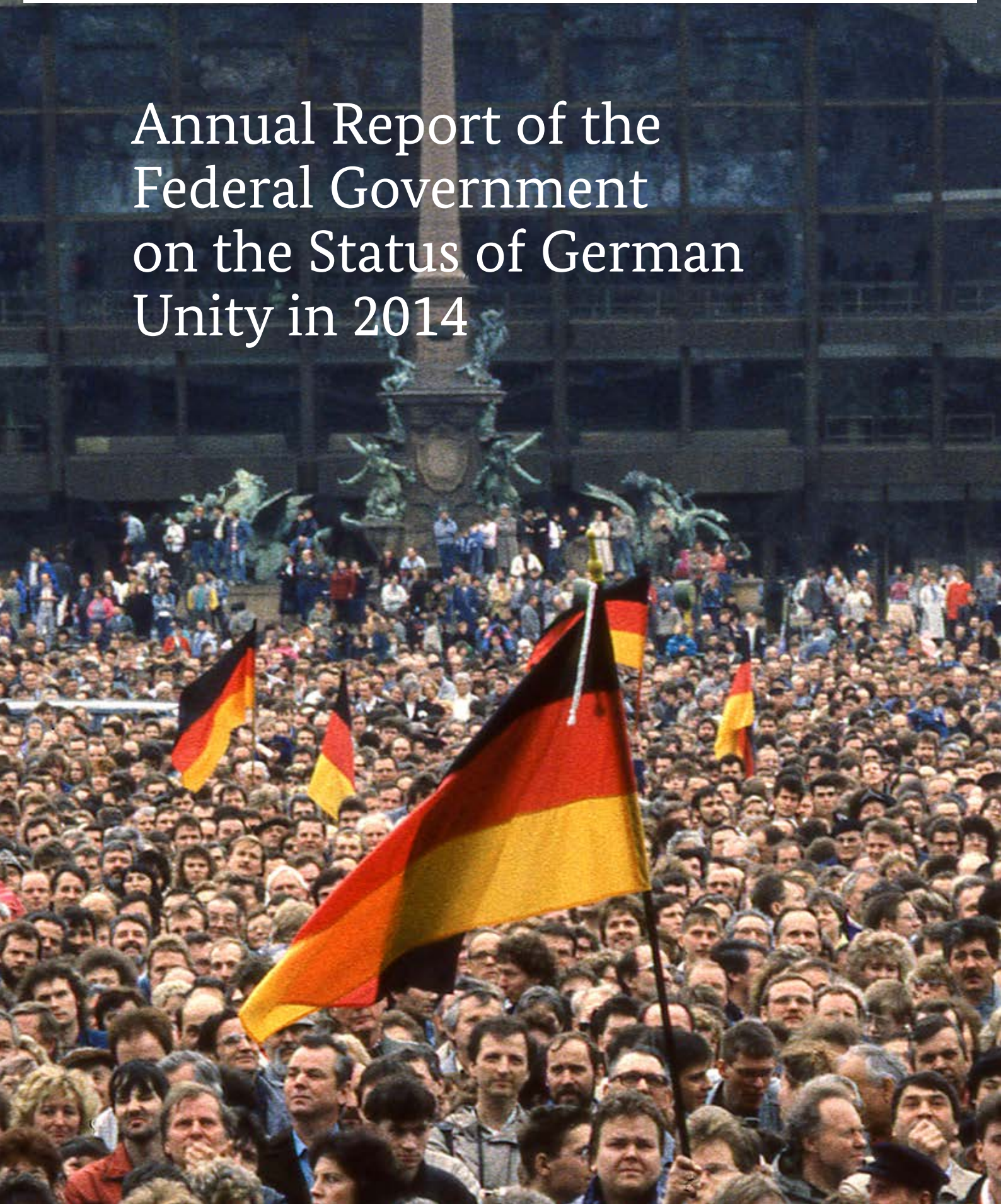




Federal Government  
Commissioner for the  
New Federal States



# Annual Report of the Federal Government on the Status of German Unity in 2014



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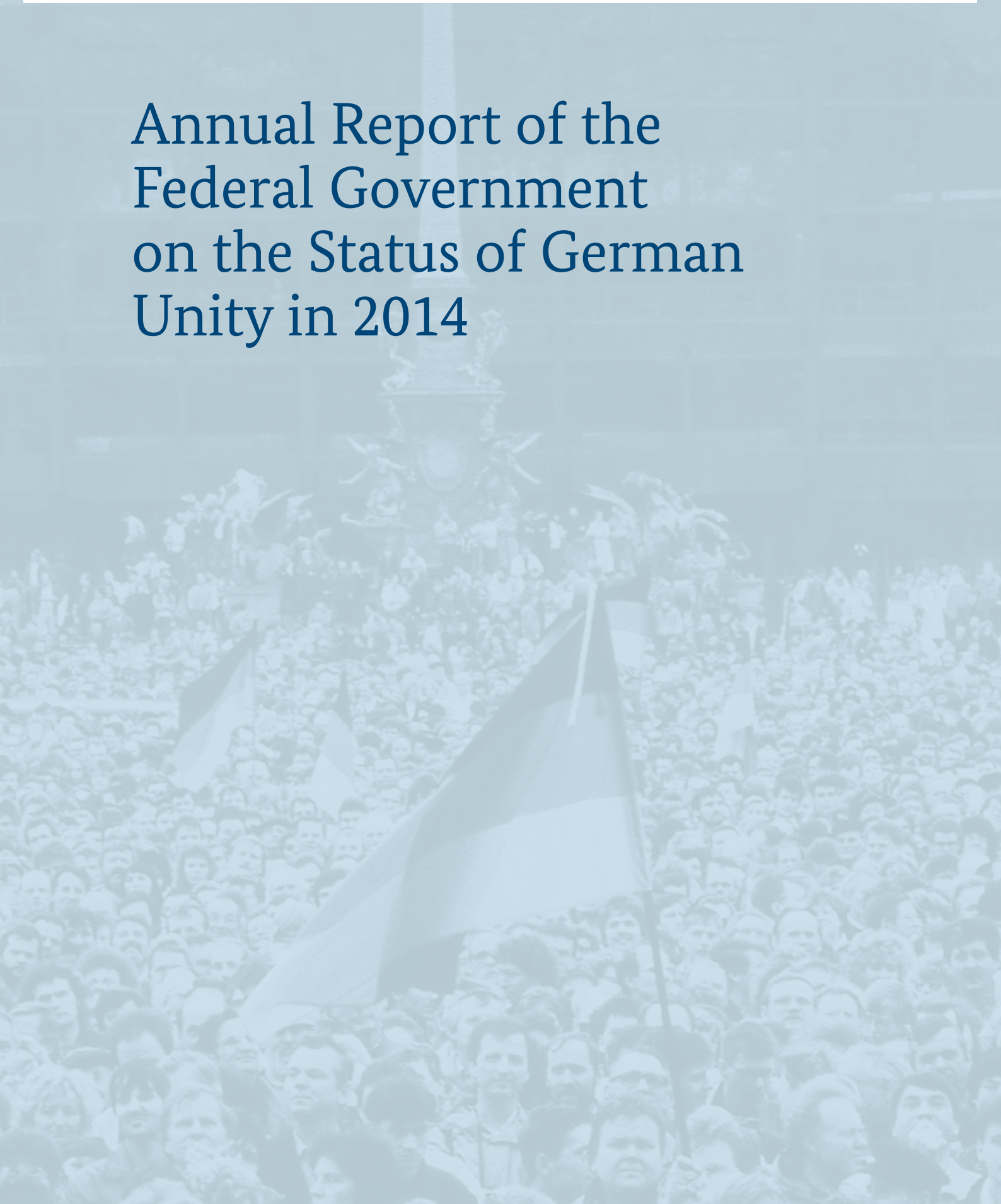




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# Annual Report of the Federal Government on the Status of German Unity in 2014



# Contents

<b>Introduction</b>	<b>5</b>
<b>Part A “We are the people”</b>	<b>6</b>
<b>Part B Report</b>	<b>15</b>
1. Status of developments in the new federal states: successes, problems, trends	16
1.1 Economic competitiveness of the new federal states	16
1.2 Infrastructure	27
1.3 Labour market and securing skilled workers	37
1.4 Social unity	44
1.5 Demographic change – a key challenge	50
2. Continued support for structurally weak regions	54
2.1 Ensuring economic growth of the federal states and local communities over the long term	54
2.2 Strengthening economic growth	56
2.3 Securing the base of skilled labour	65
2.4 Support for regions especially affected by demographic change	66
3. Social cohesion in Germany	71
3.1 Strengthening our democracy	71
3.2 Re-evaluating and coming to terms with the SED dictatorship	72
3.3 Culture connects and unites	74
4. Outlook	75
<b>Part C Economic Data for the New Länder</b>	<b>76</b>

## Directory of figures, tables and maps

### Part B Report

Figure 1:	Growth of real Gross Domestic Product (GDP)	17
Figure 2:	Per capita Gross Domestic Product (GDP)	17
Figure 3:	Per capita Gross Domestic Product (GDP) Gross value added in the construction sector	18
Figure 4:	Foreign sales as a percentage of total sales for manufacturing	19
Figure 5:	Labour productivity	19
Figure 6:	Per capita Gross Domestic Product (GDP)	20
Figure 7:	Important economic sectors in terms of gross value added	21
Figure 8:	Gross value added in manufacturing as a % of the entire economy	23
Figure 9:	Persons employed in industry as a % of the population	23
Figure 10:	Number of enterprises per 1,000 inhabitants	24
Figure 11:	Research & Development (R&D) expenditure	25
Figure 12:	Students per 1,000 inhabitants	26
Figure 13:	Third-party funds of schools of higher learning per professor	27
Figure 14:	Investment in German Unity transport projects 1996–2013	28
Figure 15:	Schematic map showing network corridors	28
Figure 16:	Seaports: eastern Germany	29
Figure 17:	Electricity production in western and eastern Germany 2012	30
Figure 18:	Broadband coverage with at least 50 Mbit/s and LTE coverage 2013	31
Figure 19:	Financial aid from the Federal Government for urban reconstruction and development from 1990–2013	33
Figure 20:	Development in the construction of residential housing 1993–2012	34
Figure 21:	Life expectancy at birth in Germany in years	35
Figure 22:	Unemployment trend in Germany, western and eastern Germany from 1991–2013	37
Figure 23:	Development in the number of employees subject to mandatory social insurance in Germany, western and eastern Germany (on 30 July each year)	40
Figure 24:	Children under 3 years of age in childcare 2006–2014 in western and eastern Germany, absolute figures	42
Figure 25:	Ratio between average amounts paid into statutory pension insurance in eastern Germany as of 31 December 2013	45

Figure 26:	Ratio between total net income in old age in 2011 in eastern Germany	46
Figure 27:	Migration between western and eastern Germany, 1991–2013	51
Figure 28:	Development of total birth rate from 1952–2012	51
Figure 29:	Young people and old-age dependency ratio in eastern and western Germany, 1990, 2000 and 2012	52
Figure 30:	Supplementary federal grants for special infrastructure needs: Solidarity Pact II, first basket	55
Figure 31:	Investment ratio	57

## Maps

Map 1:	Regional concentrations of sectors in Germany	22
Map 2:	Unemployment rates annual average for 2013	38
Map 3:	GRW support areas 2014–2020	59

## Tables

Table 1:	Broadband penetration with at least 50Mbit/s in the federal states as a %	32
Table 2:	Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act	47
Table 3:	Severely disabled persons in Germany, broken down by federal state and degree of disability in Germany	49
Table 4:	Maximum rates of state aid according to regions receiving support	58

## Notes on the delineations used

New federal states:	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, Saarland, Rhineland-Palatinate, Schleswig-Holstein,
Western Germany:	old federal states (excluding Berlin)
Territorial states:	in each case excluding the city-states

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

# Introduction

This year we are recognising and celebrating the 25th anniversary of the Peaceful Revolution in the GDR and the fall of the Berlin Wall in the autumn of 1989. This was the starting point for the ensuing historical events and development trajectories that opened up for eastern and all of Germany. In Part A of this “Annual Report on the Status of German Unity”, the Federal Government applauds the historical achievement of citizens that overcame their fear of the dictatorship of the “Sozialistische Einheitspartei Deutschlands” (SED) and courageously went out on the streets to fight for freedom, democracy and respect for human rights.

“Aufbau Ost” has been one of the most important tasks of the Federal Republic of Germany since the beginning of the 1990s. The balance sheet indicates that numerous economic and social improvements have been achieved over this period (part B). Especially with regard to quality of life and infrastructure, scarcely any disparities are to be found any more between the new and the old federal states. Many hopes and expectations were disappointed especially in the

early years of watershed societal change, however. In particular, unemployment was and still remains a pressing problem, even though it has now declined significantly in eastern Germany as well. Economic structures and economic growth associated with these structures still differ considerably between eastern and western Germany as well. That is why the Federal Government will also continue to support the eastern German states with Solidarity Pact II in the coming years.

There will always be regional disparities in Germany – between north and south just as between east and west. That is why it is the aim of the Federal Government not to create identical living conditions, but to bring about equivalent ones. Major successes have been achieved here in the past 25 years. This is above all thanks to those citizens in the new federal states who undertook with tremendous courage and the solidarity of the western federal states to rebuild their states, surmounting the enormous challenges facing them in this transformation.

Part A

“We are the people”



## 9 November 1989 – a day of rejoicing for all Germans

In the face of pressure from thousands of inhabitants of East Berlin, the border crossing between East and West Berlin at Bornholmer Straße was opened in the evening of 9 November. This event was the climax of the Peaceful Revolution of 1989 in the GDR, which was preceded by a long chain of historical events in which the citizens of the GDR and the other eastern European states under the hegemony of the Soviet Union rose up in protest against political and economic conditions in “real existing socialism”.

### In the tradition of freedom

The citizens of the GDR became the first in the bloc of communist powers to rebel against state oppression in a popular uprising against the SED regime on 17 June 1953. Even if this uprising was brutally crushed by Soviet military forces, it was nevertheless the first in a chain of eastern and central European opposition and freedom movements culminating in bloody uprisings in Poland (the Posen Uprising) in June 1956 and in Hungary in October 1956, the “Prague Spring” in Czechoslovakia in 1968 and the Solidarność Movement in Poland in 1980–1981. Aside from the “Prague Spring”, an attempt at reform from within the Communist Party, ruling communist regimes in central and eastern Europe made it unmistakably clear through their ruthless clampdowns on these uprisings that they would defend their rule with every means at their disposal. At the same time, it became apparent that they were reliant on massive military support from the Soviet Union. Although the opposition and freedom movements in central and eastern European states contrasted in many ways, they held in common the experience that political revolts would remain a futile exercise. They also shared the aspect that they were non-violent.

Events in neighbouring communist states since 1956 for their part influenced resistance in the GDR by serving as a stimulant, model and experience for the opposition and popular movement in the GDR.

### Opposition to the paternalist state

The dictatorships in the GDR, Poland, Czechoslovakia, Hungary, Romania and Bulgaria left very little latitude for citizens to engage in free, democratic activities. As a result of the massive oppression that was to be expected, especially in the wake of the abortive uprisings, only a handful of courageous persons put up open resistance.

Citizens that did not want to yield to the claim to absolute power by the SED and the state organs it controlled in the GDR were leaned on, monitored and placed at a disadvantage. Significant numbers of them suffered draconian penalties. Given all this, groupings and activities under the tutelage of churches in the GDR (Sword to Ploughshares, Blues Services, Peace Services, etc.), in the area of youth culture (the punk scene, etc.) and cultural scene (the Alternative Culture Scene in Berlin, Dresden and Leipzig) that did not bow and conform to the system, although these might appear insignificant to some in the west, should not be underestimated. They made a decisive contribution to the overthrow of the dictatorship, as they actively adopted a critical stance towards the SED regime. It is for this reason that the oppositional groups that were already active in the GDR before perestroika and glasnost assumed the role of a spearhead in the developments of 1989–1990. Their coalescence even before the fall of the Berlin Wall – there was an opposition criticising the system in the early GDR even before the Berlin Wall was built – revealed that in spite of all attempts in the GDR to make people toe the line, there were always people that would resist the SED’s claim to absolute power. One example worth citing here is the only children’s store in the GDR, which was established in Berlin as an alternative to the state educational system in 1980. For the ruling elite a provocation. They had the store demolished in 1983.

Nevertheless, the vast majority of citizens more or less muddled through under the system, especially following the building of the Wall in 1961. The SED attempted to push forward in the construction of socialism, seeking to win over the population with promises of material consumption. Developments showed, however, that actual successes lagged far behind pledges. Over the course of time, disenchantment with the political and economic system continued to mount across large sections of society, with discontent in the population fermenting at an accelerated rate in the months leading up to the fall of the Berlin Wall in 1989, with escalating numbers of demonstrators going out on the streets.

The most important factors playing into this growing disgruntlement were the claim to absolute power by the SED in all areas of life, political paternalism and the surveillance that went along with it, rampant environmental destruction, a crumbling infrastructure, largely obsolete, dilapidated factories, the pervasive feeling of being “locked up” and the everyday task of coping with scarcity. In the eyes of its citizens, the responsibility lay in the hands of a haughty SED leadership divorced from reality that was no longer able “to understand life” (M. Gorbachev).

## 1989 – the year of the Revolution: exodus, protest and the fall of the Berlin Wall

The spark that set off the upheavals of 1989 was provided by citizens in countries neighbouring the GDR: Poland, Hungary and Czechoslovakia. Mass protests and the indomitable will to bring about change had shaken authoritarian regimes there, and were evolving into a peaceful transition to democracy. The precondition for these developments was the course of glasnost and perestroika launched by Mikhail Gorbachev and the abandonment of the Brezhnev doctrine at the end of 1988, for the first time offering enough breathing space for reform forces in East Bloc countries to flourish. In the absence of this development, the Peaceful Revolution in the GDR would probably have never had a chance. The ban on the Soviet journal “Sputnik” decreed by the GDR leadership in November 1988 was nothing more than a hapless attempt to quash the spread of Gorbachev’s policy of glasnost and perestroika in the GDR.

The combination of exodus and peaceful protest were the key factors setting in motion changes in the GDR. These two developments mutually reinforced one other, thereby unleashing unexpected forces. The foreign ministers of Hungary and Austria, Gyula Horn and Alois Mock, symbolically cut through the fence guarding the two countries’ border on 27 July 1989. Pictures of this event raced around the world, showing everyone that there was a gaping hole in the “iron curtain”. Almost 1,000 GDR citizens took advantage of the “pan-European picnic” organised three weeks later on the Hungarian-Austrian border to flee to the west. The Hungarian-Austrian border was finally officially opened on 11 September 1989. More than 25,000 GDR citizens fled across the open border to the west in the ensuing three weeks, prompting the SED leadership to suspend travel without passport and visa between the GDR and Czechoslovakia. This left many GDR citizens with a feeling of hopelessness and of being permanently walled in. A growing number of them decided to seize the last opportunity to exit through Hungary, Czechoslovakia or one of the embassies of the Federal Republic of Germany. A huge wave of exodus began towards the west, swelling to more than 225,000 people before the opening of the Wall.

The majority of citizens decided to stay in the GDR, however. At the same time, the exodus encouraged many GDR citizens to seek to change conditions in their country from the inside. This resolute will and desire for change was to be heard in the chants “we’re staying here” and “we are the people”, which shortly thereafter was reverberating through all East German cities. The starting gun for the protest was evidence supplied by oppositional groups that local elections on 7 May 1989 had been manipulated. Many citizens were no longer willing to take what had been common practice by the SED regime up to that time sitting down.

The sympathetic reaction by the GDR leadership to the bloody silencing of student protests in Beijing on 4 June 1989 (the “Chinese solution”) sent out a signal to the GDR population that party and state were unwilling to initiate reforms. Beginning in September 1989 at first hundreds, then thousands began protesting peacefully and unwaveringly against an unyielding SED regime, going out on the street to demand freedom and democracy. The peacefulness and civic courage of brave citizens were the defining characteristic of the protest, and this was to remain so.

On 4 September, at first around 1,200 emboldened men and women gathered for the first time in Leipzig following a prayer for peace in the Nikolaikirche in a Monday demonstration. In the following weeks the numbers taking part in the peaceful protest swelled rapidly. The local protest spread to become a national movement calling for freedom and democracy, with a major demonstration being staged in Leipzig on 9 October 1989 by 70,000 protesters and demonstrations in Dresden, Plauen and other cities. New political forces emerged, some of which viewed themselves to be part of the popular movement, others that considered themselves to be political parties. On 9 September the “New Forum” was founded, on 12 September “Democracy Now”, on 7 October 1989 the “Social Democratic Party in the GDR” and on 29 October 1989 the “Democratic Party”. The democratic opposition had begun to organise.

The ongoing exodus and emigration movement as well as protests by citizens shook the SED to its very foundations, ultimately leading to its collapse and fall. After Erich Honecker was replaced on 17 October 1989, attempts by his successor Egon Krenz to preserve SED rule through moderate reforms could only have been doomed to failure. Unceasing opposition of citizens from within forced the opening of the GDR. To somehow defuse the mounting pressure on the SED regime, the Travel Law was amended in November 1989. The party leadership under Egon Krenz hoped this would stem the exodus and redeem the regime in the eyes of the people. The immediate entry into force of a new Travel Law proclaimed by Günter Schabowski at a press conference held on 9 November 1989 allowing every GDR citizen to travel out of the GDR at border-crossing points triggered a wave of East Berlin citizens amassing at border-crossing points, clamouring for the Wall to be opened. Border guards and passport control units, who at this juncture had not yet been informed of developments and were still armed, finally caved in to the pressure of the masses and opened the first border-crossing points – without a single shot being fired. After 28 years of barbed wire and a standing order to shoot anyone trying to illegally cross the border, the bell ending the internal division of Germany tolled to the rejoicing of Germans everywhere.

## Democratisation of the GDR

Shortly after the fall of the Berlin Wall, Hans Modrov took over at the helm of the Council of Ministers of the GDR on 13 November 1989 without, however, having received any democratic legitimisation for such, as the People's Chamber had not been appointed through free elections. In the course of the Peaceful Revolution, the “Central Round Table” was subsequently established upon the initiative of “Democracy Now”. Meeting for the first time on 7 December 1989, it exercised considerable influence on the work of the Modrov Government in the period up until the elections to the People's Chamber in March 1990. In addition to the Initiative for Freedom and Human Rights (*Initiative Frieden und Menschenrechte – FM*), that had been in existence since 1990, there were six newly founded groupings (*Neues Forum, Demokratie Jetzt, Vereinigte Linke, SDP, Democratic Party, Green Party*), which together with representatives of the SED and the bloc parties were initially involved in the Round Table, which itself was convened and moderated by representatives of the churches. It served as a model in the ensuing period for the formation of a host of round tables all the way down to the local level, which generally speaking carried on their work up until local elections on 6 May 1990. This created a body that assumed checks-and-control tasks and in contrast to the official state organs, which were still in operation, enjoyed the support of the population. It was especially the civic manner of interaction, marked by non-violence, tolerance and responsibility, an exchange of views, a spirit of compromise and understanding that became poignant symbols of the times.

One of the first and foremost issues under negotiation at the Central Round Table was the abolition and disarming of the Ministry of State Security (MfS), the main prop underpinning the SED dictatorship's hold on power, or as it were its successor, the National Security Office (AfNS).

## On the path to unity

Cries for reunification could be heard for the first time at the Leipzig Monday Demonstration that took place on 13 November 1989. Demonstrators there were chanting a stanza from the lyrics to the GDR national anthem that had been banned since 1973: “Deutschland einig Vaterland”. In the ensuing weeks the slogan “Wir sind das Volk” (“We are the people”) was increasingly transformed into “Wir sind ein Volk” (“We are one people”). This intensified in the People's Chamber electoral campaign, gathering support and applause all along the way. Reacting to this sentiment and taking the reigns in his hand, Federal German Chancellor Helmut Kohl tabled his ideas on the future political process before the German Bundestag in a tenpoint program on 28 November 1989. It ranged from a “community with ties set out in a treaty (*Vertragsgemeinschaft*) favoured by Modrov

to the establishment of “confederative structures between two states in Germany with the aim of creating a federal state system” – in de facto terms a common state. Reactions to this diverged both in the Bundestag as well as in the GDR bloc parties. At the major demonstration attended by Federal Chancellor Helmut Kohl before the ruins of the Dresden Frauenkirche on 19 December 1989, it became clear, however, that the people had already long since begun moving in the direction of a reunified Germany. On 6 February 1990 the Federal Government offered the Modrov Government currency and economic union. Since the beginning of 1990 demonstrators' chants of “if we get the deutschmark, we will stay, if we don't, we will go to it!” had become increasingly audible.

The first and at the same time last free election to the GDR People's Chamber took place on 18 March 1990, with the Alliance for Germany (consisting of the CDU, the German Social Union and Democratic Party) emerging as victors, marking the launch of parliamentary democracy in the GDR as the essential result of the Peaceful Revolution in East Germany. With the newly formed Government under Lothar de Maizière, the GDR People's Chamber, which under the SED dictatorship had served the function of a sham parliament, became a democratic legislature. It concluded the Treaty setting out the Economic, Monetary and Social Union with the Federal Republic, which entered into force on 1 July 1990. The decision by the People's Chamber on 23 August 1990 for the GDR to join the territory governed by the Basic Law effective as of 3 October 1990 and the Unification Treaty from 31 August 1990 were additional crucial steps along the path to unification of both German states.

In foreign policy terms, state unity and the complete sovereignty of the Federal Republic of Germany were brought about in the “two-plus-four” process, with the two German states sitting on one side of the table and the four victorious powers of the USA, Great Britain, France and the Soviet Union on the other. It was decided at a meeting between Federal Chancellor Helmut Kohl and the Soviet Premier Mikhail Gorbachev in the Caucuses on 16 July 1990 that a reunited Germany would remain in NATO. This was a key element in the future security policy position of unified Germany in Europe and the world. Foreign Minister Hans-Dietrich Genscher and Prime Minister Lothar de Maizière together with the foreign ministers of the four victorious powers signed the treaty conferring sovereignty on reunified Germany in Moscow on 12 September 1990. Thus was the reunification of Germany rendered possible with the consent and support of all its neighbours and partners.

The Peace and Unity Monument being planned in Berlin will ensure that the toppling of the SED dictatorship and the division of Germany will not be forgotten.

## From the planned to the social market economy

Previously unknown democratic conditions, personal and political freedoms began to evolve rapidly in eastern Germany in the wake of the Peaceful Revolution in the GDR and unification in 1990. The transformation from the former planned economy into a market economy took place with unparalleled intensity and speed. Almost everything changed virtually overnight: the working world, school, childcare, interaction with government and nongovernment institutions and much more. A new reality came about for people in the new federal states. Experience in a changing (consumption-oriented) world, encounters with "foreigners" from the other part of Germany and the feelings and emotions associated with it all had to be processed. In a word: the citizens of the new federal states were forced to come to terms with completely new conditions.

