.4 and 15.1% of their workforce potential by 2030. Declines of between 1.6 and 4.4% are forecast in the federal states of western Germany. The only exception is Saarland with a decline in the labour force of 10.1%. Only Hamburg will have a small increase of 0.1%.^{43,44}

According to representative data from the IAB Business Survey, the number of new hires in eastern Germany rose up to June 2014 compared with the previous year period by 55,000 to 340,000. At the same time, at 25,000, the number of jobs on offer which could not be filled rose slightly in the first six months of 2014. 37% of businesses had unfilled positions at this time (western Germany 34%). The construction industry and near-to-business services were affected in particular. The large businesses also had difficulties considerably less frequently in filling positions than the smaller

42 Starting from 2005, data on vacant jobs in the primary labour market are provided in the IAB survey on the jobs available in the entire economy; the data from 1991 also contains jobs on the secondary labour market.

43 Arbeitsmarkt 2030. Die Bedeutung der Zuwanderung für Beschäftigung und Wachstum. Prognose 2014.

44 Vogler-Ludwig, Kurt et al. (2015): Arbeitsmarkt 2030. Die Bedeutung der Zuwanderung für Beschäftigung und Wachstum. Prognose 2014. WBV

ones. Looking to the future, 82 % of eastern German businesses planning to take on new employees in the coming two years were expecting difficulties in finding suitable candidates (76 % in western Germany).⁴⁵

Although there is no acute national shortage of skilled labour in Germany, there are bottlenecks in skilled labour with regard to certain qualifications, regions and sectors. According to an analysis of bottlenecks by the Federal Employment Agency, this includes occupations that require vocational qualifications (for example an energy technician or geriatric nurse) or a university degree (for example, a mechanical engineer or doctor).⁴⁶

This is why wide-ranging steps already need to be taken now. The main aspects here are to encourage consideration of the future career path at an early stage whilst at school, to provide support to students in their future choice of occupation and to accompanying them during the period of training. This prevents school and training drop-outs and thus makes better use of the potential of young people to secure the skilled workforce. Accordingly, the Education Chains initiative facilitates the transition from school to vocational training for young people through a coherent overall architecture of support instruments.

In June 2011, the Federal Government adopted the concept to secure the skilled workforce with objectives and measures along the following paths:

- (1) Activation and securing employment
- (2) Better compatibility of family and career
- (3) Educational opportunities for all from the outset
- (4) Qualification: education and further training
- (5) Integration and qualified migration.

This concept follows the guiding principle according to which all potential must be exploited to secure the skilled workforce. In addition to activating and promoting domestic potential, it is also aimed at attracting skilled workers from abroad through qualified migration. The objectives and measures of the Federal Government are regularly reviewed by the departmental working group on skilled workers for the future and the measures further developed. The resultant most current and third progress report on the skilled workforce concept was published in February 2015. The next progress report is to follow in 2017.

Small and medium sized enterprises (SMEs) in particular are affected by skilled workforce bottlenecks. The Federal Government therefore supports the Competence Centre for the Securing of the Skilled Workforce (KOFA), which provides assistance in finding and keeping skilled workers. Companies find a broad bandwidth of practical recommendations and best practice examples on the topic of securing skilled workers on the internet portal www.kofa.de.

With its innovation programme JOBSTARTER plus, the Federal Government also promotes the direct support of businesses and applicants in the form of external training management. The aim in particular is to secure a skilled workforce for the SMEs on a permanent basis by providing support in the maintenance and expansion of their participation in training.

A further module is the assistance programme Perfect Fit which supports small and medium sized enterprises in filling their apprenticeship places perfectly and in the integration of foreign skilled workers. The Federal Government, co-funded by the European Social Fund (ESF) and in cooperation with the Federal Office for Economic Affairs and Export Control (BAFA) and the German Confederation of Skilled Crafts (ZDH), supports some 190 advisers in chambers and other industrial organisations. They advise SMEs on perfect matches for their apprenticeship places with German youth by creating profiles of apprenticeships and desired apprentice places and making a pre-selection of eligible young candidates. Furthermore, they advise and support them in the integration of foreign apprentices, particularly from EU Member States and foreign skilled workers and in the creation of a welcoming culture.

In order to give the securing of a skilled workforce new momentum, BMAS, BMWi, BMBF, Federal Employment Agency (BA), BDA, DGB, IG Metall, IG Bergbau, Chemie, Energie, DIHK and ZDH have initiated the Partnership for Skilled Workers in Germany. The aim is to recognise and mobilise existing potential even better. Emphasis is placed here on the four most important groups with potential: women, older people, people with a migration background and the low qualified. Topics include the compatibility of family and career, employment and qualification of older employees, possibilities for young people interested in an apprenticeship, maintenance of suitability for the labour market and handling the transformation in the employment world as well as the furtherance and welcoming of employees with a migrant background.

45 IAB Betriebspanel Ostdeutschland 2014, Ergebnisse der 19. Welle, May 2015.

46 Federal Employment Agency (2015): Fachkräfteengpassanalyse, July 2105, Nuremberg.

A number of existing offers and the better dissemination of best practice examples from everyday corporate life are of prime importance here. With this partnership in mind, a decentralised skilled labour week will therefore be taking place throughout the nation in October 2015 which highlights attractive working conditions and the securing of employability as success factors in the securing of a skilled workforce.

A new flexibility compromise is required to permit both women and men to adapt their working hours to their life situation. Life-phase-oriented working time models can help people to determine family and work phases themselves and shape the transition to retirement. Furthermore, entrepreneurial offers can contribute to securing skilled workers and enhance the motivation of employees. Good staff leadership and an appropriate corporate culture continue to be important here.

It is also necessary to be attractive for international skilled labour and to promote migration from abroad - both from the EU and from third countries. In recent years the legal framework for the migration of skilled workers from third countries has already been set. Examples of this are the introduction of the Blue EU Card on 1 August 2012 and the restructuring of the Employment Ordinance which came into force on 1 July 2013.

However, the attractiveness of a country for potential migrants is not defined exclusively by lowering the legal hurdles for qualified migration, but also by a real welcoming culture which belongs to an open society and economy whilst at the same time representing an important step towards securing Germany's future.

The welcome portal Make it in Germany, which is one element of the skilled labour offensive initiated by the BMWi, BMAS and BA, has been providing information to skilled workers abroad on living and working in Germany since June 2012. The aim is to kindle interest of international skilled workers in Germany and to enhance the attractiveness of Germany in the competition for bright minds. The portal brings together existing ranges of services. By the end of August 2015, approximately 8.4 million people, 90% from abroad, had visited the Make it in Germany website and found out about migration opportunities and Germany.

As part of the process to implement the Federal Government's demography strategy, measures are brought together in the Exploiting Foreign Labour Potential and Creating a Welcoming Culture working group and new measures drafted with the objective of attracting international skilled workers and students to Germany and supporting their integration. The willingness of SMEs to hire international skilled workers is also to be increased and the welcoming culture in industry and administration promoted. The corporate

award Diversity for Success has been designed with this aim in mind and honours SMEs who have already developed successful and innovative methods to attract international skilled workers and establish a welcoming culture in their companies. The award winners are role models for other companies. The promotion of the welcoming culture and the integration of (qualified) migrants are important aspects which must be shaped jointly by society, politics, administration and industry.

As a measure of the Federal Government's demography strategy, the hotline is operated jointly by the Federal Office for Migration and Refugees (BAMF) and the Federal Employment Agency (BA) as part of inter-ministerial cooperation between the Federal Ministry for Economic Affairs and Energy (BMWi), the Federal Ministry of the Interior (BMI), the Federal Ministry of Education and Research (BMBWF) and the BA. It flanks the existing offers of www.make-it-in-germany.com, www.anerkennung-in-deutschland.de, www.bamf.de, www.arbeitsagentur.de and www.zav.de.

According to the Bertelsmann study Welcoming Culture in Germany – Representative Survey in 2015, the scepticism towards migration has recently increased in the new federal states. Whilst there was no mentionable difference between the old and new federal states in terms of attitude toward migration in 2012, by 2015 a higher percentage of those asked from the new federal states tended to take a more critical view of migration. Particularly against the backdrop of demographic change, which especially affects the new federal states, the acceptance of migration must be increased and the attractiveness of companies and regions for young people and skilled labour from abroad improved.

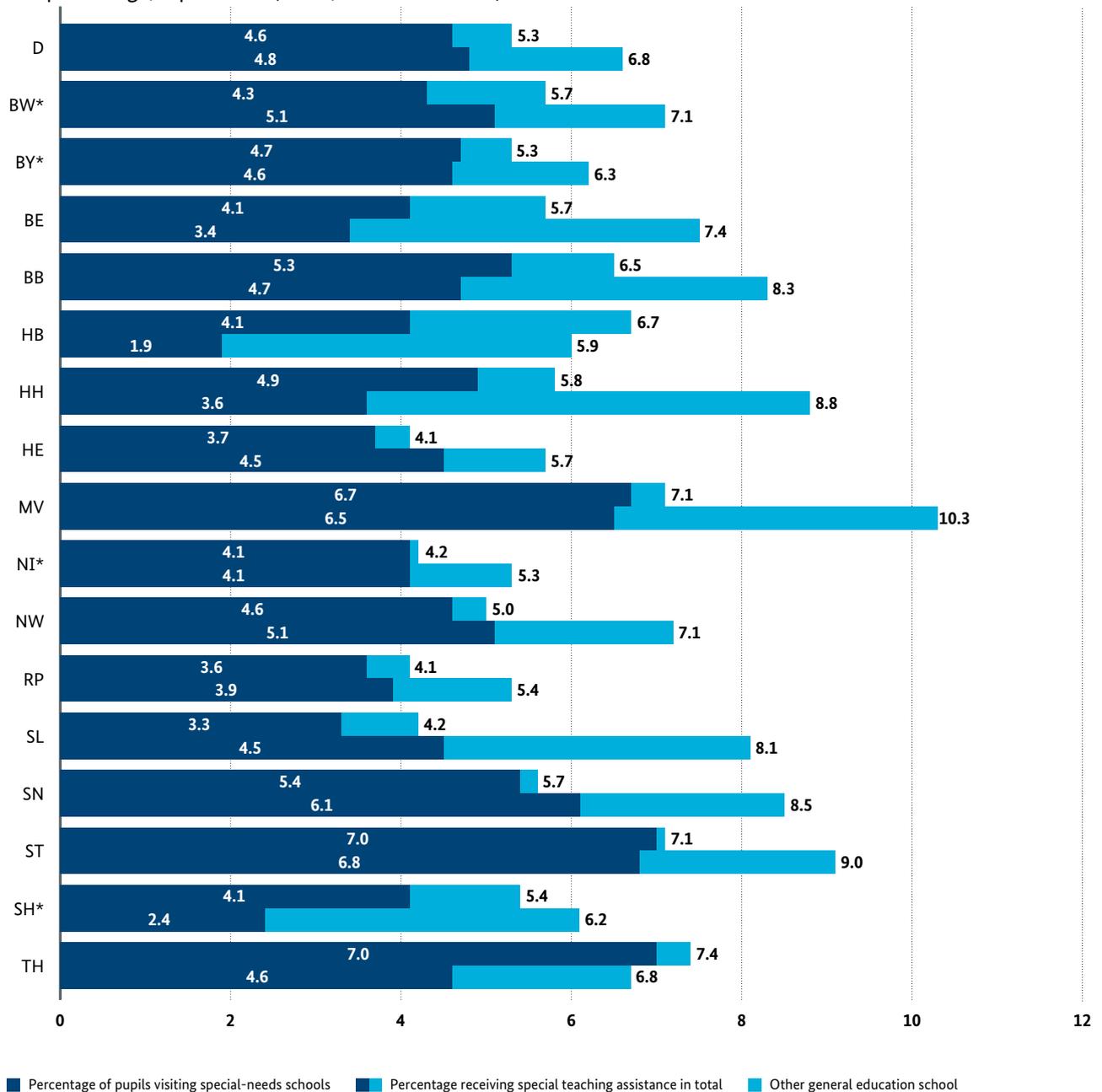
The Federal Government Commissioner for the New Federal States, in cooperation with the Donors' Association for the Promotion of Sciences and Humanities in Germany, therefore launched the initiative Study & Work – Regional Networks to Integrate International Students on 21 January 2015. The aim of the initiative is to help international students successfully complete their courses better than has so far been the case and to support them in integration in the regional labour market. The social and professional integration of foreign qualified professionals is therefore to be improved whilst simultaneously contributing to securing new talent in the regional economy, particularly in SMEs. One focus of the supported projects will be placed on the new federal states. As from summer 2015, the implementation of 10 projects will be supported in the coming 2 years.

On the path to inclusion

According to the results of a micro-census, 10.2 million people with an officially recognised disability were living in Germany in 2013. On average, around every eighth citizen

Figure 16: Pupils with special teaching assistance* in special-needs schools and other general education schools, percentage receiving special teaching assistance and percentage of pupils visiting special-needs schools*** 2000/01 and 2013/14 according to federal states**

as a percentage, top bar 2001/2002, bottom bar 2013/2014



* In the majority of the federal states pupils are counted in respect of whom a special teaching need has been officially determined. By contrast, in Bavaria and Lower Saxony, those pupils are counted who have actually received special teaching assistance irrespective of whether this assistance requirement has been officially determined or not. In Baden-Württemberg and Schleswig-Holstein certain delimitations may apply depending on type of school or feature.

** The percentage receiving special teaching assistance corresponds to the pupils with special needs as a percentage of pupils required to visit a school full time (1st to 10th grade and special-needs schools).

*** The percentage of pupils visiting special-needs schools corresponds to the pupils in special-needs schools as a percentage of pupils required to visit a school full time (1st to 10th grade and special-needs schools).

Source: Website Bildungsberichterstattung www.bildungsbericht.de/; school year 2013/2014 KMK-Schulstatistik

(13%) was therefore disabled. These include some 7.5 million severely disabled people (status: 31 December 2013), corresponding to 9.4% of the entire population. At 9.62% (approximately 1.5 million severely disabled people) in the new federal states and Berlin, the percentage is slightly above the national average. The three federal states with

the highest percentage of severely disabled are Berlin, Mecklenburg-Western Pomerania and Brandenburg.

Considerable efforts – including financial ones – have been made since reunification, especially in the new federal states, to adapt the in part very poor social infrastructure of the

GDR to the modern standards of the Federal Republic. A large number of new dwellings and assisted forms of living geared to the needs of the residents, child care day centres and schools for special teaching needs have therefore been developed. In addition, numerous new workshops have been created for people with disabilities, a nationwide network of facilities for vocational rehabilitation alongside modern, professional outpatient assistance structures.

This enormous reconstruction process was shaped by many stakeholders. In particular the new federal states, local authorities and the non-statutory welfare associations have played and are still playing a very major role here.

The group of people with disabilities is not homogeneous and exhibits as much variation as the population as a whole. The principle of integration that has been prominent in policy towards disabled persons for many years has – at the latest upon ratification of the UN Disability Rights Convention by the Federal Republic of Germany in 2009 – been replaced by the principle of inclusion⁴⁷.

A special focus of action can be seen in the new federal states in terms of pupils with special learning needs. The percentage of support for this group in the new federal states ranges from 6.8% in Thuringia to 10.3% in Mecklenburg-Western Pomerania. These percentages are above the national German average of 6.8% in almost all new federal states. The types of support have developed similarly throughout the nation: the percentage of pupils in special schools and the share of integrative enrolment at other general educational facilities has risen in almost all the federal states. Both the number and the share of pupils with special learning needs who do not visit special schools have more than doubled nationwide since the 2000/01 school year: in 2013/14 around every fourth child with special learning needs was taught at other general educational facilities.

Infrastructure – transport, energy, communication

An efficient and modern infrastructure is of paramount importance for the quality of life of the citizens and for the economic development. After reunification, the transport, energy and communication infrastructure in the new federal states including the networks between eastern and western Germany and the rest of Europe had to be fundamentally rehabilitated, modernised and extended.

Transport

The German Unity transport projects (VDE) largely completed

In the period from 1991 to 2014, just under € 272 billion, of which € 91 billion in the new federal states, were invested in the German railway network, the federal highways and canals and as part of the Municipal Transport Funding Act (GVFG) including compensation payments⁴⁸. Just under 34% of investments were made in the new federal states with a population share of just under 20% and a share in area of around 30%. Investments were therefore disproportionately high.

The main element of the investments to create efficient transport connections between the old and the new federal states is provided by the German Unity transport projects programme (VDE) which was launched in 1991. It has an investment volume of some € 40 billion and comprises 9 rail and 7 motorway projects together with one waterway project. Not only eastern Germany but also Germany as a whole has benefited from the creation of more efficient transport connections between east and west. Many kilometres of these new or reconditioned transport routes lie in the territory of the old federal states, such as VDE No. 16, which links the cities and towns of Thuringia and Bavaria to the long-distance motorway network, and VDE No. 15, the vital east-west route connecting the economic centres of Rhine-Main and Rhine-Ruhr with Thuringia and Saxony.

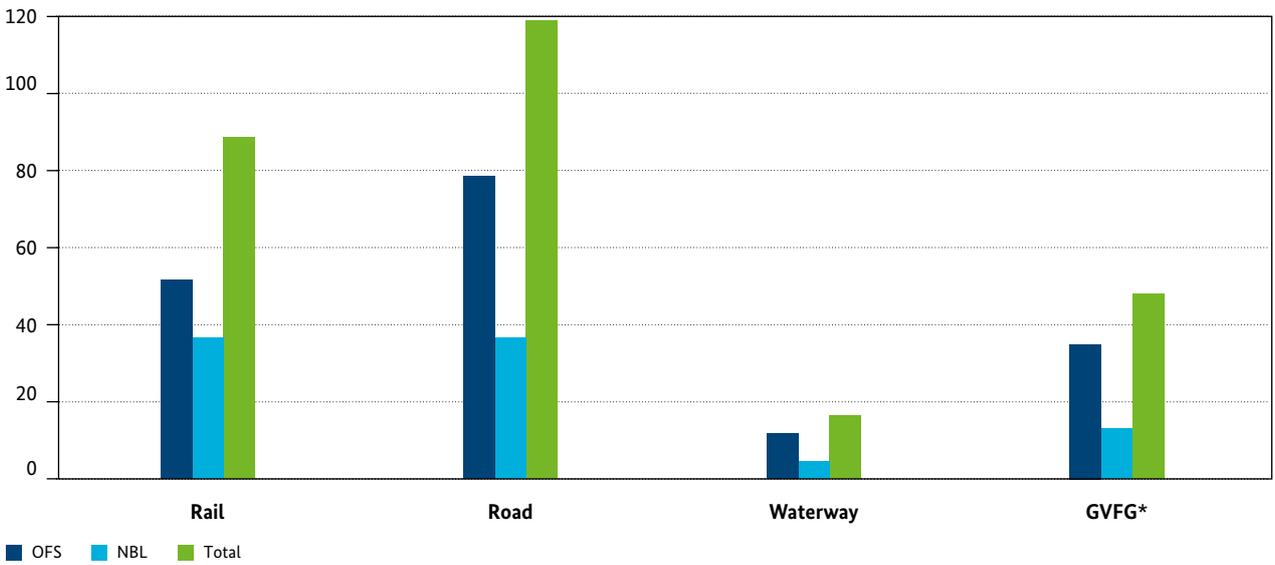
By the end of 2014, a total of just under € 35 billion had been invested in all projects. The 7 motorway projects have now been largely implemented. By the end of 2014, some 1,930 km of federal motorways (96%) had been built or extended, and a further 24 km (1%) are currently under construction. Of the 9 rail projects, 6 have been put into operation. The investments in 2014 too were focussed on the extension and construction of the Nuremberg – Erfurt – Halle/Leipzig connection and in VDE No. 9, the extension of the connection from Leipzig to Dresden. Great efforts are also being made with the waterway connection Hanover – Magdeburg – Berlin (VDE No. 17). The aim is to have completed this project entirely by 2020.

Achievements in 2015: the majority of the VDE has therefore already been completed.

47 Whilst integration appeals more to the adaptability of disabled people, inclusion intends from the outset to achieve a common system for all people without ostracising or stigmatising anyone.

48 As part of the federalism reform, funding for the GVFG regional programmes in accordance with Article 125 c (2) Basic Law was ended as of 1 January 2007 (Federal Law Gazette. I 2006 p. 2037). They were replaced by compensation payments to the federal states on the basis of the Unbundling Act which came into force on 1 January 2007 (Federal Law Gazette. I 2006 p. 2102).

Figure 17: Investments in transport infrastructure from 1991 to 2014
in euro/billions



* The Municipal Transport Funding Act (GVFG) has been in force since 1 January 1971 and regulates the granting of financial assistance in order to improve the transport circumstances in the local authorities. The GVFG has essentially been superseded by the Unbundling Act as a result of the federalism reform.

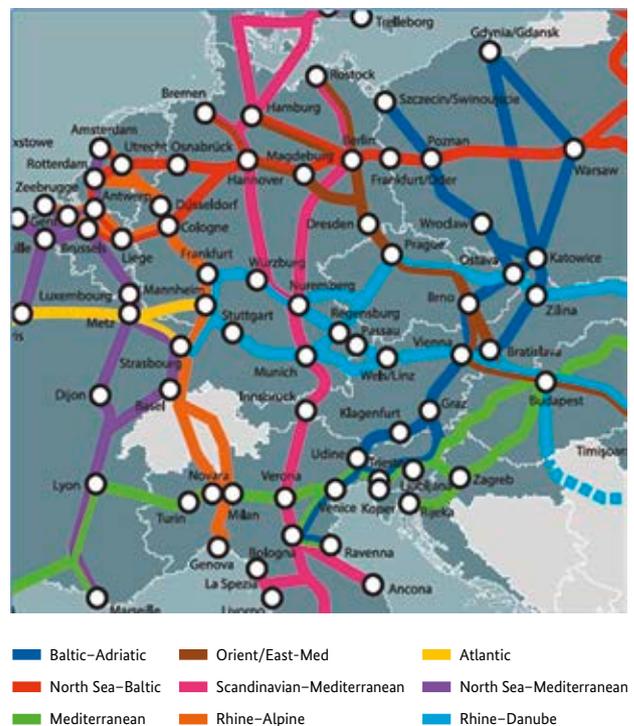
Source: Federal Ministry of Transport and Digital Infrastructure

Trans-European Transport Networks (TEN-T) secure hub function of eastern Germany in Europe

An important milestone for the even greater integration of eastern Germany into the European transport area was achieved in 2013 with the entry into force of the new TEN-T guidelines and the funding ordinance Connecting Europe Facility (CEF) for all trans-european networks (transport, energy, broadband).

