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North-south, east-west – thoughts on Germany 30 years after the fall of the Wall

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Thirty years after the fall of the Wall, Germany's regions present a mixed picture. While the divide between eastern and western Germany – measured by key indicators of economic performance, labour productivity and personal well-being – has closed significantly in the past three decades, the gap between northern and southern Germany is gradually widening. By international comparison, however, the regional divide here has long ceased to be noticeably steep. Against this background, the stereotypical east-west dichotomy now appears obsolete. No matter where we point the compass, regional support should systematically target areas that are most at risk of being left behind.

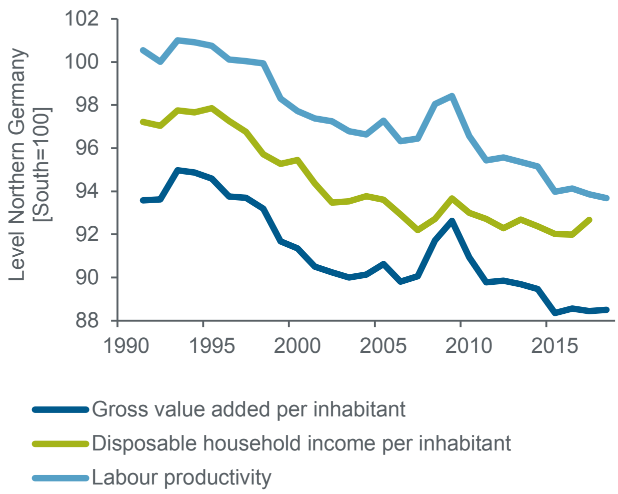
Fiction: A story of German reunification that has never happened

Thinking about the 30th anniversary of the fall of the Wall, let us start with a fictional story: Three decades ago, the border between the Republic of Northern Germany and the Southern German Free State fell. The Free State comprised today's federal states of Baden-Württemberg, Bavaria, Hessen, Rhineland Palatinate, the Saarland, Saxony and Thuringia. The Republic of Northern Germany was composed of the states of Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg Western Pomerania, Lower Saxony, North Rhine Westphalia, Saxony-Anhalt and Schleswig-Holstein. The former intra-German border thus runs almost exactly along what is known as the Uerdingen Line, the isogloss scholars refer to as the line that separates northern and southern German dialects.[1]

Both parts of Germany have nearly the same area (South: 184,000 km², North 173,000 km²),[2] half the population lives on each side (2018: 41.6 million inhabitants in the South, 41.3 million inhabitants in the North) and both parts have a similar number of metropolitan regions (Frankfurt/ Rhein-Main, Stuttgart, Munich, Nuremberg and the Rhein-Neckar region vs. Rhein-Ruhr, Berlin-Brandenburg, middle Germany, Hamburg, Hannover-Braunschweig-Göttingen-Wolfsburg and Bremen/Oldenburg).[3] These are good conditions for both republics to grow together, especially because in 1991, the first full year after their reunification, the North was hardly lagging behind the South. It generated 94% of the South's gross value added per inhabitant, the key measure of economic performance. It was even slightly ahead in labour productivity (gross value added per person employed). And the disposable income of private households, the most important measure of personal material well-being, was 97% of the South's level per inhabitant.[4]

Despite these very favourable conditions, the North-South reunification today has to be regarded as an economic flop. This is because instead of converging, the South is slowly but surely leaving the North behind (see Figure 1). Indeed, the North currently only achieves 89% of the South's value added per inhabitant (2018), 94% of its labour productivity (2018) and 93% of the South's disposable household income (2017). Over the past three decades, the gap has increasingly widened, growing by five percentage points for gross value added, seven percentage points for labour productivity and four percentage points for disposable household income compared with 1991. So much for the fiction!