As a result of the multifarious challenges, from the creation of new structures at the local level and in the eastern German federal states, the modernisation of the crumbling infrastructure all the way to the establishment of competitive economic structures, it became increasingly clear that the process in which two different societies' legal, economic and cultural spheres were to grow together was a task for the entire society that could not be tackled without enormous financial support and human resources from the Federal Government and western federal states. People in the new federal states have taken advantage of this process of change, demonstrating a high degree of willingness to innovate as well as mobility and flexibility in successfully surmounting obstacles. Deserving special mention here is among other things the founding of more than half a million independent business undertakings, especially small and medium-scale enterprises, in the crafts and many service areas, with the percentage of selfemployed persons reaching a level on par with the western federal states within the space of a few years. Eastern German businesspersons that did not succeed in the endeavour to set up an independent business, often investing their entire personal assets in the process, are also part of the story of this courageous generation of entrepreneurs.

This gigantic process of transformation has had its bright side, but also a shadowy side. In many cases the euphoria gave way to sobering realisation. Especially the economic challenges posed by this watershed change, whose dimensions and consequences were vastly underestimated by most people at the beginning, placed stumbling blocks along the path of growing together.

The citizens of eastern Germany had to bear the brunt of the overwhelming majority of these changes and their repercussions. Almost all walks of business and private life had to be reorganised. Eastern Germans were called upon to adapt and change on a momentous scale, with scarcely

any opportunities to escape the strictures imposing these changes. It was taken for granted that people would exhibit flexibility and mobility in all areas of life. This radical transformation of structures that began in the early 1990s profoundly changed economic and social conditions.

For many people in eastern Germany the transformation was associated with the loss of their jobs and hence an essential element of their integration in society. Many of them had expected difficulties and obstacles in this process, but not to lose their jobs for an indefinite period of time. They did not perceive any opportunity to integrate successfully in this new society and they thus felt like they were the losers in the reunified state. More than a few lost trust and confidence in political institutions and the social market economy system.

Women suffered especially serious consequences in planning their lives. They were those hardest hit by unemployment in the eastern German federal states. Equal rights of women and their gainful employment had been promoted with vigour, including ideologically, in the GDR. Even if many women experienced the gap between the politically proclaimed image of women and everyday life on a daily basis, women were relatively independent in financial terms, as the majority of them (1989: 92%) worked. They lost much of this independence when they lost their jobs.

The process of transformation has been most significantly influenced by the group of now 30 to 40-year-old eastern Germans, nowadays referred to as the "third generation". This age cohort was still considerably influenced by the GDR, but particularly by societal disruptions and opportunities that arose following reunification. This generation is occasionally referred to – and rightly so – as "avant garde" because it showed that it could successfully cope with societal challenges especially in the face of massive economic, political and personal upheavals. This can be of tremendous benefit to all of German society in triumphing over global challenges of an economic and technological nature.

Eastern Germany performed a unique feat of reconstruction and adaptation. In the process, experience was gained through personal transformations that people in western Germany did not share and in many cases have not been able to relate to down to the present. It was not just adults back then who gained this experience, but also children and teenagers.

The transformation process of the East German Army (NVA) of the GDR and its integration into unified German defence structures was a major challenge. Two armies that had been warily confronting each another for decades – each of them integrated in different defence alliances – had to be merged into a single armed forces. The newly elected eastern German government significantly reduced military



manpower from the 175,000 soldiers that were still in military service in the autumn of 1989 in the course of 1990. With the incorporation of remaining members of the military – 90,000 soldiers and 47,000 civilian staff – in the unified German armed forces on 3 October 1990, unified German armed forces numbered 585,000 soldiers and 230,000 civilian staff. The transition to unified German armed forces officially commenced as a task facing all of society upon reunification. In the course of the negotiations that led to the “Two-Plus-Four Treaty” of 12 September 1990, it was decided to shrink the all-German army to 370,000 soldiers. On top of this, a new stationing strategy was instituted for the German armed forces providing for a total of about 58,000 soldiers being stationed in the new federal states and Berlin along with their own defence administration. The German armed forces were thus forced to perform gargantuan organisational and logistical feats. Added to this were human challenges: professional soldiers in the East German armed forces had undergone a total transformation of their lives. By the same token, most of them remained loyal, lending a hand in the construction of unified German armed forces. The German armed forces made an important contribution in a remarkably smooth process to the creation of an “army of unity”. This was accompanied by the disbanding of the East German armed forces, flanked as it was with social measures, with 11,000 soldiers of the East German military forces ultimately being permanently taken on in the new force. At the same time units and administrative offices of the German army were stationed in the eastern German states. General military service, which was reduced to twelve months in October 1990, has also fostered the process of east and west growing together. Young people from all over Germany jointly performed military service, thereby getting to know each other better across the previously insurmountable border. The creation of the German military forces as an “army of unity” thus serves as a good example of successful transformation in a difficult situation of momentous change facing all of society.

## Democracy built with courage

With the achievement of freedom through the Peaceful Revolution of 1989 in the GDR and in the ensuing period, the citizens of the GDR expressed their desire and their will to establish democracy. The social movements that formed under the auspices of the church in the GDR made a significant contribution to toppling the dictatorship, as they promoted a critical attitude towards the SED regime.

Love of freedom, civic courage and nonviolence were the forces that led to the fall of the SED regime. Freedom and democracy in all of Germany must therefore not be understood either as something to be taken for granted or a talent possessed by others. The people in the east of our

country courageously fought for both. Other citizens in the Soviet zone of occupation and the GDR also had to make great sacrifices in the decades before this, with many of them having to spend many years in prison. More than a few lost their lives. The fate and commitment of these courageous people must not be allowed to slowly vanish from our memories. The Peaceful Revolution in the autumn of 1989 in the GDR constitutes an essential element in the democratic foundations of united Germany.

Article 20 of the Basic Law of the Federal Republic of Germany lays down important principles of democracy (foundations of the state and the right to resist). These principles alone of course do not guarantee democracy in our country. Especially against the background of political extremism of all colours and our historical experience with the Nazi regime of terror and finally the SED dictatorship, it must be asserted that democracy can only function with an understanding of democracy and commitment on the part of citizens. This is because democracy must be practiced each and every day. Citizens must take part in political decisionmaking and be able to organise freely. Civic commitment at the individual level or in associations, clubs and other institutions or initiatives focused on the common weal are by the same token a crucial element, as these pool and combine participation, involvement and codetermination. Current studies by the Federal Ministry of the Interior and the Federal Ministry of Family Affairs, Senior Citizens, Youth and Women on active citizenship in eastern Germany confirm that active involvement by citizens is an important engine in the activation of existing resources in the polity. At the individual level it can contribute to opening opportunities for participating in and shaping the polity while disseminating and improving programmes offered by associations, clubs, not-for-profit institutions and services and making organisations of civil society more appealing. The percentage of persons making a commitment, doing something for the community and wanting to make life more engaging at the local level soared to 71% over the period 1990–2013 (in 1990 this figure was 61% in western Germany and 64% in eastern Germany). One example that can be cited here is the efforts of citizens to maintain and renovate cities and communities in the GDR. Thanks to this will and resolve, many cities of historical value whose buildings had been left to crumble for years have been developed into real gems once again.

## A reappraisal and analysis of the SED dictatorship

The resolute and differentiated analysis and reappraisal of the SED dictatorship is a necessary task for state and society and is therefore an important mission of the Federal Government. The Federal Government submitted a report to the German Bundestag on the status of the

reappraisal and analysis of the SED dictatorship in 2013 (Bundestag printed matter 17/12115). It is important to explore the causes, structures and mechanisms of the SED dictatorship in order to counteract the propagation of myths and later attempts at rationalisation. This means conveying knowledge of the dictatorship, its methods of rule and oppression and life in the total surveillance state. It is only the continued analysis and reappraisal of SED injustice that can prevent attempts to explain away and vindicate the SED state. Especially young people need to be informed about conditions in the GDR. Critical analysis of the communist dictatorship is a question of historical political identity.

This reappraisal analysis furthermore contributes to reflection on and strengthening of our values of freedom, democracy and rule of law. This promotes social cohesion.

A statement issued by the German Bundestag upon the presentation of the report by the first commission of enquiry on "coming to terms with the history and consequences of the SED dictatorship in Germany" held: "Political-moral condemnation of the SED dictatorship is not tantamount to condemnation of the people subjected by it – on the contrary. Germans in the Soviet Zone of Occupation<sup>1</sup>/GDR had to bear the grimmer part of the German post-war legacy. (...) It is above all the former citizens of the GDR themselves who are called upon to perform a political-moral evaluation." The statement continues: "there should be general agreement on one fundamental after-effect of experience with the SED dictatorship: The intellectual foundations of an internally consolidated democracy includes an antitotalitarian consensus in society". Coming to terms with the history of the Soviet Zone of Occupation/German Democratic Republic and two German states as a consequence of World War II remains a longterm task of tremendous importance to all of society.

People who were persecuted in the GDR for political reasons experienced injustice in a bewildering variety of ways and in many cases continue to suffer greatly today from the consequences of repression. Those persons persecuted by the SED regime must not be left alone. Rehabilitation, recognition and compensation for the victims of the dictatorship are therefore important elements in the legacy of the SED dictatorship. Without their courageous opposition and resistance to the totalitarian GDR regime, the Peaceful Revolution of 1989 in the GDR would not have been possible.

## Everyday life in the GDR

To avoid pervasive political and social controls, many East Germans withdrew into private life – to the extent this was possible and tolerated by the SED regime. The vast majority of citizens just wanted to lead decent lives. People also shared a lot of happy elements binding them together – in spite of the repressive state. They had their families, their friends and colleagues. They celebrated baptisms, birthdays and weddings, and comforted each other when loved ones passed away. They rejoiced when they passed important exams and shared their holiday experiences with each other. There were common leisure time pursuits in sketching groups, in choirs performing concerts at clubhouses, in sports clubs, in the gardening allotments or in their "dacha settlements". These small flights into everyday life could not blind one to the lack of freedom and selfdetermination, however.

Roland Jahn, the Federal Commissioner for Documents of the State Security Service of the GDR, recently put it most succinctly in describing his perception of these everyday experiences in a widely read essay: "The majority of people who lived in the GDR cannot identify either with the definition of a perpetrator or a victim." He continues: "Nobody was only a rebel or only a conformist. We need a process of public reflection on life in the GDR state in which we lived our everyday lives."<sup>2</sup> Given this, the further development of the memorial strategy of the Federal Government laid down in the Coalition Agreement takes on special importance.<sup>3</sup>

## An attempt at recognition

The Peaceful Revolution of 1989 in the GDR is one of the biggest and most joyful events in German history. Freedom and unity, achieved through the Peaceful Revolution, are perceived by many people from a presentday perspective as something to be taken for granted. The fact of the matter, however, is that the developments of 1989-1990 were anything but inevitable. As late as October 1989 it appeared virtually inconceivable to most of the citizens of the GDR that they could overthrow the system and achieve freedom and democracy. It was the courage of at first a very few persons daring to defy those in power. Many who went out on the streets in the first days of October calling for freedom, equality and brotherhood, appealing to others to "join up" in Leipzig and other cities feared government repression, as shortly before security forces had ruthlessly clamped down on protestors in Dresden and Berlin. Because they still dared to go out on the streets in the face of massive attempts at

1 Soviet Zone of Occupation

2 From Roland Jahn's Essay "Wir Angepassten", DER SPIEGEL 37/2014

3 See Coalition Agreement p. 91

intimidation, more and more people began to join in the protests, sending out a mass signal that the Leipzig Monday demonstration that took place on 9 October 1989 heralded the beginning of the end of the dictatorship. 9 October 1989 became a decisive turning point in the Peaceful Revolution and a historical date for freedom and human rights.

In the following weeks and months it became clear that the dictatorship had only cast a veil over the diversity of East German society. East Germans used their newly gained freedom to nurture pluralism in political parties, associations and interest groups free of influence by the central state. The rights of freedom they attained set the stage for further developments. The freedoms achieved by GDR citizens paved the way to German reunification, subsequently achieved in 1990.

People in east and west have different memories and different biographies from the divided past. These must be recognised, accepted and become an element in the fabric of solidarity without losing sight of different interests, contrasting individual biographies or personal desires and ideas. This is the precondition for the achievement of unity, which still remains on the agenda even 25 years after the Peaceful Revolution of 1989 in the GDR.

We need an open, relaxed way to interact with one another, like the younger generation displays in such an encouraging manner. There are many possibilities and ways to become aware of common achievements in east and west. These should play a special role in our daily interaction and lives. The path to internal unity can only be negotiated on the basis of mutual respect and recognition.

## Milestones along the path to the fall of the Berlin Wall and national unity

### 1989

February – April	Round table in Poland
7 May	Opposition groups expose manipulation of local elections in the GDR
17 April – 4 June	Protests at Tiananmen Square in Beijing, bloodily put down on 4 June 1989
since May	Dismantlement of western border fortifications in Hungary
27 June	Foreign ministers of Hungary and Austria cut an “opening in the iron curtain” at Sopron in a symbolic act.
9 – 10 September	Founding of the “New Forum”
12 September	Founding of “Democracy Now”
2 October	Founding of the “United Left”
3 October	“Suspension” of free travel without passports and visas between the GDR and Czechoslovakia
Autumn	Peaceful protests by citizens in East Germany
7 October	Founding of the “Social Democratic Party in the GDR”
9 October	Major demonstration in Leipzig
29 October	Founding of the “Democratic Party”
9 November	Fall of the Berlin Wall
24 November	Founding of the “Green Party”
4 December	Occupation of buildings of the Ministry for State Security district administrations in Erfurt, Suhl and Leipzig
7 December	First meeting of the “Round Table” in Berlin

### 1990

15 January	Occupation of the headquarters of the Ministry for State Security in Berlin by demonstrators
18 March	First free elections to the People’s Chamber (electoral victory for the “Alliance for Germany”, made up of the CDU, German Social Union and Democratic Party) and formation of the de Maizière
18 May	Signing of the Treaty on Monetary, Economic and Social Union
1 July	Signing of the Treaty on Monetary, Economic and Social Union
23 August	Decision by the People’s Chamber on accession of the GDR to the Federal Republic on 3 October 1990
31 August	Signing of the Unification Treaty
12 September	Signing of the Two-Plus-Four Treaty in Moscow, foundations for complete sovereignty of unified Germany
3 October	Day of German Unity – entry of the Unification Treaty into force



# Part B

## Report

## 1. Status of developments in the new federal states: successes, problems, trends

With the entry of the Unification Treaty into effect, Germany was unified formally speaking, but living conditions in both parts of Germany still differed fundamentally.

Today, 25 years after the Peaceful Revolution of 1989 in the GDR, people in the east and west can be proud of what they have achieved together. With all the problems and hardships that the process of transformation has meant for the people of eastern Germany, it can today be rightly asserted that reconstruction of the new federal states (Aufbau Ost) has been successful. The stage has been set for dynamic, environmentally sound economic development.

The decay of many inner cities has been halted and the dwelling situation of households has improved considerably by virtue of renovation, energetic modernisation and construction of new residential buildings. A stop has been put to extensive pollution, and considerable amounts of soil contaminants have now been cleaned up. The transportation network has been built anew and expanded, while integration into the trans-European network is well under way. Access to educational programmes is more open than ever before since reunification. This offers a broad spectrum of individual development opportunities, and is a crucial precondition for a lively democracy.

The massive and in some cases dramatic migration out of the new federal states has led to highly skewed demographic situations. The eastern federal states have assumed a leading role in coping with this process of shrinkage and ageing.

In most areas of life today, 25 years after the fall of the Berlin Wall, equivalent living conditions have been attained. This positive development should not blind one to the fact that the new federal states still have considerable catching up to do with the western German federal states in some areas, however. This goes above all for the convergence of economic growth and wages as well as the labour market – areas that are of tremendous importance to the equivalence of living conditions. In addition, further reappraisal and coming to terms with SED injustice is both in the interest of those who suffered under it as well as those who are no longer aware of this political development. This year's report by the Federal Government on the status of German unity concentrates on these areas. It furthermore contains information on what measures the Federal Government is planning in order to achieve additional progress in the establishment of equivalent living conditions. A large section containing economic statistics supplements the discussion of economic growth and financial situation of the new federal states.

### 1.1 Economic competitiveness of the new federal states

Economic growth in eastern Germany has picked up considerably since reunification

Eastern Germany has considerably boosted economic growth since reunification. Gross domestic product (GDP), which measures the total value of all finished goods and services in a macro economy, has roughly doubled between 1992 and now. Measured in terms of per capita GDP in the eastern German states, the greatest annual growth took place in 1993 at 13.4%. Annual growth rates began to level off considerably around 1997. At 0.3% in 1997, it was only slightly above the rate for the western German states (excluding Berlin).

The process of economic convergence, i.e. the process of the new federal states catching up to the western federal states, has thus cooled considerably over the course of time.

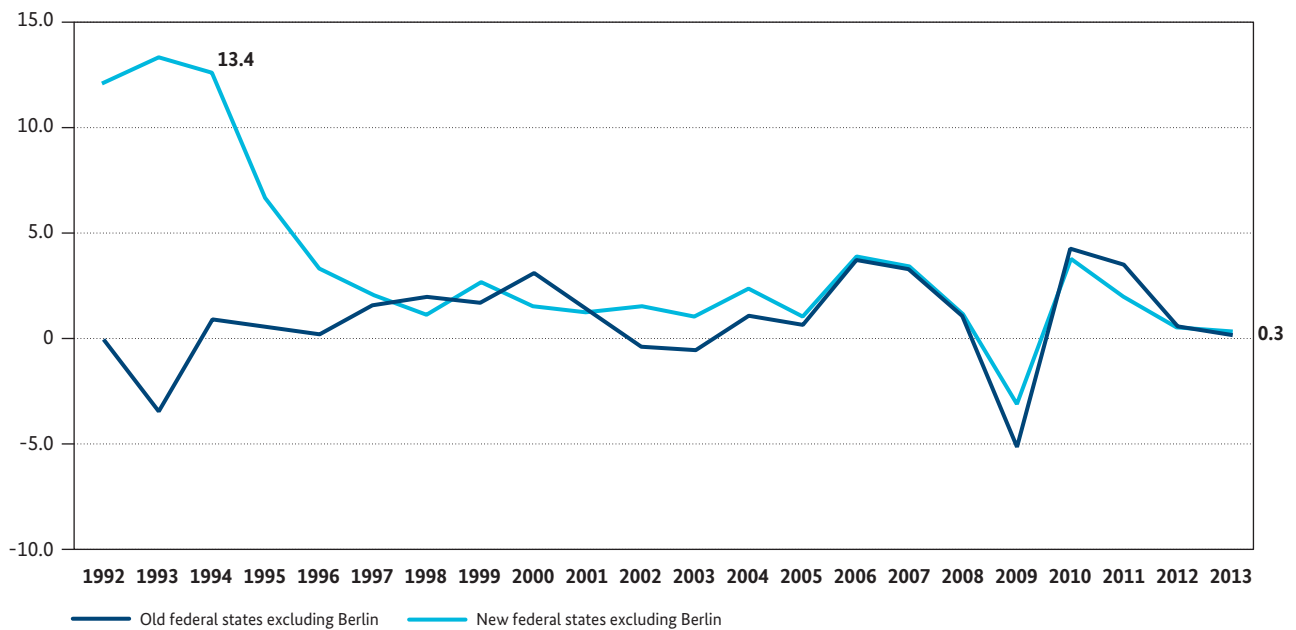
The following figure shows the process of convergence over time in terms of per capita GDP in the new federal states (excluding Berlin) as a percentage of the rate for the western federal states. This was only 33% in 1991, €7,277 in eastern Germany compared to the mean western German level of €22,004. This percentage doubled to 66.6% by 2013 (€23,585 compared to €35,391). This development is remarkable. Nevertheless a considerable gap remains between east and west. The process of convergence has moreover slowed considerably over the last few years.

The process of convergence can be divided up into several phases. The actual transformation from a planned economy to a market economy took place in the initial phase, directly following German reunification. Socialist production sites were privatised, in some cases closed, restructured and adjusted to align with the market economy. New enterprises were founded that had to demonstrate their viability in competition and were ultimately able to gain market shares. Economic development was at the same time accompanied by sizeable public subsidies.

The construction industry in eastern and western Germany profited both from public construction contracts for infrastructure as well as state subsidisation of private and public construction projects, in particular through special tax write-down opportunities. Many building facades that had been neglected for decades were renovated; housing and commercial buildings as well as the transportation infrastructure were overhauled and built anew. This stimulated an enormous growth in production capacities in the construction industry. After special tax write-down opportunities were phased out, a necessary, but painful, consolidation phase set in. As figure 3 shows, growth in the construction industry came to a complete halt around the middle of the 1990s. At the same time a phase commenced in which

**Figure 1: Growth of real Gross Domestic Product (GDP)**

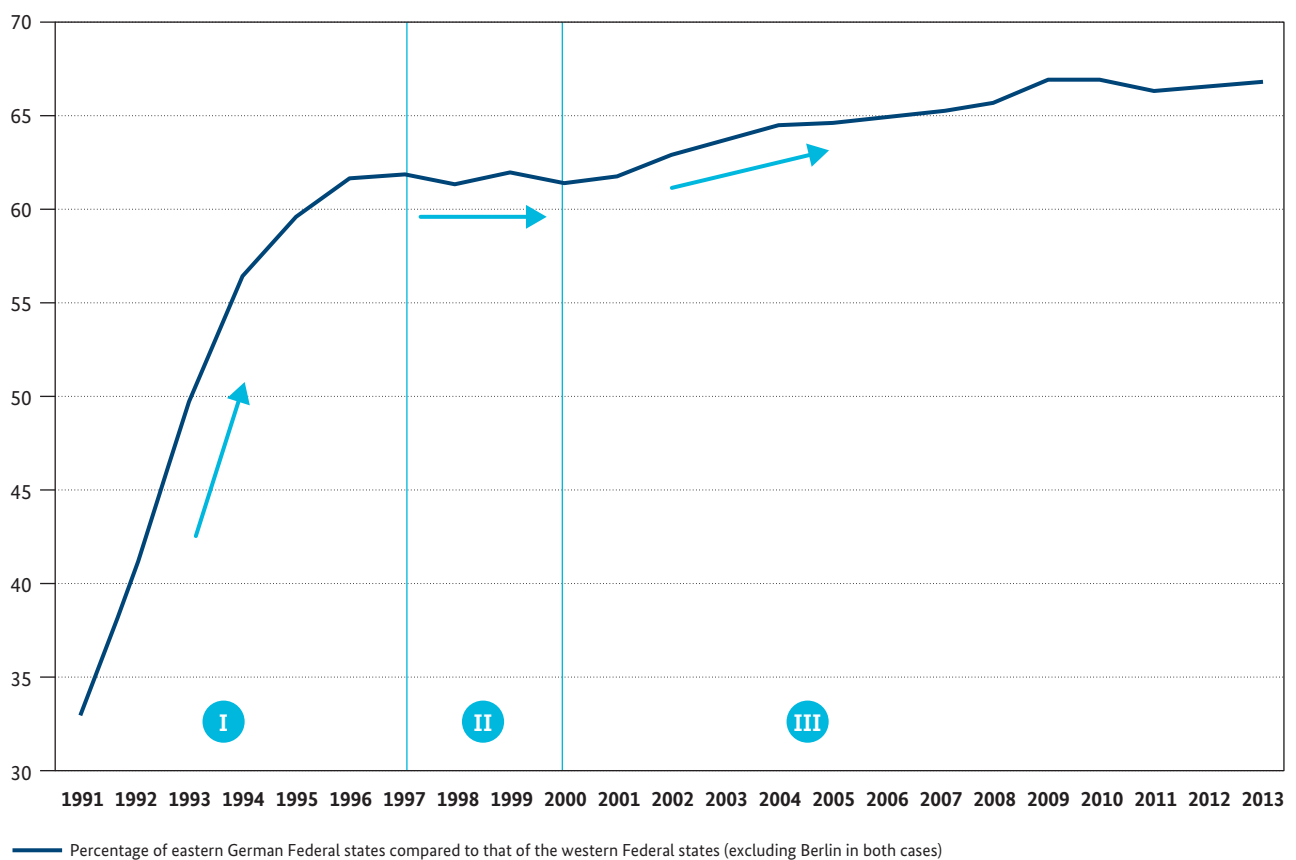
as a %



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

**Figure 2: Per capita Gross Domestic Product (GDP)**

as a %



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

scarcely any progress was achieved in the process of convergence in overall economic terms. The process of normalisation in the eastern German construction industry lasted until around the middle of the first decade of the 21st century.

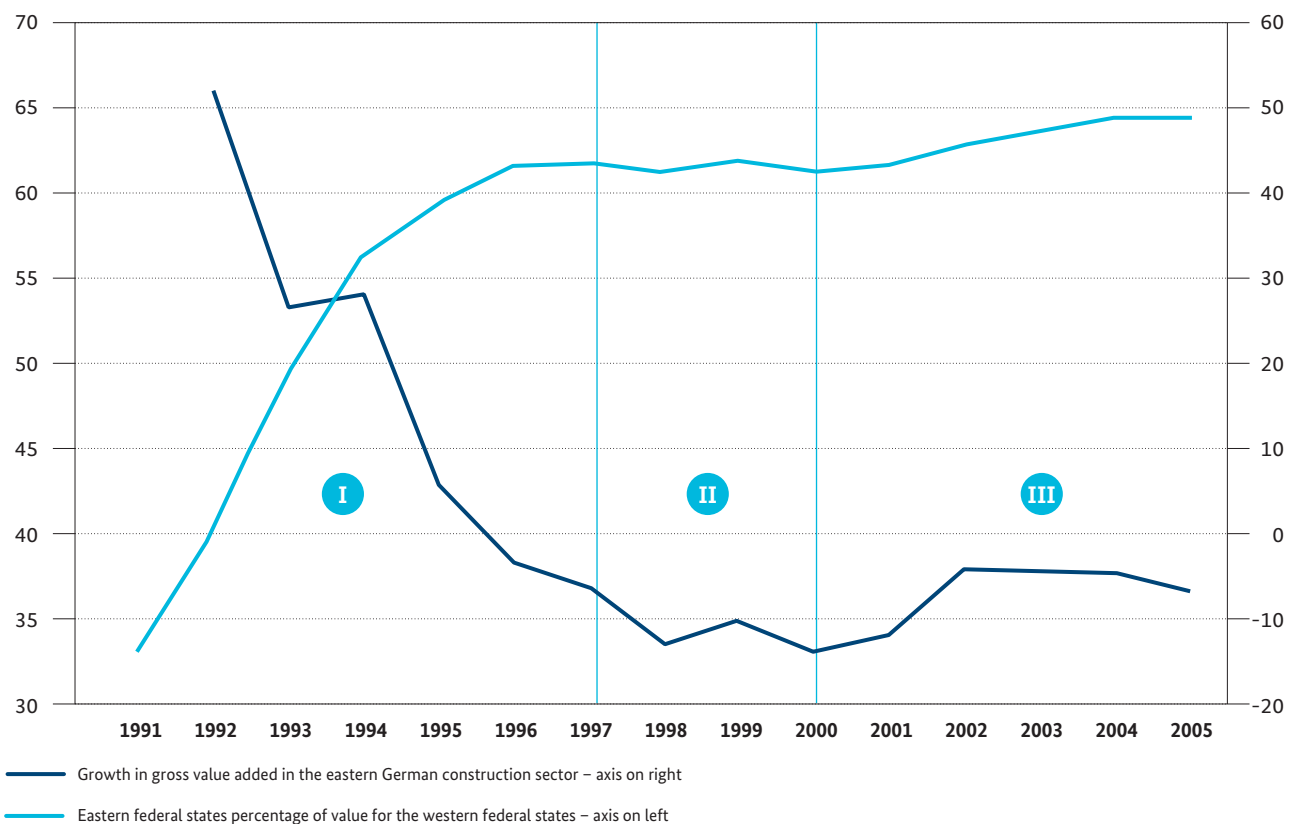
After the crisis in the construction industry was surmounted, the convergence process regained momentum in the third phase. Eastern German companies increasingly conquered international markets. The export ratio measured in terms of foreign sales as a percentage of total sales rose particularly for manufacturing industry. With an export ratio of 32% in 2006, the eastern federal states already exceeded the level of the western German federal states in 1995. Since then the export rate has risen continuously to reach 36% in 2013. The western German export rate also soared to over 49%, however, which means that the gap has continued to hover at a constant level of approximately 13 percentage points since 2007.