The TEN transport network consists of an overall network and a core network, whereby corridors are formed in the core network which map the most important long-distance traffic and routes. Out of 6 core network corridors involving Germany, 3 corridors run through the new federal states. They all overlap in the region of the capital. This ensures that the hub function already performed by eastern Germany will also be expanded in the future and can be harnessed for economic growth and development.

Figure 18: Schematic map showing network corridors



Source: European Commission

Eastern German ports are well placed in the concert of German ports

The 3 largest sea ports in Mecklenburg-Western Pomerania with supra-regional importance – Rostock, Wismar and Sassnitz/Mukran – have positioned themselves well in the concert of the large German ports. This is illustrated by the good competitive position in the transport network in the direction of Scandinavia, the Baltic States and Russia. In 2014, Mecklenburg-Western Pomerania was able to stabilise its share in German sea freight transport. In terms of freight handling, Rostock is the fourth largest German seaport after Hamburg, Bremerhaven and Wilhelmshaven, which underlines its significance. With Wismar, Sassnitz/Mukran, Stralsund and Vierow, which are to be found amongst the 20 largest German ports in terms of freight handling, the position of Mecklenburg-Western Pomerania in the European transport networks is underlined.

Rostock has clearly extended its dominant position in Mecklenburg-Western Pomerania. Compared with Rostock, the two other important sea ports of Wismar and Sassnitz lost significance in 2014. Declines in freight handling are attributable amongst other things to the sanctions against Russia (Sassnitz/Mukran port) and the relocation of cement handling from Wismar to Rostock.

The growth driver for the sea ports in Mecklenburg-Western Pomerania is primarily trade with EU partners, particularly in the Baltic Sea states in general and Denmark, Finland and Sweden in particular. The exchange of goods in sea transport was increased distinctly once again with Denmark and Sweden in 2014. Mecklenburg-Western Pomerania is an integral part of the freight flows in the Baltic Sea region.⁴⁹ In addition to freight handling in the sea ports, the development opportunities for cruise tourism are good in Mecklenburg-Western Pomerania.

With its modern handling facilities, high-performance inland ports and seaports, European logistics centres and hubs for big-name companies, eastern Germany is today one of the most dynamic locations for logistics services in Europe.

To secure this important locational advantage within Europe it will be all important in the coming years to rapidly extend the European transport axes.

Energy

Infrastructure renewal after reunification also included the modernisation of the power plant stock and the energy networks. This firstly had a positive effect on the development of German greenhouse gas emissions. Secondly, it

has had an impact on network charges, as was explained in detail in the Annual Report on the Status of German Unity in 2014.

All in all, eastern Germany has a highly modern network infrastructure.

The expansion of the transmission networks in eastern Germany is progressing well. With the application for national planning for the Bertikow – Pasewalk (Brandenburg – Mecklenburg-Western Pomerania) project in August 2014, the first procedure according to the Network Expansion Acceleration Act (NABEG) was initiated. For this purpose, the Federal Network Agency conducted the first public application conference ever on 24 September 2014 in Torgelau.

Good progress was also made with the Thuringia power bridge. The Vieselbach – Altenfeld section was completed in the second quarter of 2015. Furthermore, the planning approval procedure for the Altenfeld – regional border Thuringia/Bavaria section was completed in the first quarter of 2015. Therefore, this project of such importance to the connection between eastern and southern Germany is expected to go into operation in 2016.

Communication

Now that the transport infrastructure in eastern Germany has been brought up to an all-German level, other areas of infrastructure are becoming increasingly important. Broadband coverage is one of these areas. It is viewed to be an important foundation for the economy as a whole and for social interaction. There are still a large number of regions in eastern Germany which have no satisfactory broadband coverage (see Annual Report on the Status of German Unity in 2014). However, the lack of broadband access is not the problem of a divided country. Rather, eastern Germany is affected more greatly here because the population density in the many rural regions is comparatively low and the extension of the network therefore less profitable for the telecommunications companies. Rural regions in western Germany are faced with the same situation. The Federal Government aspires to securing comprehensive broadband coverage with at least 50 megabit per second in downstream by 2018. To achieve this, the Federal Government will be supporting broadband expansion in these regions up to 2018 with considerable funding from the federal budget, whereby the revenues from the Federal Network Agency's auctioning of any radio frequencies which become free in the future (so-called Digital Dividend II in an amount of € 1.3 billion) will be used for funding purposes. After deduction of conversion and administrative costs, this sum

49 See Nord/LB: Mecklenburg-Vorpommern Monitor Regionalwirtschaft, 29 June 2015, Issue 02/205.

will be divided equally between the Federal Government and the federal states. The broadband expansion in financially weak rural areas can also be funded by the Municipal Investment Promotion Act.

Environmental protection and contaminated site remediation

With the Environment Framework Act, an environment union was also created on 1 July 1990 at the same time as monetary, economic and social union. The aim of achieving “unity of ecological living conditions” in eastern and western Germany could be reached in a relatively short space of time. The elimination of hazards and damage to the environment as well as the development of modern structures of environmental protection are an achievement of all new federal states.

Immediate remedial measures were taken in view of the considerable air and water pollution and contamination of the soils and the resultant ecological damage and contaminated sites in the territory of the former GDR. By the beginning of the nineties, they had already led to a marked improvement in the environmental situation. This was also expressed in the subjective perception of the eastern German citizens: in 1991, only 4 % of those surveyed in the new federal states viewed their environmental conditions to be good or excellent, whilst this applied to 49 % of those asked in the old federal states. Five years later, the persons surveyed in eastern and western Germany were equally satisfied.

In addition to averting acute environmental hazards, the rehabilitation tasks at the beginning of the nineties were increasingly aimed at eliminating investment impediments in the new federal states caused by the environmental burdens - contaminated sites and lack of an environmental protection infrastructure. This task has not yet been completed and requires further specific support measures on the part of the Federal Government.

Despite all successes in environmental policy so far, there continues to be a substantial need for action particularly in climate protection, the maintenance of biodiversity, in the further reduction of material discharges into the environment and in the sustainable use of energy and resources.

2. Completing social unity

Health system

Nowadays people throughout Germany can rely on high quality medical care. The statutory health insurance system (GKV), which covers the majority of the population, guarantees comprehensive social protection in the case of illness. A broad variety of reforms in the health system guarantees that easily accessible, high quality medical care will be available into the future. This is also of great importance because for 80 % of citizens health takes first place⁵⁰ in their assessment of quality of life.

Reconstruction of the health system

The rapid integration of eastern Germany into the health system of the old Federal Republic was one of the greatest challenges and of special importance for the population of eastern Germany. The reconstruction of the health system began even during the term of office of the last GDR government with Federal Government emergency assistance of the DM 3 billion (€ 1.53 billion) and the introduction of the GKV. The predominantly state organised outpatient and hospitalised medical care was rapidly reorganised. Today, outpatient medical care is ensured by private service providers, in particular general practitioners, dentists and pharmacists as well as self-employed providers of auxiliary medical services. It has been possible to establish medical care centres (MVZ) since 2004 which similarly characterise the face of outpatient medical care in Germany today.

The hospitals are one of the large pillars of the health system. Precisely the hospitals in the new federal states created new and very successful structures after reunification which have in some cases set standards for the development in Germany as a whole. Hospitals and nursing infrastructure have undergone fundamental renewal through the joint effort of Federal Government, federal states and health insurance funds.

All in all, the development and reconstruction of the health system in eastern Germany has been promoted with large assistance programmes, selective funding and further training measures for those working in the health system. The western federal states also supported the development by providing trained staff.

With the hospital reform planned in this legislative period, the framework conditions for hospital care will be further developed so that in future, too, easily accessible, high quality hospital care in line with patient requirements can be provided in Germany.

At the time of reunification, the standard of hospitalised health care in the new federal states still lagged distinctly behind the care standard in the old federal states. It is therefore all the more remarkable in retrospect that the new federal states have caught up here in a very short space of time. Today, they have achieved the level of the old federal states in terms of structural renewal, modernisation of medical technology, reorganisation of the administrative structures and adaptation to the funding system.

Primarily with the joint hospital investment programme of Federal Government, federal states and health insurance funds, it has been possible to rapidly and sustainably improve the hospitalised care afforded to the population. There have also been marked increases in efficiency and in particular a substantial reduction in the number of beds in the new federal states as a result of converting the funding system. The financial situation of the hospitals in the new federal states is now assessed to be better than in the old federal states. All in all, it can be said that the level of hospitalised care for the population in the new federal states has been completely aligned with the rest of Germany.

With the improvement of health care and also the improvement in environmental conditions, the average life expectancy on birth has increased in eastern Germany over the past 25 years and is now near to the figures for western Germany (see also Chapter 4. Quality of rural and urban life – life expectancy).

Transition of the statutory health system and the current financial situation

The foundations for the transition of the statutory health insurance system were created with the entry into force of the Fifth Volume of the Social Code (SGB V) in the new federal states on 1 January 1991. From this day on, the eastern German patients were entitled to all benefits of the GKV. In view of the different income situations, special regulations were initially necessary with respect to the annual pay ceiling, the contribution assessment ceiling, the hardship ceiling and co-payments. This is why two legal areas were created – east and west. The risk structure compensation introduced to the statutory health insurance system in 1994, which balances out risk differences from the structures of insured patients in the individual health insurance funds, was similarly conducted within these legal areas. The path to the social unity of Germany was completed on 1 January 2001. With the Act on the Approximation of Laws in the Statutory Health Insurance System, any special rules which still applied were repealed with respect to the new federal states and existing differences eliminated in the framework conditions for insured patients, service providers and health insurance funds.

The development of funding in the GKV was satisfactory in the eastern Germany federal states in the first years after reunification. The general contribution rate was 12.8% in 1991 and was adjusted starting in January 1992 in accordance with the expenditure trend of the health insurance funds. However, as a result of the economic and labour market situation in the eastern federal states from 1995 to 1998, the financial situation of the health insurance funds developed negatively and led to a build-up of debt, amounting to some € 800 million by the end of 1998. The average contribution rate level has also been above the level of the GKV-West since 1996. The risk structure compensation scheme was conducted separately up to this date within GKV-West and GKV-East. In order to prevent the contribution rate level in the legal areas of east and west from drifting apart and to secure a permanent harmonisation of the financial strength of the health insurance funds, the risk structure compensation scheme was gradually conducted uniformly throughout the nation starting in 1998. It was supplemented by a gradual introduction of the contribution compensation component in the risk structure compensation scheme which started in 1999 and has applied uniformly to eastern and western Germany since 2007. Since 2008, the income and expenditure as well as the other statistics of the health insurance funds have no longer been conducted separately according to east and west.

The financial situation of the GKV and of the individual health insurance funds has improved constantly and nationwide in recent years. The main factors here have been a positive income trend with rising wages and a positive employment trend as well as a responsible control of expenditure. At the end of 2014, the health fund and the health insurance funds had financial reserves of around € 28 billion nationwide. The GKV therefore stands on a sound financial foundation.

Improving medical care particularly in rural areas

Germany has good and comprehensive medical care in principle. The number of doctors working in the outpatient and hospitalised areas in the eastern federal states has risen by 8.8% to a total of 50,953 persons from 2010 to 2014. Securing comprehensive medical care as close to home as possible is one of the most important tasks of health policy, particularly in rural areas of eastern Germany.

The Act to Strengthen the Care provided by the Statutory Health System, which came into force in summer 2015, is intended to strengthen medical care particularly in rural areas by offering selective incentives to doctors in underserved or economically less developed areas. This refers to western German districts in Saarland, Schwäbische Alb, Sauerland or Hunsrück in the same way as to eastern German districts in Uckermark, Altmark or Erzgebirge.

The Act to Strengthen the Care provided by the Statutory Health System is not only intended to strengthen the role of the general practitioner but also to increase the number of positions to be funded. Doctors are to be helped in their work by delegating specific medical services to qualified para-medical staff. At the same time, the doctor can be relieved of work by delegating administration and bureaucracy so as to have more time for the patients. This also enhances the attractiveness of the medical profession and strengthens the interaction between medical and non-medical professions, as has also been demonstrated by corresponding pilot projects such as “Schwester AGnES” where community nurses operating as the long arm of the GP visit patients on his instruction and provide specific services of prevention, advice, support and treatment monitoring in particular. The overall responsibility for diagnosis and treatment remains with the doctor.

In addition, regulations on the elimination of oversupply are aimed at containing the filling of panel doctor vacancies in regions with an oversupply in favour of filling doctor positions in poorly supplied regions. It is also intended to open up the outpatients treatment offered by hospitals to a greater extent in the case of undersupply.

Medical care centres (MVZs) make an important contribution to outpatient medical care and, in addition to the general practitioners, are further service providers in the area of medical care. Over the past eleven years they have become established as a fixed part of medical care throughout Germany. MVZs build on the experience of the GDR outpatients clinics here. Originally, the MVZs were interdisciplinary facilities led by doctors which were approved to participate in the provision of medical care within the statutory health insurance system and which could be established by the service providers who participated in medical care on the basis of licences, authorisations or contracts.

The conditions for establishing MVZs were revised by the Care Structure Act (GKV-VStG) taking effect on 1 January 2012. The GKV-VStG also enables local authorities to set up MVZs in future, thereby actively influencing and improving medical care in the region. The number of MVZs is rising steadily. Whilst there were 1.654 MVZs throughout the nation on 31 December 2010 according to information from the National Association of Statutory Health Insurance Physicians, their number had already risen to 2,006 by 31 December 2013.

With the planned hospital reform, the framework conditions for hospital care will be further developed so that in future, too, easily accessible, high quality hospital care in line with patient requirements can be provided in Germany. The measures are aimed at strengthening quality assurance, further developing hospital funding and restructuring volume control. The reform is also intended to set up a nursing

assistance programme, providing total funding of up to € 660 million in order to improve patient care. A structural fund will also be established to which the federal states may have recourse to advance necessary restructuring processes for the hospitals.

Care

Currently, 2.7 million people in Germany are in need of care, of which some 700,000 live in the new federal states and around 2 million in the old federal states. Some 70% of those in need of care are looked after at home. Around 70% of this figure are looked after predominantly by family members. Noticeable regional differences can be discerned here too.

The care risk was cushioned for the entire population for the first time based on the principle of solidarity with the introduction of long-term care insurance in 1995. It has since made a decisive contribution to improving the care of the infirm and supporting relatives caring for them, especially in the new federal states.

Securing the provision of care against the backdrop of demographic change is of special importance for the new federal states. The Federal Government has made the strengthening of care a special focal area. The benefits provided by long-term care insurance will be substantially extended to include two acts to intensify care in this legislative period. In the first Act, which has been in force since 1 January 2015, the benefits for home care have been greatly improved. Relatives taking the care upon themselves are given better assistance. The quality of life in care homes is noticeably improved by a distinct rise in the number of additional care staff. A new term to describe the need for long-term care and a new appraisal procedure has been introduced with the second Act on which the Federal Cabinet agreed on 12 August 2015. This takes better account of the needs of every individual for care (particularly also in the case of dementia cases).

The compatibility of providing care at home, family and work is also improved with the introduction of a legal entitlement to leave of work for up to 6 months and to part-time work for up to 24 months in total with a right to an interest-free loan. Anyone needing to organise the care of a relative at short notice, following a stroke for example, can in future receive a wage replacement benefit from the long-term care insurance for one to up to ten days of leave.

Care facilities are important employers particularly for the rural areas in the new federal states. The Federal Government is improving the framework conditions for the occupation of carers amongst other things by implementing the training and qualification offensive for caring for the elderly, modernising training for the care of the sick, children and

the elderly and bringing it together in a new Caring Professionals Act, and through initiatives for a scientifically based appraisal of care requirements, a statutory minimum wage for carers of the elderly, statutory framework conditions for the payment of collectively bargained wages, assistance in everyday care situations through more additional carers in the homes, dismantling of bureaucracy above all in care documentation, enhancing care by emphasising the quality of the results achieved, PR work for a realistic picture of the care work and by mediating and promoting the migration of carers.

Companies covered by collective bargaining and wage trends

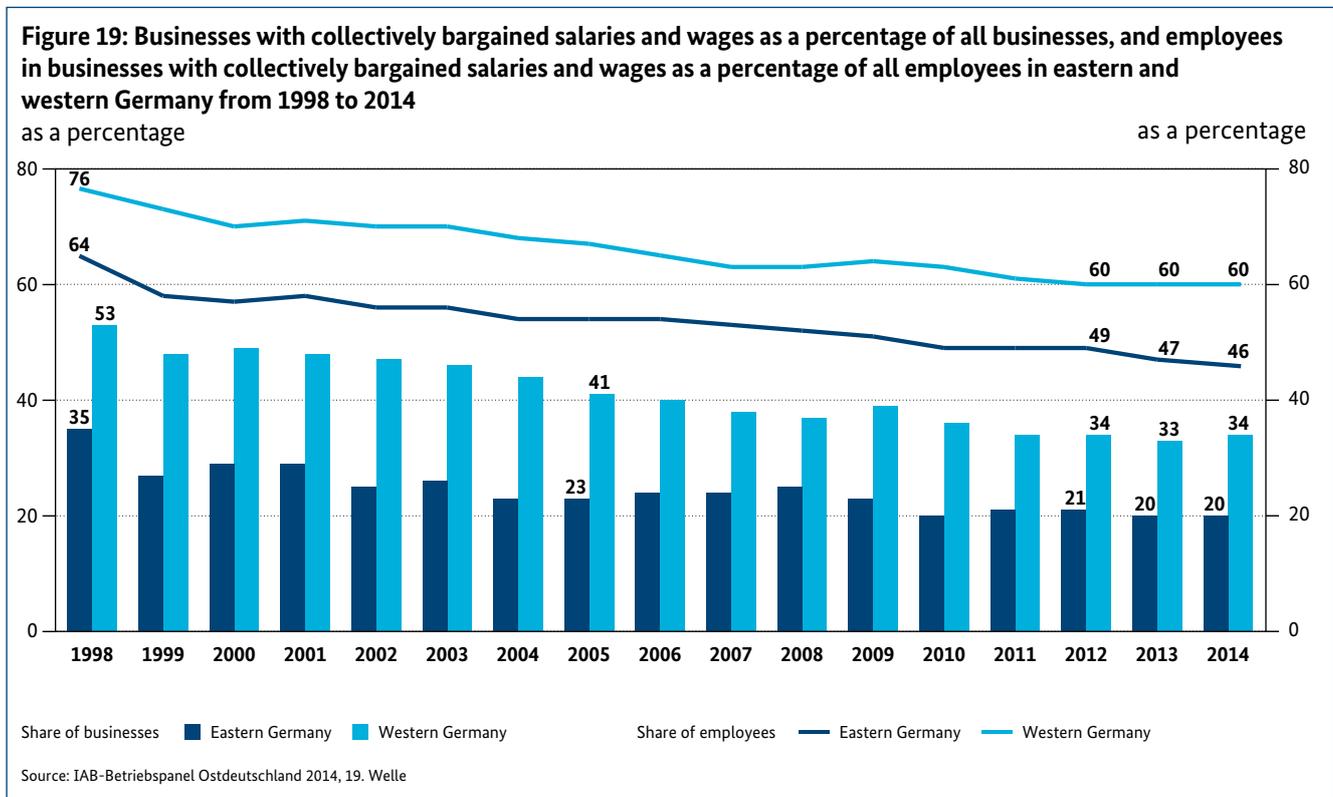
The number of companies committed to collective bargaining agreements in recent years declined slightly in eastern Germany whilst it stabilised in western Germany. Currently at 20 %, the number of eastern German companies covered by collective bargaining is also distinctly below the western German level of 34 %. Some 46 % of employees work in eastern German companies that are covered by an association or company collective agreement. In western Germany, this value is around 60 %. Around 25 % of the employees in companies not covered by

collective bargaining in eastern Germany and around 21 % of those in western German businesses are oriented to the pertinent collectively bargained agreements.⁵¹

Collectively bargained pay in eastern Germany is around 97 % of the western German level. Whilst collectively bargained pay levels have been fully harmonised in the public sector, banking and insurance industry, in the iron and steel industry, and in the retail trade (Brandenburg), 92 % has been achieved in the primary construction industry, 77 % in the hotel and hospitality trade (Saxony) and 73 % in agriculture (Mecklenburg-Western Pomerania).

However, large differences continue to exist in real wages. The representative data of the survey conducted by the Institute for Employment Research (IAB), which are based on surveys of businesses, show an increase of € 90 to € 2,480 of the average gross wages per full-time equivalent⁵² for eastern Germany in June 2014 compared with the previous year. The relationship to western Germany (€ 3,180) therefore is still 78 % and has been on the same level since the mid-nineties.

The highest average gross wages are achieved in eastern Germany in public administration, mining, energy, water, waste and in the financial and insurance sector. The lowest



51 Results from the IAB Betriebspanel Ostdeutschland 2014, Ergebnisse der 19. Welle, May 2015; see also: Ellguth, Peter; Kohaut, Susanne (2015): Entwicklung der Tariflandschaft: Immer größere Flächen trocknen aus. In: IAB-Forum, No. 1, p. 84-91.

52 The full-time equivalent is a temporal value which specifies the number of employees converted into full collectively bargained working time.

are to be found in the remaining services and in farming and forestry. These are also the industries which are affected most by the introduction of the statutory minimum wage (see Table 2).

In terms of wage harmonisation, the lowest relationships are to be found in the manufacturing industry (70%), trade and repair (73%) and in the area of transport, information, communication (75%). This is largely explained by structural factors. In manufacturing in particular, businesses are distinctly smaller than in the western German manufacturing industry. In view of their frequently lower productivity and affinity with collective bargaining, smaller businesses often pay lower wages than larger ones. Whilst over half of all employees in western Germany worked in large companies with average wages of over € 4,260, only 29% of employees in eastern Germany worked in large companies with an average wage of over € 3,250.

The greatest convergence is achieved in education (97%).

Differences in earnings of men and women

Differences in earnings of men and women (the gender pay gap)⁵³ remained constant in 2014 compared to previous years. According to calculations of the Federal Statistical Office⁵⁴, women continued to earn less than men with an average gross hourly wage of € 15.83 compared to € 20.20.