Figure 1: Northern Germany is falling behind



Source: National accounts of the federal states (original data)
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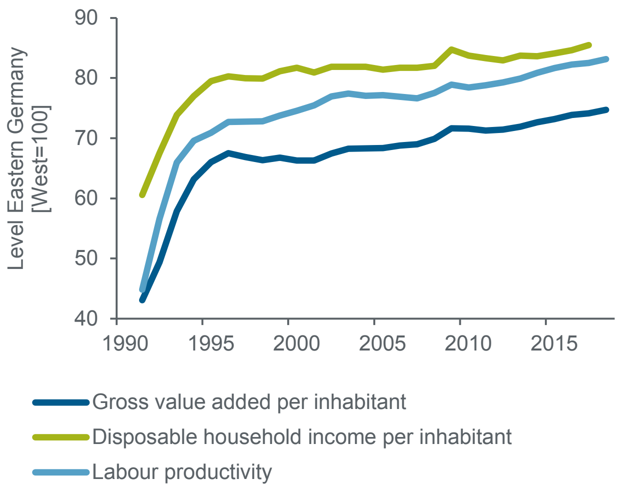
The reality: 30 years after the Wall separating the east from the west

Let us now look at the reality: Until 30 years ago, today's Federal Republic of Germany was not divided by an isogloss but by a boundary between two political systems, the German Democratic Republic (GDR) in the east and the former state territory of the Federal Republic of Germany in the west, which was overcome with the fall of the Berlin Wall on 9 November 1989. Less than a year later, on 3 October 1990, the eastern German states joined the Federal Republic. Unlike our fictitious story, the actual unification is a testament of economically successful convergence. All three indicators show that the two parts of Germany have strongly converged in the past 30 years (see Figure 2). While eastern Germany achieved only 43% of the western states' gross value added per inhabitant in 1991, that share is 75% today (2018). The east-west gap has thus shrunk by 32 percentage points. The labour productivity gap decreased by an even greater proportion: an impressive 38 percentage points. While an eastern German worker on average still generated only 45% of the value added of a western German worker in 1991, or well below half, that share exceeded 83% in 2018. The relative eastern German level of disposable income per inhabitant was already significantly higher than the two other indicators in 1991, at 61%, thanks to the redistribution effects of the progressive taxation system in combination with social security benefits. At present (2017), disposable income in eastern Germany is 86% of that of western Germany[5] – another respectable decrease in the gap by 25 percentage points since 1991.

Figure 2: Eastern Germany is catching up



Source: National accounts of the federal states (original data)

The greatest progress in convergence was achieved in the first half decade after unification, which shows that eastern Germany relatively quickly achieved a significantly higher level of economic performance and material well-being than previously under the GDR. More than anything, this is due to the enormous efforts of the people living there. The convergence process has slowed down considerably since the second half of the 1990s but is still continuing.

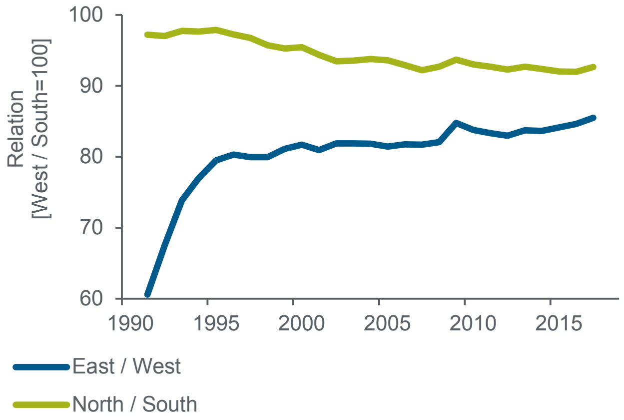
Reality vs. fiction: Is the glass half empty or half full?