This constant gap and the different export structures in western and eastern Germany could offer an explanation for the low level of convergence between east and west in recent years, in particular since the global financial crisis of 2008–2009. Several important European trading partners' economies have been limping along since then, leading to sagging demand for imports. Eastern German exporters may be more affected by this than western German enterprises, the reason being that European sales markets are relatively more important to eastern compared to western German enterprises, which as a result of a longer export tradition and greater capital resources are present in non-European growth markets, especially in the newly industrialising countries of Asia.

Labour productivity is often used to monitor progress in convergence as well. It describes the ratio of GDP per hour worked by gainfully employed persons. Labour productivity in eastern Germany is significantly below that of western Germany. The gap between the two curves has more-

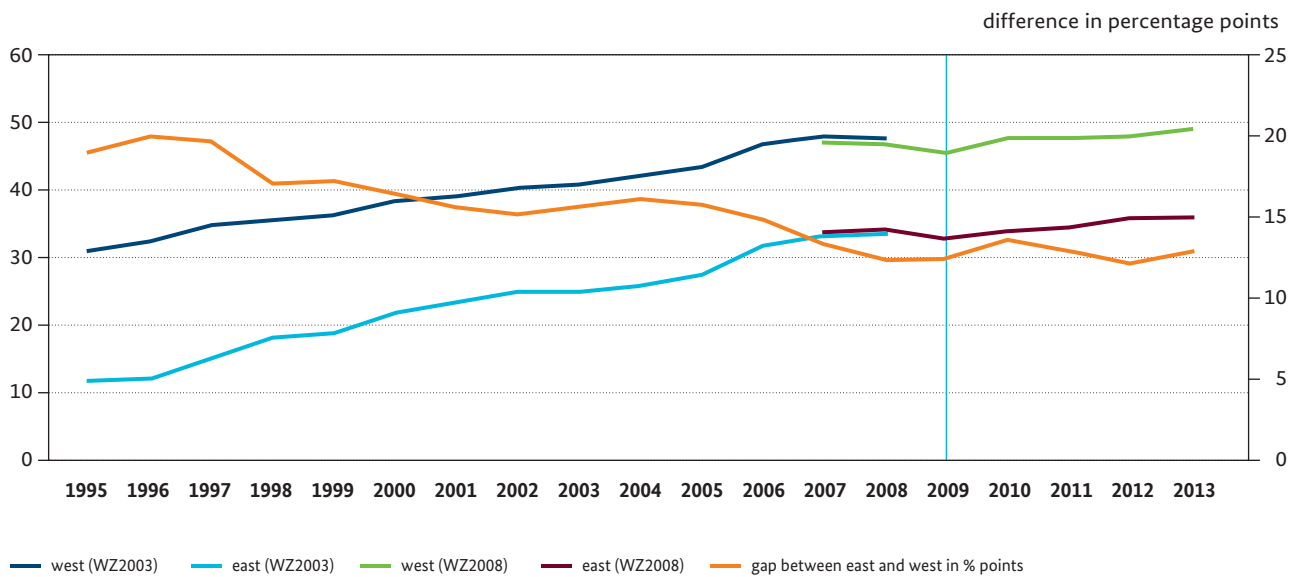
**Figure 3: Per capita Gross Domestic Product (GDP) (axis on left)**  
**Gross value added in the construction sector (axis on left)**

as a %

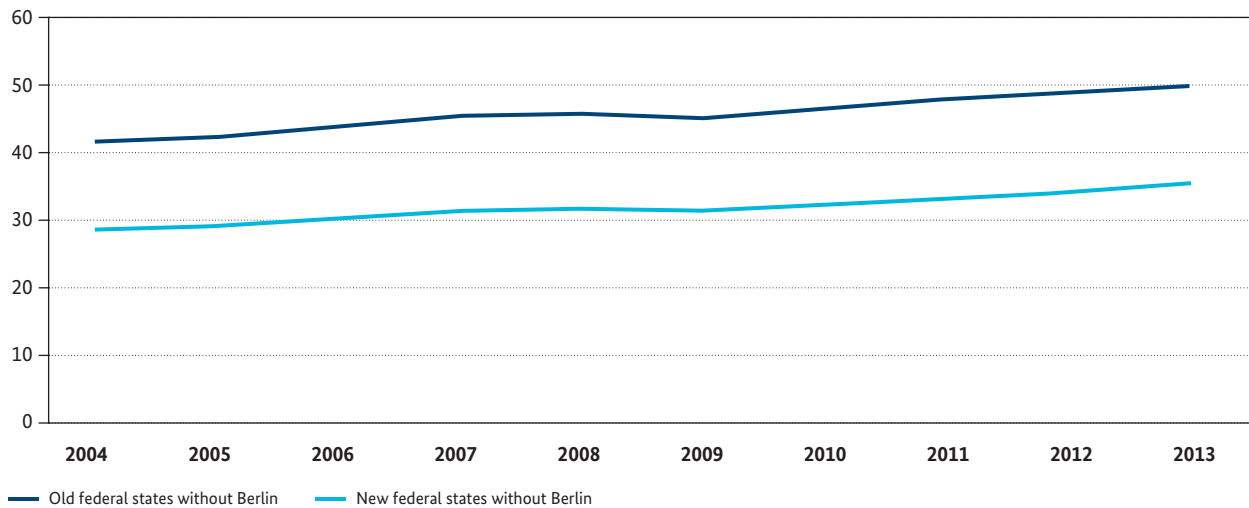




**Figure 4: Foreign sales as a percentage of total sales for manufacturing share as a %**



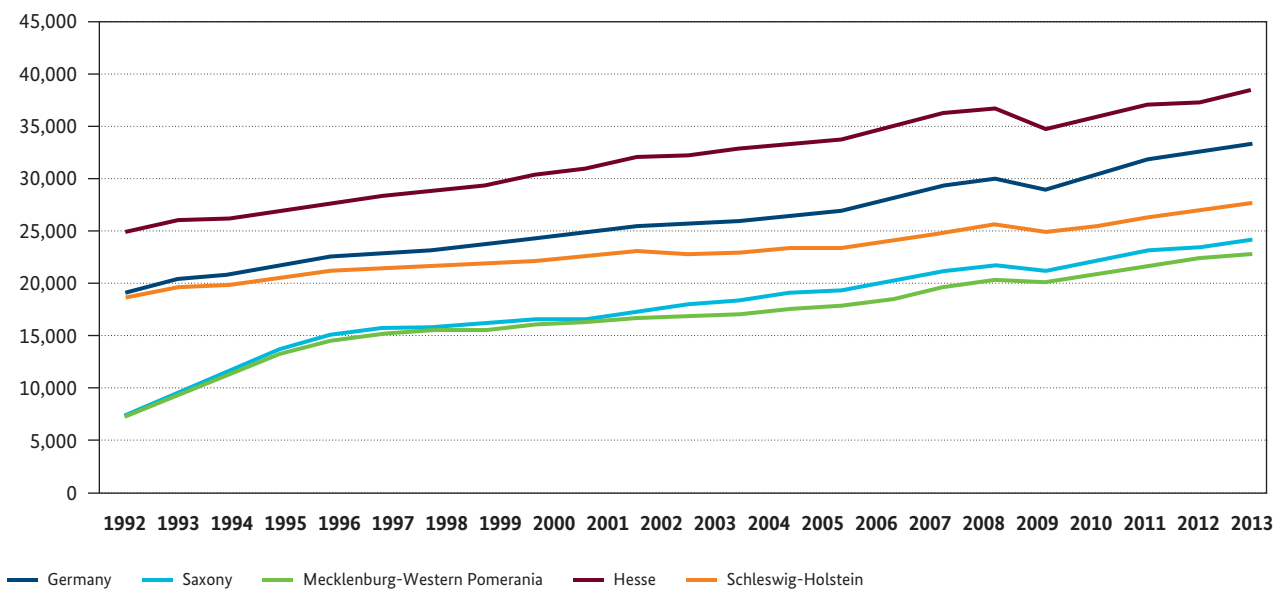
**Figure 5: Labour productivity**  
(gross domestic product per hour of work)  
in EUR



over not narrowed in any significant way in the past few years. Low labour productivity does not mean, however, that an employee in the east performs at a lower level. This is, rather, rooted in the economic structure. Along with various factors that will be explored in more detail in the following chapters, in particular the predominance of small-scale businesses are a key explanatory factor here. This is because smaller enterprises usually have more modest capabilities with which to finance investments, set processes of innovation in motion and above all be able to excel in international markets in a profitable manner.

### Regional distribution of economic growth

Eastern Germany has become more diverse in economic terms. Many regions have been able to resurrect traditional economic sectors, while new ones have sprouted in others. Differences in GDP viewed at the federal state level are nevertheless rather low. Per capita GDP (2013 in respective prices) in Mecklenburg-Western Pomerania is around 6% lower than in Saxony. By comparison, per capital GDP in the new federal states is in sum total more than 30% under that of the old federal states. Per capita GDP in Saxony is

**Figure 6: per capital Gross Domestic Product (GDP)**

Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

also still 14% below the level of the weakest western federal state, Schleswig-Holstein. This low difference in development between the eastern federal states, that display major differences in topography as well as their economic histories, suggests that the eastern federal states are still going through very similar stages of development and face similar economic challenges.

### Significant structural change in the economy

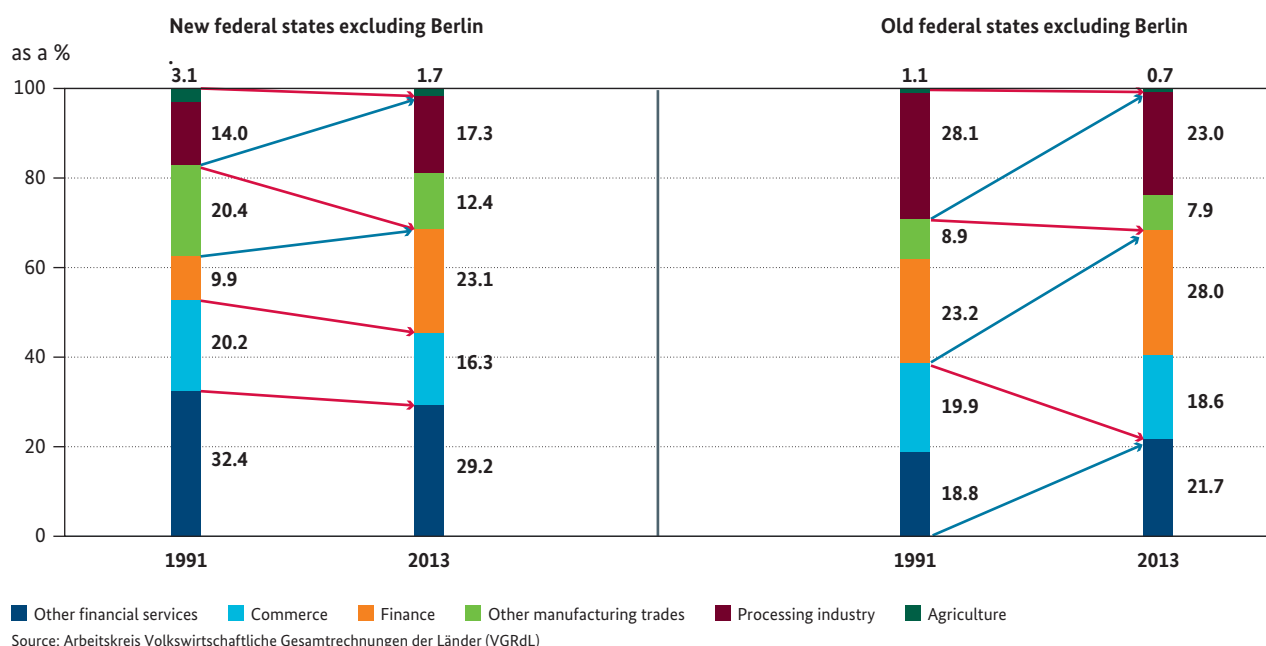
Similar economic growth curves obscure the fact that the profound restructuring process in the eastern German economy in over two decades has also produced significant structural change in the economy. The transformation and ensuing further development of the eastern German economy has impacted the sectoral structure as well.

The positive economic development registered by all the eastern federal states also indicates that there is not just one “right” path of structural development. Instead, it is important for every federal state to travel along its own individual trajectory in order to fully leverage its potential. This may mean a greater specialisation in the metalworking industry in one case, a greater focus on tourism and the health industry in another. Both paths can ensure positive economic growth and the prosperity of the population in a sustained manner.

The figure above shows changes in the shares accounted for by important areas of the economy<sup>4</sup>. Agriculture has lost importance economically speaking on the whole. Commerce as a percentage of gross value added has in sum total declined in the east and west. This is less due to a weakening of commerce, however, than it is to growth in other sectors. The declining salience of other manufacturing trades is for the most part a reflection of the consolidation of the construction industry in the 1990s. The sector of “other services”, mostly made up of public and other service providers, education, health and private households, has seen a slight dip. Adjustments to demographic change have led to waning shares for education and instruction especially over the last few years.

Those sectors of the economy that have seen a surge in importance include particularly the sector of finance, insurance and business service providers, property and residential housing. These sectors have been able to boost their share of total gross value added by 9.9 to 23.1% in 2013, thereby reaching roughly the level of 1991. This increase is not surprising, as a developing economy needs a properly functioning loan and insurance system as well as wide-ranging business services. By the same token, it should be kept in mind that these sectors heavily depend on the development of the remaining economy because they rely for the most part on local demand.

<sup>4</sup> Agriculture = agriculture and forestry, fishing; commerce = commerce, transport and warehousing, hotels, information and communication; other manufacturing = mining, energy and water supply and building; other services = public and other service providers, education and health, private households; finance, insurance and business service providers, property and residential housing

**Figure 7: Important economic sectors in terms of gross value added**

The composition of eastern German sectors has converged considerably with the western German structures on the whole. These figures to an extent disguise differences within these branches of the economy, however. Thus the share of enterprises in the upstream and supplier industry in eastern Germany is significantly higher than in western Germany, while in the east less manufacturing of finished products and even fewer administrative and company headquarters are to be found. For eastern Germany this means a serious structural disadvantage, as especially company group headquarters are associated with highly qualified jobs with high levels of value added.

#### Industry remains the engine for more growth in eastern Germany

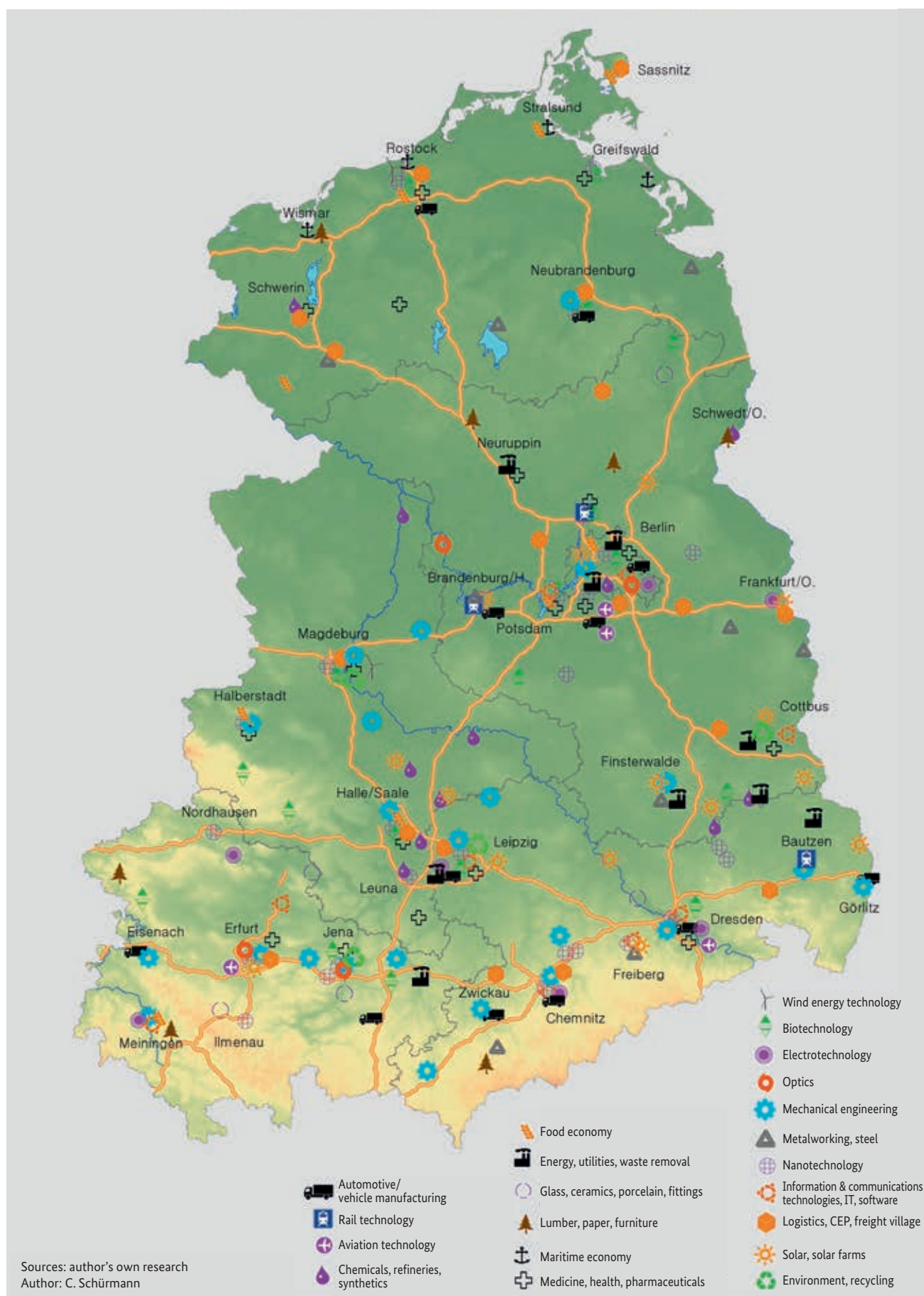
Eastern German industry, which was subject to a tremendous pressure to consolidate in the wake of reunification and even at present still has a considerably lower level of gross value added, has developed well on the whole and is dominated by small and medium-scale enterprises.<sup>5</sup> This is reflected by annual growth of about 4% since 1995. It is also thanks to this process of reindustrialisation that the economic gap between eastern and western Germany has diminished and hence considerable progress made towards equivalent living conditions in east and west. Industry plays a key role in economic development in eastern Germany, as its products are generally speaking capable of serving national markets and as a result raising income and value added in the region.

At over 15% (2013), the share of industry in overall economic performance in eastern Germany is roughly at the comparative European level. Industry accounts for 23% of overall economic performance in western Germany, however. Measured in terms of Germany's total industrial performance, the share of industry in the new federal states on the whole is merely 9%, counting Berlin less than 11%.

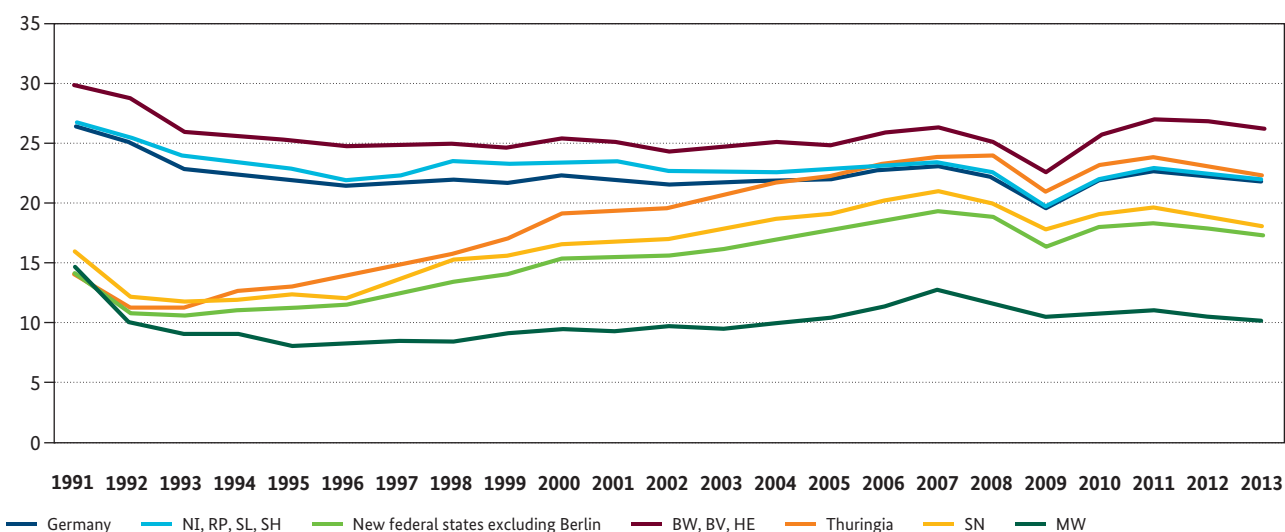
The reindustrialisation of the new federal states displays a varied picture: on the one hand remarkable successes in catching up together with growing regional concentrations, on the other hand there continue to be considerable structural weaknesses, however. Special structural factors characterising the new federal states include inter alia a dearth of large industrial enterprises with abundant capital resources and company group headquarters with their concentrations of value added capacities, a lower level of company research and development, less salient industrial services and weaker integration of international valuecreation chains and international markets. This translates once again – compared to western Germany – into a lower export ratio, productivity, income of employees and intensity of innovation.

A high share of industry does not automatically lead to high economic growth, however. The greatest share of industry within eastern Germany is to be found in Thuringia, which has already surpassed the level of industry for Germany as a whole. But at a per capita gross domestic product of €23,168, Thuringia only ranges around the middle among the eastern German federal states and

Map 1: Regional concentrations of sectors in Germany

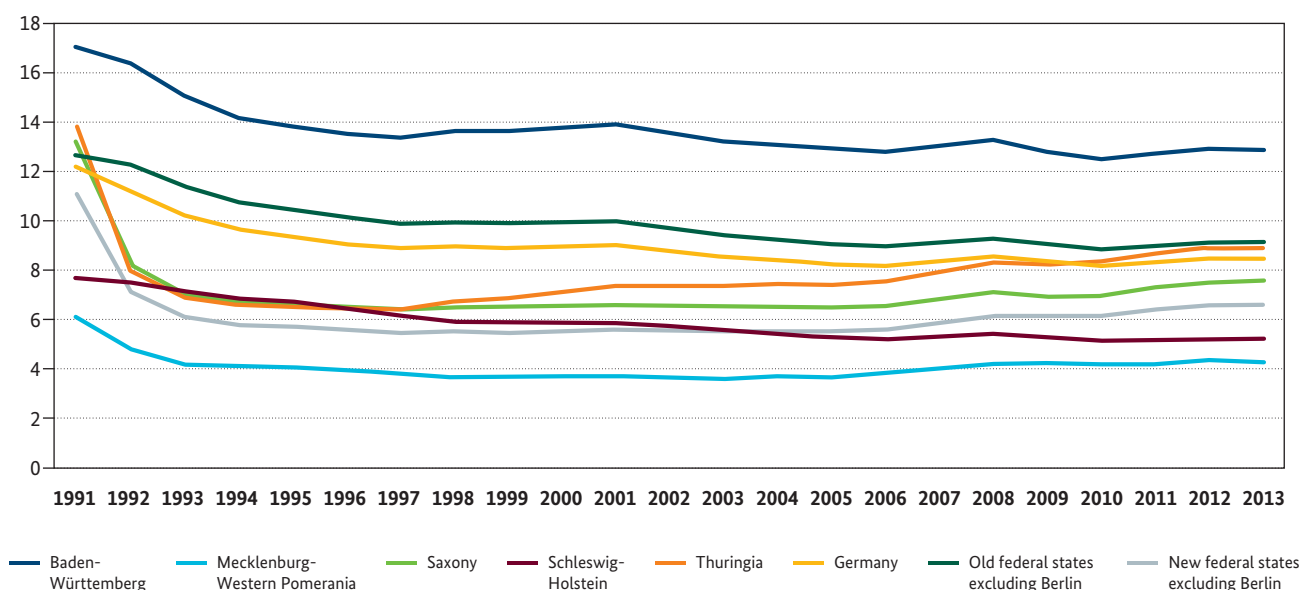


**Figure 8: Gross value added in manufacturing as a % of the entire economy as a %**



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

**Figure 9: Persons employed in industry as a % of the population as a %**



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

significantly below the average for western Germany. This comparison shows that economic structures between the east and west have gradually become more interwoven, but it also indicates that economic performance in eastern German industrial sectors is still much lower. Attention needs to be focused on this and development of the eastern German economy promoted on the whole, particularly with an eye to manufacturing. See section II. for the steps taken in this direction.



## The economic impact of tourism

Tourism is an important economic factor contributing to growth and employment in the German macro economy. About 4.4% of gross value added in Germany comes from the tourism industry.

The development of tourism in eastern Germany since the 1990s is considered to be a success story. Thus according to the annual “tourism barometer” published by the eastern German association of savings banks, the occupancy rate in the new federal states has more than doubled (+129.7% in 2013 compared to 1993), while in Germany as a whole the occupancy rate rose almost onethird (+32%). At the same time, eastern Germany’s market share of tourism for the nation as a whole – measured in terms of the occupancy rate – rose to 18.2% compared to 10.4% in 1993.