However, two opposing trends become visible when distinguishing between eastern and western Germany: whilst the pay gap has been slowly receding in western Germany since 2006 (from 24 to 23%), it has risen in eastern Germany from 6% in 2006 to 9% in 2014. In the last five years therefore, the unadjusted gender pay gap has risen in eastern Germany by 3 percentage points whilst the gender pay gap in western Germany has dropped by 1 percentage point since 2009.

According to information from the Federal Statistical Office, the rise in the pay gap in eastern Germany is attributable to the different increases in pay in the individual industries. Men and women largely work in different sectors. The results of pay surveys show that, for example, pay in the manufacturing industry, a male-dominated sector, rose more steeply in the period 2009 to 2014 in eastern

Germany (by 5 percentage points or +11.8%) than, for example, earnings in the health and social sector where many women work (+6.7%).

The most important reasons for these serious differences in the unadjusted gender pay gap are the different economic sectors and professions in which men and women work, unequally divided job requirements in terms of leadership and qualifications. Added to this are differences in years of service and extent of employment. In spite of the major east-west difference in the unadjusted gender pay gap, the adjusted pay gap in both regions was at a comparable level (eastern Germany: 9% and western Germany: 7%).⁵⁵

In order to give better credence to the principle of “same wage for same or equivalent work” in future, the Federal Government wishes to facilitate more transparency in gender-specific pay structures in an Act for more wage justice.

Minimum wage

The general statutory minimum wage of € 8.50 gross per hour has applied nationwide since 1 January 2015. The minimum wage commission will decide on an adjustment to the minimum wage level every two years and for the first time on 1 January 2017.

With the Act to Strengthen Collective Bargaining Autonomy of 15 August 2014, which also covers the Minimum Wage Act, the declaration of general applicability of collectively bargained agreements was also facilitated and the Posted Workers Act opened for all sectors. This year too, the parties to collective bargaining agreements made use of the possibilities provided by law to apply for the declaration of general applicability of industry-specific collectively bargained minimum wages. In a transitional phase for the introduction of the statutory minimum wage, the industry-specific minimum wages may fall below the general minimum wage up to 31 December 2017. Starting from 1 January 2017, the key date for the first adjustment, the minimum wage must be at least € 8.50.

The following Table 2 illustrates the situation as of 31 July 2015 with sector-specific collectively bargained minimum wages based on the Posted Workers Act and the Temporary Employment Act. It can be seen in the Table that minimum

53 Two indicators are available with different intentions to calculate gender-specific differences in earnings: The unadjusted gender pay gap generally compares the average earnings of all male and female employees. The unadjusted gender pay gap also includes that portion of pay difference which is caused by poorer access opportunities to certain professions or career levels afforded to women, which may also possibly be the result of discriminating structures. It similarly covers pay differences arising from the free choice of women and men in favour of specific professions, companies and industrial sectors. By contrast, the adjusted gender pay gap measures the gap in earnings of men and women with comparable qualifications, activities and career biographies.

54 Federal Statistical Office, (2015): Verdienstunterschied zwischen Frauen und Männern in Deutschland weiterhin bei 22 Prozent, Press Release No. 099, of 16 March 2015, Wiesbaden.

55 *ibid*

Table 2: Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act

in euros per hour

Sector	Employee/pay group	31 July 2015	Next level
Construction industry			from 01/2016
West			
	Labourer	11.15	11.25
	Skilled worker	14.20	14.45
		Berlin: 14.05	14.30
East	Minimum wage	10.75	11.05
Vocational initial and further training			
West including Berlin	Educational staff	13.35	
East	Educational staff	12.50	
Roofing trade	Minimum wage		
West and east		11.85	
Electrical crafts (installation)			
West	Minimum wage	10.10	
East including Berlin	Minimum wage	9.35	
Meat packing industry			from 10/2015
	Minimum wage	8.00	8.60
Hairdressing		Ordinance expires on 31.07.2015	from 08/2015
West	Minimum wage	8.00	8.50
East including Berlin	Minimum wage	7.50	8.50
Building cleaning			
West including Berlin	Interior and maintenance cleaning	9.55	
	Glass and facade cleaning	12.65	
east	Interior and maintenance cleaning	8.50	
	Glass and facade cleaning	10.63	
Scaffold building			
	Minimum wage	10.50	
Agriculture and forestry, horticulture	Minimum wage		from 01/2016
West		7.40	8.00
East including Berlin		7.20	7.90
Painting			from 05/2015
West	Unskilled employee	10.00	10.10
	Journeyman	12.80	13.10
East	Unskilled employee	10.00	10.10
	Journeyman	10.90	11.30
Berlin	Unskilled employee	10.00	10.10
	Journeyman	12.60	12.90
Nursing			from 01/2016
West including Berlin		9.40	9.75
East		8.65	9.00

Table 2: Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act

in euros per hour

Sector	Employee/pay group	31 July 2015	Next level
Cash transport services		(Ordinance applied for)	from 01/2016
West (differentiated acc. to regions)	Mobile services	11.47–15.29	11.80–15.73
	Stationary services	9.83–12.56	10.11–12.92
East (including Berlin)	Mobile services	10.92	11.24
	Stationary services	9.06	9.33
Laundry services for commercial clients			from 07/2016
West	Minimum wage	8.50	8.75
East including Berlin	Minimum wage	8.00	8.75
Textile and clothing industry			from 01/2016
West including Berlin (West)		8.50	8.50
East including Berlin (East)		7.50	8.25
Lower wage limit acc. to Section 3 Temporary Employment Act			
Temporary worker			from 06/2016
West		8.80	9.00
East including Berlin		8.20	8.50

wages in most sectors still differ between east and west. Minimum wages range from € 7.20 to € 12.50 per hour in eastern Germany.

Estimates of the Institute for Employment Research (IAB) on the basis of the representative company survey of the IAB Business Panel⁵⁶ for 2014 indicate that in eastern Germany distinctly more companies and also more employees are affected by the Minimum Wage Act than in western Germany. For example, 24 % of all eastern German companies stated that in 2014 they had employees with a gross hourly wage of less than € 8.50 whilst this was only 9 % in western Germany. The share of employees receiving gross hourly wages of below € 8.50 was 11 % in eastern Germany and 3 % of employees in western Germany. The fact that both business and employees in eastern Germany are more greatly affected is not attributable to small and very small businesses; SMEs and large companies are affected by minimum wages to a similar extent.

An industry analysis shows that in eastern and western Germany gross hourly wages of below € 8.50 are paid most in companies of the “other services” which include the hotel and hospitality trade, hairdressers and laundries, as well as farming and forestry and in retail and repair. They

are of the least importance in the construction industry and in public administration. In eastern Germany, 29 % work in companies of the “other services”, 24 % in farming and agriculture for hourly wages of under € 8.50. If only those eastern German businesses are considered which stated paying wages of below € 8.50 in 2014, it can be seen that 41 % of employees were affected in these businesses on average (western Germany: 28 %). In small businesses paying wages below € 8.50, the share of employees receiving less than € 8.50 was even 58 %. An evaluation of the Minimum Wage Act will be made in 2020.⁵⁷

Unity of pensions in Germany moves closer

25 years after reunification, differences in the calculation of pensions continue to exist between east and west. With the transition of wage and contributions-related pension law, it was decided with respect to the new federal states that the development of pensions was basically to follow the development of wages, as was the case in the old federal states. Because average wages in the new federal states are still lower than in the old federal states, the current pension factor east is still less than the current pension factor west so that the pension yield from one earnings point still

56 Bellmann, L./Bossler, M./Gerner, H.-D./Hübner, O.: Reichweite des Mindestlohns in deutschen Betrieben, IAB-Kurzbericht 6/2015.

A survey was conducted from July to October 2014 in businesses with at least one employee subject to mandatory social insurance. See Bellmann, Lutz, et al. (2015): IAB Betriebspanel. Reichweite des Mindestlohns in deutschen Betrieben, IAB-Kurzbericht 6/2015 Nuremberg.

57 IAB Betriebspanel Ostdeutschland 2014, Ergebnisse der 19. Welle, May 2015.

differs. To calculate pensions, the earnings achieved in the new federal states are harmonised with the income structure in the old federal states by means of adjustment. The resultant earnings points (east) are rated with the current pension factor (east), which has been 92.6% of the current pension factor applicable in the west since 1 July 2015. It was agreed in the Coalition Agreement for the 18th legislative period that at the end of Solidarity Pact II, when wage and salary convergence will be further advanced, the current pension factors for east and west will be completely converged in a last step. Before this, the degree to which the process of convergence has been completed is to be reviewed on 1 July 2016 and it is then to be decided on this basis whether partial convergence is necessary beginning in 2017.

As the most important pillar of social security in old age, the statutory pension insurance system is of great significance in the new federal states because it is the main source of income in old age to a greater extent than in the west. At around € 1,057 for men and € 818 for women, average monthly pension benefits in eastern Germany are higher for men and women than average pension benefits in western Germany (status 31.12.2014). The higher average values in eastern Germany are predominantly due to longer periods of employment and thus periods in which especially women have paid into old-age insurance schemes. Added to this is the fact that pensions in the new federal states also contain pension components related to supplementary and special pension systems of the former GDR that were transferred to the statutory pension system.

Further special structural aspects of the career histories of pensioners in the west reinforce the difference in average pensions in east and west. For example, more pensioners in western Germany were civil servants or self-employed compared to eastern Germany. These groups tend to have built up fewer vested rights in the statutory pension system, but were usually able to acquire pension rights as civil servants or make more private provisions for old age. This is another reason why average pension benefits are relatively higher in the new federal states and relatively lower in the old federal states. In effect, income in old age in eastern Germany is largely based on statutory pensions, while pensioners in western Germany draw more of their income from other sources.

Pension adjustments continue to follow the principle that pensions in both eastern and western Germany are linked to the development of wages and salaries. Pensioners therefore participate in economic growth as expressed in the

development of wages. The current factors for calculating pensions in east and west are converging at the same pace as employees' pay in the east is approaching that in the west. The pension adjustment mechanism defined in the Unification Treaty has translated into significant pension increases for pensioners in eastern Germany for many years.

Millions of pensioners in east and west have already benefited from the Pension Benefits Improvement Act which came into force in 2014. Pensioners in east and west alike benefit from full pensions for those with very long working lives who have paid into the pension system for 45 years, the improved assessment of years spent in bringing up children born before 1992 (the "mothers' pension"), improvements in disability pensions and an adjustment of the annual expenses for participation benefits.

The statutory pension arrangements extended by the mothers' pension apply equally to recognition of periods raising children in the east and west: periods devoted to raising children are mandatory contribution periods where the calculation of pension is valued with the respective average income – this corresponds to one earnings point west and one earnings point east.

Income and wealth situation of private households

Differences continue to exist between the income and wealth of private households in western and eastern Germany, although a marked convergence is to be observed since reunification. However, this process was not linear.

Following strong convergence of the average equivalence-weighted annual net income⁵⁸ in the first years after reunification (see also Figure 22), the convergence process came to standstill in the mid-nineties. The income gap increased in the first half of the new millennium during the phase of weakness in the economy as a whole. A gradual convergence can be observed again since 2005.

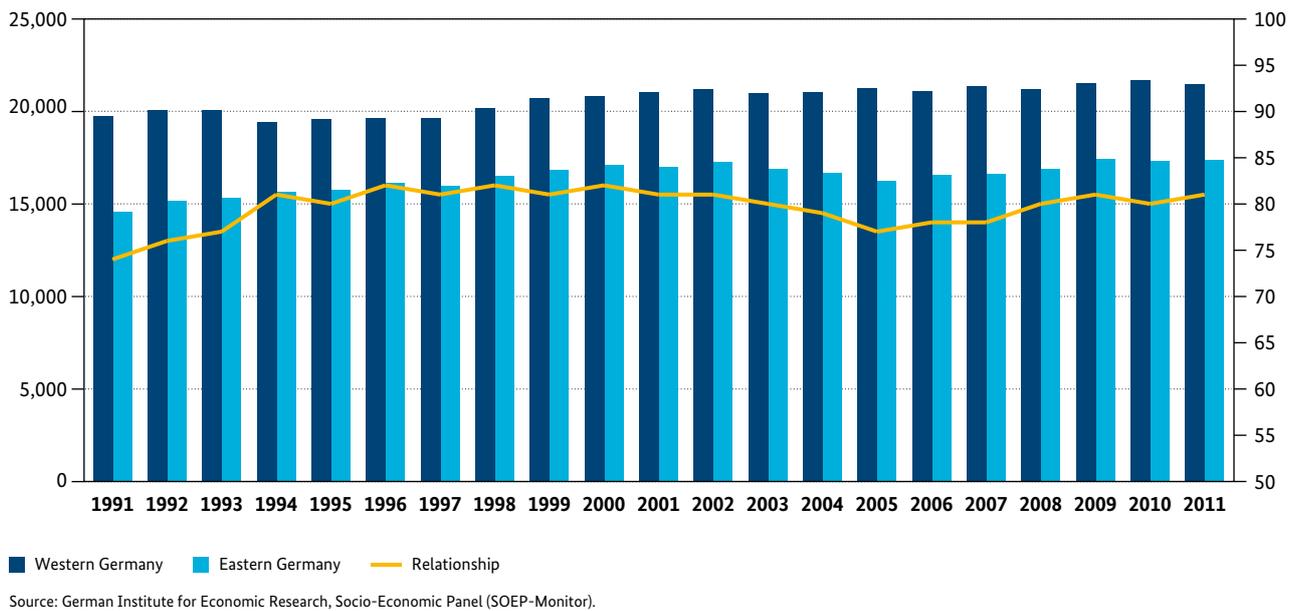
This restriction also applies to the at-risk-of-poverty rate. It is an indicator of a relatively low position in income distribution. The at-risk-of-poverty rate does not provide any information on the actual degree of individual need. It measures the share of people whose equivalence-weighted net income is less than 60% of the average income (so-called at-risk-of-poverty threshold). The effects of material benefits and services are not considered even if they sus-

58 The needs-adjusted per-capita income is referred to as net equivalence income. It is defined as the net household income divided by its "equivalence scale" and is assigned to every member of the household. The equivalence scale is formed by the total of equivalence weights per household member. The equivalence weighting used by official statistics is the so-called modified OECD scale. Accordingly, members of a household are each assigned different weights: 1.0 for the main income earner, 0.5 for all remaining household members from the age of 14 and 0.3 for persons under 14 years of age. For example, a monthly net equivalence income of some € 1,286 (€ 2,700 divided by 2.1) results for a household with two adults and two children under 14 years of age (total of the equivalence weights is 2.1) with a monthly net household income of € 2,700.

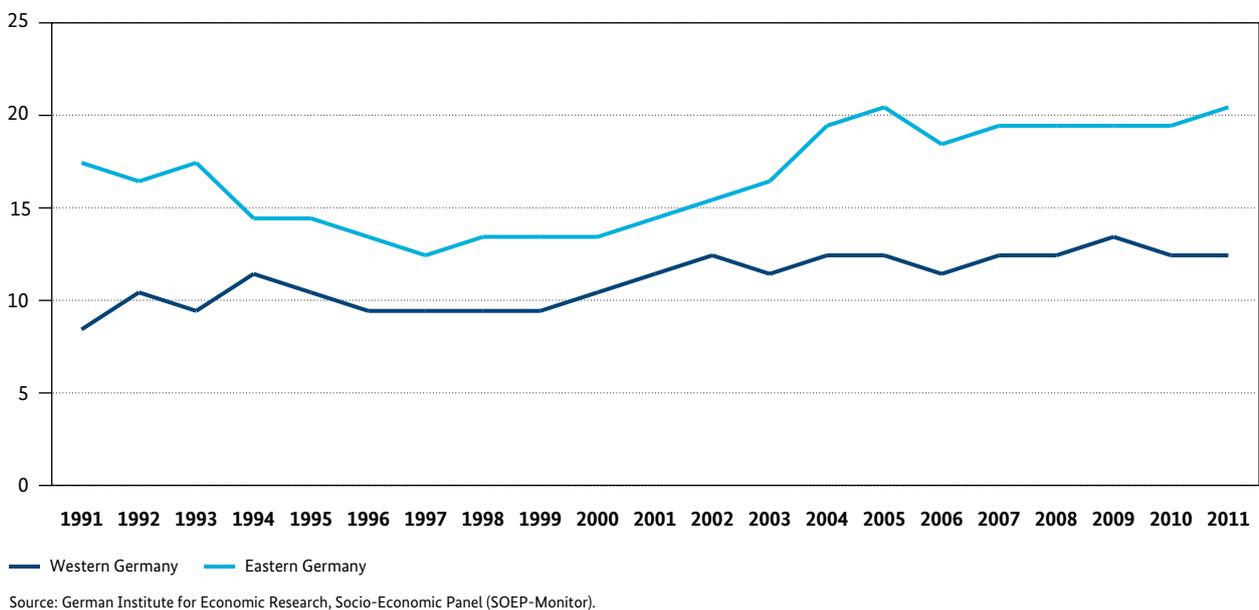
Figure 20: Equivalence-weighted net annual income

Euro in 2005 prices

as a percentage

**Figure 21: Development of at-risk-of-poverty rates in eastern and western Germany with respect to an all-German at-risk-of-poverty threshold**

as a percentage



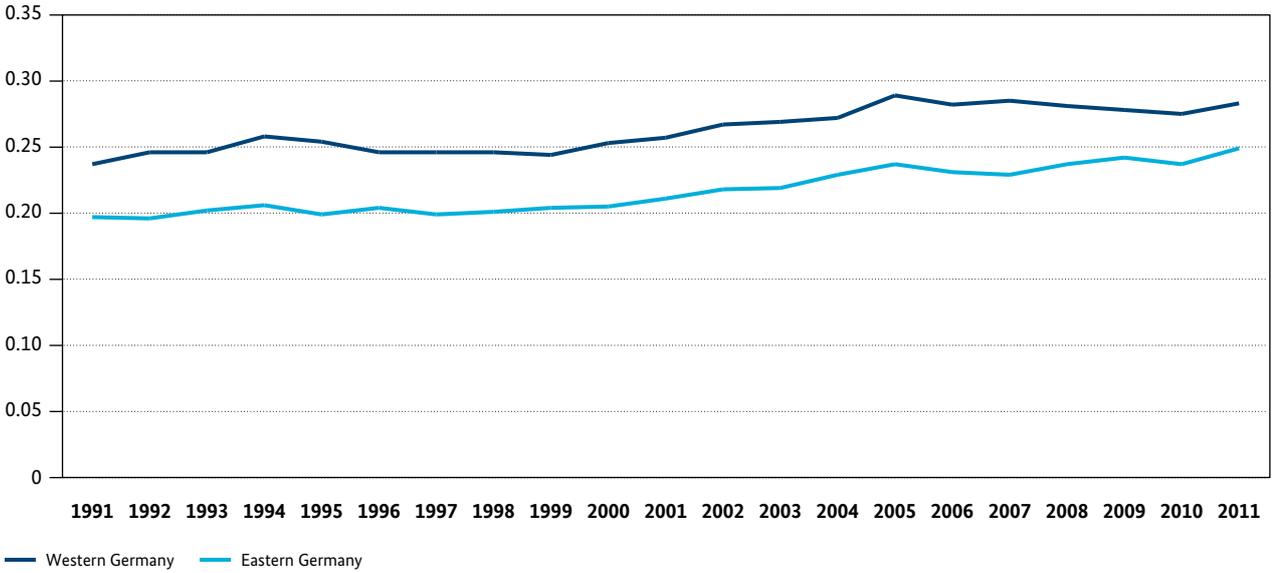
tainably improved the life of the persons affected. A frequent criticism of the at-risk-of-poverty rate is that it only reacts to relative changes and does not take gains in well-being into consideration at all.

If the threshold value for the poverty risk for all of Germany is taken as basis, the at-risk-of-poverty rates in eastern and western Germany moved towards each other by the mid-nineties. Thereafter the gap remained constant. At the start of the millennium, the at-risk-of-poverty rate in the new

federal states rose distinctly; since 2005 it has been more or less constant in eastern and western Germany.

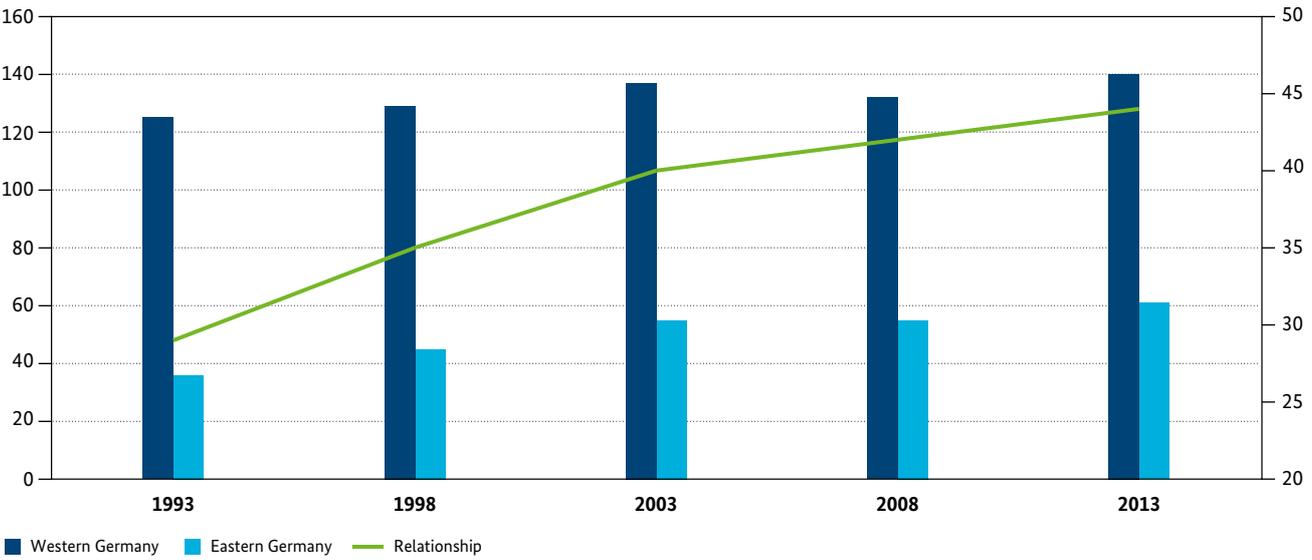
The social reporting of the official statistics also calculates at-risk-of-poverty rates with separate at-risk-of-poverty thresholds for eastern and western Germany. This view leads to the conclusion that the at-risk-of-poverty rate in eastern Germany is lower than in western Germany and means that the net income in the new federal states is less unequally distributed than in the old federal states. This is

Figure 22: Unequal distribution of net income in east and west (Gini coefficient)



Source: German Institute for Economic Research, Socio-Economic Panel (SOEP-Monitor).