What do these findings now tell us about regional differences by compass points? Owing to our post-war history of separation and unification, it is almost a knee-jerk reaction for us to focus on the regional gap between eastern and western Germany and all too often we take a pessimistic view of the proverbial glass, which we see as being half empty. We deplore that the gap has not yet been fully closed. But we could be equally justified in describing the glass as half full. After all, the east-west divide has narrowed considerably in the past three decades – a regionally balanced development that cannot be had without economic-policy intervention and that is anything but self-evident. This is demonstrated not just by the fictitious reunification of the Southern German Free State with the Republic of Northern Germany but also by the example of other mature industrialised countries which we will still refer to below. Incidentally, the glass metaphor could also be applied to the regional divide between northern and southern Germany. We could deploringly emphasise how the two parts drifted apart economically in the past three decades, as we did at the outset. But we could also stress that the differences between northern and southern Germany can still be regarded as relatively moderate.

Regional policy should be systematically aligned with needs

All in all, Germany's regional east-west divide is no longer very different from the gap between the north and the south, as Figure 3 demonstrates using disposable income as an example. The stereotypical east-west dichotomy appears to be obsolete 30 years after the fall of the Wall. No matter where we point the compass, regional support should systematically target areas that are most at risk of falling behind.

Figure 3: German regional gap by compass points – disposable household income per inhabitant



Source: National accounts of the federal states (original data)

According to an analysis by the Cologne Institute of Economic Research (2019), these areas are no longer broadly 'the east'.[6] On the basis of twelve individual indicators for the three areas of economic, demographic and infrastructural development, that study identified 19 out of a total of 96 spatial planning regions as being 'under threat'. In the categorisation by compass points used here, eight of them are in the west and 11 in the east and 12 are in the north and seven in the south. A look at the three areas shows something interesting: While serious infrastructural deficits are spread across all parts of the country, the east in particular suffers from what is often a particularly unfavourable demographic development. By contrast, according to the study, only ten regions must be regarded as economically under threat in the narrower sense. Only one of them is in the east (Altmark) and one is in the south (Saarland). The remaining nine are concentrated in the north-west, mainly in the Ruhr Valley and Bremen.

Thinking outside the national box

Both the clear regional convergence between the east and the west and the gradual regional divergence between the north and the south during the past three decades inevitably raise the question what level of regional homogeneity can be achieved at all under realistic assumptions in a large industrial country such as Germany. The standard critique that even decades after unification eastern Germany has still not fully converged economically with western Germany logically implies complete regional balance as a target of convergence.[7] However, this level of aspiration is likely to forever remain an economic ideal because no national economy – except for, by definition, city-states such as Singapore or very small countries such as Lichtenstein, which cannot be subdivided into regions – is regionally completely homogeneous. Five years ago we were already able to demonstrate on the basis of comparable data from the OECD on economic performance, income, unemployment and productivity that 25 years after the fall of the Wall Germany had become a country whose regional differences were even slightly below the average for the G7 countries. By international comparison, the regional divide here has thus long ceased to be noticeably steep. Even in a historic comparison, the German regional divide five years ago was already very similar to the level observed before the war and separation in the Weimar Republic in the second half of the 1920s.[8] Accordingly, it would be difficult to further reduce regional disparities beyond the degree that has grown historically and is 'normal' in comparable countries.

Conclusion: Germany can be proud of its unification achievements but must not rest on its laurels

In light of the above, we can definitely be proud of what has been achieved since unification and should finally stop rhetorically exaggerating the remaining economic disparities between eastern and western Germany. What is needed is a regional policy that systematically addresses the needs of regions that have fallen behind – regardless of where we point the compass. Reducing regional disparities to a 'tolerable' degree is a permanent task that should be relentlessly pursued. After all, regions that were initially quite homogeneous can drift in different directions as a result of the structural transition, as shown by the fictitious story told at the beginning of this paper.

[1] Specifically, this refers to the ik/ich-isogloss. Cf. Wikipedia, Uerdingen Linie. Retrievable from: https://en.wikipedia.org/wiki/Uerdingen_line.

[2] Cf. Federal Statistical Office, Statistical Yearbook 2018, Chapter 1 – Geography and Climate, Table 1.1.2 (Area and population 2016) *(in German)*. Retrievable from: https://www.destatis.de/DE/Themen/Querschnitt/Jahrbuch/_inhalt.html.