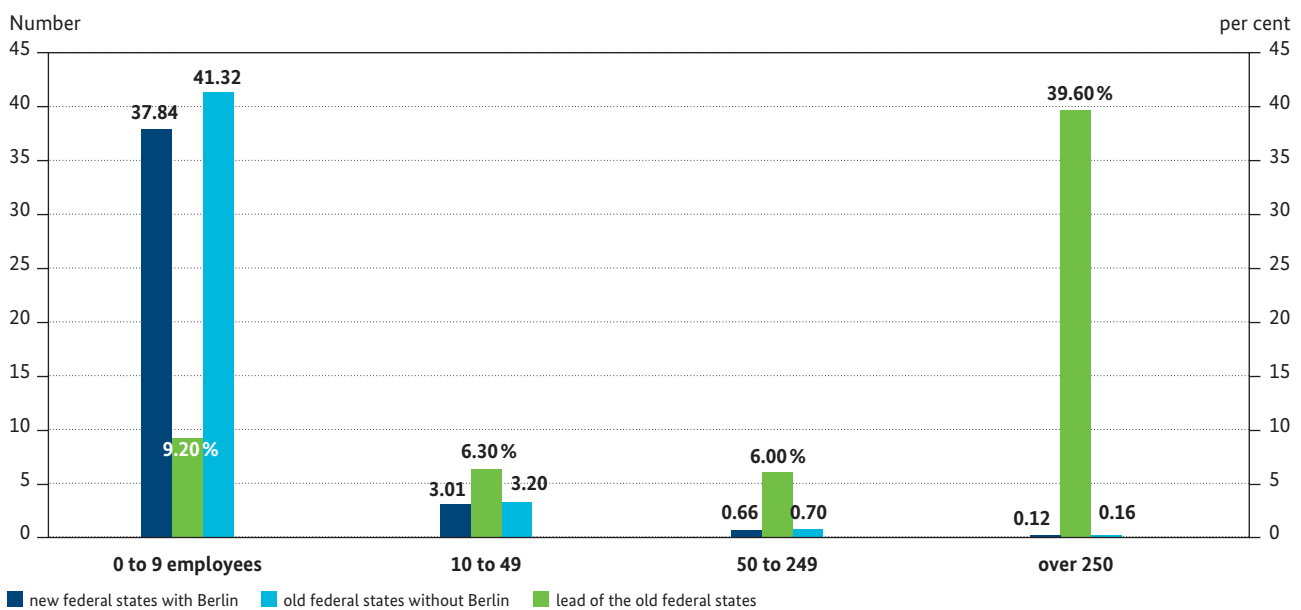
There was a slight dip in the successful trend for tourism in eastern Germany in 2013, however. The occupancy rate dropped 0.3% compared to 2012. The underlying cause was for the most part the impact of flooding in Saxony-Anhalt, Thuringia and Saxony. Brandenburg and Mecklenburg in contrast registered growth in occupancy rates in 2013 as well. (for the measures being taken in connection with the anniversary marking “25 years since the fall of the Berlin Wall/German unity” see section III.3).

## Small business units dominate economic structure – a paucity of large enterprises

An economic structure dominated by small and medium-scale enterprises developed in the new federal states following reunification. One important reason for the lower level of efficiency in the eastern federal states is considered to be the prevalence of small business units characterising its economic structure. The number of small and medium-scale enterprises (SME = up to 250 employees) per capita in eastern Germany is comparable to the level in the west. There are nevertheless fewer large enterprises in the east.

A significant structural difference between the eastern and western economies already becomes visible with companies that have 250 or more employees. Not a single DAX enterprise has its main offices in eastern Germany. Even if smaller enterprises frequently have advantages in terms of flexibility and their ability to adapt in the market, larger companies often have higher levels of productivity and innovation and more market power. Given this, the SME policy for eastern Germany is by the same token a structural policy that in particular strengthens growth opportunities of companies. This is because in the absence of large-scale enterprises, SMEs not only form the backbone of the eastern German economy, but also the point of departure

**Figure 10: Number of enterprises per 1,000 inhabitants**  
(2011 – company groups broken down by categories of employee numbers)



in galvanising the process of convergence in the economy as a whole. Many eastern German small and medium-scale enterprises have good growth opportunities and the potential to become large SMEs or even large-scale enterprises and thus overcome the problem of small-scale business units over the long term as well.

### Innovation: the key to future viability of the eastern German economy

Constant innovation is the key to economic growth as well as the creation and safeguarding of jobs. It is also the precondition for being internationally competitive and remaining viable in foreign markets. One essential element to an innovative economy is a knowledge-based industrial structure. This requires innovation through the establishment and expansion of public research infrastructure in eastern Germany.

In a common effort by the federal government and federal states, a modern, efficient public knowledge and research structure has been successfully established and expanded since reunification. With its 24 state universities, 53 universities of applied science and 200 non-university public research facilities, eastern Germany has a good network of educational and research institutions.

This good infrastructure is also reflected in the quality of research results. Here eastern Germany has no catching up to do with the west. In the context of the hightech strategy of the federal government, 15 top-level clusters have been

and are being supported throughout Germany (clusters are spatial concentrations of enterprises and research facilities cooperating closely with one another). Three toplevel clusters are located in eastern Germany: the microelectronics cluster Cool Silicon in the region of Chemnitz-Freiberg-Dresden, the photovoltaic cluster Solarvalley in central Germany and the Cluster BioEconomy in the model region around Rottleberode, Leuna, Halle and Leipzig.

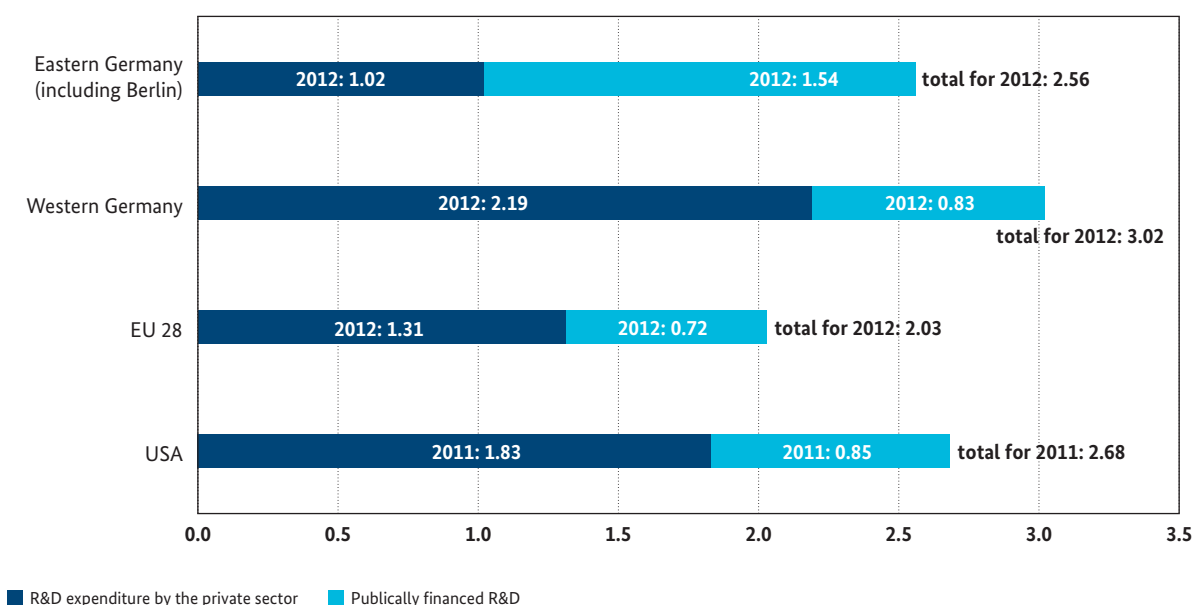
Research and development in eastern Germany is at a high level by international comparison as well. At 2.5% of GDP, R&D expenditure as a percentage of GDP is markedly greater than the average for the EU 28, almost reaching the level of the USA.

This high level could only be attained through a disproportionately high share of public funding, however. While only 40% of R&D expenditures come from the private sector in eastern Germany, more than two-thirds of expenditures on research in the western federal states come from the private sector. This is also reflected in the R&D intensity of the private sector, which in the eastern federal states is roughly half as high as in the west.

The reasons for these differences are especially to be found in the small businesses characterising the eastern German private sector and the relatively low absorptive power of the eastern German economy for the knowledge generated in public research institutes.

That is why further support of innovation at SMEs through the successful programme of the Federal Ministry for Edu-

**Figure 11: Research & Development (R&D) expenditure as a % of GDP in 2012**



Source: Federal Statistical Office, Eurostat, Stifterverband für die Deutsche Wissenschaft

cation and Research (in particular the “entrepreneurial region” programme family) and the Federal Ministry of Economics and Energy (in particular ZIM and INNO-KOM-Ost) are so important.

Nonprofit external industrial research facilities especially contribute to an increase in the absorptive power of SMEs. These collate and package the knowledge that they generate themselves or at universities and research facilities in such a manner so that it can be effectively used by SMEs. In addition, they are frequently initiators and drivers in regional innovation networks.

### Successful university development

When the Berlin wall came down, the GDR had a sophisticated research, university and university of applied science landscape. But even if the universities of the GDR carried on research, their primary task was teaching.

With the attainment of German unity, universities became the domain of the federal states and their structures were adapted to conform with those of western German federal states. Organisational and staff-related changes took place in this context. The new federal states decided to operate a total of 15 university locations. At the same time, new universities were founded based on historical predecessors in Erfurt and Frankfurt/Oder while the status of existing educational institutions at various universities was changed. Parallel to the establishment and expansion of universities, universities of applied science that are either state-run or are recognised by the state were founded. These in the meantime number 30. Some of them were new, but some

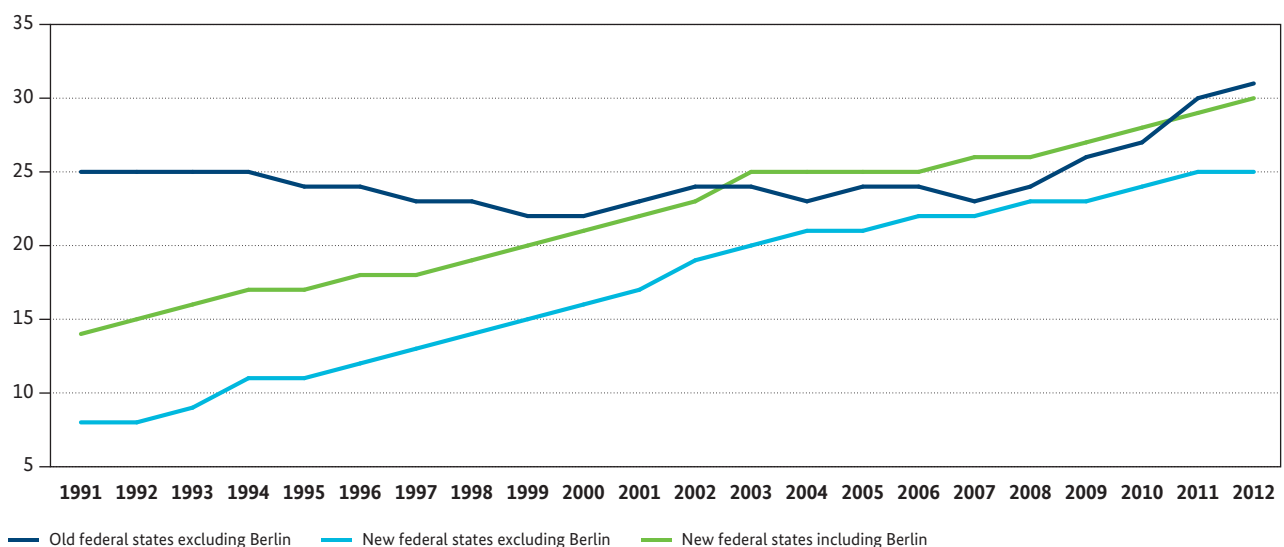
also came about by transforming previously specialised universities of applied science. In addition 11 art and music universities and the HHL Leipzig Graduate School of Management help enrich the university landscape in the area of higher learning in the new federal states.

The process of founding and expanding eastern German universities did not proceed without some turbulence, but on the whole was very successful. Universities and universities of applied science have become regional and national agencies of social and economic innovation.

The number of people who enrol to study in the new federal states has risen rapidly since 1989. While in the year when the Peaceful Revolution got underway, only 26,405 people enrolled to study in the territory of the GDR (excluding East Berlin), 10 years later this number had shot up to 44,383. 57,504 students began studying in the new federal states in 2012. The number of persons enrolling to study at schools of higher learning has thus skyrocketed 118% over the year of the Peaceful Revolution. The western federal states by comparison have only registered a 71% increase. The picture is similar with respect to the number of students, which tripled over the period 1990 – 2012, while it rose 46% in the same period of time in the old federal states.

This development in the new federal states would not have been possible given demographic change in the new federal states without the strong influx of new students from western Germany. University Pact 2020 and the marketing campaign for the new federal states made possible a massive rise in the percentage of new students from the western federal states (including Berlin) in the first place. Whereas

**Figure 12: Students per 1,000 inhabitants**

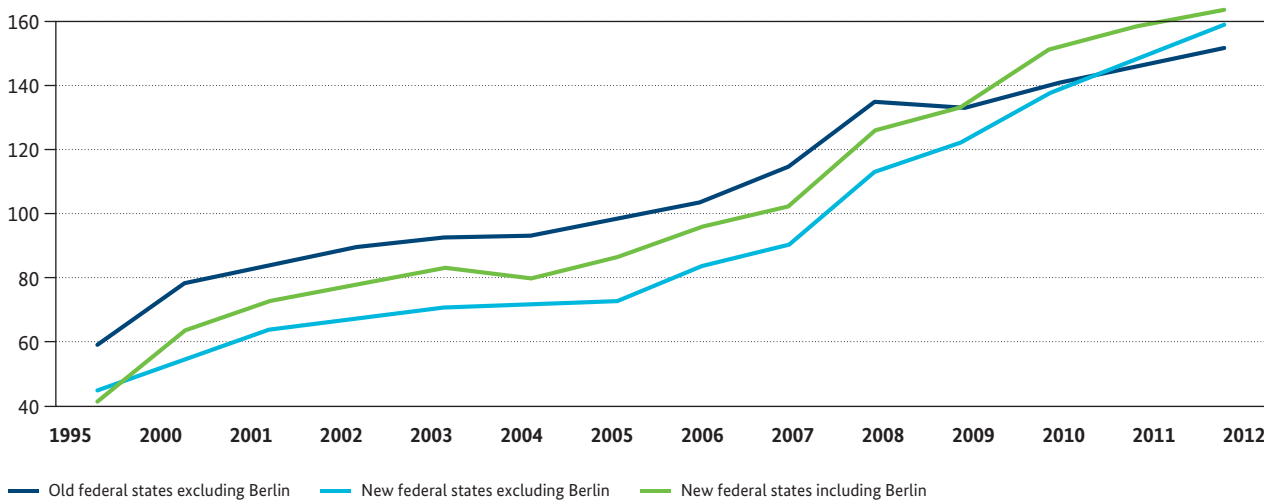


Source: Federal Statistical Office 2014 and estimates by PT DLR Berlin

Notes: students in the winter semester of the respective year under report.

Inhabitants as of 31 December of the respective year under report. Exception: 1991 – 1994 inhabitants on annual average

**Figure 13: Third-party funds of schools of higher learning per professor in EUR 1,000**



Source: Federal Statistical Office 2014 and estimates by PT DLR Berlin

Note: until through 2001 only C 4-, C 3- and C 2 professors. Beginning in year under report 2009 including full-time guest professors.

The figures on professors for Hamburg were taken from the previous year for 2012

only 7,720 new students from the old federal states enrolled at universities in the new federal states in winter semester 2005–2006, this figure climbed to 13,833 in winter semester 2012–2013. The percentage of new western German students in the new federal states thus leapt from 16 to 36% in the same period. In this respect, migration movements have reversed. Fewer young people have been leaving eastern Germany since 2010 to begin studying in the old federal states than the other way around.

In spite of surging numbers of students, fewer people study in the new federal states as a percentage of the total population than in western Germany.

The strength gained in the area of university teaching not only underscores the successful process of catch-up by the new federal states, however. Especially the potency of research at eastern German universities, which were at first considered to be less competitive, has picked up, in the meantime reaching and surpassing the level of western German universities. The amount of third-party funding acquired per professor in the new federal states since 2011 is greater than in the old federal states. This figure highlights the success of university teachers in acquiring research resources and at the same time serves as an indicator of the quality of research at a universities.

## 1.2 Infrastructure

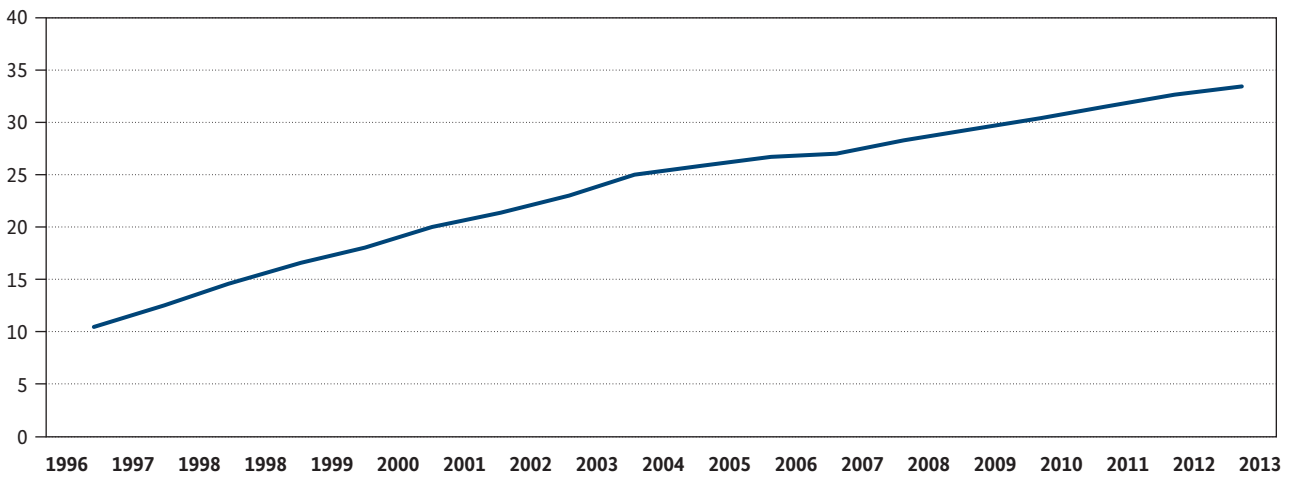
### The German Unity transport projects (VDE)

Considerable gaps had arisen especially in the traffic infrastructure as a result of decades of division between the two German states. To accelerate the process of eastern and western German federal states growing together, the German Unity transport projects (VDE) were initiated in 1991. These comprise a total of 17 traffic projects with a total volume of about €39.7 billion. The German Unity transport projects form the backbone for efficient, modern traffic connections between the new and old federal states. They involve nine rail and seven traffic connections as well as a waterways project.

The German Unity transport projects are not merely designed to support eastern Germany, however. Many kilometres of these new or reconditioned transport routes lie in the territory of the old federal states, such as for example VDE no. 16, which links the cities and towns of Thuringia and Bavaria into 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.

The Germany Unity transport projects have been largely completed. Nine projects have been finished, while many segments of the other eight projects are already in operation. A total of €34 billion had been invested by the end of 2013 and almost 1,900 kilometres of new and improved motorways opened for traffic within the framework of the German Unity transport projects. Another 55 kilometres are under construction. Hence 97% of the project volume

**Figure 14: Investment in Germany Unity transport projects 1996–2013**  
in billions of euros



Source: Federal Ministry of Transport and Digital Infrastructure

for road-building projects has been completed or is in the process of being implemented. With rail, 85% of the project volume has been completed or is in the implementation phase.

The focal point for VDE investment in the rail projects in 2013 was the new/expanded rail stretch Nuremberg – Erfurt – Halle/Leipzig (VDE no. 8), which is also being assigned priority in the European context (core network corridor Scandinavia – Mediterranean). Approximately €610 million was invested here last year. Additional amounts ranging in the double-digit million sums were respectively channelled into the expansion of the rail connection between Leipzig and Dresden (VDE no. 9) and the inland waterway connection Hanover – Magdeburg – Berlin (VDE no. 17).

German Unity transport projects for roads concentrated on building work on the A 10 motorway in the vicinity of Berlin's southern and eastern bypass ring (VDE no. 11), the A 9 motorway in the segment of the Hof – Hermsdorfer intersection (VDE no. 12), the Jagdberg Tunnel along the A 4 motorway in the region of Jena (VDE no. 15) and Lückenschluss Kassel – Eisenach along the A 44 motorway (also VDE no. 15).

### Trans-European transport networks (TEN)

The integration of eastern Germany in important European transport axes is a pivotal element in strengthening the region as a centre of business and industry. Key here are Trans-European transport networks (TEN-T), which are strengthening this integration. The future design of TEN-T was decided upon in 2013. Important cornerstones for an even stronger integration of eastern Germany in the European transport system were laid with the entry of the new

TEN-T guidelines and the funding regulation “Connecting Europe Facility” (CEF) for all trans-European networks and grids (transport, energy, broadband) into effect at the end of 2013.

The TEN transport network consists of an overall network and core networks, whereby corridors are to be formed in the core networks mapping the most important long-distance traffic and routes. Out of six core network corridors involving Germany, three corridors run through the new

**Figure 15: Schematic map showing network corridors**



Source: European Commission



federal states. They all overlap in the region of the capital. This ensures that the hub function performed by eastern Germany will also be expanded in the future and can be harnessed for economic growth and development.

With its modern handling facilities, high-performance inland ports and seaports, European logistics centres and hubs for big-name companies, eastern Germany is one of the most dynamic locations for logistics services in Europe. Thus, for example, 11 freight traffic centres and 19 handling facilities for multimodal transport have been supported to date by the Federal Government, with more than €130 million in funds being earmarked for this since it began in 1998. More than 570,000 persons – tendency rising – are now employed in this sector – almost as many as in public service and the same number as in the construction industry.

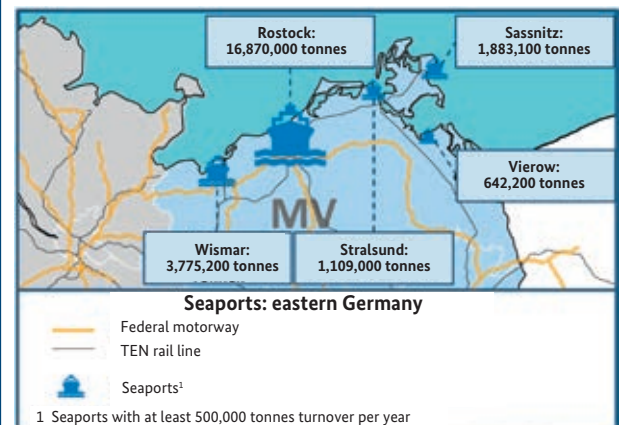
### Development of eastern German ports/port economy

High-performance seaports and efficient linkage to their hinterland provide the foundations for these areas to participate in growing European and international traffic in goods. Considerable transport of consignments of goods and passenger traffic takes place on the Baltic already at present. Mecklenburg-Western Pomerania offers a dense modern network of large and small ports. Nor are these ports merely transshipment points for entrepot trade – they have also become important hubs in international logistics chains, nodules in land and seagoing traffic, attractive sites for industrial enterprises and service providers as well as logistics centres. Together with their respective hinterland, the eastern German seaports nowadays serve as the “point of disembarkment” and source of impetus for growth and employment in the region. At 25.6 million tonnes in 2013, the seaports of Mecklenburg-Western Pomerania registered an increase in turnover of more than 2%. 95% of total turnover was handled by the four ports of national importance: Rostock, Stralsund, Sassnitz and Wismar. Around 3 million passengers per year are transported via these ports.

Prospects for the ports in Mecklenburg-Western Pomerania in the coming years are positive. Total turnover in the high-volume port of Rostock, for example, will grow 1.2% per year on average and in Wismar by 2.8% per year up until 2030.<sup>6</sup>

Already now Mecklenburg-Western Pomerania’s seaports have adequate sea lane approaches to handle this growth and excellent road and rail connections such as, for example, the Baltic motorway A 20 and the Rügen access road to the A 20 or the rail segment Rostock-Berlin. The road connection, in particular for Wismar’s port, is being improved

**Figure 16: Seaports: eastern Germany**



Source: Study by the Federal Ministry of Economics (2014) – “Best Practice – development of eastern Germany as a logistics centre” (figures for 2012)

in the north-south direction by construction of the new A 14 motorway.

To secure the good infrastructural base and with a view to the dynamic economic development and the major opportunities offered by closer cooperation with eastern neighbours associated with this, connections of the Baltic ports to national and international transport routes as well as rail connections to Poland and the Czech Republic are to be further improved. This also includes the trans-European axis extending from the Baltic to the Adriatic and the Black Sea, the establishment of which the Federal Government will continue to support.

### The energy sector and renewable energy sources

The Federal Government is resolutely carrying on with the energy transition on schedule. A high degree of energy security, effective climate protection and an economically viable energy supply remain the key preconditions for Germany to remain a competitive centre of business and industry and make the energy transition a model for success.

Eastern Germany has already achieved a lot here: thanks to large-scale investment in the electricity and heating supply, the energy system has been upgraded considerably since reunification. As a result, eastern Germany has also helped reduce greenhouse gas emissions in Germany. The energy sector is moreover an important source of jobs, value-added and innovation in many regions of the new federal states.

The Federal Government has made the EEG viable for the future with the entry of the Renewable Energy Sources Act

(*Erneuerbare-Energien-Gesetz – EEG*) including the special equalisation scheme into force in August 2014. Renewable energy sources accounted for about 25% of electricity produced in all of Germany in 2013. These are to become the dominant source of energy in coming years: The expansion corridor in the EEG provides for a hike in its share from 40 to 45% in 2025 to 55 to 60% in 2035. On top of this, the costs of expansion are to be decreased by concentrating support on the low-cost technologies of wind on land and photovoltaic. Direct marketing is also to become obligatory for larger facilities. At the same time, the costs of support are to be distributed in such a manner that electricity-intensive industries can continue to be competitive producing in Germany, thus preserving value-addition and jobs. On top of this, the preconditions have been established to determine the amount of support for renewable energy sources in a competitive environment using tenders based on specific technologies by 2017 at the latest.