Figure 23: Total net wealth of private households EUR 1,000



Source: Federal Statistical Office, Einkommens- und Verbrauchsstichprobe (Fachserie 15).

illustrated by the Gini coefficient, a further distribution factor which describes the inequality of distribution on a scale of zero to one. The higher the value, the more unequal the distribution. It is also shown that the gap over the entire period since reunification has remained around constant.

There is a marked difference between eastern and western Germany in terms of property and financial assets of private households. Whilst private households in western Germany had an average of € 140,000 at their disposal in 2013, the wealth of the households in eastern Germany of some € 61,000 was on average just under 44% of that of the west-

ern German households (see Figure 23). The gap between eastern and western German households has therefore narrowed distinctly over the course of time. In 1993, eastern German households only had assets of some 29% of the western level.

Family life in east and west: similarities and continuing differences

Since reunification new similarities have arisen but differences also continue to exist in the living conditions of families, their behaviour and attitudes in east and west.

Attitudes to the role distribution between women and men, to family life and partnership are altering – in eastern and western Germany

Family and children continue to be very important for the population in east and west. In 2012, 81 % of eastern Germans and 75 % of western Germans believed family and children to be very important⁵⁹. Above all young people nowadays want an equal partnership and division of tasks: 93 % of young women between 21 and 34 years of age and 76 % of men of the same age want a partner who is able to earn their own living. A distribution of roles between women and men is increasingly advocated in eastern and western Germany but this attitude is more strongly established in the east than in the west: in 2012, 86 % of eastern Germans and 76 % of western Germans had egalitarian attitudes to the distribution of roles between women and men.⁶⁰ In 1991, this was the case for only 67 % in eastern Germany and 56 % in western Germany.⁶¹

Higher level of working mothers in eastern Germany

Different views on working women and mothers continue to exist between the east and west. The typical life expected by mothers in east and west includes family and career and responsibility for earning one's own living. This is also reflected in the actual percentage of working mothers. Mothers in Germany increasingly engage in gainful employment. In 2013, 67 % of mothers worked compared to 59 % 13 years before this.⁶² Mothers in eastern Germany worked more frequently on the whole as well as more frequently in full-time positions than mothers in western Germany. In the new federal states, a total of 69.2 % of mothers worked in 2012, whilst 65.8 % of mothers worked in the old federal states. The largest group of eastern German mothers (37 %) worked more than 32 hours a week, 28 % worked between 15 and 32 hours and only 4 % of mothers worked less than 15 hours a week. What is more, women in eastern Germany who work part-time would frequently like to work more hours.⁶³ In western Germany around 16 % of mothers worked

less than 15 hours a week in 2012; some 34 % worked between 15 and 32 hours and 16 % more than 32 hours a week. Mothers working part time in eastern Germany frequently stated an absence of full time jobs as reason for them working part time.⁶⁴ In 2013, 26 % of mothers in eastern German stated this reason and only 4 % of western German mothers. By contrast, mothers in western Germany frequently stated personal and family-related reasons for their working part time (83 % compared to 53 % of eastern German mothers).

More parents live in egalitarian working relationships in eastern Germany than in western Germany. If both partners work, 48.5 % are in full-time work in the east, and only 19.3 % in western Germany.⁶⁵

By contrast, 76 % of western German couples practise the model of father in full-time work, mother in part-time work; only 46 % of couples do this in eastern Germany. The rise in working mothers does not contradict the decision to have children. This is also illustrated by the birth rate trend for eastern and western Germany⁶⁶ (see also Figure 24) which is not essentially any different.

Family forms other than marriage more widespread in eastern Germany

There continue to be differences in the lived family forms. In eastern Germany, forms of living other than marriage are more widespread in eastern German than in western Germany against the background of traditional socialisation patterns. This is reflected, for instance, in the higher percentage of single parents compared to western Germany (east: 27 %; west: 18 %) and the higher percentage of co-habitation (east: 21 %; west: 8 %) (Figure 25). A common denominator of children in Germany is that family is "important" or "totally important" to all of them. This is stated by 97 % of the 6-14 year olds.⁶⁷

59 WZB/Federal Statistical Office (2013): Datenreport 2013 p. 65).

60 WZB/Federal Statistical Office (2013): Datenreport 2013 p. 386ff.

61 An egalitarian role understanding refers to the following aspects inter alia: "(...) a role convergence (in family and career) between men and women is advocated and employment of women is not viewed negatively for their children", WZB/Federal Statistical Office (2013): Datenreport 2013 p. 386).

62 Data based on micro-census 2012. Persons are considered as being in "active gainful employment" who usually go about gainful employment with the exception of persons who did not work in the reporting week due to maternal leave, parental leave, partial retirement, personal or family commitments. Persons are included in the definition of being in "gainful employment" who did not work in the reporting week due to holiday, sickness or other primarily operational reasons.

63 BMFSFJ (editor) (2014): Dossier Müttererwerbstätigkeit. Erwerbstätigkeit, Erwerbsumfang und Erwerbsvolumen 2012. Berlin, p. 72., on the basis of "active gainful employment".

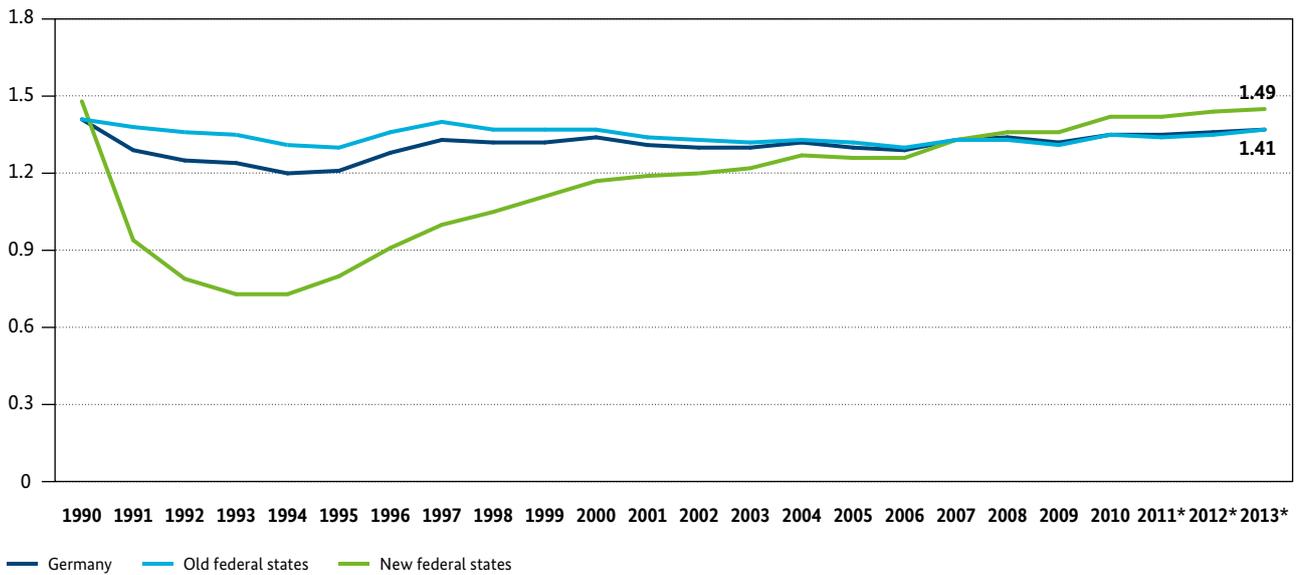
64 Federal Statistical Office 2015, Wirtschaft und Statistik, Dec. 2014, p. 739.

65 Federal Statistical Office 2014, Wirtschaft und Statistik, Dec. 2014, p. 742.

66 Up to 2011 shown excluding the results of the 2011 census; after 2011 with the new results from the census.

67 GEOLino-UNICEF Kinderwertemonitor 2014.

Figure 24: Development of total birth rate from 1990 to 2013, old and new federal states



*Result on the basis of population on the census key date 09.05.2011. Provisional values for 2012 and 2013
Source: Federal Statistical Office, 2015

Child day care in east and west has increased – the west is catching up

Federal states and local authorities must continue to extend the offer of child day care facilities and the number of staff (partly with state funding) in order to give all children in Germany equal development and educational opportunities. Current figures show that we are doing well here.

On 1 March 2015, 694,538 children under the age of three were looked after in child day care facilities or by state funded day care services: this is just under 333,000 more children than in 2008. Between 2008, the year in which the extension of day care for children under the age of three was launched, and 2014 the day care ratio for the under-threes rose from 17.6% to 32.3%⁶⁸. Both the care ratio and the need for care places for children in this age group differ greatly depending on region. At 52.0%, the care ratio in eastern Germany in 2014 was still far higher than in western Germany (27.4%).

In 2008, the starting situations for the extension of day care for children under 3 years of age differed in east and west. In the eastern federal states (including Berlin), 41.9% of children under 3 years of age were already in child day care facilities or day care services in 2008 whilst in the western federal states (excluding Berlin) there were only 12.1% of children in day care. Western Germany (excluding Berlin) caught up considerably in the period between 2008 and 2014: the care ratio has more than doubled and was 27.4%

on 1 March 2014. In eastern Germany (including Berlin) the ratio increased in this period – from a high starting level – by 10.1 percentage points to 52%.

Need for care differs greatly depending on region

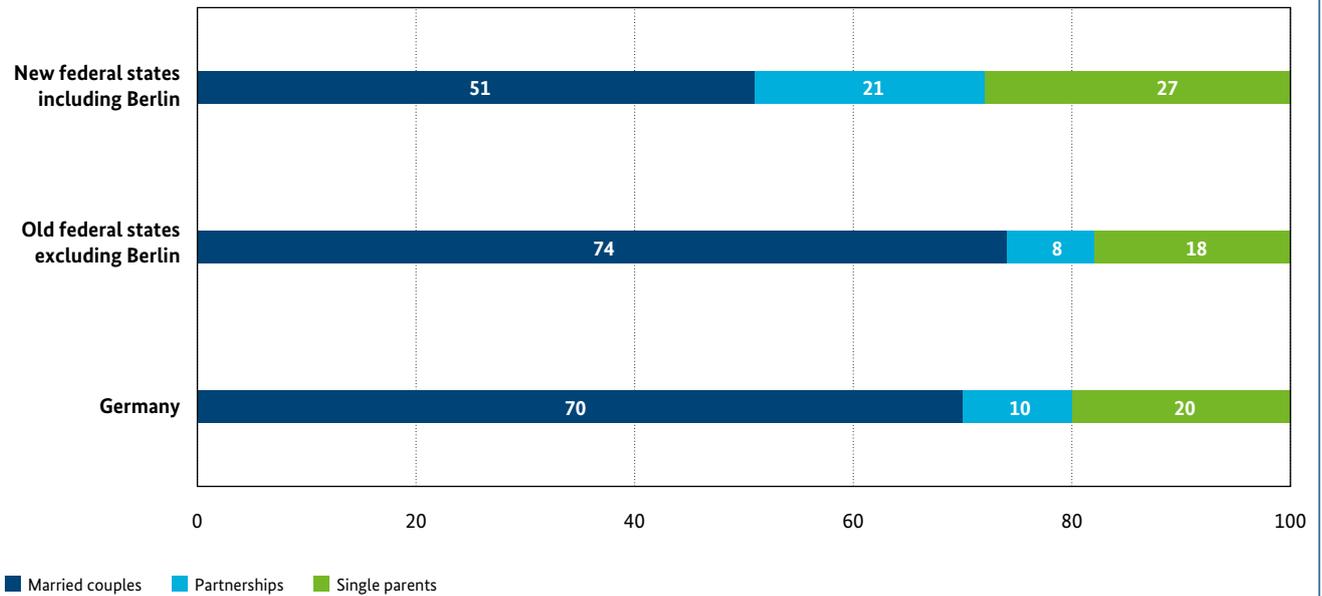
As a national average in 2014, 41.5% of parents wanted a care place for their children under 3 years of age. This demand continues to differ greatly not only between eastern and western Germany but also regionally and locally and in some cases even between the individual parts of cities.

In the eastern federal states the need expressed by parents for the care of their children under 3 years of age is over 50% across the board and is higher than in the western federal states. In eastern Germany in 2014, parents registered their needs for child care the most frequently in Saxony-Anhalt (62.8%), in Brandenburg (61.9%) and in Mecklenburg-Western Pomerania (61.3%) – in western Germany in Hamburg (50.4%), in Schleswig-Holstein (43.8%) and in Rhineland-Palatinate (43.1%). The need for child care is lowest in North Rhine-Westphalia (33.4%), Bavaria (35.4%) and Saarland (37.1%).

Federal states and local authorities have made great effort in recent years to set up a supply of places in line with requirements. The Federal Government supports this expansion of child day care with massive funding:

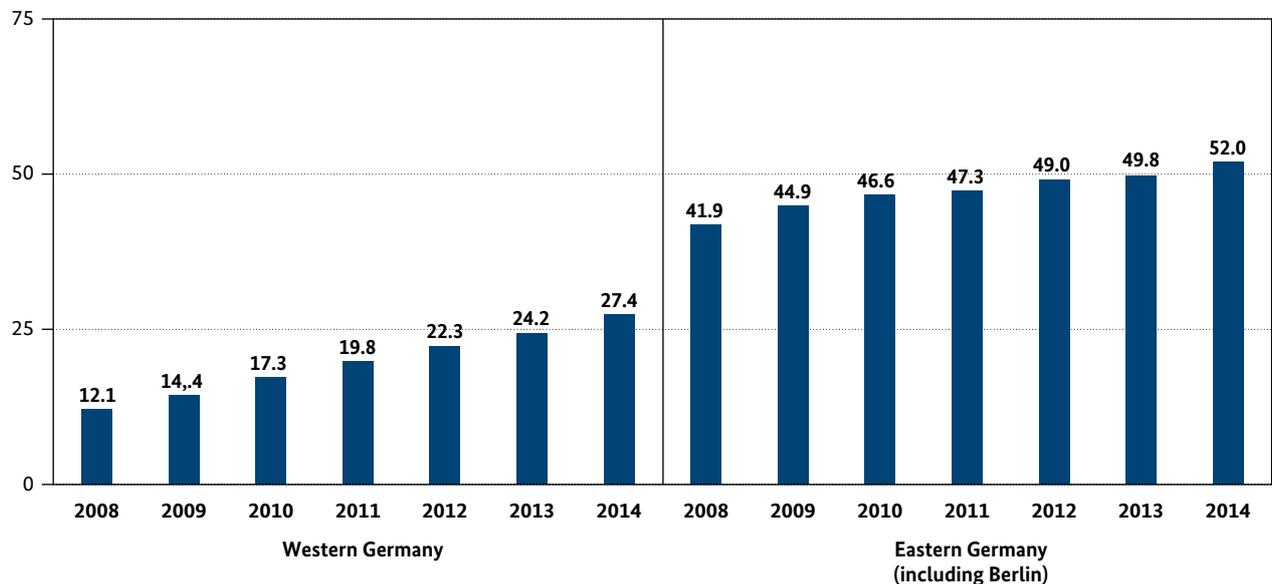
68 The care ratios of 2015 were not yet available at the time of reporting.

Figure 25: Family forms in the new and old federal states in 2013
as a percentage



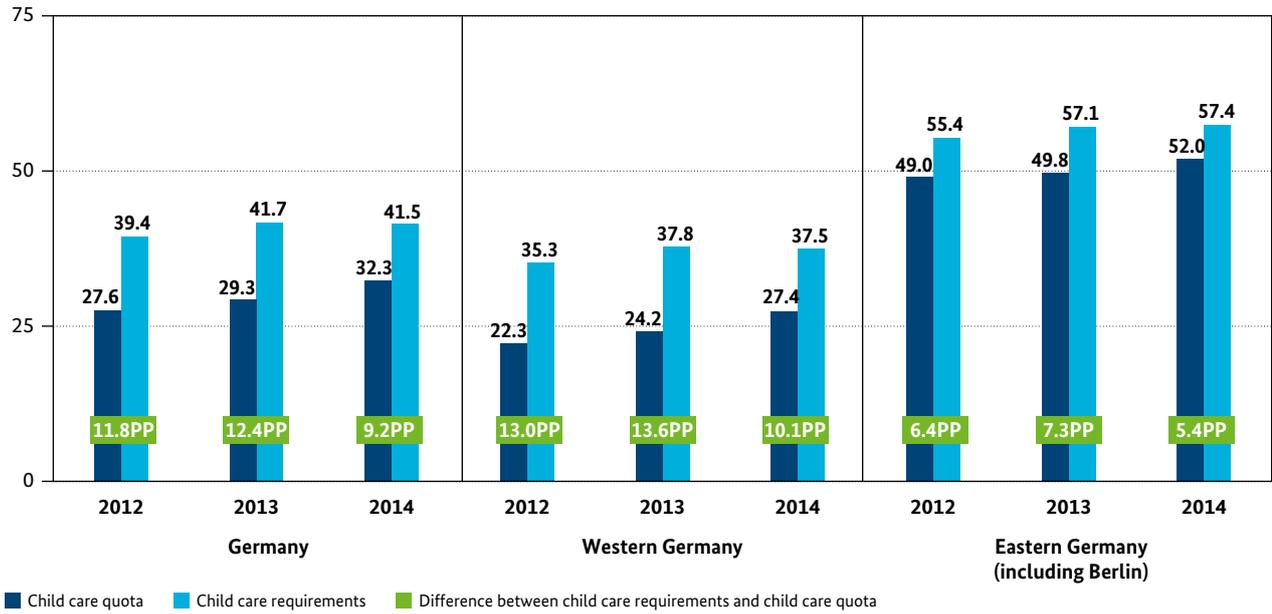
Source: Federal Statistical Office, 2014: Mikrozensus, Familien und Haushalte 2013

Figure 26: Children under the age of three in day care facilities in western and eastern Germany as a percentage of all children of the same age from 2008 to 2014
as a percentage



Source: Federal Statistical Office: Statistiken der Kinder- und Jugendhilfe. Kinder und tätige Personen in Tageseinrichtungen und Kindertagespflege 2008-2014, key date: 15 March (2008), 1 March (2009-2014).

Figure 27: Child care quota, child care requirements and difference between child care requirements and child care quota for children under the age of three in western and eastern Germany from 2012 to 2014 as a percentage



Sources: Federal Statistical Office: Statistiken der Kinder- und Jugendhilfe. Kinder und tätige Personen in Tageseinrichtungen und Kindertagespflege 2012–2014, key date: 1 March (2008). Calculations of the Dortmunder Arbeitsstelle Kinder- und Jugendhilfestatistik; German Youth Institute: results of the representative survey of the federal states on the care requirements of parents of children under the age of 3 from 2012–2014; n = 12,5399–13,4655. Weighted data.

Up to 2014 alone, € 5.4 billion has been made available for investments and operating costs from the special child care fund. As from 2015, the Federal Government will sustainably contribute an annual € 845 million to operating costs. In this legislative period the existing special fund will be topped up by € 550 million to € 1 billion. The Federal Government will also be increasing its participation in the operating costs for 2017 and 2018 by a further € 100 million.

The foundation is provided by the Act on the further quantitative and qualitative extension of care places for children under the age of three, which came into force on 1 January 2015. Emphasis will be placed here on providing high quality care which is in line with parent requirements.

During the conference on early education on 6 November 2014, the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ), federal states and central associations of local authorities decided to launch a process to develop joint quality objectives and enter into regular dialogue on issues of structure and quality. For this purpose, a working group meets with representatives from the Federal Government, the federal states and the central associations of local authorities with the involvement of other associations, organisations and industry. A report will be presented at the end of 2016. The next conference between Federal Government and federal states will be taking place in November 2015.

3. Legal capacity of the state/public structures in eastern Germany

Foundations and objectives of federal revenue equalisation

The legal capacity of public structures essentially depends on the efficiency of political decisions and also on the financial resources on which the decision-makers may draw. The financial rules governing public finances provide for a multi-stage system to distribute the financial revenue in the Federal Republic of Germany. The aim of distribution is to place Federal Government and the federal states in a position to satisfy their constitutional tasks. The process of political and economic development in the eastern federal states associated with German unity has also meant completely new and hitherto unknown challenges for financial policy. The central task of financial policy was to promote and accompany the comprehensive economic and social restructuring process. This also applied in particular to the public finances of the eastern federal states and local authorities. The tax revenue of the eastern federal states was only very low after reunification due to their economic situation. At the same time, however, they were required to assume tasks which went beyond that which was “normal” for a federal state. The reconstruction of eastern Germany, for example, required very high infrastructure investments. The differences in financial needs and financial strengths were therefore distinctly larger in a reunified Germany than in the old Federal Republic. This is why the special situation of the eastern federal states was also given special consideration in the federal finance system: from 1 July 1990 to 1994 in the form of the German Unity Fund, starting in 1995 by incorporating eastern federal states into the vertical and horizontal revenue equalisation system⁶⁹, supplemented by additional support within the framework of the Solidarity Pact I and starting from 2005 the Solidarity Pact II up to 2019.

The statutory provisions for federal revenue equalisation (Standards Act, Revenue Equalisation Act) including Solidarity Pact II and further financial regulations between Federal Government and federal states (e.g. unbundling resources, local transport funding) expire in 2019. The debt brake (compliance with the upper limit for structural net borrowing) will apply in 2016 to the Federal Government and to the federal states starting from 2020. It was agreed in the Coalition Agreement that the course would be set in this legislative period to re-regulate the financial relationships between Federal Government and the federal states. Negotiations are in progress between Federal Government and federal states in this respect. Joint key issues to re-regu-

late the financial relationships are to have been agreed by the end of 2015. Relevant differences, such as the smaller tax strength of the eastern federal states and local authorities which will still exist in 2019, must be taken into consideration. One goal continues to be the creation of equivalent living conditions.

