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Article

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Karl Brenke is a Scientific Advisor to the Executive Board of DIW Berlin.

SIX QUESTIONS TO KARL BRENKE

»Eastern Germany Must Focus on Education and Innovation«

1. Mr. Brenke, it has been 25 years since the fall of the Berlin Wall. In the reunified Germany, the former East German states were faced with an economic catch-up process that could hardly have been more challenging. To what extent has the economic gap in eastern Germany been closed in a quarter of a century? The gap has largely been closed. After reunification, people wanted to achieve western performance levels as quickly as possible. Measured against these expectations, we are about three-quarters of the way there since economic output per capita is now approximately three quarters of that of western Germany. However, after a strong initial phase, the catch-up process is now running out of steam.
2. Why has the catch-up process stalled? Many branches have already caught up. We had a veritable construction boom in the mid-1990s which then fell away, leading to a downward trend that persisted for more than a decade. Services, of which there were systemically very few in the GDR, have caught up considerably. Tourism, for example, has continued to grow strongly. The manufacturing industry has also made vigorous gains. The problem is, however, that productivity, i.e., output per worker, in eastern Germany is too low and lagging far behind the comparable figure in western Germany.
3. Were expectations too high after the fall of the Wall? In 1989, expectations were very high. It was thought we could rapidly catch up with one of the most competitive economies in the world but eastern Germany is traditionally a sparsely populated area and had to cope with its economic base largely collapsing after monetary union was introduced. We had to create a new economic base—and quickly. This is not something that can be done in just a few years or, as we have now seen, even

in a generation. Compared to western Germany, eastern Germany has too few larger- and medium-sized enterprises playing an important role in international markets.

4. The labor market situation in eastern Germany has improved in recent years. Isn't that a positive sign? The labor market situation has improved; this is certainly a positive sign. It has led to a significant reduction in household dependence on social transfers. But this is not necessarily only related to the particularly positive growth in employment. There has indeed been a rise in employment, but what is particularly striking is that the number of inhabitants in former East German states has fallen and, therefore, so has the number of people seeking jobs. That is to say, the fall in unemployment is unfortunately not only due to economic factors, but also demographic ones.
5. What is the prevailing trend in income? There has been a stronger adoption of incomes than economic output to the western level. But a relatively large proportion of income is still made up of social transfers. However, income from self-employment, unearned income, and salaries in eastern Germany still lag far behind. In contrast, disposable income in the former East German states has now reached well over 80 percent of the western German level. Nevertheless, the catch-up process has stalled.
6. The solidarity surcharge is set to expire in 2019. Is this too early? I don't think it's too early. The purpose of the solidarity surcharge is to help fund the reconstruction of the east. As a result, a lot of money has been poured into the development of infrastructure, creating a very modern infrastructure in eastern Germany. As a result, there is no longer any need for this surcharge to provide specific funds for eastern Germany. There is also no longer any reason to provide companies with especially high subsidies because the infrastructure has now been fully modernized.

Interview by Eric Wittenberg

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