The expansion of renewable energy sources in the eastern federal states is continuing apace: at 29.2%<sup>7</sup> renewable energy sources as a percentage of gross electricity production in 2012 (see Figure 17) surpassed the national average of 22.8%<sup>8</sup>. At the vanguard in the expansion of renewable energy sources is the federal state of Brandenburg. Approximately 11.8 terawatt hours (TWh) of electricity was produced there from renewable energy sources in 2012. They were followed by Saxony-Anhalt with about 9.2 TWh and Mecklenburg-Western Pomerania with 5.7 TWh. Brandenburg, Mecklenburg-Western Pomerania and Saxony-Anhalt

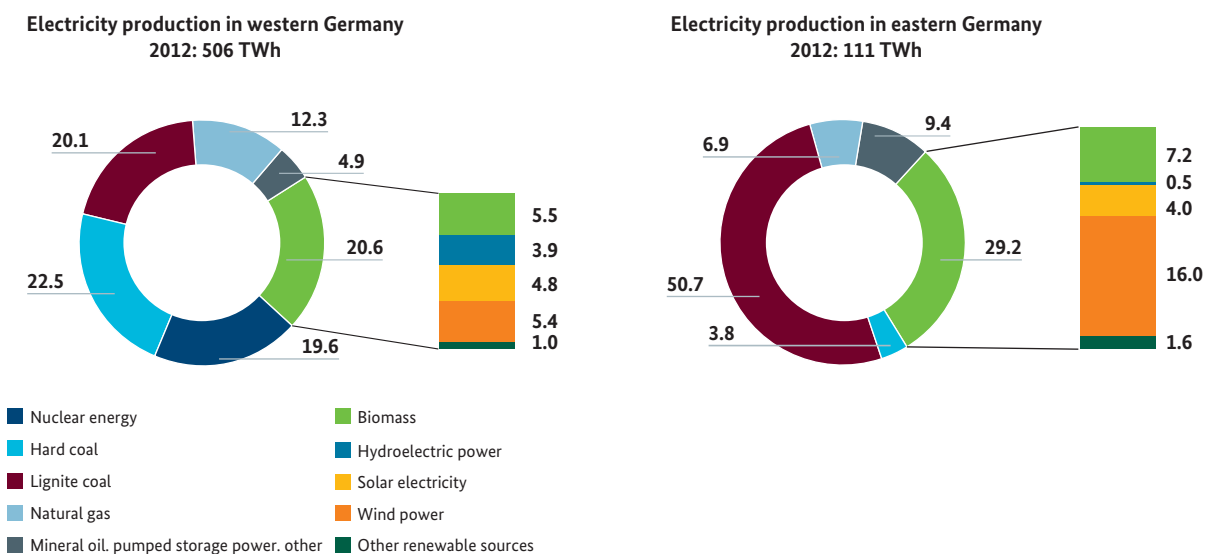
are at the same time pursuing the aim of meeting their net electricity needs solely with regenerative energy sources by 2030 (Brandenburg by 2025).

In terms of conventional energy production, Saxony at 76% and Brandenburg at 63% in 2012 respectively based large shares of electricity production on lignite (brown coal) in their total energy production. At 85.3% (2010), the conventional energy sources of natural gas and hard coal play a greater role in electricity production in Berlin for structural reasons than in the other federal states.

In order to be able to guarantee a secure supply in Germany in the foreseeable future, highly efficient, flexible conventional power plants will continue to be needed. The efficient use of power plants can compensate for fluctuations in the regenerative energy supply due to weather conditions as renewable energy sources account for an ever greater share of total energy production. This will play a role in the design of the future electricity market.

The expansion of networks and grids is a pivotal task in the energy transition. This is because the revamping of the energy supply from conventional to renewable production will significantly alter the network and grid structure throughout Germany. This is due first of all to the growing amount of electricity transported from north to south. Here Mecklenburg-Western Pomerania deserves mention in eastern Germany, as it is forging ahead in the expansion of wind energy on the Baltic. On the other hand, decentral-

**Figure 17: Electricity production in western and eastern Germany 2012**  
as a %



<sup>7</sup> Source: EuPD Research 03/2013

<sup>8</sup> Source: AG Energiebilanzen

ised feed-in, in particular from smaller units for the production of renewable energies into distribution grids is on the rise. In eastern Germany, the expansion of networks and grids at the transmission and distribution grid levels is for this reason being vigorously pushed forward.

The Federal Government has laid the foundations for an accelerated national and transnational expansion of the grid in the guise of the Federal Needs Planning Act (*Bundesbedarfsplangesetz*) and the Act on the Acceleration of Grid Expansion (*Netzausbaubeschleunigungsgesetz*). The regulatory framework is intended to bring about conditions conducive to investment in distribution networks to the extent this is needed. On top of this, the underlying conditions for smart grids and metres are to be further developed.

High costs coupled among other things with unfavourable demographic trends in eastern Germany are contributing to network charges lying above comparable levels in the western federal states. Network fees are charged by network operators whose networks connect to end users. The charges to be paid by consumers contain the costs of the network level which they are connected to and the costs of all upstream network levels. If these are higher in the east

than in other regions, end users there also pay higher grid charges because the grid charges are calculated on the basis of regional parameters and not in a uniform fashion for the nation as a whole. In regions in which a host of unfavourable factors come together, this may tend to lead to higher electricity costs. From the perspective of the regions involved, this constitutes a disadvantage vis-à-vis other regions. The system of grid charges therefore needs to be reviewed and if need be adjusted in to conform to changing underlying conditions in the course of the energy transition.

### Expansion of broadband/broadband strategy

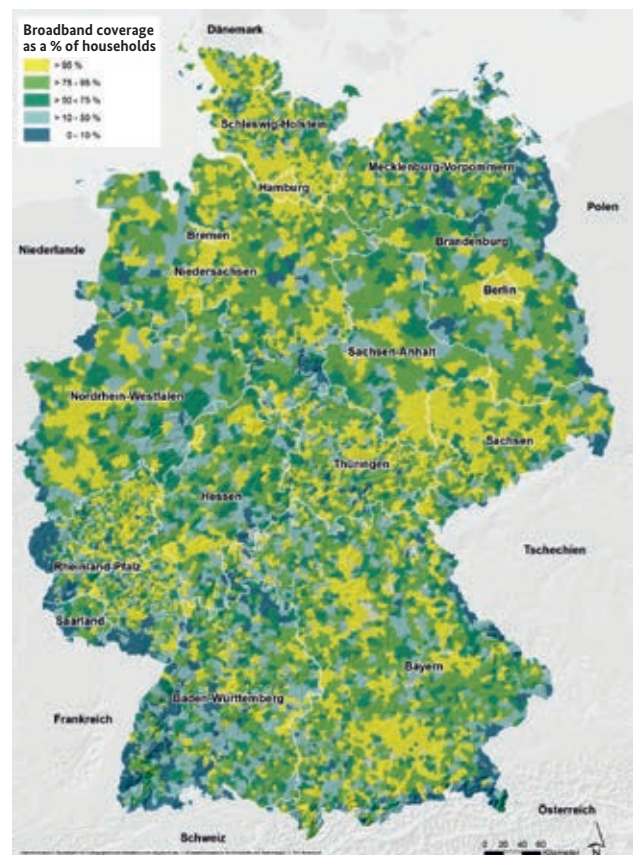
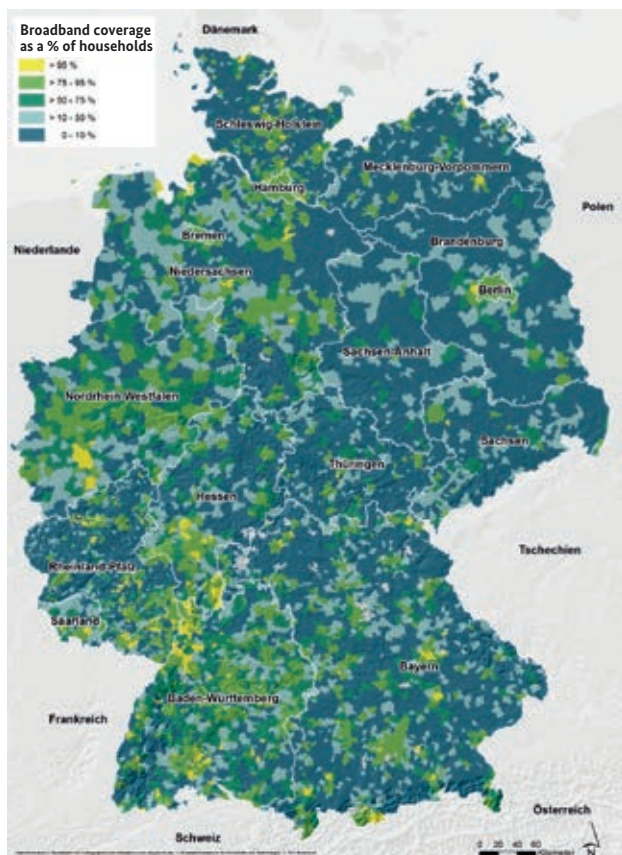
High-speed broadband networks are just as much elements of a modern infrastructure today as are transport routes or electricity grids. The quantity of data exchanged via broadband networks is rising steadily in tandem with new digital services and applications. The availability of high-speed networks is a crucial factor for business enterprises in selecting their business locations nowadays.

Figure 18 shows that there is still a need for eastern federal states to catch up with regard to broadband with at least

**Figure 18: Broadband coverage with at least 50 Mbit/s and LTE coverage 2013**

Broadband coverage  $\geq 50$  Mbit/s  
End of 2013 (all technologies)

LTE coverage end of 2013



50 Mbits/s. The new federal states only display a comparable level of coverage as the western federal states with regard to the availability of long-term evolution (LTE) technology.

Efforts to expand broadband in Germany hence need to be purposefully continued in order to offer equivalent opportunities for development in east and west.

Table 1 breaks down broadband access of at least 50 Mbit/s by federal state across all technologies and categorised according to specific technology.

It is the objective of the Federal Government to make at least 50 Mbit/s available throughout all of Germany by 2018. The “Network Alliance for Digital Germany” set up by the Federal Government will be submitting an instruction booklet in the autumn of 2014 comprising all fields of action bearing relevance to the expansion while laying down milestones for nation-wide network expansion.

The aim is to support broadband expansion including in rural regions of eastern Germany even more effectively. In order for these regions to be supplied with high-speed networks as quickly as possible, the Federal Government is planning to make available additional frequencies that are particularly well suited for broad territorial access in a stepped-up effort to supply rural regions that have not had access to date. Moreover, revenue from the award of these

frequencies (Digital Dividend II) is to be used to create additional incentives for investment in network expansion in those places where no expansion would take place in lieu of state support – due to lack of profitability.

The Federal Government is at present coordinating a framework arrangement with the EU Commission which goes above and beyond existing possibilities to enable a closing of the “profitability gap” in the establishment of high-speed networks that is neutral in terms of technology.

### Urban development and residential housing

Demographic trends in eastern Germany, which especially in the first years following reunification were marked by massive migration out of these federal states – for economic reasons – and the opportunity to acquire residential property that many households took advantage of, have led to high vacancy rates especially in dilapidated districts of old buildings neglected by the GDR and tower block housing estates. These demographic and economic structural processes have made it necessary to take steps to reconstruct and redevelop urban areas in eastern German cities.

In spite of vacancies and outward migration, the face of cities has changed very much in a positive direction since reunification. The preservation and maintenance of historical inner cities, their revival along with large estates as well

**Table 1: Broadband penetration with at least 50Mbit/s in the federal states as a %**

federal state	broadband technologies ≥ 50 Mbit/s		
	all	land line	wireless
Baden-Württemberg	68.7	68.6	0.3
Bavaria	53.4	53.1	1.7
Berlin	87.2	87.2	0.0
Brandenburg	28.6	28.6	0.0
Bremen	93.0	93.0	0.0
Hamburg	88.3	88.3	0.0
Hesse	62.9	62.2	2.7
Mecklenburg-Western Pomerania	41.0	41.0	0.0
Lower Saxony	57.9	57.6	0.5
North Rhine-Westphalia	70.5	70.3	0.7
Rhineland-Palatinate	49.1	48.7	0.5
Saarland	54.2	53.9	0.6
Saxony	37.5	37.4	0.7
Saxony-Anhalt	23.0	23.0	0.0
Schleswig-Holstein	62.8	62.5	4.3
Thuringia	32.2	32.2	0.0

Source: Bericht zum Breitbandatlas Ende 2013



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 inhabitant – it has also helped make cities more appealing as centres of business.

Support for urban reconstruction and development therefore remains an important programme impacting the future of eastern Germany.

### Support for urban reconstruction and development

Support for urban reconstruction and development supports cities and communities in remedying urban reconstruction and development problems while sparking development to make them viable in the future is a joint task of the Federal Government, the federal states and municipalities. Support for urban reconstruction and development has proven to be an effective tool in urban renewal and development. The new federal states received a total of approximately €7.6 billion in programme funds from 1990 through 2013 from all support programmes for urban reconstruction and development. This is commensurate with a share of approximately 66%. 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 comparison to the old federal states.

At the same time, in absolute and relative terms the western federal states in the past few years have steadily caught up in terms of the volume of Federal Government funding. Even if more Federal funds have been flowing into western

federal states than in eastern federal states since 2009, measured in terms of population the eastern German share is still disproportionally great.

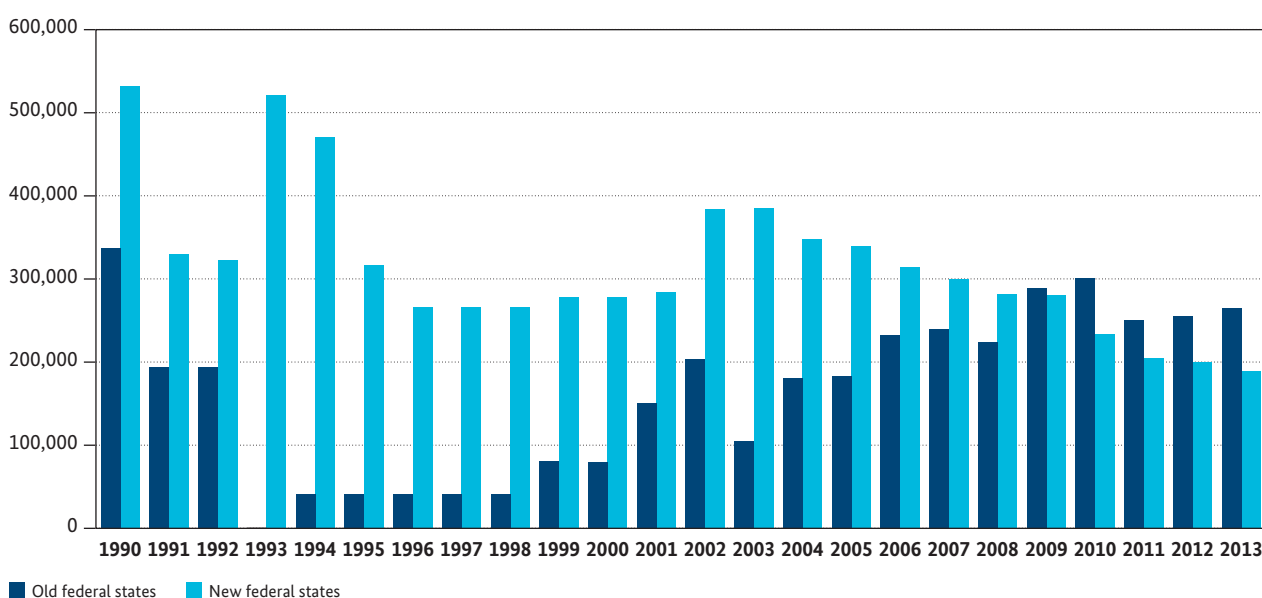
The Federal Government has made around €1.5 billion in programme funds available for the urban reconstruction and development programme “Stadtumbau Ost” since 2002.

### The residential market and the living situation

The residential market in the new federal states has changed fundamentally in comparison to 1990: the task back then was initially to stave off the imminent disintegration of buildings and to ameliorate the pressing shortage of dwelling space. This triggered a boom in building activity in the residential area, particularly in the middle of the 1990s.

Especially in the area of residential dwelling space, much has been achieved through support initiatives spurring considerable investments in refurbishment and modernisation as well as an improvement in general underlying legal conditions, in particular in the area of tenancy law, along with an enhancement of the attractiveness of the residential industry for investment through relief provided in the Old Debts Relief Act (Altschuldenhilfegesetzes – AHG). Enormous progress has been registered, for example, in the quality and furnishing of housing units. Average per capita living space leapt from 29.5 square metres in 1993 to 41 square metres in 2010. There has also been a positive trend in the percentage of self-owned residential housing; the share of self-owned households climbed from 19.0 to 34.4% in the same period.

**Figure 19: Financial aid from the Federal Government for urban reconstruction and development from 1990–2013 in EUR 1,000**

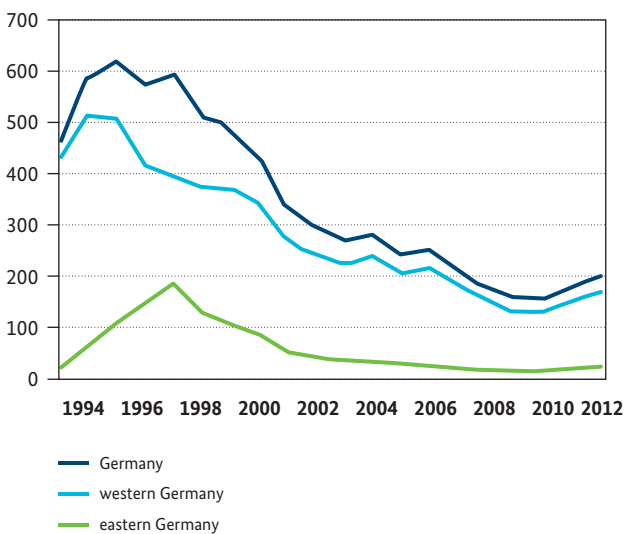


Source: Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

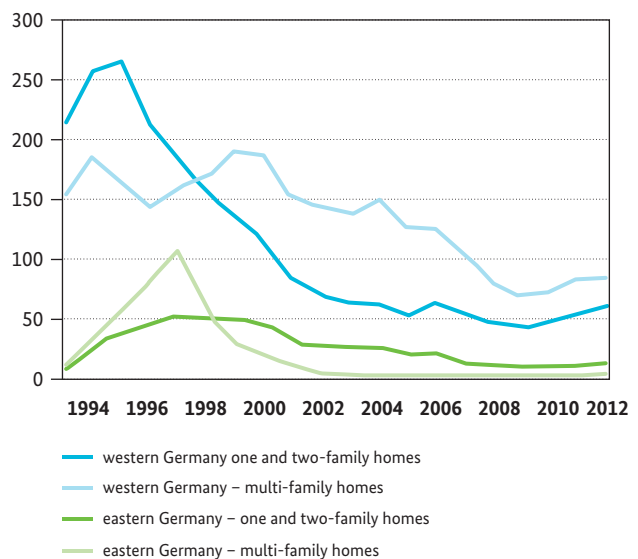


**Figure 20: Development in the construction of residential housing 1993–2012**

**Total construction activity**  
Finished housing in 1,000



**Construction activity according to type of building\***  
Finished housing in 1,000



\*Note: In distinguishing between one and two-family homes, only the number of dwellings in newly built residential buildings can be used.

Data basis: BBSR-Wohnungsmarktbeobachtungssystem, Federal Statistical Office, Fachserie 5, Reihe 1 Bautätigkeit

Source: Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Bonn 2013

Improved underlying conditions, targeted incentives through support policy and effective social security tools and instruments have stimulated remarkable levels of investment, leading to a significant improvement in residential dwelling conditions. Eastern Germany now mirrors western Germany in terms of a properly functioning rented-flat market based on tenancy law, safeguarding investments as well as the interest of tenants. The quality of the housing stock (furnishings, status of renovation) has in the meantime reached the level of western Germany. Aside from some regional bottlenecks, the housing supply in eastern Germany is very adequate.

Social support for satisfactory dwelling conditions continues to have considerable importance. This ensures that households that are not able to supply themselves with adequate living space on their own are nevertheless provided such. The public sector supports more than one million low-income households with housing subsidies or by assuming the costs of dwelling and heating in the new federal states.

In view of the shortage of regional housing, which also affects some eastern German cities such as, for example, Berlin, Jena or Weimar, housing policy faces the challenge of assuring affordable housing.

The Federal Government has adopted a trifold strategy of strengthening investment, rekindling social residential

housing construction while carrying out flanking tenancy law and social policy measures. To this end the Federal Government has forged an alliance for affordable housing and building with major players in housing policy. The Federal Government, federal states, local communities and associations are supporting the aims of the alliance with their specific instruments and projects.

If regional scarcities are to be eliminated, more new housing is required. For this reason it is encouraging that building activity has picked up considerably once again in the new federal states as well. Building permits, for example, increased 20% to 44,000 units in 2013.

To make sure that housing is affordable, housing subsidies are to be improved in particular to provide low-income households direct relief from housing costs. This goes for the new federal states in particular, as the percentage of beneficiaries (2012: 3.2% of all households) is twice as high as in the old federal states.

### Health and life expectancy have improved significantly

In assessing quality of life, 80% of the population places health at the top of the list.<sup>9</sup> The objective has to be to provide people covered by health and nursing care insurance medical care that is adequate to their needs.

For this reason as well, special attention was focused on development of the health system in the eastern federal states after the fall of the Berlin Wall. The process of integration into the statutory health insurance system, which was new to eastern Germany, was especially salient here. A health insurance system which functioned the same as in the old states was created in the eastern federal states when the Fifth Social Code (SGB V) went into force on 1 January 1991. Differences in laws and regulations governing insurance, contributions, benefits and contractual agreements became a thing of the past on 1 January 2001. A milestone was achieved in social unity with the Act on the Convergence of Laws governing Statutory Health Insurance (*Gesetz zur Rechtsangleichung in der gesetzlichen Krankenversicherung*). Since 2008 revenue and expenditures as well as other statistics of the health insurance schemes have no longer distinguished between east and west. A useful impetus and positive experience has flowed from eastern Germany, benefiting the further development of the entire German health system down to the present.

The increase in overall satisfaction of the eastern German population with medical care since reunification underscores the fact that fundamental improvements have taken place in the situation of the eastern federal states in this regard.

### Life expectancies in east and west almost the same today

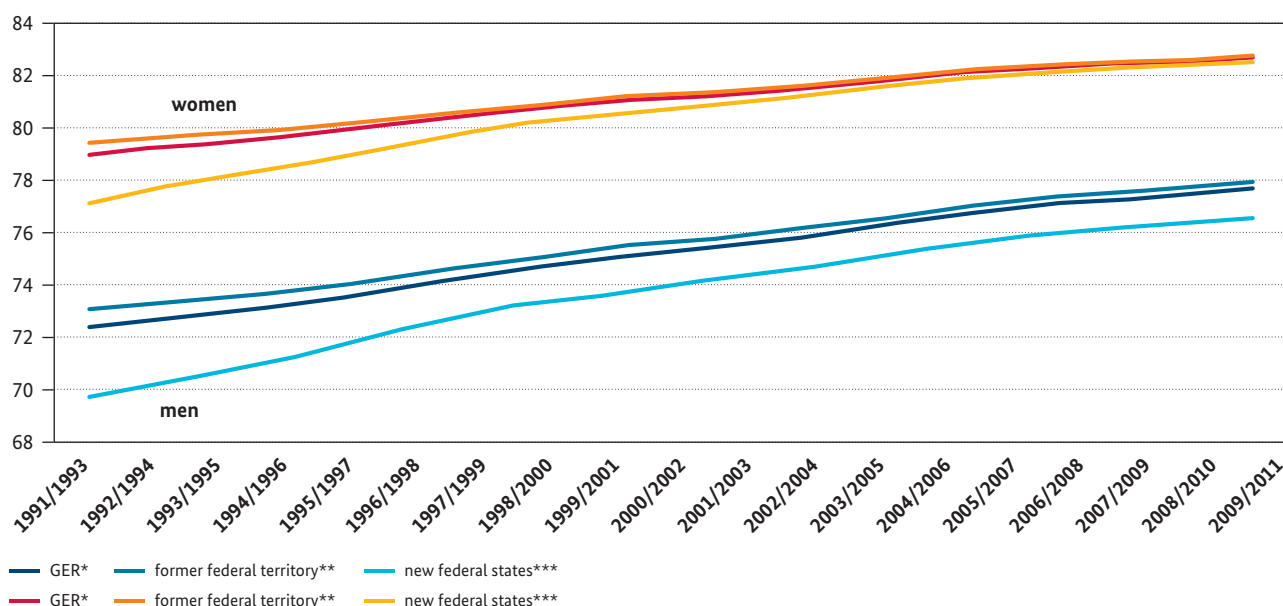
The average life expectancy in eastern Germany has risen markedly over the last 25 years in tandem with improved health care.

Figure 21 shows that life expectancies in eastern and western Germany have continued to converge. Women in eastern and western Germany now have nearly the same life expectancy (old federal states: 82.77 years; new federal states: 82.58 years). With a life expectancy of 76.64 years, men in eastern Germany have not quite caught up to their counterparts in western Germany, who have a life expectancy of 77.97 years.

### The Statutory Health Insurance Care Structure Act (*GKV-Versorgungsstrukturgesetz*)

It was intended for health-care structures in statutory health insurance schemes in Germany to be improved through the Statutory Health Care Structure Act (*GKV-Versorgungsstrukturgesetz*), which entered into force on 1 January 2012. It is stipulated therein that patients are to be able to obtain care from a family physician or specialist within a reasonable distance from their homes in the

**Figure 21: Life expectancy at birth in Germany in years**  
Mean life expectancy at birth



Source: Federal Statistical Office

GER\*: Germany

Former federal territory\*\*: until 1998/2000 former federal territory, without west Berlin beginning in 2001

New federal states\*\*\*: until 1998/2000 new federal states and east Berlin, without east Berlin beginning in 2001

future. By rendering the planning of needs and instruments more flexible, a regionalisation and targeted support with mark-ups in the fee system incorporating physicians involved in the scheme as well as measures aimed at promoting a better work-life balance have made it more attractive for physicians to establish a practice in structurally weak regions than in the past. This approach helps respond to shortages of physicians early on. Thus patients living in rural regions or on the outskirts of urban areas can continue to quickly obtain medical help and care in the future – an important factor influencing particularly the population of eastern German to stay in their region.

The establishment of appointment service offices at accredited physicians associations to make appointments with specialised physicians, measures to close gaps in health care and an improvement in the management of releases from hospital or simplifications in the establishment and licensing of medical care centres are furthermore being planned.

### Guaranteeing emergency chemists' service

With the Act Promoting the Guarantee of Emergency Chemists' Services (*Apothekennotdienstsicherstellungsgesetz* – ANSG, which went into force on 1 August 2013) it is to be guaranteed that chemists receive a fixed subsidy for every emergency service rendered between 8 p.m. and 6 a.m. of the following day independently of the service that is made use of. In eastern German it is particularly rural chemists, who frequently have to perform emergency services, that profit from this. The subsidy is paid from a fund. To finance this, the fixed mark-up that chemists are allowed to charge for providing prescription medication has been raised 16 cents. This increased amount is expressly earmarked for support of emergency service and is to be channelled to these funds in full for this purpose.