German Unity Fund

An immediate incorporation of the new federal states into the equalisation mechanisms existing between the old federal states would have produced unclear risks and additional burdens for the old federal states due to the considerable differences in financial strength existing in the early nineties. This is why the Unification Treaty provided for transitional regulations in the area of revenue equalisation in order to secure the basic funding of the eastern German local authorities. The German Unity Fund was set up as a special state trust for the period from 1990 to 1994 via which the new federal states (60%) received a total of DM 160.7 billion (€ 82.2 billion) to cover their general financial requirements; 40% of this amount were to be passed on to the local authorities. Of this sum, € 48.6 billion was financed by borrowing and some € 33.6 billion from the Federal Government's budget (€ 25.4 billion) and the budgets of the old federal states (€ 8.2 billion)⁷⁰. The loan repayments were borne jointly by Federal Government and the old federal states - including their local authorities. Starting on 1 January 2005, the Federal Government assumed the liabilities of the Fund as co-debtor in the Solidarity Pact II. The partial equalisation for the assumption of the federal state portion of funding for the Fund by the Federal Government was effected as part of the re-regulation of the federal revenue equalisation which took effect in 2005.

Solidarity Pact I from 1995 to 2004

Since 1995 the new federal states and Berlin have been completely and equally incorporated in the all-German revenue equalisation system. In addition to the normal transfer mechanisms in this system (advance equalisation of turnover tax, the federal state revenue equalisation, Federal Government supplementary allocations), the new federal states and Berlin also received special payments from the Federal Government to overcome the consequences of a divided Germany. From 1995 to 2004, these were supplementary allocations by the Federal Government for special requirements (SoBEZ) as part of the Solidarity Pact I in accordance with the Revenue Equalisation Act in an

69 The federal revenue equalisation with its four stage of vertical and horizontal tax distribution (including division and distribution of turnover tax), federal state revenue equalisation and federal supplementary appropriations is a system for the distribution of joint tax revenue in the state.

70 Annual Report of the Federal Government on the Status of German Unity in 2010, p. 68

amount of some € 82 billion, and from 1995 to 2001, payments in accordance with the Investment Promotion Act for the Reconstruction of the East in an amount of some € 24 billion with which the new federal states and Berlin were able to fund measures to improve the economic infrastructure, for example. In addition, disproportionately high funding was provided.

Solidarity Pact II

The Solidarity Pact II agreed between the Federal Government and the federal states in June 2001 followed directly on from the Solidarity Pact I which had expired at the end of 2004. Running to 2019, the funding of the eastern federal states was placed on a secure footing and the eastern federal states given a long-term perspective. Within the framework of the Solidarity Pact II, the eastern federal states receive supplementary allocations by the Federal Government for special requirements (SoBEZ) to cover special burdens caused by a divided Germany for the large infrastructure backlog and to compensate for the disproportionately low financial strength of the local authorities. In total, the Federal Government is providing funds in the amount of some € 105 billion for this over the period 2005 to 2019 (so-called basket I funds). The funds are provided on a declining scale. In 2013, as in the year before, all eastern federal states deployed the supplementary allocations they received in full alignment with the requirements of the Solidarity Pact. A volume of some € 5.8 billion was earmarked for 2014; by 2019 it will have dropped to just under € 2 billion. The declining but still relevant importance of these funds for the territorial states in eastern Germany is illustrated by

the fact that the federal states were able to finance around 9% of their expenditure from basket I funds in 2014.

In addition to this, the Federal Government undertook within the scope of the Solidarity Pact II to provide an additional EUR 51 billion in the period from 2005 to 2019 in the form of disproportionately higher payments for the reconstruction of the east (so-called basket II funds). In 2013, the basket II funds amounted to some € 4.4 billion which were primarily used to promote innovation and investment, for transport and for building homes and urban development. A total of around € 44.9 billion has been disbursed for basket II in the Solidarity Pact II period 2005 to 2013 so far. The Federal Government has thus already met about 87% of its obligations from basket II of the Solidarity Pact II.

Solidarity surcharge

The solidarity surcharge was levied for the first time as a 7.5% surcharge on income, wage, capital yield, withholding and corporation tax from mid-1991 to mid-1992. On 1 January 1995, it was re-introduced in the same amount and reduced to 5.5% taking effect on 1 January 1998. The solidarity surcharge is levied equally in western and eastern Germany. In 2014, it amounted to some € 15.0 billion and by 2019 will have risen to some € 18.4 billion according to the tax estimate of May 2015.

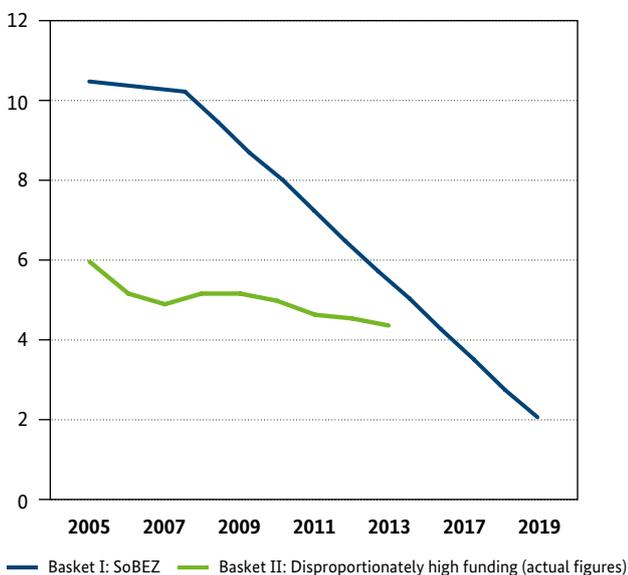
The revenue from the solidarity surcharge is exclusively attributable to the Federal Government and is not earmarked. The solidarity surcharge is basically levied indefinitely. However, it has been agreed in the Coalition Agreement that the future of the solidarity surcharge for the period after 2019 will also require discussion when restructuring of the financial relationships between the Federal Government and the federal states.

Current financial situation of the eastern federal states and municipalities

Tax revenue and income situation

The revenue trend in the eastern federal states is marked by countervailing tendencies. While a further increase and convergence with the western German levels is expected for some important sources of budget revenue, other important sources of revenue are receding significantly.

Figure 28: Solidarity Pact II
in euro/billions



Source: Federal Ministry of Finance

In 2014, the per capita tax revenue from the eastern territorial states⁷¹ was € 990. In the same year, in the western territorial states this figure was € 1,886 per capita, and € 1,634 per capita in the financially weak western territorial states. The eastern territorial states therefore achieved 61 % of the level of the financially weak western territorial states in 2014. It was only 37 % in the year 2000. The financial strength of the eastern territorial states has increased over the years but is still distinctly behind the financially weak western territorial states. Berlin was also below the level of financially weak western territorial states. This reflects the still-low fiscal strength in all eastern federal states primarily as a result of the economic circumstances.

All in all, the per capita revenue⁷² in the eastern territorial states and municipalities in 2014 was € 5,594. This figure is € 4,967 in the financially weak western territorial states. It is primarily thanks to the Solidarity Pact II that the eastern territorial states currently have even higher per capita income which is particularly intended to fund infrastructure measures.

The higher per capita allocations from the EU Structural Fund also contribute to the higher level of income of the eastern federal states. These funds are tapering off as well, however. They will be about one-third less and cut back to just under € 9 billion in the new funding period 2014 to 2020 for the eastern federal states. Although the new federal states no longer belong to the maximum funding areas of the EU, it has been possible to avoid a steep decline by agreeing a safety net and to secure some 64 % of the funding of previous periods.

Demographic trends have a wide-ranging impact on the budgets of the eastern federal states. For instance, the assessment of financial compensation flows is also based on the respective numbers of inhabitants in the federal states. Because this tends to have a faster impact in eastern Germany than in western Germany, this process also buffers the trend in revenue.

The situation of eastern German municipalities

At just under € 2,500 per inhabitant in 2014, the income of the municipalities in the eastern territorial states is around 90 % of the level in the western territorial states. Differences can be clearly seen with regard to the structure of revenues. Per capita municipal tax revenue in eastern Germany is only

60 % of the western German level. By contrast, the investment appropriations and other ongoing appropriations are highly disproportionate in the eastern German municipalities and continue to be the largest revenue item. These are about one-third greater than those of western German municipalities. Financial transfers and Solidarity Pact II still offer important support here.

Expenditures in the eastern German municipalities are also lower than in the western German counterparts and at just under 90 % of the western German level, indicate a similar gap as revenue. Contrary to the years previous, the per capita investments are now some 10 % below the western German level. The decline in investment appropriations is directly reflected in a decline in investments. It is encouraging that municipal debt in the eastern territorial states is significantly lower than in most of the western territorial states.

Situation regarding expenditures

If the federal and municipal levels are viewed as a whole, at € 5,442 per capita, the expenditures of the eastern territorial states in 2014 were higher than in the comparable western federal states (€ 5,096 per capita). At around 14 %, investment expenditures as a percentage of total expenditures is greater in the eastern territorial states than in comparable western federal states (10 %).

The debt situation and consolidation requirements

The consolidation of public budgets in the eastern territorial states has made further progress in the past few years. The eastern territorial states and their municipalities achieved budgetary surpluses overall in the years from 2011 to 2014; in 2014 they amounted to a good € 1.9 billion or some € 153 per capita. The debt level has been reduced since 2005 – with the exception of 2010.

By the end of 2014, the eastern territorial states and municipalities had debts in the non-public sector totalling some € 76.8 billion or some € 6,146 per capita compared with € 10,325 per capita in the comparable western territorial states.⁷³

71 Tax revenue of the federal states from income tax, corporation tax, trade tax apportionment and from federal state taxes (in delineation to the Revenue Equalisation Act - FAG).

72 Population based on June 2014 because year-end values for 2014 are not yet available; source: Federal Statistical Office, Schnellmitteilungen F 202.

73 Source: Federal Statistical Office, Finanzen und Steuern, Schulden des Öffentlichen Gesamthaushalts 2014, Fachserie 14 Reihe 5, 2015, Table 5.1, own calculations. Comparable federal states are: Lower Saxony, Rhineland-Palatinate, Saarland, Schleswig-Holstein.

This thus provides the foundation for the new federal states to meet the debt-limit requirements at the end Solidarity Pact II in 2019, which requires balanced federal state budgets beginning in 2020. One of the basic requirements to consolidate the successes so far achieved is a moderate expenditures policy. The new federal states must also have completed the process of dismantling the infrastructure backlog caused by the division of Germany with Solidarity Pact funding by the end of 2019. In order to comply with the debt brake starting from 2020 and in connection with the planned reduction of important income sources, the eastern federal states and municipalities must continue their successful consolidation course in the coming years.

4. Urban and rural quality of life

Specific demographic development in the eastern federal states

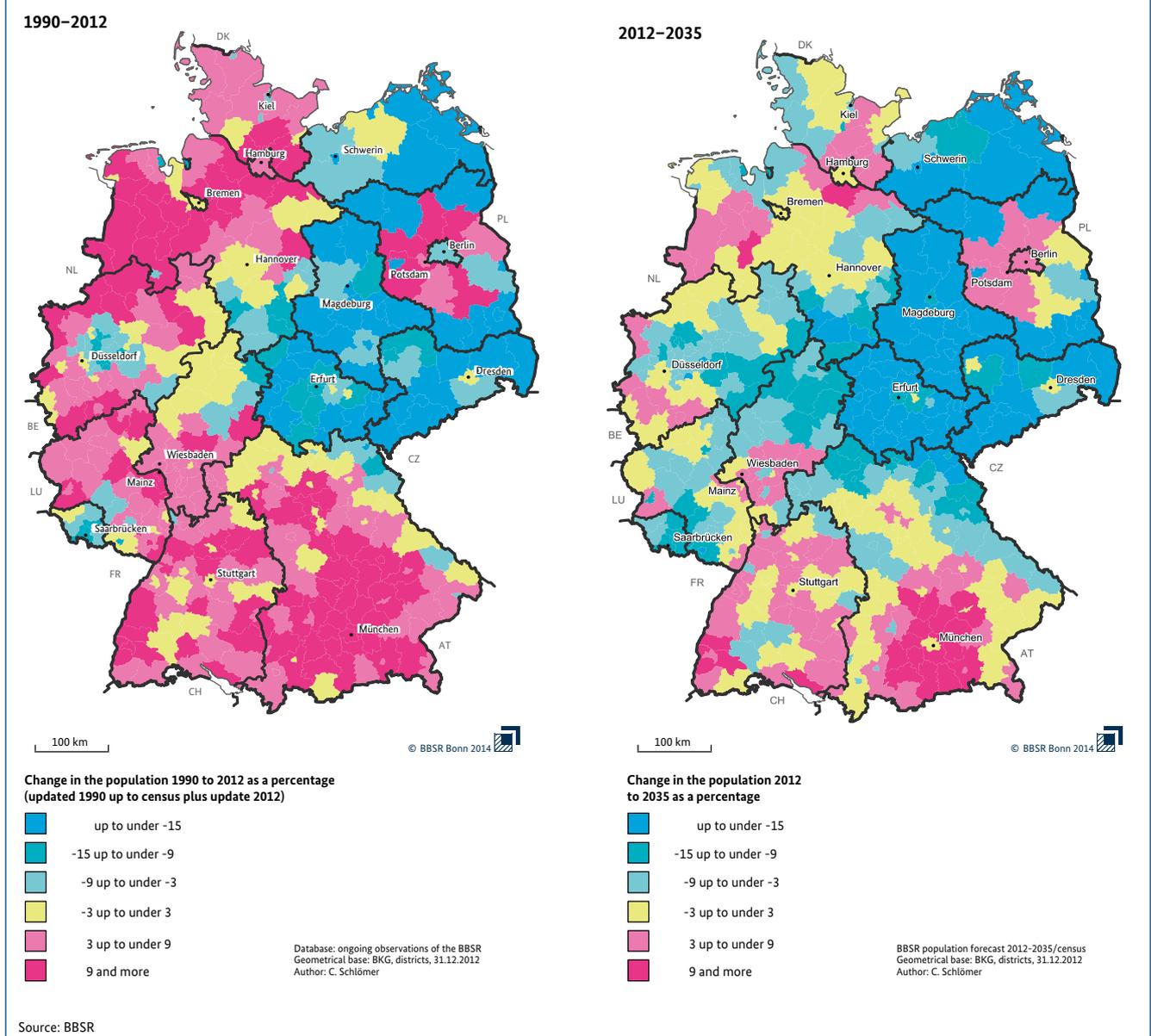
Demographic change has been one of the great challenges in eastern Germany since the start of the nineties and is set to remain so in the coming years. Even if demographic change is not an eastern German phenomenon, the dynamics and the intensity of the processes of contraction and migration have sustainably characterised the population development in the new federal states.

Whilst the population in the old federal states increased in the period from 1990 to the end of 2013, the number of inhabitants in the new federal states has dropped distinctly (by some 15 %). The declining population trend since the existence of the GDR – particularly due to migration up to the fall of the Berlin Wall – has gained considerable momentum since the Peaceful Revolution in 1989/90. The abrupt slump in births in the nineties and the massive migration primarily of young women has changed the demographic situation in eastern Germany unfavourably and not only temporarily.

The natural population development is declining both in eastern and in western Germany. Since the beginning of the seventies, the number of deaths has been higher than the number of births. However, whilst the old federal states are able to largely compensate for the deficits in births through migration, the eastern federal states will not be able to compensate through gains in migration in the coming years and stop the further decline in the population. The demographic processes will differ more, however, from a regional point of view. In addition to regions with a declining population and greater ageing, there will also be regions with stable and even growing population figures.

Trend in births

The development of births has been characterised in eastern Germany by deep changes as a result of reunification. Within only four years, the number of new-borns halved to then rise again slowly as from 1995. In 2007, the total birth rate had already reached the western German level and was 1.49⁷⁴ in 2013 and therefore even above the birth rate in the former federal states (1.41). Despite a positive trend in recent years, the number of children born is smaller every year than the year in which their parents were born. This trend was exacerbated in eastern Germany by the massive migration particularly in the nineties. It is therefore to be assumed that the generations of children in the coming years will also increasingly diminish.

Figure 29: Past and future population development of the districts

Life expectancy

People are living longer in eastern and western Germany. In eastern Germany, the average life expectancy has risen distinctly since 1990. Improved living and working conditions and medical care have led to a rapid increase in life expectancy.

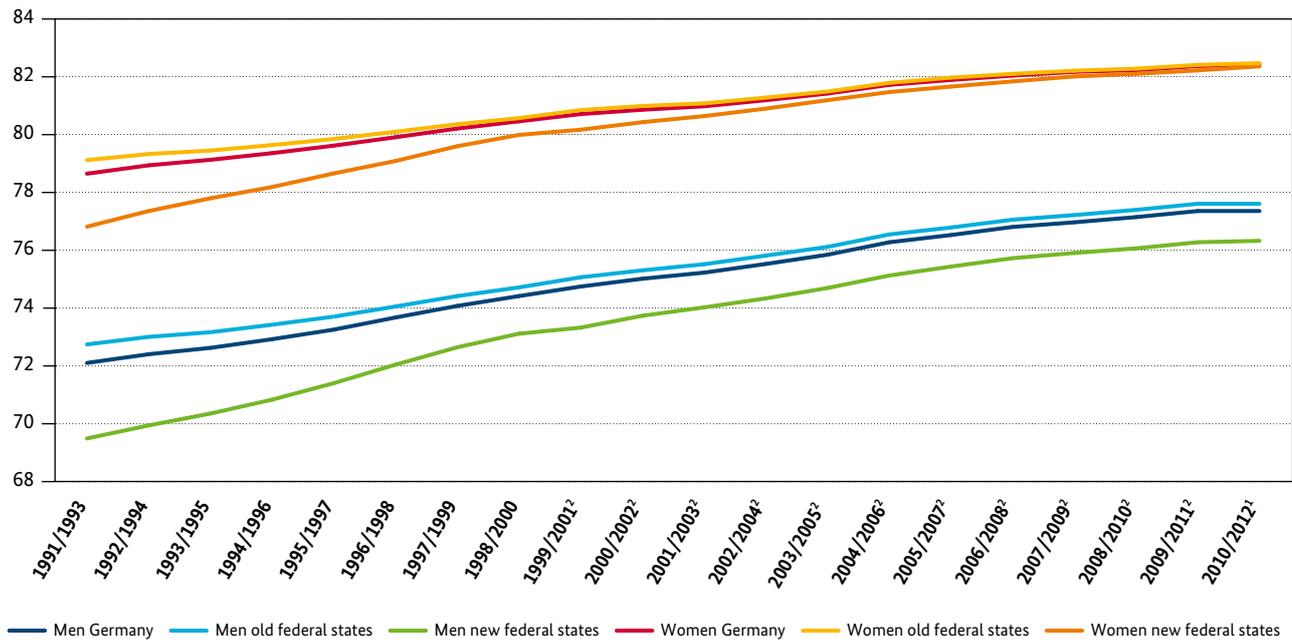
On average, women now live almost just as long in eastern and western Germany (old federal states: 82.83 years; new federal states: 82.72 years)⁷⁵ With an average life expectancy of 76.69 years, men in eastern Germany have not quite caught up with their counterparts in western Germany (77.97 years)⁷⁵

Ageing of the population

Low fertility, the migration of primarily young people and the higher life expectancy have made a huge impact on the age structure. Whilst in 1990 the new federal states were still amongst those with the youngest population, these federal states are now the ones with the highest average age. Whereas the average age rose by 4.9 years nationwide in the period from 1990 to 2013, there was a 9-year increase in the eastern territorial states.

The particularly dynamic rise in the age of the population in the new federal states can also be seen in the shift in the relationships between the main age groups in the population. Whilst the younger population of under 20 years of age in the new federal states still accounted for 25.2% of the total

⁷⁵ Federal Statistical Office: General mortality tables 2010/2012

Figure 30: Life expectancy on birth in Germany (average life expectancy on birth)

1 General mortality table

2 Old federal states excluding Berlin, new federal states excluding Berlin

Source: Federal Statistical Office (2015), Allgemeine Sterbetafeln für Deutschland, das frühere Bundesgebiet, die neuen Länder 2010/12.

New federal states: up to 1998/2000 new federal states including Berlin-East, from 1999/2001 excluding Berlin-East

Old federal states: up to 1998/2000 old federal states, from 1999/2001 excluding Berlin-West

population in 1990, this figure was down to only 15.3% in 2013 (old federal states in 1990: 20.9%/2013: 18.7%). By contrast, the share of the population aged 65 and over in the new federal states increased in the same period from 13.8 to 23.9% (old federal states 1990: 15.3/2013: 20.3%).

Domestic migration

A wave-like and enduring migration from east to west commenced after the fall of the Berlin Wall. On balance, the new federal states (including Berlin) lost some 1.1 million citizens to the old federal states between 1991 and 2013 through migration alone. The migration movements from east and west and vice-versa are now virtually balanced. In 2013, the east even recorded a domestic migration surplus of 1,150 persons, which is attributable to the great appeal of Berlin. The federal states of Saxony and Brandenburg similarly noted population gains from domestic migration. In Saxony they were caused by the migration surplus from the other new federal states, and in Brandenburg by the positive migration balance with Berlin.

The relocation trend with respect to eastern Germans continues to be high. However, east-west migration is no longer the key issue but rather migration from the economically less developed and peripheral rural regions to the towns and cities. For example, Berlin, Potsdam, Dresden, Leipzig and Erfurt can be expected to record a positive population

trend in future too. By contrast, it is to be expected that the contraction and ageing processes in the north-eastern regions of eastern Germany and in Saxony-Anhalt, Lusatia and in the north of Saxony will gain further momentum.