[3] Cf. Citizens' Office, Department for Statistics and Elections/Frankfurt am Main (2012), Materialien zur Stadtbeobachtung Nr. 12, Kapitel 2 – Metropolregionen in Deutschland, page 42 *(in German* only*)* Retrievable from: https://www.frankfurt.de/sixcms/media.php/678/MSB_12_Kapitel_2.pdf.

[4] Data sources: Volkswirtschaftliche Gesamtrechnungen der Länder (2019), Reihe 1, Band 1 – Bruttoinlandsprodukt, Bruttowertschöpfung in den Ländern der Bundesrepublik Deutschland 1991 bis 2018, Tabellen 2.1 (Bruttowertschöpfung) und 13. (Einwohner) (*National accounts of the federal states (2019), Series 1, Volume 1 – gross domestic, gross value added in the states of the Federal Republic of Germany 1991 to 2018, Tables 2.1 (Gross value added) and 13. (Inhabitants*), and Band 5 – Entstehung, Verteilung und Verwendung des Bruttoinlandsprodukts in den Ländern der Bundesrepublik Deutschland 1991 bis 2018, Tabelle 5.2 (Verfügbares Einkommen der privaten Haushalte) (*Volume 5* – Origin*, distribution and use of gross domestic* product *in the federal states of the Federal Republic of Germany 1991 to 2018, Table 5.2 (Disposable income of private households*) (*all titles unofficial courtesy translations*). Retrievable from: https://www.statistik-bw.de/VGRdL/tbls/?lang=de-DE.

[5] With regard to disposable income it must also be borne in mind that we are comparing nominal figures here. A systematic purchasing power comparison of these incomes would be desirable. Unfortunately, that is not possible because there is a painful gap in the official statistics of the necessary regional consumer price levels by federal state. Nevertheless, it is safe to presume that eastern Germany is even closer to western Germany in terms of real disposable income than the 86% in nominal disposable income. In particular, net rents excluding heating expenses – which account for around one fifth of the basket of consumer goods and services – are significantly lower on average in eastern Germany than in western Germany. Based on the immonet.de dataset for the year 2014, the level of net rents excluding heating expenses in eastern Germany can be cautiously estimated at around 80% of the western German level. The data used here can be retrieved from: https://www.immonet.de/service/fileadmin/presse/presseservice/2014/140917_Immonet_Grafik_Miete_Einkommen.pdf.

[6] Cf. IW Köln (2019), IW-Studien – Schriften zur Wirtschaftspolitik aus dem Institut der deutschen Wirtschaft, Die Zukunft der Regionen in Deutschland – Zwischen Vielfalt und Gleichwertigkeit (*IW Studies – Series on economic policy from the Institute for Economic Research, the future of the regions in Germany – between diversity and equality* – our title translation, in German only), especially Chapter 5, pages 88–114. The study can be downloaded from: https://www.iwkoeln.de/fileadmin/user_upload/Studien/Externe_Studien/2019/IW-Regionalstudie_2019.pdf.

[7] For example, this is expressed in: Blum, J., de Britto Schiller, R. and Potrafke, N. (2019), Dreißig Jahre nach dem Mauerfall – wie steht es um das Gefälle zwischen Ost und West? (*Thirty years after the fall of the Wall – what about the gap between the east and the west?* – our title translation, in German only), ifo Schnelldienst 11/2019, p. 33-77. Retrievable from: https://www.ifo.de/publikationen/2019/aufsatz-zeitschrift/dreissig-jahre-nach-dem-mauerfall-wie-steht-es-um-das.

[8] Cf. Borger, K. and Müller, M. (2014), **Arrived at normality – Germany 25 years after the fall of the Berlin Wall**, Focus on Economics No. 73, KfW Economic Research, especially Figures 5 and 6.