### Nursing care, nursing care insurance

In the new federal states the process of ageing of society associated with the demographic shift is taking place more quickly and perceptively than in the old federal states. Thus, for example, at 23% the share of persons over 65 years of age in the new federal states and Berlin was above the level of the old federal states (20%). In the new federal states this is projected to climb to 33% by 2030, while it is only expected to increase to 28% in the old federal states. This more pronounced greying of society also means a higher percentage of people requiring nursing care in the new federal states in comparison to the old federal states: at 20.8%, the rise in the number of people requiring nursing care in the new federal states and Berlin over the period 1999–2007 already exceeded the average for Germany as a

whole (11.4%). At 3.2% in 2007–2008, persons requiring nursing care in the new federal states as a percentage of the population was higher than in the old federal states at 2.7%. And this trend will probably continue until 2030. 2.5 million people in Germany required nursing care at the end of 2011. 0.6 million of them were living in the new federal states and 1.9 million in the old federal states. This poses major challenges in particular to out-patient nursing care services, as most older people want to remain living at home even when they require nursing care. With this in mind it is important to improve nursing care and guarantee its provision in the future especially in this area of care. The reforms by the Federal Government in the field of nursing care constitute an important step in this direction.

The Act Reforming Nursing Care (*Pflege-Neuaustrichtungs-Gesetz*) from 23 October 2012 significantly already expanded benefits under nursing care insurance, in particular for domestic care focussing on people suffering from dementia and other forms of serious limitations on their everyday capabilities. The claim to nursing care advice at home was also improved and a two-week maximum waiting-time period for the first meeting instituted. This is in particular helping strengthen domestic nursing care in rural areas.

The Federal Government will expand benefits under nursing care insurance once again in this legislative period by around €5 billion, thereby strengthening self-determined nursing care in line with needs everywhere, in particular in rural areas. These improvements in benefits are of special importance to the new federal states. For instance, benefits in connection with domestic nursing care have been considerably improved in the draft consultative bill for the first Act Improving Nursing Care adopted by the Federal Cabinet on 28 May 2014 and debated in the first reading by the German Bundestag on 4 July 2014 (Bundestag printed matter 18/2379: Draft Fifth Act Amending the Eleventh Social Code Book – expansion of benefits for persons requiring nursing care, prudential nursing care funds). Low-threshold care services are moreover being supplemented with additional services offering relief for care providers. The number of care staff working at in-patient nursing care facilities is also being increased considerably. All benefits under nursing care insurance are being raised 4% (2.67% for the benefits that were first introduced in 2012 in the Act Reforming Nursing Care). These improvements in benefits provide relief in particular for municipalities with respect to expenditures on aid for nursing care, as it helps stabilise nursing care in the domestic setting in these people's homes while benefits under nursing care insurance for in-patient care are furthermore also being raised. A new procedure for the appraisal of care levels, a new definition of the need for nursing care and hence additional improvements in benefits are to be introduced in a second act strengthening nursing care.

Flanking measures are also intended to help secure medical and nursing care in rural regions. The Federal Ministry of Health will thus be setting up a federal-states working group to strengthen the role of local governments in the area of nursing care. It is in particular supposed to develop proposals on how steering and planning control of regional nursing care structures can be strengthened and more responsibility assigned to local governments within nursing care structures. The Federal Ministry of Health and the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth are working jointly with government agencies and civil society organisations in the “Alliance for People with Dementia” on a host of specific measures to improve the situation of afflicted persons and their care providers. Both measures are being assigned special importance in view of the declining density of population and shrinking number of people living in local communities in the new federal states.

### 1.3 Labour market and securing skilled workers

#### Unemployment in eastern Germany at lowest level since reunification

There were different trends to be witnessed in the German labour market in 2013 against the backdrop of modest economic growth and these were no longer positive all along the line compared to 2012. Although the number of gainfully employed persons on the whole as well as the area of employment subject to social insurance contributions continued to climb, unemployed persons were only able to profit from the growth in employment in part because their personal work profiles often did not conform precisely with demand for labour power. This is also reflected

in eastern German developments. Thus employment subject to social insurance contributions in eastern Germany rose again in 2013 year on year (as measured on 30 June each year), but was somewhat weaker than in the previous year. Demand for labour power is on the whole still at a high level. Unemployment in western Germany rose by around 80,000 persons or 4.0%, while in eastern Germany it dropped by approximately 27,000 persons or 3.0%.

Unemployment and underemployment continued to decline on annual average in eastern Germany. The decreases were not as great as in 2011 and 2012, however.

Nevertheless at 870,000 persons unemployment in eastern Germany reached the lowest level since 1991 in absolute terms. In spite of successes registered in the eastern German labour market, the unemployment rate in 2013 averaged 10.3%. There is still a marked difference compared to western Germany's unemployment rate of 6%.

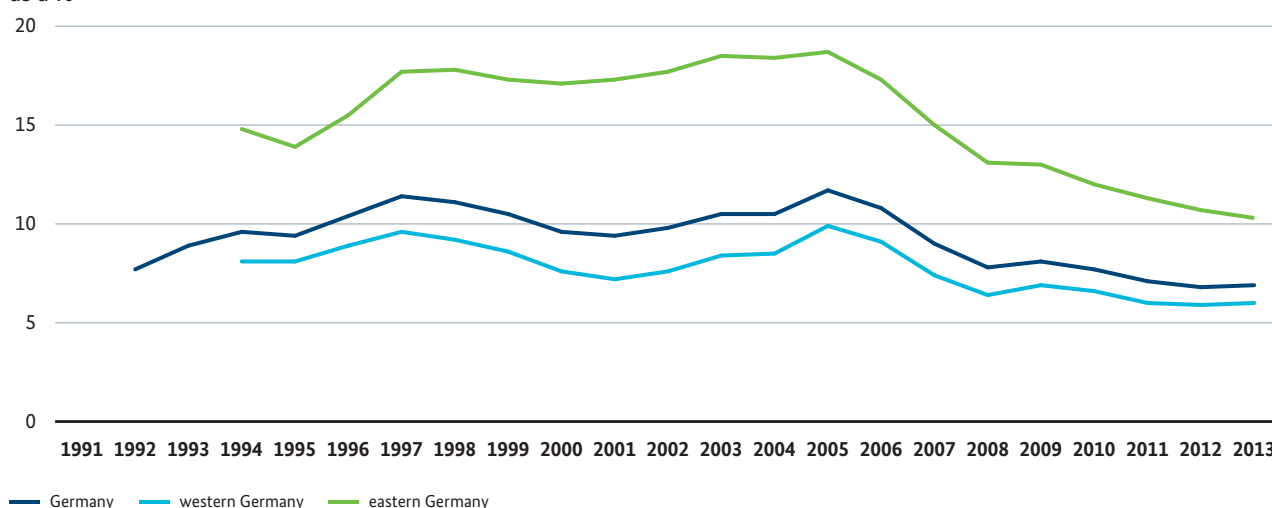
#### Considerable regional difference in unemployment rates

An examination at the level of the federal states reveals a varying picture. Thus with the exception of Thuringia (the lowest rate in the eastern federal states with 8.2%) unemployment rates in the eastern federal states in 2013 were significantly above those of western federal states. Only North Rhine-Westphalia (8.3%) and Bremen (11.1%) registered similarly high unemployment rates. The highest unemployment rate for all the federal states in 2013 was in Berlin and Mecklenburg-Western Pomerania at 11.7% each. By way of comparison: the lowest rate in the western federal states was in Bavaria at 3.8%.

**Figure 22: Unemployment trend in Germany, western and eastern Germany from 1991–2013**

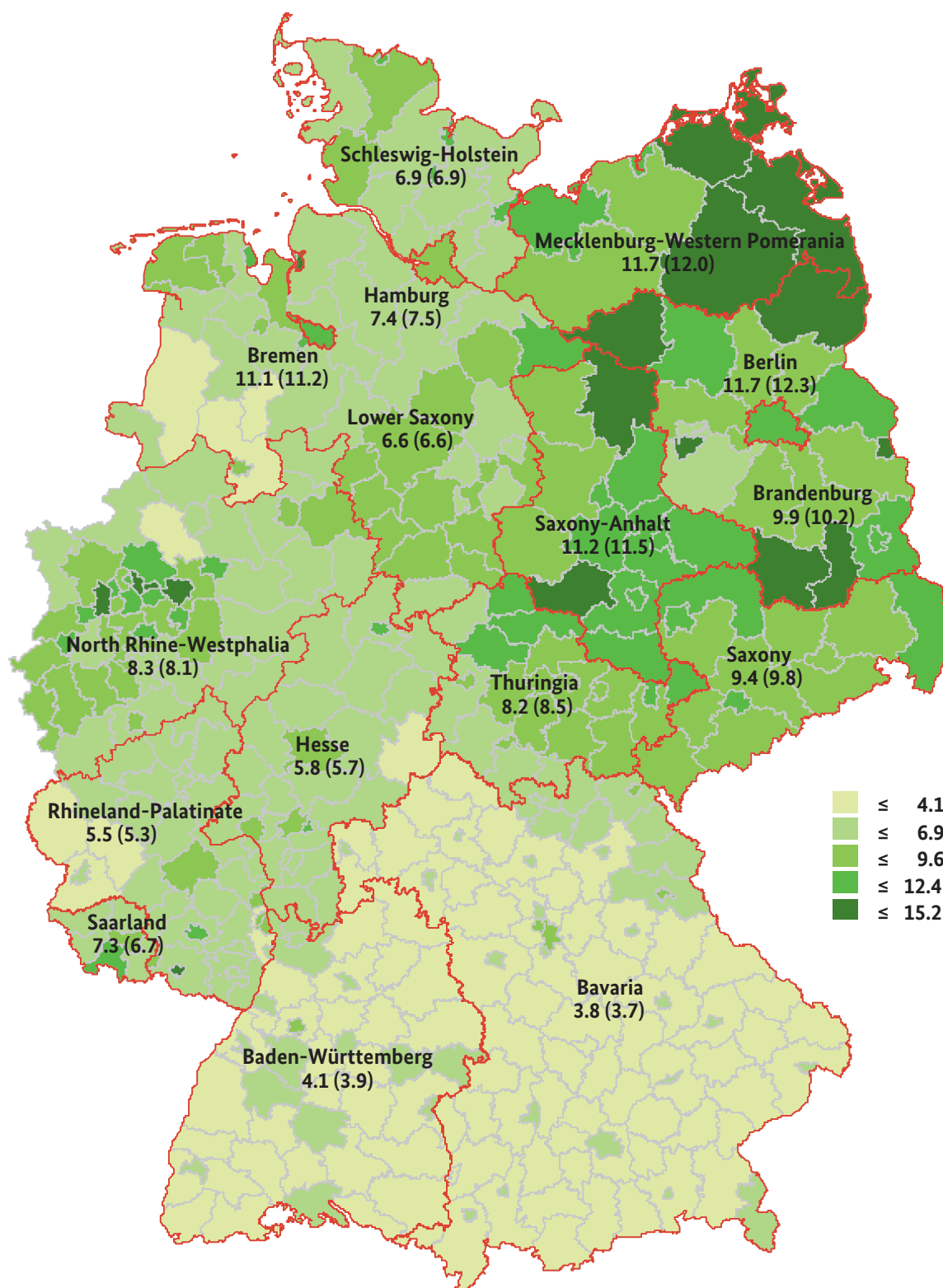
(annual average for all gainfully employed non-military persons)

as a %



Source: statistics from the Federal Employment Agency (Bundesagentur für Arbeit)

**Map 2: Unemployment rates annual average for 2013**  
German federal states and districts



Germany 6.9 (6.8)  
 Western Germany 6.0 (5.9)  
 Eastern Germany 10.3 (10.7)

Unemployment figures relate to the whole of the civil labour force (figures for the previous year are in brackets)  
 Source: Federal Employment Agency (Bundesagentur für Arbeit)



Regional differences in unemployment rates in eastern Germany are unmistakable. While the average rate over 2013 is in part significantly under 10% in some cities and counties (for example Sonneberg 4.5%, Hildburghausen 5.6%, Eichsfeld 6.1%), rates in other areas hover around 15% (for example Uckermark 15.2%, Western Pomerania-Greifswald 14.3%, Frankfurt/Oder 14.3%).

Out of approximately 870,000 persons registered as unemployed in eastern Germany in 2013, about 247,000 were registered with state employment agencies (*Agentur für Arbeit*) responsible for those covered by social insurance under Social Code Book III (unemployment insurance), while 623,000 were registered with job centres (*Jobcenter*) responsible for those covered by the basic allowance for job seekers under Social Code Book II. Year on year this meant a 4.8% drop (Social Code Book II) and an increase of 1.7% (Social Code Book III), respectively.

The average number of unemployed eastern German women was at -4.1% down more than for unemployed males (-2.1%). As in previous years, the unemployment rate for women was lower than for men: 9.8% compared to 10.8%.

Among younger unemployed persons between age 15 and 25, an above-average drop was registered in 2013 year on year as well at -9.7%. Their unemployment rate decreased by 0.4 percentage points to 9.6%. Unemployment among older persons (50 and over) remained roughly the same over the same period of time (-0.2%) at approximately 307,000. The unemployment rate for persons aged 50 to 65 fell by 0.8 percentage points in comparison to 2012.

### Number of long-term unemployed down significantly

Unemployed persons who have been without work for longer than 12 months are considered to be long-term unemployed. The number of long-term unemployed in eastern Germany continues to shrink. It was around 310,000 persons on annual average in 2013. 35.7% of unemployed persons in eastern Germany were accordingly long-term unemployed (western Germany: 35.6%).

Compared to the previous year, the number of long-term unemployed in eastern Germany dropped 4.2%, while the same figure rose in western Germany (+4.6%) and on national average (+1.8%).

The number of long-term unemployed has contracted considerably over the last few years since 2008. In Germany as a whole this number dropped 20.9%, in eastern Germany even by almost one-third (32.6%). Long-term unemployed as a percentage of all unemployed was once again significantly below the level of 2008 (41.1%) after rising signifi-

cantly in 2009 and the percentage of long-term unemployed among all unemployed persons declining as a result of the financial and economic crisis.

### High level of vacant positions on offer

Vacant positions registered with state employment agencies (*Agentur für Arbeit*) saw a slight dip on annual average of almost 2,300 or 2.7% to 81,400 (western Germany: -39,400 or -10.1% to approximately 350,000).

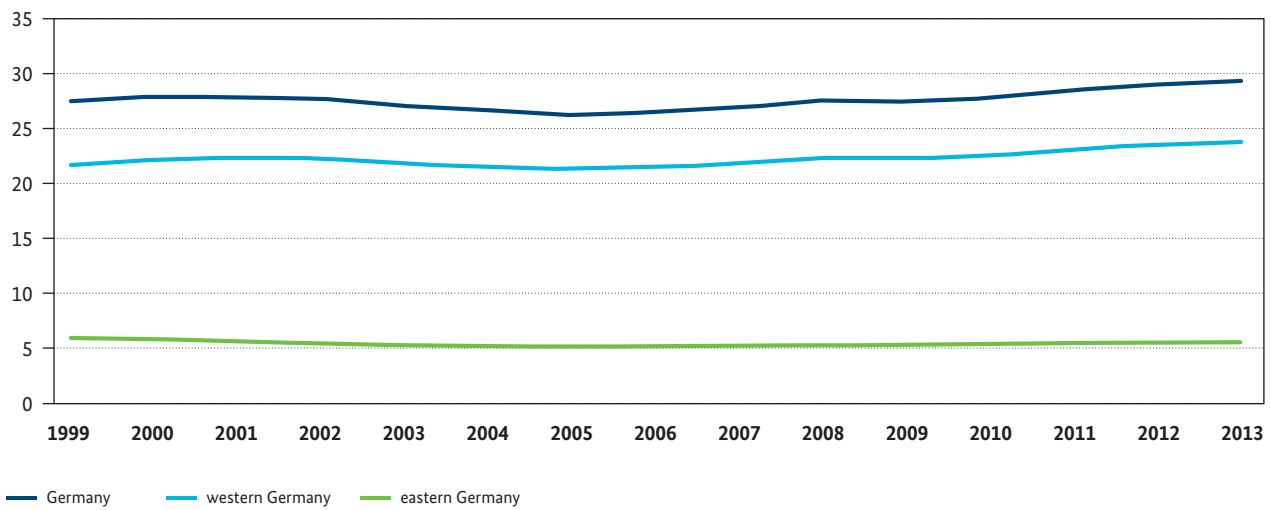
The total number of job offers in the entire economy, which covers additional jobs that are not registered with state employment agencies, totalled 187,900 in eastern Germany in the fourth quarter of 2013. Compared to the same quarter in the previous year, job offers in eastern Germany rose around 13,400 or 7.7%, while it was only up slightly in western Germany at +0.8% (+6,600 jobs), rising to around 896,600 jobs. In comparison to previous years, the number of vacant jobs remained at a high level on the whole.

### Positive employment trend

#### Development of employees required to pay social insurance contributions

The number of employees required to pay social insurance contributions has recorded growth between 0.8 to 2.1% since 2006 (measured on 30 June each year). This figure only levelled out, remaining at the level of the previous year, in June 2009 as a result of the financial and economic crisis, but has been on a positive trajectory once again since then. The figure has moved below the level at the beginning of the 1990s, however, with the number of employees required to pay social insurance contributions in eastern Germany back then still numbering more than 6 million. At present (as of 30 June 2013) there are around 5.5 million employees required to pay social insurance contributions in eastern Germany. On the whole the figure has increased by roughly 492,000 since 2006. The pace of increase in eastern Germany cooled somewhat more than in western Germany recently between June 2012 to June 2013 (west: +1.3% to approximately 23.8 million; east: +0.8% to roughly 5.5 million). This growth in employment took place in almost all the federal states in 2013: the biggest gains in numbers of employees required to pay social insurance contributions were registered in Berlin (+2.6%), Hamburg (+1.8%) and Bavaria (+1.8%). A drop in this figure was only registered in Saxony-Anhalt (-0.4%).

**Figure 23: Development in the number of employees subject to mandatory social insurance in Germany, western and eastern Germany (on 30 July each year)**  
in millions



Source: Statistics from the Federal Employment Agency (Bundesagentur für Arbeit)

### Employees receiving low pay

The number of employees receiving low pay according to state employment agencies (*Agentur für Arbeit*) in June 2013 totalled 7.4 million; around 6.5 million western and 929,000 in eastern Germany. Compared to the same day the previous year, the number of employees receiving low pay only rose slightly in eastern and western Germany.

A marked rise in the number of employees receiving low pay is evident since 2003, however: their numbers jumped by more than one-quarter in eastern Germany (western Germany +36%). This trend is especially due to a growing amount of employees earning low pay in a second job, with this group more than doubling.

### Trend for gainfully employed persons as a whole

The number of gainfully employed persons climbed 0.6% in 2013 to 41.8 million. In the new federal states (including Berlin), it rose 0.3% to 7.6 million; in the old federal states, the increase was somewhat greater at 0.6% to 34.3 million. The number of gainfully employed persons in the new federal states has thus grown steadily since 2006. A slight rise of 0.4% was even recorded in the crisis year 2009.

Just like in western Germany, the largest share of dependent employees in eastern German states have standard employment contracts<sup>10</sup>, i.e. they are in permanent full-time employment or part-time employment working more than 20 hours per week outside of temporary work. Non-standard employment as a percentage of all dependent employees according to the micro-census of 2013 was 20.4% (western Germany: 25.0%). The number of persons with non-standard employment the previous year was 21.2% (western Germany: 25.4%). The number of persons in non-standard employment in the eastern federal states thus fell by 42,000, while the number of persons with standard employment contracts was up 73,000 (western Germany: -44,000; +299,000).

The number of employees with standard employment contracts has risen considerably both in eastern Germany and in western Germany since 2006<sup>11</sup>. In percentage terms, this increase was somewhat stronger in eastern Germany at +12.7% than in western Germany with +10.5%.

The number of persons in non-standard employment in western Germany also rose over this period (+4.3%), while it was below the level of 2006 in eastern Germany in 2013 (-2.8%). 50% of persons in non-standard employment respectively had a fixed-term employment contract (47.6%) or were working part-time (48.1%). In the western federal states, on the other hand, part-time work dominated the picture, with this category accounting for 67.9% of all non-standard employment relationships.

<sup>10</sup> This relates to core employed persons: persons aged 15 to 64 who are not undergoing education or training or are not in military, civilian or voluntary service.

<sup>11</sup> Temporary work (*Zeitarbeit*) as a form of non-standard employment has only been measured since 2006. Comparisons using longer periods of time would thus be skewed.

## Different employment behaviour by mothers in east and west

Not only economic and political conditions influence family behaviour. So do social norms and values handed down through generations. This is one explanation of why families in east and west continue to differ: especially in terms of family structures and employment behaviour of mothers. A married couple with children is the most common form of family in east and west Germany, but in eastern Germany unwedded family forms are more prevalent. This is reflected, for instance, in the significantly greater percentage of one-parent families compared to western Germany (east: 27%; west: 18%) and cohabitation (east: 20%, west: 7%). The percentage of children born out of wedlock is correspondingly higher. Whereas in western Germany 28% of live births are out of wedlock, the share in eastern Germany is almost twice as high at 62%.<sup>12</sup> In spite of these differences in practiced forms of families, children and family are of great importance to the overwhelming majority of persons in eastern and western Germany. Thus 75% of western Germans and 81% of eastern Germans believe that family and children are very important in their lives. And west and east are in agreement when it comes to the desire for children: on average western Germans find 2.3 children and eastern Germans 2.2 children to be ideal.<sup>13</sup>

There continue to be differences between east and west with regard to the employment of women and mothers. Mothers in eastern Germany work more frequently as well as more frequently in full-time positions than mothers in western Germany. 66% of mothers work in the western federal states. Approximately one in every six mothers works less than 15 hours a week there; 35% work between 15 and 32 hours a week and one in every six mothers works more than 32 hours a week. In the new federal states a total of 69% of mothers work. The biggest group (37%) works more than 32 hours a week, 28% work between 15 and 32 hours and only 4% of mothers work less than 15 hours a week. Eastern German women who work part-time often do so unwillingly because they cannot find the full-time jobs they are looking for.<sup>14</sup> The different work models are based on different values and attitudes, but also on differing availability of child care.

In eastern Germany more couples that are parents moreover have a work arrangement in which both parents work full-time or both parents work part-time. 39% of eastern German fathers view both parents as being equally respon-

sible for family income; in western Germany only 17% share this view. One in every four fathers has also had experience with paternal leave in eastern Germany, whereas this only applies to one in six western German fathers.<sup>15</sup> Current data suggests that these differences continue to apply to younger people born at the beginning of the 1980s.<sup>16</sup>

Day care for children has changed significantly in Germany over the past few years. Under the Childcare Funding Act (*Kinderförderungsgesetz*), which went into force in 2008, a legal claim was introduced for child care for children beginning at age one on 1 August 2013. This legal claim was preceded by a massive expansion in child care services throughout Germany funded jointly by the Federal Government, the federal states and local communities.

Conditions at the outset underlying this expansion differed considerably between the new and old federal states. 39.3% of children below the age of three were already being cared for in child day care facilities or nursery day care in eastern Germany in 2006, while in western Germany this figure was only 7.9%. At 49.8% the care rate in 2013 was still twice as high in the new federal states as in the old federal states (24.2%).

Current figures on the number of children under the age of three in child day care facilities and in publically supported nursery day care indicate that the expansion of child care has proceeded rapidly: a total of 661,965 children under the age of three were in day care on 1 March 2014 (450,802 children in the new and 211,163 children in the old federal states).

There is a need to expand further, however. On national average 41.7% of parents desired child care for their child under three years of age in 2013. This need differs considerably by up to 27% between regions as well as at the local level, and even between city districts. The Federal Government is contributing €550 million to the special fund for “expansion of child care” within the framework of the Draft Act on the Further Relief of Federal States and Local Communities and on the Quantitative and Qualitative Expansion of Childcare, adopted by the Federal Cabinet on 20 August 2014. The special fund had resources not yet committed to the tune of €450 million as of May 2014. This means that a total volume of €1 billion is available. The Act will also respectively increase the fixed amount by €100 million to the benefit of the federal states in 2017 and 2018 through the Act within the framework of the distribution of value-added tax. Another €400 million is to be used for promotion of language learning in this legislative period.

12 Federal Statistical Office, Familien und Haushalte 2012, Bevölkerung und Erwerbstätigkeit 2012

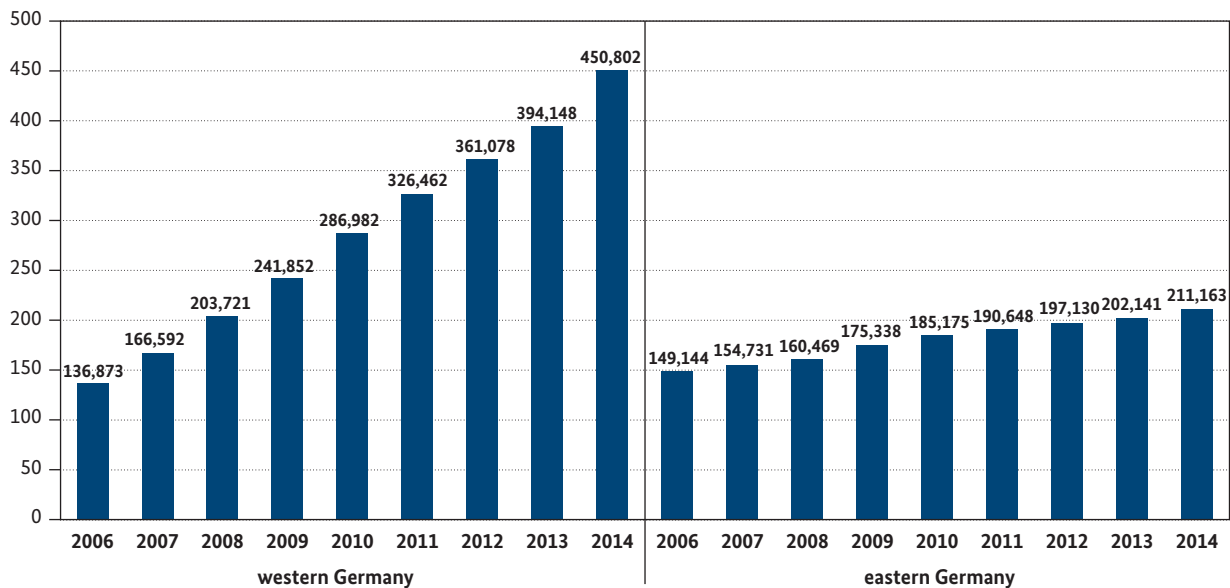
13 Federal Statistical Office and Berlin Institute of Social and Economic Research (ed.): Datenreport 2013: pp. 64f.

14 Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (ed.) (2014): Dossier Müttererwerbstätigkeit. Erwerbstätigkeit, Erwerbsumfang und Erwerbsvolumen 2012. Berlin, pp. 42f.

15 Forsa (2013): Meinungen und Einstellungen der Väter in Deutschland. Survey commissioned by the journal “Eltern”. Berlin.