Foreign migration

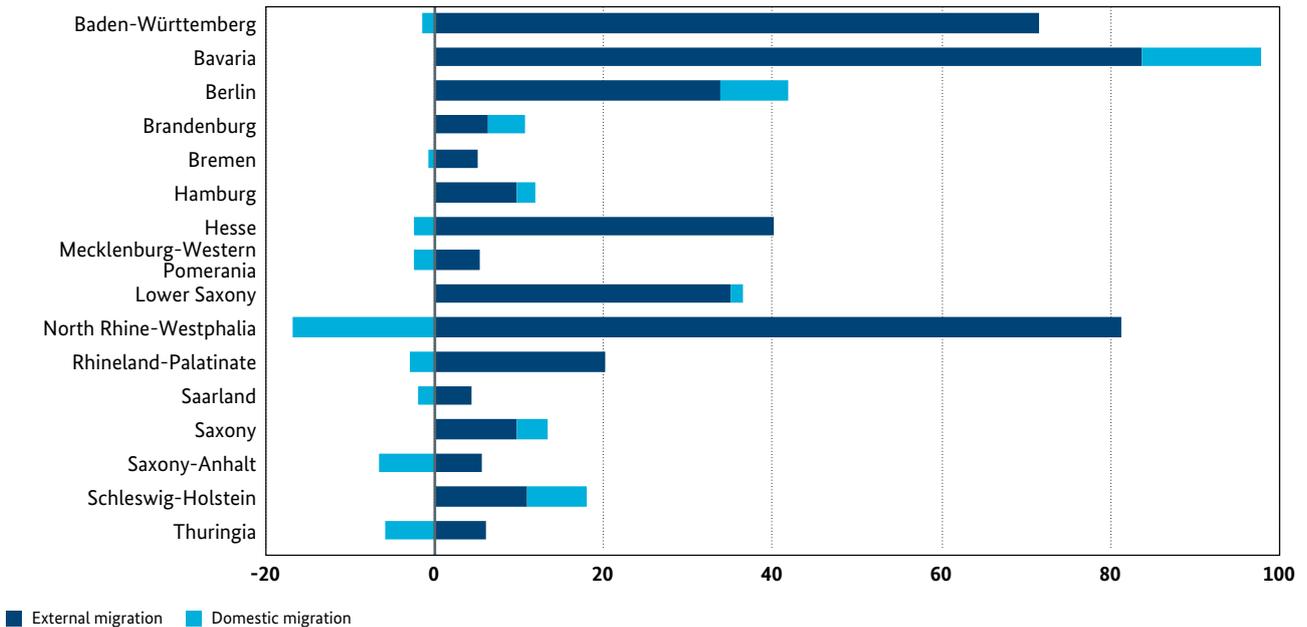
Migration from abroad remains lower in the new federal states than in the old ones. Nevertheless, the eastern federal states also benefit from the growing migration gains of recent years. In 2013, for example, some 67,000 more migrants from abroad went to eastern Germany than vice-versa. The majority was welcomed in Berlin (approx. 34,000) and Saxony (approx. 10,000). The other eastern federal states recorded positive migration balances of between 5,000 and a little more than 6,000 people.

Regional disparities on the increase

The regions and the cities are affected by the demographic changes to differing degrees. A suburbanisation process was set into motion in eastern Germany at the beginning of the nineties. Families with children in particular moved outside the centres and numerous single-family residential areas arose in front of the gates of the cities. This trend has reversed in recent years, and an increasing number of medium-sized and large cities are once again recording

Figure 31: Domestic and external migration percentages according to federal states in 2013

Balance in 1,000 persons



Source: Federal Institute for Population Research

migration growth. By contrast, the population is distinctly contracting and ageing in the economically less developed and peripheral rural regions. Viewed on a small scale, regions with a high population decline and steep ageing of the population exist alongside regions with a stable to positive population trend.

However, the growing differences between boom and contraction regions are no longer an eastern German phenomenon. Municipalities in structurally weak regions of western Germany are also increasingly confronted with demographic changes. A north-south divide can be observed both in eastern and in western Germany. In the southern regions, the economic growth is higher and unemployment lower than in the north. This is also reflected in the migration balance.

In the economically less developed and peripheral regions, the momentum and intensity of demographic changes will even intensify.

Eastern Germany – pioneer in demographic change

Much can be learned from eastern Germany about the handling of demographic change. Following the collapse of the GDR system, there was a radical change in the new federal states in terms of birth rates and the spatial population trend. Both with respect to their dynamism and intensity, the processes which took place are unique historically and by European comparison.

The eastern federal states were already having to deal with the consequences of demographic change back in the nineties and to start to develop new solution approaches to the pending challenges. There were no patent remedies to maintain the high quality of life in a contracting and ageing society. Concepts and instruments with different accents had to be developed which, in addition to shaping growth processes, also had to facilitate acceptable contraction. Altered organisation models, innovative forms of cooperation and modernised technical procedures can open up new perspectives for contracting regions.

The new federal states contributed their experience and the findings made to the action concept on the Future Viability of the Provision of Vital Services in Demographic Change prepared together with the Federal Government in 2011. The action concept was at the same time a pilot project for the demography strategy of the Federal Government which was adopted in 2012. The demography portal of the Federal Government and the federal states was also launched in 2012 on the initiative of the eastern federal states. It is the first joint platform which advances the exchange of information across all levels, invites dialogue and shows examples of best practice.

Focusing on Young People - Coping with Demographic Trends at the Regional Level

Against the backdrop of demographic developments, a promising policy for young people is of special importance at an urban and regional level.

The project Focusing on Young People – Coping with Demographic Trends at the Regional Level conducted by the German Youth Institute concentrates on the situation of young people in the rural regions of eastern Germany and also in selected economically less developed areas of western Germany.

The project (2013–2015) picks up on the concept of an “independent policy for young people” and examines the needs, perspectives and ideas on the future of young people in five eastern German and three western German districts. On the basis of these analyses and through the parallel discussion process with experts, recommended action is developed for the policy makers at different administrative levels. A contribution to a demography policy in line with the needs of young people is therefore made at Federal Government, regional and local level.

Strengthening disadvantaged young people

The ESF pilot programme “JUGEND STÄRKEN im Quartier” was launched in 2015 to support municipal and free youth work.

The inter-ministerial four-year project enables local authorities at some 180 pilot locations throughout the nation to develop offers for disadvantaged young people in need of special support at the interface between school and work. With around one quarter of the locations, eastern Germany has a disproportionately high coverage. The local authorities have different methodical modules at their disposal to shape the project in accordance with their local needs.

The core objective of the programme is to stabilise and strengthen individually or socially disadvantaged young people and to give future perspectives, where possible in the form of apprenticeship places or jobs. Funding and expertise are concentrated in the neighbourhoods concerned to provide efficient assistance to the young people.

Urban development and the supply of residential housing

The cities of eastern Germany have changed most positively since reunification. As core tasks of the national urban development policy, the preservation and maintenance of historical city centres, the revival of inner cities and large estates as well as the improvement of areas marked by social tensions have not only contributed to a better quality of life and attractiveness of cities and communities for their inhabitants, but have also enhanced the economic strength of the cities.

Urban development assistance is the most important political instrument. It is a joint task of Federal Government, federal states and the municipalities which supports the cities and communities in eliminating urban development shortcomings and in implementing future viable concepts by means of co-funding. Particularly in the period after 1990, urban development assistance proved to be an effective instrument because in the majority of eastern German cities immediate action was necessary to ensure that they functioned and to adapt them to the requirements of a free market economy.

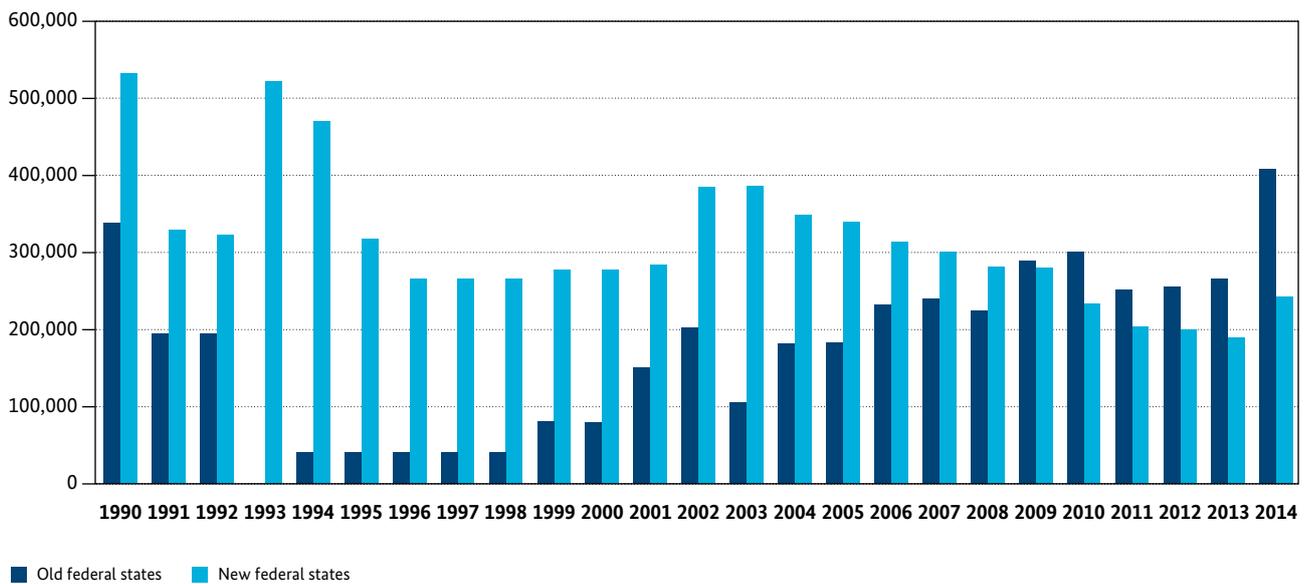
The new federal states received a total of approximately € 7.8 billion in funds from 1990 through 2014 from all support programmes for urban reconstruction and development. This is commensurate with a share of approximately 64% in total funds. The special problems faced by the new federal states have been and still are being taken into account through a greater commitment of funds per capita in absolute terms compared with the old federal states. At the same time, in absolute and relative terms, the western federal states have steadily caught up in terms of the volume of Federal Government funding received in recent years. Even if more Federal Government funds have been flowing to western federal states than to eastern federal states since 2009, the eastern German share is still disproportionately high measured in terms of population (see Figure 32).

As in 2014, the Federal Government has earmarked a total of € 700 million for urban reconstruction and development in 2015 – more than ever before. Of this amount, € 650 million is being made available as federal financial aid for urban reconstruction and development. As a result, more cities and municipalities in Germany can be supported in their efforts to cope with demographic, social, economic and environmental change as well as in their sustainable development than in the past. Support for eastern German municipalities is by the same token disproportionately higher than its ratio to the population.

Protection of Urban Architectural Heritage – East, Urban Reconstruction – East, Social Cities programmes

The Protection of Urban Architectural Heritage programme was launched in 1991 by the Federal Government and the federal states to stop the structural decay of historical inner cities. This has enabled urban historic sites of national and regional importance to be maintained and kept as architectural heritage for future generations. Measures in 220 municipalities of the eastern federal states could be implemented in the period from 1991 to 2014 with the assistance of the programme. Federal Government funding totalling some € 2.2 billion was available for this purpose.

Figure 32: Financial aid from the Federal Government for urban reconstruction and development from 1990 to 2014 in EUR 1,000



Source: Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

Due to its success, the programme was also introduced in the old federal states in 2009, and will be continued in 2014 with programme funds of € 110 million. € 70 million alone is used for measures in the new federal states. The funds are used here in particular in cities centres of high historical architectural and cultural value in an effort to revive the historical areas and to strengthen them as vital locations for living, working, trading, cultural and leisure activities.

The Urban Reconstruction – East programme was launched in 2002 in view of the high level of empty residential properties in eastern Germany and the associated consequences for the cities. In the period from 2002 to 2014, 483 municipalities were assisted in the programme with Federal Government funds totalling € 1.5 billion. The programme is therefore one of the most important instruments of urban development policy in the new federal states and will also be continued in 2015 with a high level of funding amounting to € 105 million. The cities and municipalities are therefore assisted in maintaining and improving their locational qualities also in times of economic and demographic change. At the heart of the programme are efforts to make city centres and neighbourhoods meriting preservation more attractive in a targeted manner while stabilising urban structures by tearing down vacant residential buildings for which there will be no demand in the future. The programme also assists in maintaining old buildings. This means that the restoration and securing of old buildings can be assisted without the municipalities needing to make their own contribution.

The programme was flanked by the Old Debt Assistance Ordinance (AHGV), a hardship regulation for housing companies whose economic existence is threatened. Up to the expiry of the old debt assistance at the end of 2013, this has enabled 318 companies to repay some € 1.1 billion old debt for some 263,000 residential units torn down as part of the assistance from the Urban Reconstruction – East programme, and has made an important contribution to the economic consolidation of the housing companies.

According to the Coalition Agreement, the Urban Reconstruction – East and Urban Reconstruction – West programmes will be perspectiveally merged into a uniform, enhanced and integrated urban reconstruction programme (under consideration of the Solidarity Pact, basket II). This process is to be conducted on the basis of a joint evaluation of both programmes which is to be completed in spring 2016. The evaluation is intended to find answers to the questions as to which future problems in all regions of Germany present the greatest challenges and which instruments are necessary here. The subjects of climate protection and climate adjustment will also be taken into consideration in urban reconstruction.

The Social Cities programme was launched nationwide in 1999. Its integrative approach addresses the improvement of living conditions in disadvantaged neighbourhoods. This was and continues to be of great importance for eastern Germany due to the existing structural weaknesses. The Social Cities programme provides municipalities with assistance for urban development investments in residential environments, infrastructure and housing quality. Disadvantaged, structurally weak parts of cities and districts are

to be stabilised with programme funds and the quality of life improved. Key aims include more generational justice and more family-friendly neighbourhoods, an improvement in integration and participation and social interaction between neighbourhoods.

From 1999 to 2014, the Federal Government provided funding totalling some € 1.2 billion. The share of the eastern federal states (including Berlin) in this Federal Government funding was around € 291 million.

Federal Government funding of € 150 million is available for 2015.

The cities and municipalities continue to be faced with complex social, economic and ecological challenges. The Federal Government is and remains a reliable partner of the municipalities and will continue to support them in mastering these challenges. Integrative urban development policy, cooperation between the municipalities above all in view of demographic change, the concentration of resources and the cooperation between all stakeholders, in particular the local citizens, continues to gain in importance.

National urban development projects

In 2014, the Federal Government launched an independent federal support programme for the first time to promote investments in national urban reconstruction and development projects with a total programme volume of € 50 million. Funding is provided to projects with special national reach and quality. In 2014 and 2015, particular emphasis has been placed on architectural heritage ensembles of national importance and cultural heritage buildings of extraordinary value as well as on renewal measures in line with energy and age requirements in neighbourhoods and “Green in the City”. Eight of the 21 projects funded in 2014 with some € 12.5 million are located in the new federal states.

Supply of housing and housing quality

The housing markets in eastern Germany have changed dramatically since reunification. The housing stock has been further developed, improved in terms of quality and adjusted to altered demands and housing requirements through reconstruction and modernisation, new construction, conversion and demolition.

Of the some 8.5 million residential units in the new federal states, a good 1.5 million has been built since 1991. Two thirds of completions took place in the nineties. The con-

struction of multi-storey residential buildings predominated slightly in this period. The construction of single-family and two-family dwellings has dominated since the turn of the millennium. Consequently, the home ownership level has risen distinctly.

The average per capita living space has increased in the new federal states⁷⁶ from 28.2 square metres in 1990 to 43.2 square metres in 2013.

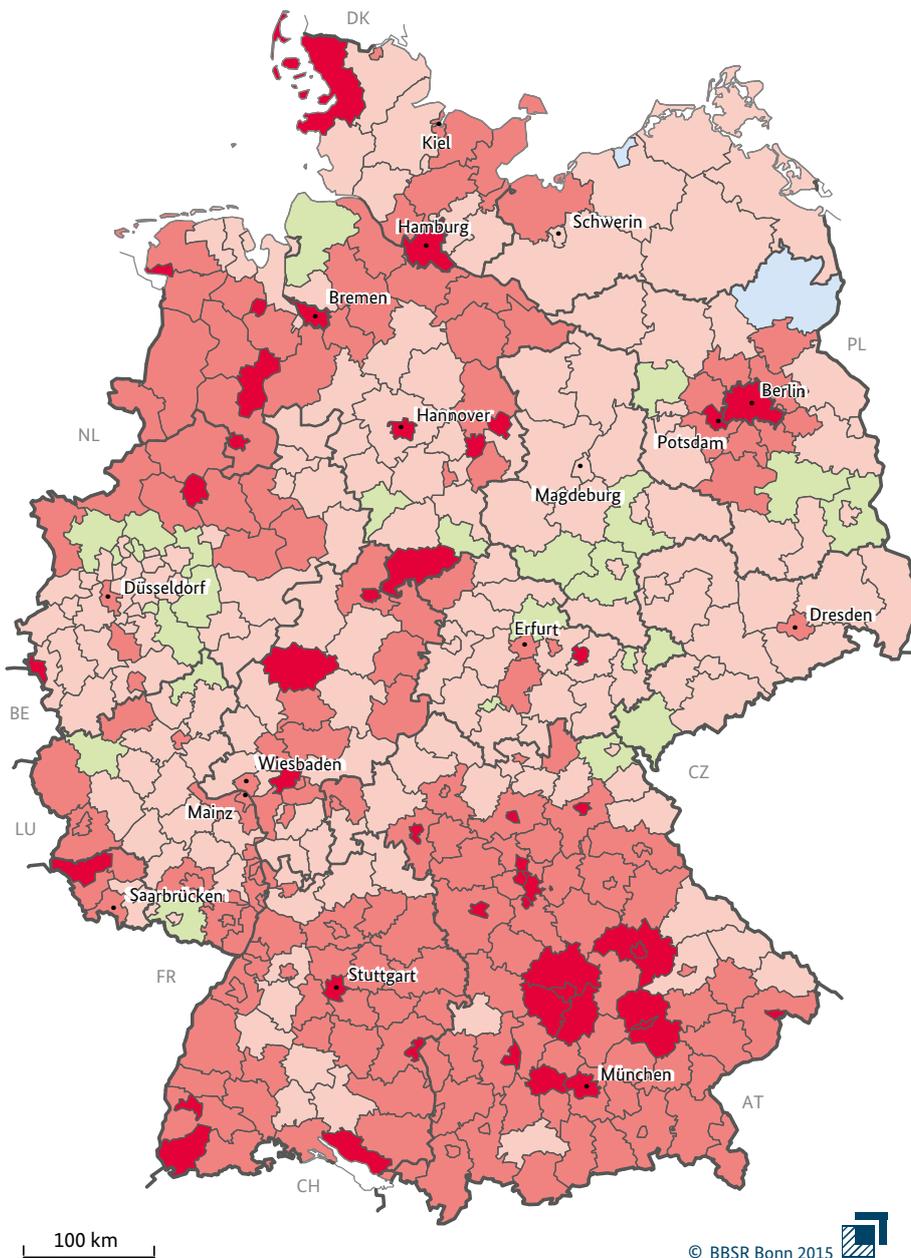
The number of empty properties rose steeply after 1990. The reasons for this were massive migration and the emerging improved opportunities of home purchase which were supported by the Federal Government with funding in accordance with the Assisted Area Act and the Act on Premiums for Owner-Occupied Homes. The Urban Reconstruction - East programme made a special contribution to reducing empty properties. By 2014, some 338,000 homes had been torn down as part of this programme, thereby reducing vacancies.

Not only vacancy management in economically less developed, contracting regions, but also the growing demand for homes in prospering urban regions places housing policy in eastern Germany before enormous challenges. The number of building approvals in eastern Germany for a good 54,000 homes in 2014 shows an increased demand for new homes, particular in the cities with population increases (e.g. Berlin and the near surrounding areas, Dresden, Jena, Weimar, Erfurt, Leipzig). The increase in homes on offer frequently only matches the growing demand with a considerable time lag despite the growing number of building completions. The housing bottlenecks are reflected in the regional development of rents. Whilst rents in the eastern territorial states have increased overall by only a good 6% since 2010 to an average of 5.39 euros per square metre, the rent trend in regions with excess demand was above average.

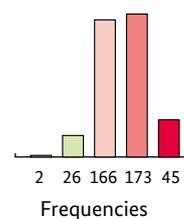
The largest owner group in the eastern German home rental market are private persons. They own just under half of all rental homes (including rented flats). Nevertheless, commercial owners are of greater importance in eastern Germany than in the west whose rental home market is dominated more greatly by private ownership. With a share of just under 20%, municipal housing companies are the second largest owner group, followed by the cooperatives (17%) and private housing companies (11%).

The housing policy of the Federal Government is based on a triad of strengthening investment activity, supporting social housing construction and flanking this with appropriate rent legislation and social policy. To this end, it entered into a Home and Construction Alliance with all relevant

Figure 33: Development in the new let and re-let rents for residential housing 2009 to 2014 p.a.



**Development of the new let and re-let rents
Net without heating 2009 to 2014 p. a. in %**



Database: BBSR-Wohnungsmarktbeobachtung, IDN ImmoDaten GmbH
Geometrical base: BKG, districts (modified), 31.12.2013
Authors: A. Schurt, J. Nielsen

Remarks:

In Brandenburg internal differentiation of districts according to an inner conurbation area and outer development area.
The regional district of Hanover and the municipal region of Aachen differentiated according to city and former surrounding district.

stakeholders in 2014 which is intended to contribute to strengthening investments in housing construction, rebuilding the neighbourhoods in line with the age of their citizens, creating social and climate friendly housing and reducing the construction costs.

Social housing assistance has been an essential element of socially responsible housing policy also in eastern Germany since reunification. With the assistance of social housing support, private investors and municipal housing companies provide rental homes for households with difficulties accessing the housing market. In growth regions, the construction of favourably priced homes is primarily assisted. By contrast, in regions with balanced housing markets the adaptation of homes to contemporary standards is assisted, e.g. through energy renovation or age-appropriate conversion measures. In addition, social housing assistance targets the formation of home ownership, particularly for families with children. Since the federalism reform in 2006, the federal states have borne the exclusive responsibility for social housing assistance. By way of compensation for the expiry of former Federal Government funding, the federal states receive € 518.2 million per annum up to and including 2019 from the Federal Government. Of this figure, some € 196.9 million goes to eastern Germany (including Berlin).

The increasing ageing of the population, particularly in eastern Germany, clearly shows that a rapid improvement in the offer of age-appropriate homes (barrier free/low barrier living space) is necessary. This enables the elderly and the very old as well as disabled people to live considerably longer and independently where possible in their familiar environment. In October 2014, the Federal Government therefore reintroduced the funding in the new KfW programme Age-appropriate Conversions.