16 Kreyenfeld, Michaela; Trappe, Heike: Wandel der Familie in Ost- und Westdeutschland, Forschungsbericht 2013 Max Planck Institute for Demographic Research.

**Figure 24: Children under 3 years of age in childcare 2006–2014 in western and eastern Germany, absolute figures in 1,000**



Source: Federal Statistical Office: Statistiken der Kinder- und Jugendhilfe. Statistiken der Kindertagebetreuung (2006–2014)

In order to achieve equivalent educational and development opportunities for all children throughout Germany, not only a broad offer of services is needed, but also more and better quality of child day care. The Federal Government will enter into a regular dialogue with the federal states and local communities, institutions, trade unions and parents' associations on structural and quality issues relating to child day care. The first joint conference is scheduled for the autumn of 2014.

#### Youth unemployment and the vocational training situation market

Unemployment among persons aged 15 to 25 throughout Germany was 6.0% in 2013. By the same token, the unemployment rate was 5.2% in western Germany and 9.6% in eastern Germany. Even if the unemployment rate of young people in eastern Germany was thus twice as high by comparison, these youth unemployment rates in Germany are at a low level by European comparison.

The unemployment rate for people under 25 years of age in 2013 averaged 23.4% in the EU 28. At 7.9%, Germany was able to register the lowest youth unemployment rate, with this figure being -0.2 percentage points below the level of the previous year. By comparison, the unemployment rate for young people for the EU 28 rose slightly (+0.5 percentage points) on average.

The youth unemployment rate in Germany has fallen almost 4 percentage points since 2003. The rate for the EU 28 on average, in contrast, has soared almost 5 percentage points. The greatest increases compared to 2003 were recorded in Greece and Spain, each with more than 30 percentage points; these countries also had the highest youth unemployment rates in 2013 (58.6% and 55.7%, respectively). Only Austria still had a rate under 10% (9.2%) on annual average in 2013.

In interpreting this data it must be taken into account that the level of youth unemployment rates is influenced by the respective structure and design of the national education and vocational training system. The dual training system with two locations for learning – at companies and vocational training schools – predominates in Germany and in Austria.

The situation in eastern Germany in the vocational training market was as follows at the end of the vocational training year 2012/2013: registered vocational training positions dropped year on year by 4.3% and hence by around 3,800 to 84,000. One reason for this is first of all the decline in total non-company vocational training positions to approximately 8,900<sup>17</sup>. Non-company vocational training positions have been scaled down in a targeted fashion for several years now as a result of the stable economic situation and declining numbers due to demographic trends. Secondly, the number of company vocational training positions dropped by about 2,500 (-3.2%) to 75,400.

<sup>17</sup> The number of non-company vocational training positions reported was too large last year as a result of a technical problem at the Frankfurt/Oder state employment agency (Agentur für Arbeit). Comparisons with the previous year are therefore only possible to a limited extent. Excluding the Frankfurt/Oder state employment agency, the number in eastern Germany was 85,390 in September 2012 and 87,795 in September 2011. This corresponds to a year-on-year change of -2.7% in September 2012 and 1.6% in September 2011.

The number of registered applicants in eastern Germany at the same time fell 2.0% to approximately 91,100 applicants. The declining trend in applicant figures due to demographic developments continued following a brief surge in the number of A-level (Abitur) graduates of upper level secondary schools because a change in the number of years required to complete school in the east as well as west of Germany. 91,100 applicants in eastern Germany thus compared with a total of 84,000 positions, so the number of registered applicants exceeded the number of registered vocational training positions by around 6,700 (which translates into 1.21 applicants per company vocational training position).

### Active labour market policy

Roughly 270,000 persons participated in labour-policy measures in eastern Germany on annual average in 2013. That was about 31% of participation in total active labour market measures (about 858,000). By comparison: unemployed persons in eastern Germany were at a similar level, accounting for 29.5% of all unemployed.

Thanks to the overall stability of the labour market, there was a decline in the use of support funds. Overall, in 2013 measures (including one-off benefits) were accessed about 1.4 million times in eastern Germany in 2013 (34.4% of access to measures in all of Germany). There was thus a decline of 8.1% year on year (western Germany: -3.3%).

### Manpower potential and skilled workers

In order to also be able to fully leverage its growth potential, sufficient manpower is needed to meet the needs of the economy.

The number of persons of working age (20 to under 65) in the eastern federal states tumbled from 11.2 million to 10.1 million over the period from 1990–1992. In contrast, at 40.1 million this figure remained almost constant in the old federal states. At the same time, the working population became older on average. Persons aged 45 to under 65 as a percentage of the working population in the eastern federal states and Berlin has increased from 41.1 to 50.3%. Older persons of working age have thus taken on more importance to the labour market. These trends will also continue.

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 state employment agency (*Bundesagentur für Arbeit*), this includes occupations that require vocational training (for example an energy technician or nurse for older people) or

a university degree (for example, mechanical engineers or human physicians).

Due to the demographic shift, the number of working persons will shrink by millions up until 2030. There are major regional differences within Germany, however. A more pronounced decline is to be expected earlier particularly in eastern Germany compared to the western federal states. That is why wide-ranging steps need to be taken already at present. See section II.3 Securing the skilled labour supply.

### Companies covered by collective bargaining and wage trends

The number of eastern German enterprises covered by collective bargaining has not changed significantly year on year. 47% of employees work in eastern German companies that are covered by an association or company collective agreement. This figure is 60% for western Germany, which means that the gap between eastern and western Germany has remained virtually unchanged. The long-term decline in the number of companies covered by collective bargaining in eastern and western Germany contrasts with a growing orientation towards collective bargaining at the association level. 25% of eastern German companies are oriented towards collective agreements with associations (western Germany: 22%).

The convergence of collective wages in eastern Germany with those in western Germany remains unchanged at 97%. Generally speaking there continues to be differences in effective wages in eastern and western Germany. Representative data from the IAB Establishment Panel Survey for eastern Germany indicate an increase in 2013 – just like in the previous year. Wages rose to an average level of €2,390 per month (converted to full-time equivalents (FTEs). Compared to western Germany (€3,060 per FTE), there have not been any significant changes since the middle of the 1990s. There are significant differences in some sectors, however, both in terms of the absolute amount as well as the pace of wage convergence.

A sectoral perspective indicates that both respective gross average wages as well as their convergence rates with gross western German wages differ considerably. The greatest gross average wages per full-time equivalent in eastern Germany are to be found with employees in the sectors of mining, energy, water, waste disposal, public administration and the finance and insurance industries. Other services and services in the sector of agriculture and forestry are at the lower end of the wage scale. Looking at convergence rates, it is interesting that the lowest level for all sectors is 68% for manufacturing. This is largely explained by structural factors. Eastern German manufacturing companies are significantly smaller on average than their western



German counterparts (27 compared to 42 employees) and small companies pay significantly lower wages than big ones. More than half of all employees in the western German manufacturing sector work in big companies in which the average wage per full-time equivalents in 2013 was above €4,100. By way of comparison, only one in every four employees in the eastern German manufacturing sector work in big companies with an average wage per full-time equivalent of €2,980. The convergence ratio in large companies is 73%. The average convergence rate is over 90%. In the public administration it is 97%, in education and instruction approximately 95% and in agriculture about 92%. In addition to manufacturing, the convergence rate is also lagging behind the average level in the sectors of trade and repair (75%) and construction (76%).

### Earnings difference between men and women

Differences between earnings of men and women (the gender pay gap) for all of Germany remained constant in 2013 compared to previous years. According to the Federal Statistical Office<sup>18</sup>, with gross hourly earnings of €15.56 women continued to earn 22% less than men (€19.84). This serious difference is for the most part due to structural factors such as the fact that women often choose more poorly paid occupations and sectors, are less often in management and leadership positions and more frequently work part-time.

The gender pay gap between men and women in eastern Germany is significantly less than in western Germany. The Federal Statistical Office states that there is an earnings gap of around 23% in western Germany and 8% in eastern Germany. 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%)<sup>19</sup>.

## 1.4 Social unity

### On the path to a uniform pension insurance system in Germany

There are still different pension insurance systems in east and west almost 25 years after reunification. Here the premise applies that remuneration received in the new federal states is to converge in the calculation of pensions with the income structure of the old federal states by means of

adjustment. The remuneration points that are calculated are estimated with a separate pension level for the east, which reached 92.2% of the general pension level as of 1 July 2014. Based on the Coalition Agreement concluded for the 18th legislative period, complete convergence of pensions is to take place in the final step at the end of Solidarity Pact II, by when wage and salary convergence will have made more progress. Before this, it is to be reviewed on 1 July 2016 to what degree the process of convergence has proceeded and then decide on this basis whether partial adjustment is necessary beginning in 2017.

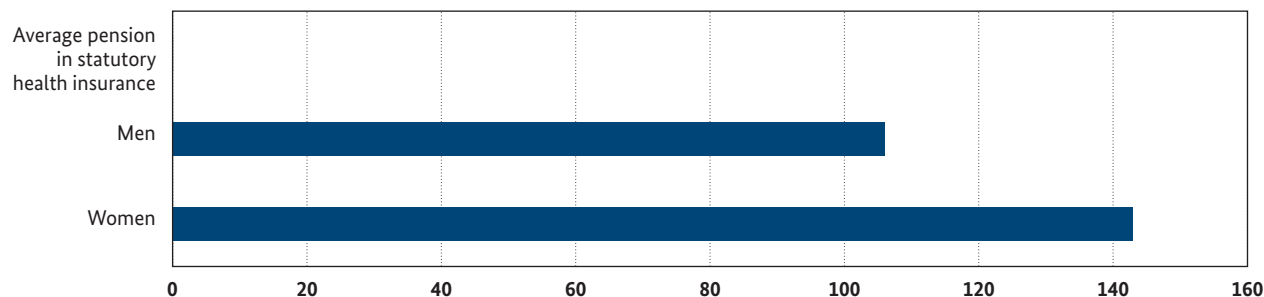
The statutory pension insurance system (GRV) is the most important pillar of social security in old age in the new federal states because it is the most important source of income in old age. At around €1,042, average monthly pension benefits in eastern Germany are higher for men as well as for women (roughly €752 per month) than average pension benefits in western Germany. Average pension insurance benefits paid to men in eastern Germany are around 6% greater than those paid to men in western Germany. Average pension insurance benefits paid to women in eastern Germany are approximately 43% higher than those paid to women in the west. This discrepancy in favour of eastern Germany is especially due to longer periods of employment and thus periods in which especially women have paid into old-age insurance schemes. On top of this, pensions in eastern Germany include pension components related to supplementary and special pension systems of the GDR that were transferred to statutory pension schemes.

Special structural aspects of career histories of pensioners in the west reinforce the difference in average pensions. For example, a larger share of pensioners in western Germany were civil servants or self-employed compared to eastern Germany. For this reason, they accumulated fewer pension expectancies in the statutory pension insurance system, but typically have other sources of retirement income, such as civil service pensions or private retirement accounts in addition to the pension insurance expectancies. 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.

<sup>18</sup> Federal Statistical Office, Gender Pay Gap 2013 bei Vollzeitbeschäftigten besonders hoch, from 18 March 2014.

<sup>19</sup> Two indicators having different intentions are available for calculating different gender-specific income gaps: the unadjusted gender pay gap compares average income for all employees with each other in general terms. The unadjusted gender pay gap is used to also capture the part of the gap in income that is caused by poorer access by women to certain professions or career advancement opportunities and which is possibly also the result of discriminatory structures. The adjusted gender pay gap on the other hand measures the income gap between men and women with comparable qualifications, types of work and work histories.

**Figure 25: Ratio between average amounts paid into statutory pension insurance in eastern Germany as of 31 December 2013**  
(western Germany = 100)



Source: Deutsche Rentenversicherung, Rentenbestand zum 31. Dezember 2013

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 are supposed to be able to participate in economic growth as expressed in the development of wages. The 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. The disposable net pension amount in the east was still about 51% of that in the west in 1991. It has risen substantially since then. Although wages in eastern Germany rose rapidly at the beginning, since the mid-1990s the convergence process has slowed noticeably, but continued. The pension adjustment effective 1 July 2014 increased the current factor for calculating pensions in the east from 91.5% to 92.2% of the western level at present.

The Act on Improvements in Benefits in Statutory Pension Insurance Schemes (*Gesetz über Leistungsverbesserungen in der gesetzlichen Rentenversicherung*) went into effect on 1 July 2014. Pensions without any deductions for persons that have been insured for especially many years (45 years paying contributions), a better valuation of child-rearing periods for children born before 1992, improvements in pensions for reduced earning capacity and the adjustment of annual expenditures for participating benefits, which already went into force on 1 January 2014, will benefit insured persons and pensioners in the east and west.

Insured persons in the old and new federal states can profit equally from the new statutory arrangements for so-called mothers' pensions and pensions without any reductions after 45 years of paying contributions. The statutory pension arrangements apply equally to recognition of periods raising children in the east and west: periods devoted to raising children are periods when payments into a pension

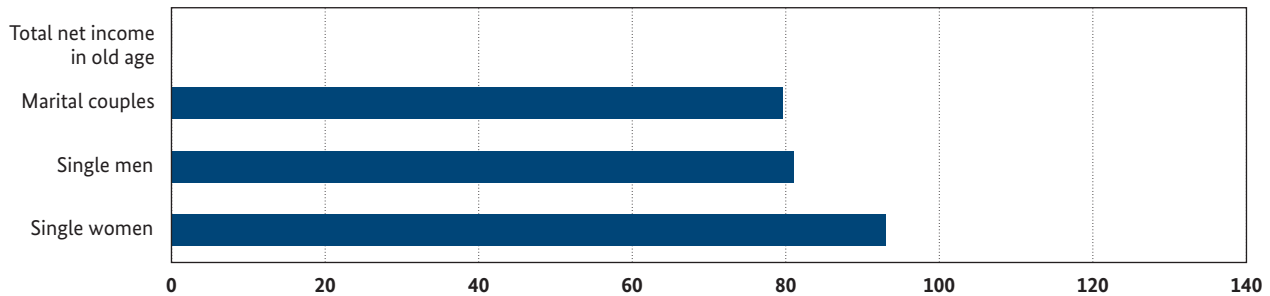
scheme is required where the calculation of pension is valued with the respective average income – this corresponds to one earnings factor point west and an earnings factor point east. With the switchover of wage and contributions-related pension law, it was decided for the new federal states to set pension levels in tandem with the development of wages just like 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 the current pension level west; thus the amount of pension from one income point still differs. This applies to all periods of payment into pension schemes and consequently to periods in which people raise children as well.

In addition, the following applies to mothers and fathers in east and west: if in addition to raising children they achieved income points from work at the same time, the income points for periods when raising children are to be credited at a maximum up to the respective upper earnings limit. Different arrangements would only apply to existing pensioners for whom child-rearing periods for children born before 1992 were already taken into account in the calculation of their pensions to date. For them, the second income point for child-rearing (so-called mothers' pension) is to be granted in a flat sum as an increment to simplify administrative overhead.

### On the path to just wages

The German labour market has on the whole developed positively over the last few years, with employment reaching record levels. The "German model" with a strong role being played by social partners, collective agreements and flexibility agreed upon by the social partners has proven its effectiveness under the pressure of the international financial market crisis. Targeted reforms of this model over the past decade have also contributed to this. The labour market is at present more flexible than ever before, offering oppor-

**Figure 26: Ratio between total net income in old age in 2011 in eastern Germany**  
(western Germany = 100)



Source: Alterssicherung in Deutschland (ASID) 2011

tunities for people that have not been able to participate in this positive development so far. At the same time, the low-pay sector has expanded on a problematic scale since the 1990s. The Federal Government has for this reason also taken advantage of legal possibilities in the year under report to make sector-specific collectively bargained minimum wages generally binding.

Table 2 below illustrates the situation as of 30 July 2014 with sector-specific collectively bargained minimum wages based on the Posted Workers Act (*Arbeitnehmer-Entsendegesetz*) and the Temporary Employment Act (*Arbeitnehmerüberlassungsgesetz*). It can be seen in the Table that minimum wages in most sectors still differ between east and west. Minimum wages range from €7.20 to €11.65 in eastern Germany.

Above and beyond this, the Federal Government has moved quickly to improve the framework conditions for safe, decent work with fair pay and a strong social partnership between employers and trade unions. To this end a statutory minimum wage is being introduced without distinction between east and west the declaration of generally binding nature of collective agreements eased. This has come about by virtue of the Act Strengthening the Autonomy of Collective Bargaining (*Tarifautonomiestärkungsgesetz*), which also contains the Minimum Wage Act. This law introduces a general gross uniform minimum wage throughout Germany of €8.50 per hour of work beginning on 1 January 2015.

### On the path to inclusion

Around 7.5 million severely disabled persons were living in Germany in 2013. Persons are considered to be severely disabled if they are recognised as having a 50 degree impairment or more by a health agency and have been provided with a valid identification card. This corresponds to 9.4% of the entire population of Germany. Approximately 1.5 million severely disabled persons live in the new federal states including Berlin. The figure of 9.62% is slightly above the national German average. The three federal states with the highest percentage of severely disabled are the city-state of Berlin and the federal states of Mecklenburg-Western Pomerania and Brandenburg. Regarded as a whole, the percentage of severely disabled persons in the new federal states is above the national average.

Considerable efforts – including financial ones – have been made since reunification especially in the new federal states in order to overhaul the in part poorly ailing social infrastructure of the GDR to conform with modern Federal German standards. Thus a large number of residential sites oriented towards the needs of the inhabitants and assisted living types, child day care centres, schools with special educational focuses and a host of new workshops for people with disabilities as well as a network of facilities for occupational rehabilitation throughout the entire new federal states have been built.

On top of this, modern, professional help structures have also been established. This enormous reconstruction process was shaped by many actors. 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.

**Table 2: Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act in Euros per hour**

Sector	Employees/ pay group	August 2014	next level
<b>Waste-disposal industry</b> (175,000 employees)	minimum wage	<b>8.86*</b>	
<b>Key construction industry</b> West (432,200 employees)			beg. Jan. 2015
	labourer	<b>11.10</b>	11.15
	skilled worker	<b>13.95</b>	14.20
		<b>Berlin: 13.80</b>	14.05
East (128,200 employees)	labourer	<b>10.50</b>	10.75
<b>Mining-special companies</b> (2,500 employees)	minimum wage I	<b>11.92</b>	
	minimum wage II (miners/skilled worker)	<b>13.24</b>	
<b>Initial and continuing vocational training</b> (30,000 employees)			beg. Jan. 2015
West incl. Berlin	Educational staff	<b>13.00</b>	13.35
East	Educational staff	<b>11.65</b>	12.50
<b>Roofing</b>			beg. Jan. 2015
West and east (71,900 employees)	minimum wage	<b>11.55</b>	11.85
<b>Electrical crafts</b> (installation) 295,700 employees)			beg. Jan. 2015
West	minimum pay	<b>10.00</b>	10.10
East incl. Berlin	minimum pay	<b>9.10</b>	9.35
<b>Meat-packing industry</b>			beg. 12/2014
West und east (80,000 employees)	minimum pay	<b>7.75</b>	8.00
<b>Building cleaning</b> (700,000 soc. insured 396,100 employees)			beg. Jan. 2015
West incl. Berlin	Interior and maintenance cleaning	<b>9.31</b>	9.55
	Glass and facade cleaning	<b>12.33</b>	12.65
East	Interior and maintenance cleaning	<b>7.96</b>	8.21
	Glass and facade cleaning	<b>10.31</b>	10.63
<b>Scaffold-building</b>			beg. May 2015
West and east (31,100 employees)	minimum wage	<b>10.25*</b>	10.50*
<b>Agriculture and forestry Horticulture</b> (750,000 employees)		<b>beg. Jan. 2015</b>	beg. Jan. 2016
West		<b>7.40*</b>	8.00*
East		<b>7.20*</b>	7.90*
<b>Painting</b>			ab 05/2015
West (96,100 employees)	unskilled employees	<b>9.90</b>	10.00
	journeymen	<b>12.50</b>	12.80
		<b>Berlin: 12.30</b>	Berlin: 12.60
East (23,200 employees)	unskilled employees	<b>9.90</b>	10.00
	journeymen	<b>10.50</b>	10.90

**Table 2: Minimum collectively bargained wages under the Posted Workers Act and Temporary Employment Act in Euros per hour**

Sector	Employees/ pay group	August 2014	next level
<b>Nursing care sector</b> (800,000 employees)			
West incl. Berlin		9.00	
East		8.00	
<b>Stonemasons and stone cutters</b>			
West incl. Berlin (10,500 employees)	minimum wage	11.25	
East (2,200 employees)	minimum wage	10.66	
<b>Security guard business</b>			
(170,000 employees)	minimum wage		
Baden-Württemberg		8.90	
Bavaria		8.42	
Bremen		7.50	
Hamburg		7.50	
Lower Saxony		7.50	
Nord Rhine-Westphalia		8.23	
Hesse		7.76	
Rhineland-Palatinate. Saarland,		7.50	
Schleswig-Holstein			
East incl. Berlin		7.50	
		(expired Dec. 2013)	
<b>Commercial laundry services in contract customer business</b>	(34,000 employees)		beg. Oct 2014
West	minimum wage	8.25	8.50
East incl. Berlin	minimum wage	7.50	8.00
<b>Minimum wage level under § 3 of the Temporary Employment Act (<i>Arbeitnehmerüberlassungsgesetz</i>)</b>			
<b>Agency work/temporary work</b>		beg. April 2015	
West		8.50	8.80
East incl. Berlin		7.86	8.20

\* General binding nature not yet declared.

Source: WSI-Tarifarchiv Status: 30 July 2014

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 – at the latest upon the ratification of the UN Disability Rights Convention by the Federal Republic of Germany in 2009 – has been replaced by the principle of inclusion. With regard to pupils receiving special educational support, a special focus of action can be seen in the new federal states. The percentage of support for this group in the new federal states ranges from 7% in Thuringia to 10.5% in Mecklenburg-Western Pomerania. These percentages in the new

federal states are above the national German average of 6.6%. There are no significant differences with regard to the development of the type of support. The percentage of pupils in special schools as well as in terms of integrative enrolment at other general educational facilities has risen in almost all the federal states.



**Table 3: Severely disabled persons in Germany, broken down by federal state and degree of disability in Germany**

Subject of evidence	Total (status 31 Dec.2013)		Population <sup>2</sup>	Severely disabled as a percentage
	Number	per 1,000 inhabitants <sup>1</sup>		
<b>Total</b>				
Male	3,851,568	98		
Female	3,697,397	90		
<b>Total</b>	<b>7,548,965</b>	<b>94</b>	<b>80,523,746</b>	<b>9.37</b>
<b>According to federal states</b>				
Baden-Württemberg	981,538	93	10,569,111	9.29
Bavaria	1,128,646	90	12,519,571	9.02
Berlin	346,826	103	3,375,222	10.28
Brandenburg	252,946	103	2,449,511	10.33
Bremen	58,242	89	654,774	8.89
Hamburg	130,153	75	1,734,272	7.50
Hesse	608,624	101	6,016,481	10.12
Mecklenburg-Western Pomerania	173,237	108	1,600,327	10.83
Lower Saxony	664,802	85	7,778,995	8.55
North Rhine-Westphalia	1,771,959	101	17,554,329	10.09
Rhineland-Palatinate	310,299	78	3,990,278	7.78
Saarland	101,280	102	994,287	10.19
Saxony	377,550	93	4,050,204	9.32
Saxony-Anhalt	180,163	80	2,259,393	7.97
Schleswig-Holstein	262,626	94	2,806,531	9.36
Thuringia	200,074	92	2,170,460	9.22
<b>of this amount:</b>				
<b>old federal states</b>	<b>6,018,169</b>		<b>64,618,629</b>	<b>9.31</b>
<b>new federal states (including Berlin)</b>	<b>1,530,796</b>		<b>15,905,117</b>	<b>9.62</b>
<b>According to degree of disability in Germany (GdB)</b>				
				Severely handicapped as a percentage of the population
(disab. degree) 50	2,410,406	30		32
(disab. degree) 60	1,202,750	15		16
(disab. degree) 70	830,074	10		11
(disab. degree) 80	904,636	11		12
(disab. degree) 90	385,292	5		5
(disab. degree) 100	1,815,807	23		24

1 Population as of 31 December 2012 - preliminary results on the basis of the 2011 census, census data status 10 April 2014.

2 Population as of 31 December 2012 - preliminary results of the extrapolation of the population on the basis of the 2011 census, with census data status 31 May 2013

Source: Federal Statistical Office, Fachserie 13, Reihe 5.1, Zensus 2011, own calculations

### 1.5 Demographic change – a key challenge

The eastern Federal states – like Germany as a whole – are caught up in a demographic shift that is marked by decline and ageing of the population.

Natural growth of the population has been negative in Germany for more than four decades. The fact that the number of inhabitants is growing is solely due to net immigration into Germany from other countries since 1972. The population trend in the Federal Republic of Germany was negative for the first time in 2003. Net migration was no longer sufficient to compensate for the contracting birth rate. There has been significantly more immigration into Germany than emigration out of it since 2011 once again. The population rose – albeit moderately – to 80.8 million at the end of 2013.

There are great fluctuations in immigration, which is influenced by global economic changes. As a result of the natural trend in the population in Germany traced above, it must be assumed that immigration from other countries will not be able to stave off the shrinkage and ageing of the population over the long term, but rather at best delay and cushion it.

It can be observed that immigration as well as internal migration differs considerably from region to region and that this to a large extent accounts for heterogeneous demographic developments in German territory. Because above all economically strong regions are registering population growth while structurally weak regions have to expect dwindling populations, already differing strengths of economic structures in the regions will continue to widen.

One significant aspect in this trend is the gender dimension: there is a markedly disproportional number of younger men living in rural areas of eastern Germany.

This trend is being exacerbated to a considerable extent by migration of significant numbers of young women to urban regions with strong economies. According to a study conducted by the Federal Institute for Demographic Research, many eastern German counties are registering 25% more male than female inhabitants in the age group 18 to 29 and hence a gaping imbalance between genders compared to western German counties.<sup>20</sup> According to this study, this imbalance also accounts for lower birth rates in rural areas, as a result impacting demographic developments over the long term. This will cause the ageing of the population in eastern Germany's rural regions even to accelerate. The migration of young women out of these

regions in addition to demographic effects can also have considerable economic consequences, as these women generally have a higher level of education, which means that skills and technical know-how are being drained from regional economies. The motives of surging numbers of young women migrating out of rural regions in eastern Germany relate to their relatively high level of education, their preference for work in the service sector and better labour market opportunities associated with these factors in urban areas. The relatively marked tendency of eastern German women to work as well as their positive attitude towards urban areas with respect to quality of life there reinforce this tendency.