The tried and tested instrument of social securing of housing is highly effective and hits the social mark. Housing benefits will be improved in order to provide help to low-income households with their housing costs. When the housing benefits reform comes into force on 1 January 2016, the housing benefit will be adjusted to the rent and income trend. The new federal states will benefit from this in particular because the recipient rate in terms of all households in the new federal states is twice that of the old federal states.

Rural regions – the challenge for providing vital services

There were considerable deficits in providing vital services in eastern Germany at the time of reunification. It has been possible to eliminate the main shortcomings with huge funding and to achieve a distinct improvement in quality. Reference is to be made here to the provision of telephone connections for virtually all households, the comprehen-

sive modernisation and renewal of the technical and social infrastructure and of local public transport.

The development and modernisation process in eastern Germany was at the same time accompanied by massive demographic changes. As a result of the changing age structure of the population, the requirements placed on vital services decreased or altered in many areas. There were several problematical areas above all in the rural areas of the new federal states: low settlement density, structural change and demographic change with continuous and selective migration losses. This leads to new challenges in securing vital services.

The Federal Government emphatically pursues the goal of achieving equivalent living conditions and future opportunities for the people in all regions of Germany. In this connection, it adopted a demography strategy entitled Every Age Counts in April 2012 which formulates the objectives, strategic action fields and measures to handle demographic change. Since autumn 2012, ten working groups have been addressing the challenges presented by demographic change in the action fields in a broad process of dialogue and are developing specific solution approaches and implementation projects. The working groups presented initial results during the demography summit in May 2013; further results will follow at the Federal Government's congress on demography strategy on 22 September 2015.

To create equivalent living conditions it is especially important to guarantee an adequate provision of vital services in areas such as infrastructure, local supply, medical care, mobility/reachability, education, water supply, sewerage disposal, fire/rescue services and broadband coverage. To ensure that a downwards spiral is not put into motion from migration and to prevent a further exacerbation of vital service provision, infrastructure and economic strength, it is necessary to selectively strengthen the regions with special structural disadvantages in terms of demographic change and economic upheaval. Framework conditions which open up positive economic and social perspectives must therefore be created.

This requires cooperation of all political and social levels, regionally specific solution approaches and innovative and far-sighted concepts. In some cases, technical further developments can help, whilst in others the extension of inter-municipal cooperation or the exploiting of discretionary administrative powers can create the requisite room to secure legal capacity. The inclusion of citizens in local decision-making and implementation processes is of great importance to strengthen regional identity and the acceptance for the necessary measures.

In the federal system, the Federal Government has the task of creating suitable framework conditions within its constitutional competencies and financial possibilities. The Federal Government contributes primarily in the areas of health care, local transport and broadband coverage and through the urban development assistance programmes. An important contribution is made here by the development and testing of innovative approaches such as the Alliance Programme for Rural Development (BULE) which was launched at the beginning of 2015. The model project “Land(auf)Schwung” is intended to support economically less developed rural regions in actively handling the demographic change, the regional economic situation and the local provision of vital services, increasing the regional value added, securing employment and shaping population contraction. It counts on committed people locally who decide themselves on innovative ideas and their implementation. Of the 13 model regions in total, the eastern German districts of Elbe-Elster, Greiz, Middle Saxony, Stendal and Western Pomerania-Rügen will each be funded with € 1.5 million in the next three years.

Securing mobility in line with requirements for all population groups has a key role in guaranteeing the provision of vital services. The improvement of local mobility is basically a task of the federal states or districts which are the responsible bodies for local transport. The Federal Government supports the federal states in this task with regionalisation funding and monies from the Unbundling Act. In addition, the Federal Government promotes model projects aimed at improving local mobility. The nationwide project for the long-term securing of supply and mobility in rural areas was launched in May 2015. Innovative concepts are to be elaborated for rural regions affected by demographic change with which personal mobility can be guaranteed in future alongside the provision of vital services and local supply. Starting in autumn 2015, around 15 model regions distributed throughout the country will be selected by a jury and assisted up to July 2018. At the draft concept stage, special importance will be placed from the outset on also actively involving different local target and user groups (such as youths, families with children, the elderly) of vital services, alongside politicians, administration, professional providers of vital services and local supply as well as representatives of the civil society, in the development and implementation of locational concepts and mobility offers.

Inter-municipal cooperation is also becoming increasingly important. With the urban development assistance programme Smaller Towns and Municipalities – Regional Cooperation and Networks, the Federal Government primarily supports municipalities entering into cooperative ventures with neighbouring municipalities and implementing joint strategies to secure the provision of vital services and quality of life. Overall urban development measures to maintain and develop local infrastructure are

funded. By 2014, 410 measures had been funded nationwide, 106 of which in the new federal states. The Federal Government has earmarked € 70 million for the programme in 2015.

Multi-generation houses provide important inspiration to secure the social infrastructure and to ensure generational cohesion. Of the some 450 multi-generation houses funded nationwide in the Action Programme II of the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth, 120 houses are located in eastern Germany, a good three quarters of which are in rural areas. As an open point of contact and place of encounter for people of all age groups and from all walks of life, they provide a broad range of offers from flexible peripheral-period care, through support in re-entry to a working environment, to mobile services for senior citizens. Working in the houses opens up new opportunities and possibilities for many volunteers, strengthens their social competence and teaches skills.

The results of the Regional Provision of Vital Services Action Programme have also shown that active citizenship in this connection is not only to be understood as an investment in the local social structure but also as a strategy to strengthen regional identity and active self-integration of the residents.

Farming, forestry and fishing in the new federal states

The conversion of the farming and food industry of the GDR to conditions of the social market economy of the Federal Republic of Germany called for a fundamental structural change. In the nineties, focus was placed on unbundling and reorganising the structure of farming, forestry and fishing enterprises.

The restructuring process was essentially characterised by an employment policy of reducing labour over-capacities (some 10% of all employees in the former GDR worked in the agricultural sector) and by a structural reorganisation of agricultural production (including the merging of animal and plant production, the reduction of livestock, the spinning-off or closure of non-agricultural business divisions).

Despite initial confusion in ownership matters, problems of assets and lack of capital, the agricultural structure in the new federal states developed dynamically. The number of enterprises firstly increased after reunification for several years due to the closure or re-organisation of the former state-owned enterprises (VEB), the state-owned commodities (VEG) which were not organised in cooperatives and the agricultural cooperatives (LPG). Since around the turn of the millennium, the number of agricultural enterprises has stagnated in the new federal states and has even declined somewhat in recent years. Today, there are around 24,000

enterprises in different legal forms which are operating successfully on the market.

Compared with the old federal states, the agricultural structure in the new federal states is characterised by considerably larger land areas, a distinctly higher share of areas managed by enterprises in the legal form of a partnership or legal entity, and lower livestock density.

The forestry industry also altered in the new federal states. In 1989, the by far largest portion of forest land in the GDR was owned by the state or the cooperatives. It was managed almost exclusively by the state forestry enterprises. After extensive privatisation of the forest areas following reunification, around half of the entire forest area in the new federal states is private. The share of private ownership in the old federal states is just below this.

Directly after reunification, the further use and exploitation of the formerly state-owned farming and forestry areas was one of the central challenges because the Federal Government did not wish to remain owner of the land in the long term.

On 1 July 1992, the task of gradually privatising the former state-owned agricultural and forestry areas was transferred to the newly formed Bodenverwertungs- und -verwaltungs GmbH (BVVG) by the Treuhandanstalt, the German privatisation agency. The foundation for the completion of this task is provided in particular by the Trusteeship Act, the Compensation and Corrective Payment Act (EALG) and currently the Second Land Acquisition Amendment Act which regulates the preferential sale to former owners and their descendants.

By letting or selling agricultural land to the local farming enterprises, the BVVG supported the companies in permanently securing the “soil” as an important production factor. The direct sale of BVVG land at market value to eligible leaseholders is now made in accordance with the Privatisation Guidelines 2010 coordinated between Federal Government and the eastern federal states. Any other agricultural land becoming free is put out to tender, in some cases restricted to particularly labour-intensive businesses or young farmers. Since 1 July 1992, the BVVG has sold a total of 815,000 hectares of farming land. Some 83 % of this figure went directly to the leaseholders. The BVVG has also privatised some 583,100 hectares of forestry land. At the end of 2014, the BVVG still held some 186,800 hectares of farming land and 19,000 hectares of forestry land.

Through legal framework conditions and agricultural policy alongside targeted funding measures, the Federal Government has contributed to the fact that the farming, forestry and fishing industry in the new federal states has been and can be successful in the European single market despite the need for substantial adjustments.

As from 1991, the restructuring process in farming was also supported by agricultural investment funding as part of the Improvement of the Agricultural Structure and Coastal Protection community task.

The new federal states received a disproportionately high share of the funds available to Germany from the EU Agricultural Fund for Rural Development (EAFRD) introduced as the second column of the Community agricultural policy in 2000. They also received special support through higher co-funding rates.

25 years after reunification, the farming and forestry industry in the new federal states has mastered the challenges well overall despite all the upheaval and structural changes. Many German enterprises today are highly productive and competitive by domestic and European comparison.

However, in view of the structural weakness and the demographic trend, further efforts will be necessary to support the economic development in the rural regions of the eastern federal states. In the funding period from 2014 to 2020, the new federal states will receive around 47 % (€ 4.406 of € 9.442 billion including additional funds from the restructuring of direct payments) of the EU funds available to Germany for these purposes.

Federal Government, federal states and the EU also assist the eastern federal states with tailor-made programmes to promote the rural development with the assistance of the EU Agricultural Fund for Rural Development (EAFRD) and the Improvement of the Agricultural Structure and Coastal Protection community task. The aim is to further improve the competitiveness of farming enterprises in the new federal states, maintain secure jobs, high value added and quality of life in rural areas and to recognise a sustainable management of natural resources.

Natural and cultural landscapes – the wealth of eastern Germany

The new federal states have a rich natural heritage. The “wealth of the German unity” includes a total of 14 outstanding natural and cultural landscapes: five national parks (Jasmund, Western Pomerania Lagoon Area National Park, Müritzer, Upper Harz and Saxon Switzerland), six biosphere reserves (South-east Rügen, Central Elbe, Schorfheide-Chorin, Spreewald, Vessertal and Rhön) as well as three natural preserves (Schaalsee, Märkische Schweiz and Drömling). They were placed under protection 25 years ago as part of the national park programme decided by the last GDR government on 12 September 1990 and incorporated in the Unification Treaty.

The newly formed federal states took the opportunity to secure this natural capital. The six biosphere reserves have now been internationally recognised by UNESCO as part of the worldwide network of over 600 biosphere reserves. Central Elbe now belongs to the cross-federal-state UNESCO biosphere reserve Elbe River Landscape in which the federal states of Schleswig-Holstein, Lower Saxony, Mecklenburg-Western Pomerania, Brandenburg and Saxony-Anhalt participate in the area between Boizenburg and the garden kingdom of Dessau-Wörlitz. Areas in the Jasmund and Müritzer national parks and in the Schorfheide-Chorin biosphere reserve have been placed on the world heritage list by UNESCO as parts of the World Natural Heritage Beech Forests.

In the years following reunification, numerous nature reserves were further developed or assigned, including the national parks of Hainich and Lower Odertal, the UNESCO biosphere reserve Upper Lusatian Heath and Pond Landscape as well as numerous natural parks. The Schaalsee area in Mecklenburg-Western Pomerania is today one of the exemplary UNESCO biosphere reserves in Germany.

The protected areas make a decisive contribution to maintaining biological diversity. The eastern federal states can boast encouraging stock developments of different endangered species which are in particular the success of selective nature protection measures. For example, flocks of sea eagles, cranes, white storks, eagle owls and peregrines recuperate here.

With their species and biotope diversity, the nature reserves provide impressive opportunities to experience nature. The eastern federal states therefore have an outstanding foundation for sustainable economic development of the rural area, particular in terms of tourism. This is of special importance precisely in the economically less developed regions of the new federal states.

Assistance programmes for areas and projects of national significance

The Federal Government supports the maintenance of natural diversity in the eastern federal states with two assistance programmes:

The “chance.natur – Bundesförderung Naturschutz” programme is intended to secure large areas which have a special importance for nature conservation from a national point of view due to their natural features.

Currently, € 14 million is available per annum in this assistance programme.

A total of 21 large nature conservation projects of national significance have been funded in Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia since 1990. A contribution has therefore been made to maintaining landscape and species diversity on an area of some 190,000 hectares. The total investment sum for these projects amounts to around € 300 million, € 230 million of which has been provided by the Federal Government.

In addition, projects have funded been by the Biological Diversity federal programme since the beginning of 2011 which are of national significance as part of the National Strategy on Biological Diversity or which implement this strategy in a particularly exemplary and benchmark-setting manner. € 15 million is available for this purpose per year. The region of the Western Pomeranian Lagoon Area National Park/Rostock Heath counts among the 30 regions in Germany with a particularly high density and diversity of characteristic species, populations and habitats - the so-called hotspots of biological diversity. The sustainable development of this unique and diverse coastal landscape is funded by the Federal Government over a period of six years starting in August 2014 with a total volume of € 5 million.

Projects to develop the floodplains in the UNESCO biosphere reserve Elbe River Landscape, revitalise the unique Luppe marsh area to the north-west of Leipzig, to protect and to develop stocks of fire salamanders and of the red kite are supported by the federal programme in the eastern federal states.

Projects are also funded with the “chance.natur” programme and the Biological Diversity federal programme to maintain and develop the Green Belt. The former death zone along the inner German border is now a central lifeline with a unique plant and animal world and a symbol of the growing-together of the old and new federal states. All in all, it touches nine federal states and is to become the backbone of the inter-state biotope network in Germany.

Securing the National Natural Heritage

Based on the stipulations of the 16th legislative period, the Federal Government has taken a total of 125,000 hectares of valuable natural areas in federal ownership including the Green Belt out of privatisation in order to transfer them to the federal states, nature conservation foundations and nature conservation associations for the long-term securing of National Natural Heritage (first tranche in the 16th legislative period with 100,000 hectares; second tranche in the 17th legislative period with 25,000 hectares). The Coalition Agreement for the 18th legislative period contains the agreement on extending the National Natural Heritage by

at least 30,000 hectares. This will be implemented in the third tranche of the National Natural Heritage.

The areas of the National Natural Heritage of the first and second tranches are predominantly in the new federal states due primarily to the location of numerous large-scale former military facilities there. As part of the third tranche, many areas in the densely populated west of Germany will then also be secured as National Natural Heritage.

On transfer, the responsibility for the development of the natural heritage areas passes to the new owners. The contracts for the transfer secure the nature conservation purpose in the long term. Nature conservation mission statements and specific management plans are stipulated for every individual area. The prime objective of transferring the forest areas is to develop natural forest.

5. Social cohesion

The Federal Government considers itself responsible for encouraging participation and active citizenship. The aim is to preclude violence and extremism long before it can come about by means of broad promotion of democratic structures and systematic prevention. In addition, the conditions for active citizenship are improved. New focal emphasis is placed on active citizenship policy, cooperative ventures put into motion and a culture of recognition fostered.

Strengthening democracy and internal cohesion

The Cohesion through Participation project

With the Cohesion through Participation programme, the Federal Government has been promoting active citizenship for democracy and against extremism primarily in rural and structurally weak areas of the eastern federal states since 2010. The main objective of the programme is to strengthen stakeholders in association and club work through training offers which contribute to shaping the structures of associations and clubs in a more democratic manner and creating new possibilities for inner-association advice, working-through conflicts and support. Associations and clubs wishing to strengthen their democratic structures in this manner will then generate strong momentum for democratic interaction at the local level. By engaging in projects locally, people can make the experience that they can take their future in their own hands and actively shape it together with others. The guiding principle of the programme is to promote democracy where it arises: at the grass roots level. Cohesion through Participation is therefore also a prevention programme against extremism, counteracting extremist and non-constitutional tendencies. In the first programme phase (2010 to 2012) the Cohesion through Participation programme was initially aimed at the eastern federal states. Citizens here have had to face huge changes in the two decades after reunification, particularly in the rural and economically less developed regions. Dealing with the consequences of migration and the contracting population is now a task of many active citizens throughout Germany. As far as local clubs and initiatives are concerned, this means that there are increasingly fewer volunteers taking on voluntary work, who actively participate and work for the good of others and the community. In view of the comparable need in western Germany, in the second programme phase (2013-2016) work has been started on transferring the tested model of adviser training also to western German structures in sport, in the fire brigade and the technical relief service in the old federal states. The Federal Government is devoting a further € 24 million to the continuation of the Cohesion through Participation programme from 2013 to 2016.

Living Democracy! Active Against Right-wing Extremism, Violence and Xenophobia

The federal programme Living Democracy! Active Against Right-wing Extremism, Violence and Xenophobia was launched on 1 January 2015. It promotes active citizenship and democratic behaviour at a local, regional, federal state and national level. Associations, projects and initiatives will be supported in making a commitment to democracy and diversity and against right-wing extremism, racism, anti-Semitism and other forms of anti-democratic sentiment and xenophobia, violence, hate and radicalism. There are 218 partnerships for democracy, approximately 100 of which are in eastern federal states including Berlin. The programme supports different programme areas. For the programme area of “model projects on selected phenomena of group-related xenophobia and to strengthen democracy in the rural areas”, 54 model projects have already been evaluated and selected by external experts. In the area of radicalism prevention, 36 model projects have been proposed for funding. Another 16 model projects with the involvement of migrant organisations are at the planning stage. In the programme area of assistance for structural development, 28 providers have qualified who cover the different subject areas of the Living Democracy! federal programme.

The programme runs for 5 years. € 40.5 million is available in 2015. The experience gained from the federal programmes PROMOTING TOLERANCE – STRENGTHENING COMPETENCE and the Strengthening Democracy Initiative, which ended on 31 December 2014, will be incorporated in the current federal programme.

Women in local politics

Women are distinctly under-represented in top-level political posts even if the share of women in local political leadership positions in the new federal states is a little higher on the whole than in the old federal states. A study conducted by Ernst & Young in 2013 shows that 17.1% of women are mayors in the rural regions and towns with less than 50,000 inhabitants in the new federal states. In the old federal states, this figure is below 10% for the same municipality size.⁷⁷ According to the latest gender ranking by Holtkamp/Wiechmann 2013⁷⁸, there are also differences in the share of mayors in the cities. Accordingly, the new federal states

have a better record here: 27.3% of eastern German cities are led by women, but only 11.8% of western German cities.⁷⁹ As an explanation for the higher representation of women in local leadership positions in the new federal states, research states the high level of involvement of women in gainful employment in the GDR amongst other things. To encourage women to become actively involved in politics and society, the Federal Government has created the Helene Weber College, which is the first nationwide and inter-party network for women in local politics.

Promoting active citizenship

The study on Active Citizenship in the Rural Areas of the Federal Republic of Germany - Structures, Opportunities and Problems⁸⁰ provides evidence of a positive trend in active citizenship, also in more remote rural areas. However, it also shows marked differences between the old and new federal states. For example, a similarly positive trend in active citizenship could be determined in the more remote rural areas of the new federal states in the period between 1999 and 2009 - particularly in the 14-30 and over 66 age groups - based on an overall lower level than in the old federal states. It is striking that in the new federal states there is a comparatively small difference in the level of active citizenship in the areas of conurbation and the more remote rural areas.

The Federal Government wishes to make the diversity of active citizenship more visible and continuously further develop the culture of recognition. The German Active Citizenship Award - in existence since 2009 - which recognises the exemplary voluntary work of individuals, initiatives and organisations for the common good once a year, was restructured in 2014. It is now bestowed as “award of all awards” as a culmination of all awards which are given annually in the regions and nationwide for active citizenship, including numerous awards in the new federal states. Updating and continuing existing awards and projects, such as the award in civilian and disaster protection - “The Helping Hand” - or the integration medal, are expressions of the Federal Government’s recognition and support of voluntary work, in the same way as the promotion of the active citizenship week organised by the National Network for Civil Society (BBE) which presents and recognises committed citizens and innovative projects once a year.

77 Ernst & Young (2013): Research Report “Frauen in der Kommunalpolitik der neuen Länder”, Final Report, April 2013.

78 Holtkamp, Lars/Wiechmann, Elke (2013): Genderranking deutscher Großstädte. Published by Heinrich Böll Foundation, Berlin.

79 Lukkoschat, Helga/Belschner, Jana (2014): “Frauen führen Kommunen. Eine Untersuchung zu Bürgermeisterinnen und Bürgermeistern in Ost und West”; published on behalf of the Federal Commissioner of the Federal Government for the New Federal States in cooperation with the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth.

80 Study on behalf of the BMEL, TNS Infratest, May 2014.

Sport development: structures and performance centres

A quarter of a century ago, the Federal Republic was faced with the challenge of unifying two different sport systems in east and west. Whilst the western German sport structures were decisively characterised by voluntary work, and the autonomy of sport, sport in eastern Germany had more full-time functionaries and was closely tied to the political system. Up to reunification on 3 October 1990, the main decisions had been made to develop all-German sport structures in cooperation between the Federal Government and the freely elected de Maizière government starting as early as spring/summer 1990.

After reunification, the Federal Government's efforts were aimed at actively promoting the unification process by rapidly developing efficient and viable sport structures in the new federal states and making an important contribution to the creation of equivalent living conditions. In order to make the merging of sport in east and west viable, the sport budget of the Federal Interior Ministry was more than doubled in the years from 1991 compared to the 1990 level.

Existing sport facilities were embedded in the local structures in the new federal states. As part of the Federal Government's extended cheap property concept from 1992, virtually all sport facilities in the accession territory could be transferred free of charge or for a symbolic price to municipal ownership or to the ownership of sport associations and the remaining sport equipment in the facilities transferred to the sport associations for free.

The funding for the construction of federal sport facilities was greatly increased in order in particular to make the sport landscape in the new federal states competitive for top level sport. Over 60 % of funding was approved for the construction or refurbishment of sport facilities of the Olympic centres, sport facilities of the federal sports centres and federal centres in the new federal states including Berlin. As a result of the intensive support provided by the Federal Government as part of the special funding programme Golden Plan – East (from 1999 to 2009), it was possible - alongside building sport facilities for top level sport - to also support construction projects for grass roots sport in the new federal states with federal funding. With supplementary funds from the federal states, municipalities and clubs, far in excess of 500 individual measures could be realised and total investments of over € 400 million made, € 70 million of which from federal funds.

According to the same criteria as in the old federal states, the Federal Government now supports 7 of the 19 Olympic centres which are located in the new federal states including Berlin, and the Kienbaum federal sports centre in Brandenburg. A total of some € 19 million has been earmarked in the 2014 budget for the new federal states,

which is around 60 % of the funding of some € 32 million available to support the sport centres throughout the nation.

The foundation for bringing together sport and continuing different facilities was anchored in Article 39 of the Unification Treaty.

As facilities of the former GDR, the Institute for Applied Training Sciences (IAT) in Leipzig and the Institute for Research and Development of Sport Equipment (FES) in Berlin were continued initially as independent registered associations in accordance with Article 39 (2) Sentence 3 of the Unification Treaty. On 1 January 1997, the IAT and FES were merged into a single organisation. The institutes receive almost full financial support from the federal budget as part of project funding. With the two institutes, the Federal Government has important partners in top level sport, the achievements of which are known beyond German borders and are copied by many nations. The institutes make important contributions to international competitiveness of top German athletes and an appropriate national representation at home and abroad.

The fight against doping is a central issue of the Federal Government. It has been possible to realise extensive research projects into the doping past of east and west with the use of federal funding. With the Doping Victims Assistance Act (DOHG) of 2002, a fund of € 2 million was set up from which 194 GDR doping victims each received a one-off payment of around € 10,000. In accordance with the Unification Treaty, the doping control laboratory in Kreischa near Dresden, which is recognised by the International Olympic Committee (IOC), was continued as Institute for Doping Analytics and Sport Biochemistry (IDAS) – set up on 1 March 1992. On establishment of the World Anti-Doping Agency (WADA), the IDAS received the accreditation as doping control laboratory which continues to exist today. The doping laboratories in Cologne and Kreischa funded by the Federal Government are viewed internationally as leading laboratories in the field of doping analysis.

Under the motto A Time to Make Friends, Germany hosted the 2006 FIFA World Cup 17 years after the fall of the Berlin Wall. On the occasion of the World Cup in Germany, the Federal Republic participated in the funding of the conversion and construction of the Berlin Olympic Stadium and of the Central Stadium in Leipzig amongst others with a total of € 250 million. Germany experienced a “summer fairy tale”: the mood was fantastic throughout the country. Fans from all over the world celebrated peacefully and cheerfully. The event was great publicity for Germany as host country. It also contributed to creating inner unity in Germany because it was accompanied by an uninhibited national pride in Germany.

The Federal Government's sport assistance has developed its potential over the past 25 years and has contributed to a positive development of all-German sport. After 25 years of German unity, the Federal Government's funding of top level sport is now guided exclusively by sporting aspects. The objective of Federal Government sport funding in the future will be to continuously improve the framework conditions for top level sport in order to give best possible support to Germany's top sportsmen and women in achieving sporting success.

Maintenance of the national cultural heritage – the promotion of culture in the eastern federal states

The remarkably dense and diverse cultural landscape is also part of Germany's historical heritage. However, 25 years after reunification, it still calls for high restoration and modernisation effort. The Federal Government continues to support the maintenance and presentation of this national cultural heritage.

Through targeted federal support, the attraction of numerous cultural institutions in eastern Germany has been enhanced and therefore the cultural and tourist appeal of the regions increased - especially since investments in culture represent a considerable economic factor which maintains and creates jobs.

Eastern federal states benefit from numerous funding programmes

The Federal Government helps not only with its funding targeted at eastern German cultural institutions. Numerous cultural institutions in the eastern federal states are also supported by general funding programmes.

For example, projects and building measures in particular in the federal states of Saxony, Saxony-Anhalt and Thuringia receive extensive support from the Reformation Anniversary 2017 programme.

These federal states were all hit most by the devastating floods in May and June 2013. The Cultural Assistance Programme for the Floods of 2013 was set up as part of the national development fund. The three federal states have so far received some € 133 million from this programme to eliminate flood damage to public and private cultural institutions and to help the owners of listed buildings in financing the additional expense of repair. The application period for cultural institutions damaged by the floods and owners of listed buildings expired on 30 June 2015. The federal states have time to approve the applications up to 30 June 2016.

The Federal Government assists cultural beacons:

The following belong to the nationally and internationally significant cultural institutions in eastern federal states which permanently receive Federal Government funding:

- Prussian Palaces and Gardens Foundation Berlin/Potsdam
- Classic Weimar Foundation,
- Bauhaus Dessau Foundation,
- Francke Foundations in Halle,
- Fürst Pückler Park Foundation in Bad Muskau,
- German Marine Museum Foundation in Stralsund,
- Luther Memorials Foundation in Sachsen-Anhalt (Wittenberg, Eisleben),
- Dessau-Wörlitz Cultural Foundation (so-called Garden Kingdom of Dessau-Wörlitz),
- Wartburg Foundation in Eisenach.

For more than two decades, the Federal Government has assisted within the possibilities available to it in the restoration, maintenance and operation of these cultural institutions. The inclusion in the Blue Book of Cultural Beacons and, based on this, membership of the Conference of National Cultural Institutions (KNK) in the eastern federal states represent a seal of excellence for the institutions. A few of them even belong to the UNESCO World Heritage. Last year, the Federal Government spent around € 35 million on maintaining and modernising these beacons. It will be continuing funding in 2015.

The Blue Book is a directory of the cultural beacons and records not only the cultural places of national significance and European standing in the eastern federal states but also documents the special efforts made by the Federal Government, federal states and municipalities to restore the cultural infrastructure. The main objective of the Conference of National Cultural Institutions established in 2002 is to anchor the significance of the individual institutions and collections in the awareness of the public and to champion the maintenance of the cultural heritage. This is why the Federal Government invests in these national cultural institutions. Further culturally outstanding institutions are supported by the Investments for National Cultural Institutions in Eastern Germany programme. Around € 72 million went to this programme up to and including 2015. The Federal Government wishes to make a contribution here to maintaining and recovering or developing contemporary cultural locations with great appeal to a broad public. Projects

are funded such as construction or procurement measures at the proposal and with the financial involvement of the eastern federal states.

The Grassi museum in Leipzig benefited from this, for example, the Bach house in Eisenach and the municipal museums as well as the state art collections in Schwerin, and the Moritzburg Foundation in Halle.

The Royal Palace in Dresden also receives outstanding assistance here, with the Federal Government participating in the construction costs in an amount of € 17 million in the period from 2013 to 2015 alone. The first successes were visible during the opening of the Coin Cabinet in the Palace in the summer of 2015.

6. Engaging in GDR history and the 25th anniversary of German unity

Monument to Freedom and Unity

A Monument to Freedom and Unity will be built in Berlin by decree of the German Bundestag in autumn 2007. It is intended to commemorate the Peaceful Revolution in autumn 1989 and the regaining of German unity. The design for the Monument to Freedom and Unity is called Citizens in Motion. It is a giant dish resting on the historical plinth of the former Kaiser Wilhelm monument in Schlossfreiheit. It can be walked on and set into a slow and gentle motion by several visitors. The inner side will carry the slogans “Wir sind das Volk. Wir sind ein Volk.” (We are the people. We are one people). The Federal Commissioner for Culture and Media presented the detailed design for the Monument to Freedom and Unity to the public session of the Bundestag committee for culture and media on 5 November 2014. In addition to technical details, all issues concerning approval have since been clarified with the federal state of Berlin so that the unique and technically sophisticated monument can now be realised. The long outstanding questions on nature conservation, freedom from barriers and whereabouts of the Wilhelminian mosaics have been amicably settled with the federal state of Berlin. The restoration of the historical 19th century monument plinth completes the second phase of the building measure. The third and final phase runs parallel to the erection of the monument which is to be completed in this legislative period.

Reappraisal of the SED dictatorship

Confronting SED dictatorship and the consequences persisting through to this very day continues to be of great importance. In addition to a historical evaluation and an appropriate support of the victims, the dialogue with the victims is of focal significance for the Federal Government in the 25th anniversary year of reunification. Areas are also to be illuminated which have only recently moved to the focus of analysis. This refers to the different forms of forced labour by prisoners in the GDR and the attempts to discipline people through medical treatment. The aim is to bring about clarity here. Personal fates of the victims are to be acknowledged.

Future of the Federal Commissioner for Files of the State Security Service of the Former German Democratic Republic (BStU) – panel of experts set up

The panel of experts of the German Bundestag was set up on 27 November 2014. Its job is to work out proposals serving as a foundation for a decision on the future of the

Federal Commissioner for Files of the State Security Service of the Former GDR in the further process of reappraising the SED dictatorship. Focal emphasis is placed on deciding the form in which the tasks of the Federal Commissioner resulting from the Stasi Files Act can be efficiently and correctly continued in the long term in cooperation with other institutions. The main objective is to basically maintain access to the files as is currently provided for by the Stasi Files Act. The stock of files is to be kept intact in its entirety as a special indirect record of the SED dictatorship without destroying personal data by evaluating individual stories. Historical and political education and research can thus continue to be guaranteed at a high level and the support of educational work in collaboration with other stakeholders of political research and education, the promotion of science and teaching and of the Federal Foundation for the Reappraisal of the SED Dictatorship and the Federal Agency for Civic Education continued. International cooperation in the handling of the files of the State Security Service of the former GDR and international scientific dialogue are also to be further developed in future.

Recommended actions are to be submitted to the German Bundestag in the spring of 2016.

Increase in GDR victims' pensions

The monthly victims' pension was increased starting on 1 January by the Fifth Act on Improving Rehabilitation Provisions for Victims of Political Persecution in the Former GDR. Beneficiaries under the Rehabilitation Act receive a victims' pension increased by € 50 (increase to € 300). The compensatory benefits granted under the Work-related Rehabilitation Act for people who are unable to go about their exercised, learned or aspired-to profession due to political persecution increase by € 30 from € 184 to € 214 and for eligible pensioners from € 123 to €153.

The Bundestag's legislative intent states as follows here: "This improves the financial situation of the victims of political persecution in the former SOZ⁸¹ and GDR. The statutory measures also contribute to giving greater recognition to the commitment of those people who opposed the system as champions of liberty, democracy and a unified Germany and who therefore had to suffer compulsory measures, and to alleviating the material consequences of persecution."

More money for institutionalised children in the GDR

The Federal Government has topped up the Fund for Institutionalised Children in the GDR and extended its term.

On 25 February 2015, the Federal Cabinet agreed to increase the funding to up to € 364 million and to extend the term of the fund up to 31 December 2018 for advising beneficiaries, processing agreements and paying benefits. People are eligible for benefits who experienced suffering and wrongs in the child and youth institutions of the GDR and still suffer from the consequential damage today.

Between 1949 and 1990, around 495,000 children and youths were in homes in the GDR, 135,000 girls and boys of which in special institutions which were known for their particularly cruel methods of "re-education". Many inmates suffered later and still suffer today from the consequences. For this reason, the Fund for Institutionalised Children in the GDR from 1949 to 1990 was set up with a term of five years and a volume of € 40 million. The fund acts as a supplementary assistance system. It is intended to help to compensate for and alleviate the persisting consequential damage from institutionalised life. In addition to individual advice, the persons concerned can receive earmarked financial benefits to alleviate the consequential damage and supplementary pension benefits due to the fact that they were unable to pay social security contributions. By the end of September 2014, some 27,500 people had applied to the fund for support, which was far more than originally expected. Now that the fund has been increased, all those registering claims by 30 September 2014 can receive the required assistance.

The costs are shared equally by the Federal Government and the eastern federal states. There is also an analogous Institutionalised Children - West Fund.

Clinical Drug Research in the GDR from 1961 to 1989 research project

The Commissioner of the Federal Government for the New Federal States is taking part in the research project on Clinical Drug Research in the GDR from 1961 to 1989 at the Charité Institute for the History of Medicine in the context of analysing and exploring the injustice done under the GDR dictatorship. The objective of the research project is to firstly record all drug trials conducted in the GDR for western pharmaceuticals companies and to gain a verified level of knowledge on clinical contract research in the GDR. To this end, the team of researchers examines documents in publicly accessible archives and in selected corporate archives. This creates a solid foundation for a historical reappraisal in an effort to examine the political and economic context for the drug trials. In collaboration with other institutes, any emerging drug research in the GDR is examined and reappraised in case examples. Surveys conducted by experts are analysed and documented within the

81 SOZ: The territory of the GDR was Soviet Occupation Zone from 1945 to 1949.

framework of eyewitness interviews. An independent scientific advisory committee continuously accompanies the work and approves the final report; the project will be completed in the spring of 2016.

Research projects on forced labour in the GDR

The Federal Government's Commissioner for the New Federal States publicly presented the study on the Historical Reappraisal of Forced Labour Among Political Prisoners in the GDR Penal System on 22 June 2015. The aim of the study conducted by the Centre for Research into Contemporary History (ZZF) in Potsdam was to systematically examine forced labour with the main aspects of economic necessity and significance, working conditions, treatment of political prisoners and consequences for the persons involved. In terms of its content, the focus was placed on the role and responsibility of the SED state in the injustice perpetrated.

With the aim of closing further knowledge gaps in this historical context, the Commissioner commissioned studies on Forced Labour in Youth Institutions of the GDR and on Reappraising Institutionalisation in the GDR with the Involvement of Eyewitnesses. This takes account of the fact that little is known about forced labour in the homes and youth correction centres of the GDR. The results of these studies are expected in mid to end of 2016.

New permanent exhibition: State Security in the SED Dictatorship in Berlin-Lichtenberg

The new permanent exhibition State Security in the SED Dictatorship was opened in January 2015 in House 1 of the former headquarters of the Ministry for State Security in Berlin-Lichtenberg. The minister Erich Mielke had his office in this building. House 1 is therefore viewed as the symbol for the repressive power apparatus of the SED dictatorship. With the storming of the Stasi headquarters on 15 January 1990, it also became the symbol of resistance against the SED hegemony. The new permanent exhibition was prepared by the Federal Commissioner for Files of the State Security Service of the former German Democratic Republic in collaboration with the Anti-Stalinist Action civic initiative. With documents, photos, films and sound recordings together with numerous objects, it gives an insight into the history, function and method of work of the Ministry for State Security. Mielke's office as it was then is also part of the presentation.

Memorial to victims of Communist tyranny

The Union of Victims Associations of Communist Tyranny (UOKG) is pushing for a memorial to all victims of Communist tyranny in Germany from 1945 to 1989 to be erected in a central place in Berlin. On 25 March 2015, the architectural students of the Technical University of Darmstadt presented concepts for a memorial under the heading of Young Ideas - First Designs which were then discussed and shown in an exhibition together with student designs from the "geschichts-codes" 2013 competition staged by the Federal Foundation for the Reappraisal of the SED Dictatorship. The Federal Commissioner for Culture and Media supports the discussion on a central monument of this kind in a project-related context. The decision in favour of a memorial rests with the German Bundestag.

Activities of the Federal Government for the 25th anniversary of German unity

The 25th anniversary of freedom and unity was a focal topic for the Federal Government in 2014 and 2015 because more than 25 years ago, the slogan "We are the people! We are one people!" was a political demand. Today, German unity is a reality and a gift of history. Many thanks go here to the people who courageously went out on the streets for freedom, democracy and human rights and to all those who helped in making the reconstruction of the east possible. It can no longer be disputed that Germans in east and west are one people. The question today is a different one: which people are we and what do we want to be in future? This is because over the past 25 years, Germany has gained social diversity and taken on international responsibility. The Federal Government views there to be a need for a broad discussion on the German identity and the role of Germany in Europe and the world. The Federal Ministry for the Interior in collaboration with the Federal Agency for Civic Education has therefore taken the anniversaries of the fall of the Berlin Wall and German unity as reason to launch a future-oriented series of dialogues entitled Germany 2015: Our Country - Our Future. The aim is to get talking about this future topic with participants from science, politics, culture and the civil society and to give an initial impetus for social discourse from different angles.

In addition, in a series of events entitled Old Federal States, New Federal States - Germany in Europe: Thoughts, Challenges, Perspectives, supported by the Federal Commissioner for the New Federal States, German-German experiences from the process of transformation and unification will be brought together and placed in a European context. The series of events covers five sub-projects which, in the form of series of discussions and national and international conferences, examine the past, present and future of the

German history of division and unification at a local, national and European level.

The Press and Information Office of the Federal Government (BPA) has initiated a number of coordinated projects on the occasion of the anniversaries. At the beginning of 2014 therefore the internet platform www.freiheit-und-einheit.de was launched with a chronicle of the events (Today 25 Years Ago) and information on events. The civic celebrations for the anniversary of the fall of the Berlin Wall in Berlin were also organised and financed in 2014 and several brochures produced especially for the anniversaries. For 2015, the German Bundestag has given the Press and Information Office of the Federal Government an additional € 2 million for information measures for the 25th anniversary. This money was used to fund additional information offers and events, such as the Tour Around Germany (www.freiheit-und-einheit.de/deutschlandreise) with 21 locations throughout the nation. In addition to a multi-media exhibition with excerpts from original films, the concept also covers school visits at the tour stops and public discussion events with eyewitnesses and persons involved in the process of unification in 1989/1990. In this context, a one-minute cinema spot ran in 1000 cinemas throughout the country in the period from 25 June to 24 July 2015 which reached some 2.4 million cinema-goers. The Federal Press and Information Office also showed six known films in its summer cinema series about life in a divided German and reunification: “Eins, Zwei, Drei”; “Der Turm”; “Good Bye, Lenin!”; “Das Leben der Anderen”; “Barbara”; “Die Legende von Paul und Paula”.

Poster exhibition The Path to German Unity by the Foundation for the Reappraisal of the SED Dictatorship

The Federal Foundation for the Reappraisal of the SED Dictatorship and the Foreign Office have prepared a poster exhibition which shows the path to German unity from the Peaceful Revolution in the autumn of 1989 to 3 October 1990. Presented to the public in January 2015, the poster exhibition has since been requested over 2,200 times from the Federal Foundation for the Reappraisal of the SED Dictatorship. There are six language versions; more are to come. The exhibition can be seen throughout the anniversary year in schools, museums, town halls and parishes, and also abroad such as at the University of Birmingham or in the NATO quarters in Naples.

Online documentation on the last GDR government

25 years after the last and only freely elected GDR government took office on 12 April 1990, the Federal Foundation for the Reappraisal of the SED Dictatorship presents the first multimedia documentation of the government's work

under Lothar de Maizière. The website “Aufbruch und Einheit” offers broad insights into the work of the last GDR government and its protagonists. Over 100 original documents, some 200 photos and 50 videos and eyewitness interviews are available online at www.deutsche-einheit-1990.de. The published sources are addressed not only to the scientific and academic world but also to teachers, multipliers of historical political education work, pupils and all those interested in contemporary history. The project was realised in cooperation with the Federal Archive, the German Broadcasting Archive and the Berlin-Brandenburg Broadcasting Corporation and with the financial support of the Federal Commissioner for Culture and Media and the Federal Commissioner for the New Federal States.

New permanent exhibition in the GDR Museum in Pforzheim

Made possible by funding from the Federal Commissioner for Culture and Media, the Federal Foundation for the Reappraisal of the SED Dictatorship and the federal state of Baden-Württemberg, the GDR Museum in Pforzheim is given a new permanent exhibition in the anniversary year to mark the anniversary of reunification in order to show young people in particular what it means to live under a dictatorship. The Pforzheim Museum is the only institution in the western federal states to deal exclusively with SED dictatorship and the division of Germany.

Exhibition: Unification. German Society in Transition

In the context of the 25th anniversary of German unity, the German Historical Museum in Berlin in collaboration with the Centre for Contemporary Historical Research in Potsdam has been showing an exhibition since 27 May 2015 entitled Unification. German Society in Transition. The presentation focuses on the reality of unity and the experience made by the people. The historically unique transformation of the entire political, economic, social and cultural structure of society in the former GDR is addressed alongside the accompanying change in the old Federal Republic - from a change in language, through dramatic upheavals in the working world, consumption and the different perceptions of the eastern and western Germany, to the cultural awakening after the fall of the Berlin Wall.

7. Central need for action

Restructuring of the financial relationships between Federal Government and the federal states

The restructuring of the financial relationships between the Federal Government and the federal states for the period following 2019 after the regulations on the revenue sharing system including the Solidarity Pact II come to an end is of central importance for the eastern federal states. Since the average per capita fiscal capacity in the eastern federal states is only some 57% of the federal average even a quarter of a century after reunification, an efficient financial transfer system continues to be necessary to enable all federal states and municipalities to satisfy their tasks.

Funding system for economically less developed regions for 2020 and beyond

Despite the progress made in the reconstruction of eastern Germany and in the handling of the structural transformation in old industrialised and rural regions of the western federal states, considerable disparities continue to exist in Germany. It will therefore be necessary to support economically less developed regions also after the Solidarity Pact II expires in order to create equivalent living conditions throughout Germany. In their position paper on the restructuring of the financial relationships between the Federal Government and the federal states of May 2015, the heads of the eastern federal states pointed out the significance of promoting economically less developed regions in the eastern and western federal states.

In accordance with the mandate in the Coalition Agreement for the 18th legislative period, the Federal Government has submitted proposals for a further developed funding system for all structurally weak regions in east and west in a key issues paper.

Convergence of the pension systems in east and west

25 years after reunification, differences in the calculation of pensions continue to exist between east and west. To calculate pensions, the earnings achieved in the new federal states are harmonised with the income structure in the old federal states by means of adjustment. The resultant earnings points (east) are rated with the current pension factor (east), which has been 92.6% of the current pension factor applicable in the west since 1 July 2015.

It was agreed in the Coalition Agreement for the 18th legislative period that at the end of Solidarity Pact II, when wage and salary convergence will be further advanced, the current pension factors for east and west will be completely converged in a last step. Before this, the degree to which the process of convergence has been completed is to be reviewed on 1 July 2016 and it is then to be decided on this basis whether partial convergence is necessary beginning in 2017.

Part C

Economic Data of the New Federal States in 2015

The German version of the Annual Report of the Federal Government on the Status of German Unity in 2015 contains a Part C entitled Economic Data of the New Federal States. This data can be accessed via the website of the Federal Ministry for Economic Affairs and Energy, where it is available for download as a German-language publication from the “Mediathek”, published under the title “Wirtschaftsdaten Neue Bundesländer”.

www.beauftragte-neue-laender.de

www.bmwi.de