#### East-West migration

According to preliminary results published by the Federal Statistical Office, the eastern German federal states including Berlin registered a greater influx from western federal states than outflow in 2013. In terms of east-west migration, there was a net plus of 1,150 persons for new federal states compared to a net loss of 2,670 persons in 2012. This trend is above all due to the attractiveness of the capital, however, as excluding Berlin the net balance for the eastern federal states is still negative in 2013 as well (-10,500 persons). But here as well the trend is positive compared to 2012 (-14,800). The key factor in this on the whole positive development was transfers, social security systems offering ample benefits and a broad range of measures in support of regional economic growth, the infrastructure and labour market.

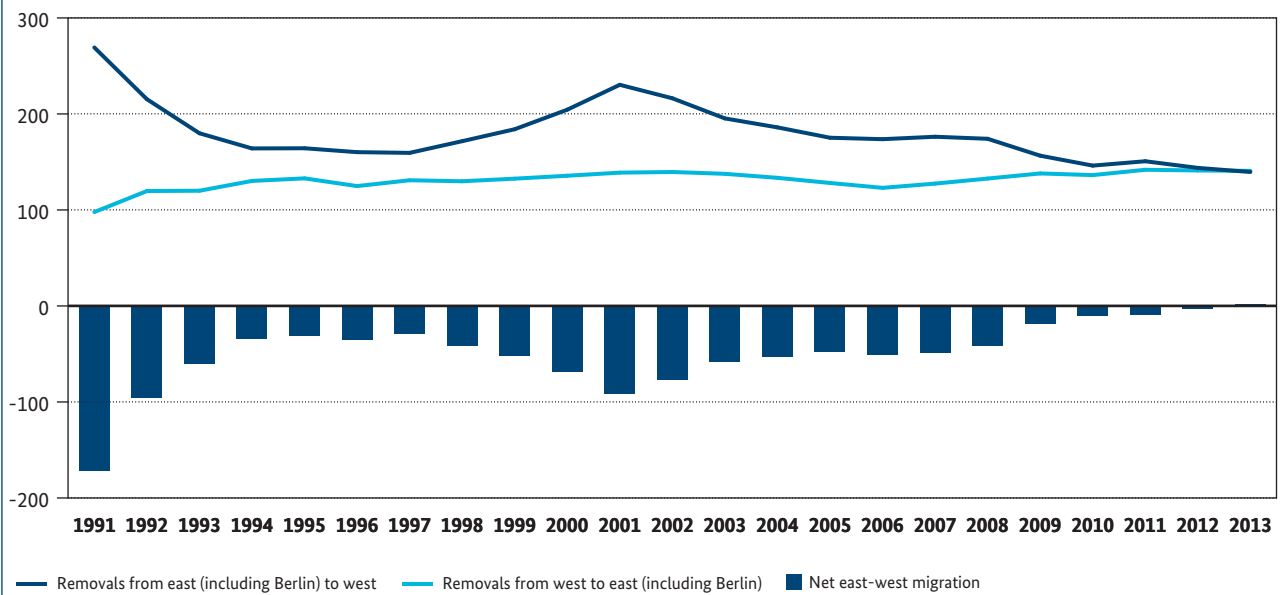
#### More immigration from abroad for eastern Germany as well

According to preliminary migration statistics from the Federal Statistical Office, net external migration in Germany (influx from foreign countries minus outflow to foreign countries) was significantly positive in 2013 at approximately 437,000 persons. Bavaria, North Rhine-Westphalia and Baden-Württemberg were the federal states registering the highest influx.

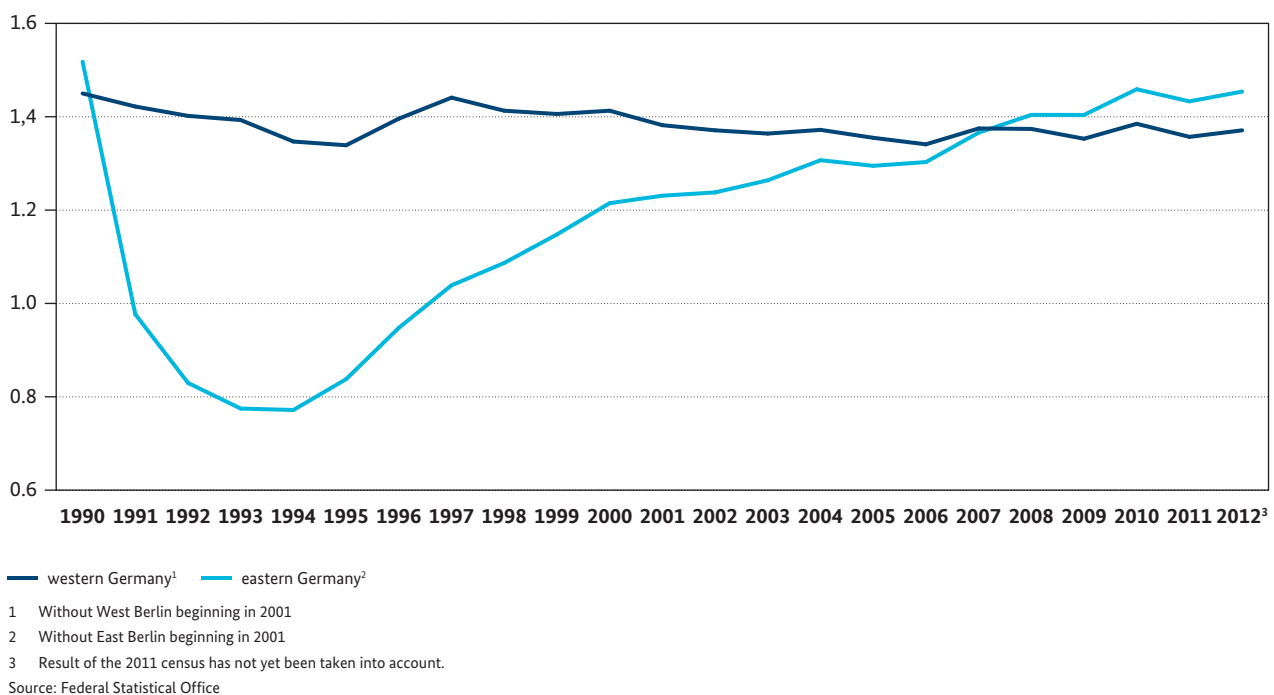
But all the eastern federal states were able to improve their net migration balance sheet year on year. Net migration from abroad was positive at 66,979 persons for eastern Germany in 2013. This was hence 37,789 persons more than the positive net migration result for 2012. Berlin accounted for the largest share of this, but the federal states were also able to significantly boost the positive net migration balance sheet with foreign countries in 2013. The increase

20 Kühntopf, Stephan; Stedtfeld, Susanne (2012): Wenige junge Frauen im ländlichen Raum: Ursachen und Folgen der selektiven Abwanderung in Ostdeutschland. BiB Working Paper 3/2012. Wiesbaden: Federal Institute for Demographic Research [URN: urn:nbn:de:bib-wp-2012-032]

**Figure 27: Migration between western and eastern Germany, 1991 – 2013**  
1,000 persons



**Figure 28: Development of total birth rate from 1952–2012**



from 25,656 persons in 2012 to 33,155 persons in 2013 corresponds to an increase of almost 30%. The federal states of Saxony-Anhalt, Mecklenburg-Western Pomerania, Brandenburg and Thuringia attained the highest influx rates in Germany as a whole with over 21 to 27%. Migration to the eastern federal states is taking place at a low level, however.

Demographic trends in eastern Germany are primarily affected by the collapse in the birth rate at the outset of the 1990s and the migration from east to west, which has been ongoing for years. The shrinkage in the number of inhabitants resulting from this has brought about an unfavourable demographic situation that is impeding the process of catching up in economic terms as well as the convergence

of living conditions. In terms of the net balance sheet, the eastern German population shrank more than 11% over the period from 1991–2012. This trend will also continue in the following decades.

### Accelerated ageing process of the population in the new federal states

The migration of young people, low birth rates and rising life expectancies have changed the age pyramid of the population in the eastern federal states especially rapidly and drastically. The decline in the population of young people in eastern Germany is of special significance in the average ageing process, whereas in former German territory the increase in the number of older people determined the pace of this process.

Young adults (under 20 years of age) as a percentage of the population shrank for German territory as a whole between 1990 and 2012. The youth ratio (number of persons under 20 per 100 persons from 20 to 65 years of age) was 38.3% for the eastern German federal states and Berlin in 1991 but only just under 25% in 2012. The ratio for the old federal states (excluding Berlin) only dropped from 32.7 to 31.1 over the same period of time.

Dwindling numbers of young people has caused the percentage of the older generation to skyrocket. The old-age

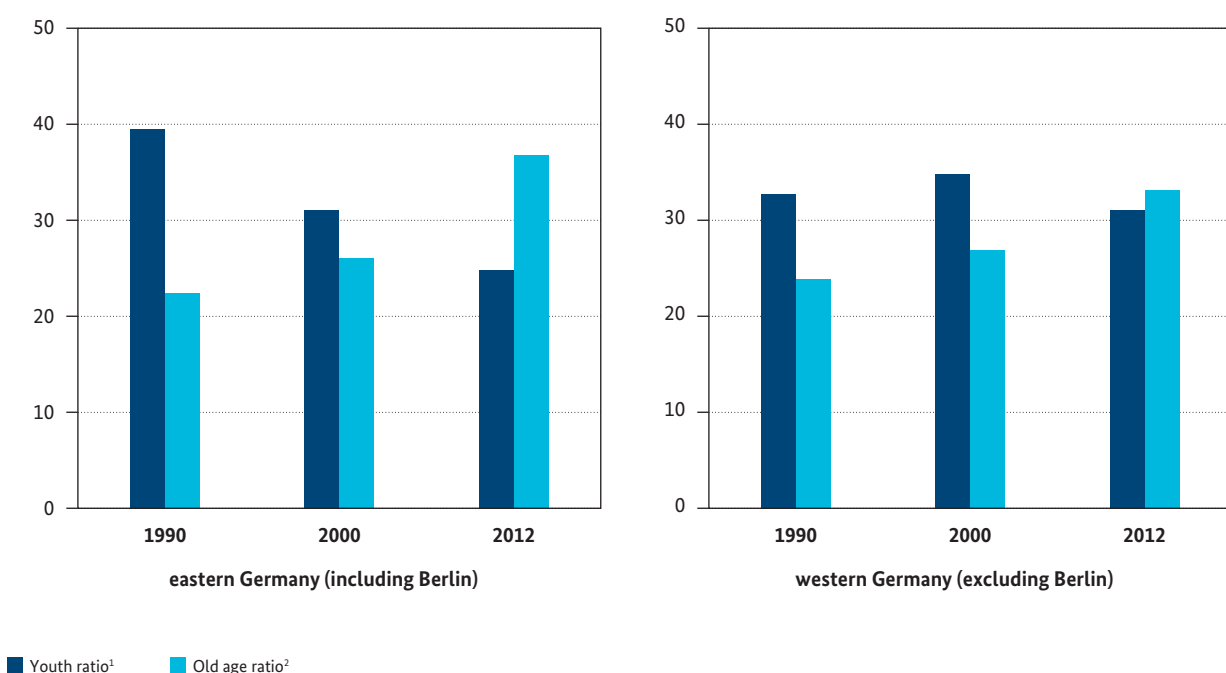
dependency ratio (number of persons over 65 per 100 persons aged 20 to under 65) rocketed from 22.4 in 1990 to 36.8 in 2012. The old-age dependency in former German territory rose over the same period of time from 23.9 to 33.2.

According to calculations by the Federal Statistical office, the trend towards a greying society will continue. The old-age dependency ratio in the eastern federal states (including Berlin) is projected to rise to around 63 by 2030, while an increase to 51 is predicted for the old federal states.

### Regional differences not only in eastern Germany

Western German counties in the Saarland, in Schäbische Alb, Sauerland or Hunsrück are running up against more and more similar demographic problems like the Uckermark, Altmark and Erzgebirge regions have already been grappling with for years. Regionally speaking, the clear dividing line separating eastern Germany the old federal states is becoming increasingly hazy. Imbalances with regard to how greatly individual urban and rural areas are affected by demographic change and the strength – or weakness – of regional and local economies are becoming more and more evident. Attractive cities and conurbations with their thriving economies continue to pulsate, while other urban and rural regions are shrinking and ageing.

**Figure 29: Young people and old-age dependency ratio in eastern and western Germany, 1990, 2000 and 2012**  
ratio



1 Youth ratio = persons under 20 per 100 20 to under 65-year-olds

2 Old age ratio = persons 65 and over per 100 20 to under 65-year-olds

Source: Federal Statistical Office, calculations: Federal Institute for Population Research (BiB)

Many regions are unable to stem this trend under their own power, let alone reverse it. Targeted support measures by policy-makers are needed, as it were, to maintain the quality of life and ensure that basic needs of the population are met while reviving the regional economy.

### Ensuring vital needs are met in all municipalities

Supplying the population with the vital goods and services it requires is a priority task of the state. In view of demographic changes and increasing financial constraints, municipalities will be facing challenges in that they will have to ensure basic needs are met and remain affordable at the local level. Experience in the eastern federal states underscores the fact that new models and forms of organisation are needed in order to efficiently provide infrastructure and a range of services, in line with needs and affordably for everyone. Access to nearby facilities and services as well as participation in social life stand at the forefront. New strategies of mobility, modern technologies and information and communication possibilities are opening up wide-ranging opportunities to organise new ways of living and working at the local level. Demographic change harbours considerable potential for innovation that needs to be leveraged. The Federal Government views demographic change as a joint task of the federal, state and local government, which need to close ranks with the private sector, associations and society as a whole to jointly shape demographic change.

### Demographic strategy

The Federal Government is carrying on with the cross-ministry and multi-level working group and dialogue process begun in the last legislative period to further develop and refine the demographic strategy of the Federal Government with its partners. Ten working groups each under the leadership of a chairperson from the Federal Government and one or more vice-chairpersons from the partners in the process are addressing focal topics in the fields of action laid down in the demographics strategy issued by the Federal Government in 2012. This also includes the development of joint strategies for the support of weak structures and demographic change in the regions hardest hit.

Experience in the eastern federal states as well as insight and findings gained there in model projects testing new strategies for solutions can provide the working group process crucial impetus.



## 2. Continued support for structurally weak regions

The achievement of equivalent living conditions is enshrined in the Basic Law and remains a priority objective of the Federal Government. By the same token, equivalent does not mean identical. What matters, rather, is the overall picture and not isolated statistics used for comparative purposes. Equivalence allows diversity – and precisely this is Germany's great strength.

Significant progress has been achieved in the convergence of living conditions between the eastern and western German regions in the past years, even if there are still considerable gaps, particularly in the area of economic growth. Eastern German regions lagged behind western regions by 20 to 30% on average with regard to the most important economic indicators, even if some economically strong eastern German regions have already bypassed some weaker western German regions. Several regions with mounting structural problems have become visible in the west as well in the last few years. In addition to the east-west comparison, there is thus a need to examine development in all structurally weak regions independently of their geographic situation. All regions with weak structures have a claim to reasonable support in their efforts to strengthen their economies. The two most important tools for this are compensation for differences in financial capabilities between federal states and local communities and the strengthening of sources of growth within the framework of regional support.

### 2.1 Ensuring economic growth of the federal states and local communities over the long term

Establishing and securing equivalence in living conditions in Germany is highly contingent upon the federal states and local communities having sufficient financial resources. The basis for this is the integration of the eastern federal states in vertical and horizontal financial compensation programmes as well as Solidarity Pact II. Statutory arrangements along these lines as well as additional financial arrangements between the Federal Government and federal states (for example the funding of community transport) are set to terminate at the end of 2019.

### Revenue situation of the eastern territorial states<sup>21</sup>

The revenue trend in the eastern federal states is marked by countervailing tendencies. While some important sources of budget revenue have continued to grow and convergence with western German levels is anticipated, other important sources of revenue have seen a significant reduction.

Tax revenue<sup>22</sup> for the eastern territorial states in 2013 was €937 per inhabitant. Among the western German territorial states this amount was €1,817 per inhabitant in the same year, whereas for the financially weak western territorial states it was €1,508 per inhabitant. The eastern territorial states thus attained a level of 62% of that the financially weak western territorial states in 2013. This figure was still at 37% in 2000. The financial strength of eastern territorial states and the city-state of Berlin have grown over the years and is higher than it was before the financial and economic crisis. The level of the eastern territorial states in 2013 was also still considerably below that of financially weak western territorial states by comparison, however<sup>23</sup>. Berlin was also below the level of financially weak western territorial states. This reflects the still-low fiscal strength of eastern Germany – resulting from economic conditions.

On the whole, per capita revenue of the eastern territorial states and communities was €5,563 in comparison to €4,861 in the structurally weak western German territorial states and communities. Especially due to Solidarity Pact II, eastern federal states at present have even more per capita revenue to fund public tasks, in particular to fund the continued need for the infrastructure to catch up, than comparable western federal states. The disparity between the two groups of federal states in 2013 was 14%.

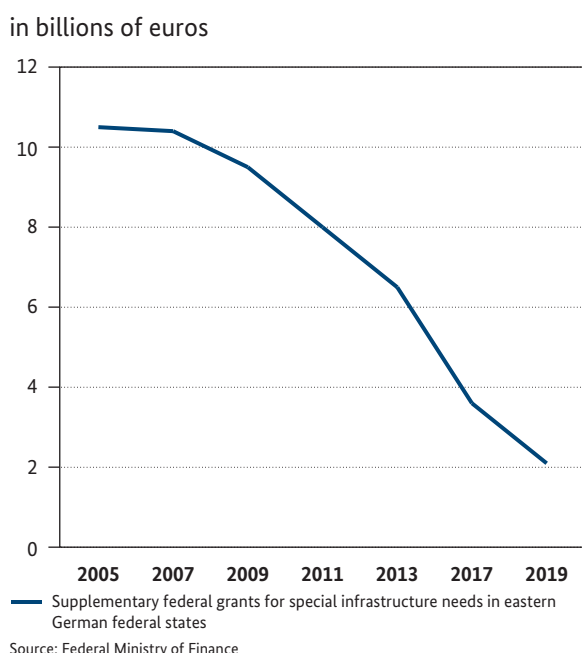
The eastern federal states receive special supplementary federal allowances (SoBEZ) within the framework of Solidarity Pact II to cover special burdens relating to the division of Germany in the effort to catch up in the area of infrastructure and as compensation for disproportionately low municipal fiscal capabilities. In sum total, the Federal Government is providing funds in the amount of €105 billion for this over the period 2005 – 2019 (so-called basket I resources). The volume for 2013 is approximately €6.5 billion; this will taper off to just under €2 billion by 2019. The importance of these financial resources, which although being cut back is still sizeable, is evident in the case of the eastern federal states from the fact that in 2013 these states were able to fund about 10% of their expenditures from

21 Eastern and western federal states excluding the city-states of Berlin, Bremen and Hamburg

22 Income and corporate tax by the federal states, federal states' tax as a whole and as a percentage of trade tax allocation.

23 The group of federal states consisting of Lower Saxony, Rhineland-Palatinate, the Saarland and Schleswig-Holstein are used for comparative purposes. These are structurally weak western federal states; they are hence an appropriate benchmark for comparison with eastern German federal states.

**Figure 30: Supplementary federal grants for special infrastructure needs: Solidarity Pact II, first basket**



basket I resources. In addition to this, the Federal Government assumed the obligation under Solidarity Pact II to apply an additional €51 billion in the form of disproportionately higher funds for *Aufbau Ost* in the same period (so-called basket II recourses). Basket II funds in 2012 amounted to about €4.6 billion. A total of around €40 billion has been disbursed for basket II in the Solidarity Pact II period 2005–2012 so far. The Federal Government has thus already met about 78% of its obligations emanating from basket II of Solidarity Pact II.

In addition the eastern Germans receive significantly more resources from EU structural funds per capita in comparison to the western 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 2014–2020 for the eastern federal states. Thanks to a security cushion, around 64% of the funds compared to the previous period have been retained even though the new federal states are no longer among the highest-priority areas of the EU.

Demographic trends have a wide-ranging impact on the budgets of the eastern federal states. For instance, the estimate 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.

## Situation regarding expenditures

Especially due to the still-existing need for the infrastructure to catch up, at €5,332 per capital expenditures by the eastern German territorial states and municipalities in 2013 were higher than in comparable western federal states (€4,950 per capita). At 15%, the total share of investment expenditures alone as a percentage of total expenditures is greater than in comparative western German federal states (7%).

## The debt situation and consolidation requirements

The consolidation of public budgets in the eastern territorial states has made considerable progress in the past few years. Eastern German territorial states and their municipalities were able to register budget surpluses in the years 2011–2013. These amounted to €2.882 billion or roughly €231 per capita in 2013. The debt level has been reduced every year since 2005 – with the exception of 2010.

In 2012 the eastern territorial states and communities listed debts in the non-public area totalling €85.6 billion (bond-related debts and loans) or approximately €6,829 per capita compared to €10,353 per capita<sup>24</sup> in comparable western German states.

This thus provides the footing for the new federal states to meet the debt-limit requirements laid down with the end of Solidarity Pact II in 2019, which requires balanced federal state budgets beginning in 2020. The basic precondition to be able to stabilise consolidation successes registered to date is control over expenditures. The new federal states furthermore have to conclude the catching-up process with regard to the infrastructure need for such resulting from the division of Germany with funds from the Solidarity Pact by the end of 2019. To be able to meet debt-capping requirements beginning in 2020 and in connection with the cited cut-backs scheduled for important sources of revenue, the eastern federal states and municipalities will have to carry on their successful consolidation course in the coming years.

## The situation of eastern German municipalities

At €2,405 per capita, the revenue of municipalities in the eastern territorial states<sup>25</sup> was approximately 90% of the level of western German territorial states. There is thus a similar disparity with respect to expenditures by eastern German municipalities (88% of the western German level).

<sup>24</sup> Federal Statistical Office, *Schuldenstand der Länder und Gemeinden/Gemeindeverbände zusammen nach Arten und Ländern*; Fachserie 14 Reihe 5, 2012, Table 1.3.1, own calculations. Number of inhabitants as of 30 June on the basis of the 2011 census.

<sup>25</sup> Federal Statistical Office, *Kassenergebnisse der kommunalen Haushalte 2013*

Differences can be clearly seen with regard to the structure of revenues. Municipal tax revenue per capita is now 58% of the western German level. These financial figures reflect economic conditions. Ongoing transfers from the federal and state governments continue to constitute the biggest revenue items for eastern German municipalities on the other hand. These are about one-third greater than those of western German municipalities. Financial transfers and Solidarity Pact II offer important support here. It is encouraging that municipal debt in the eastern territorial states is significantly lower than in most of the western territorial states. Studies such as the *KfW-Kommunalpanel*<sup>26</sup> also reveal problems, however. Thus, investment in eastern German municipalities is still held to be seriously lagging in this study.

Federal-state government financial relations are to be put on a new footing by the end of 2019 at the latest. The aim is for every level – federal, state and community – to be able to meet their tasks with a high degree of responsibility of their own. Federal and state governments will prepare proposals on this. Representatives of municipalities will be included in the further course of the procedure.

The Federal Government continues to attach considerable importance to the reduction of regional disparities throughout Germany. That is why the groundwork is now to be laid for further development of the system of promoting structurally weak regions throughout Germany beginning in 2020. No distinction will be made any longer between east and west. The objective is equivalent living conditions everywhere in Germany. It will be discussed within the framework of the new basis for federal-state financial relations whether and how specialised support programmes for the eastern federal states can be gradually phased into an all-German system for regions with weak structures. The federal/state programme to improve regional economic structures (GRW) will be the main instrument in this. This new foundation for federal/state financial relations and the further-developed support system are particularly important to the eastern federal states as well as some regions in the western federal states, as they

will probably for the most part remain structurally weak regions after 2020 as well and take in below-average tax revenue.

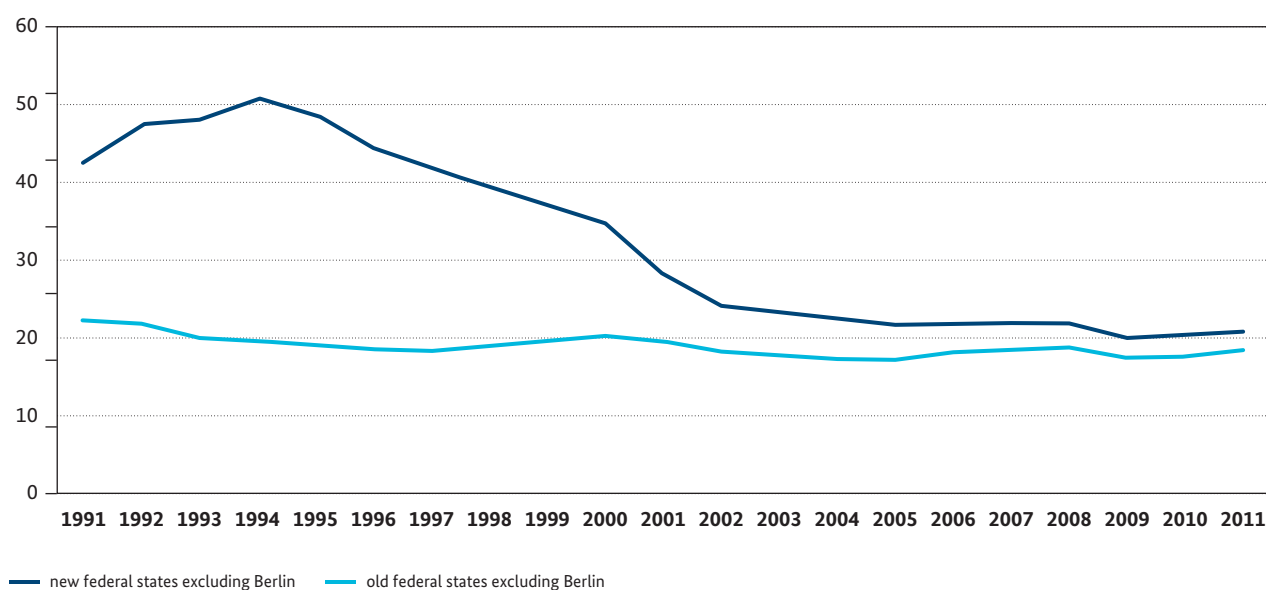
## 2.2 Strengthening economic growth

The process of the new federal states catching up economically has not yet been completed, which is why a flanking structural policy is still necessary. Three areas of action stand at the forefront that are capable of reducing deficits and sparking growth. Known as the “three I’s”, these fields of action are: boosting investment, triggering innovation and greater internationalisation of the eastern German economy. With an eye to the dominance of small economic units in the eastern German economic structure, promotion of networking and clusters are also assigned a high degree of importance.

### National promotion of investment

Investment is the key to improvement and expansion of any and every enterprise’s own production. Although the investment rate, i.e. the percentage accounted for by investment in GDP, dropped off considerably in the second of the 1990s following the construction boom in eastern German following reunification, it stabilised once again at the beginning of the 2000s. Thanks as well to the promotion of investment in eastern Germany, it continues to exhibit a lead over western Germany today with regard to the investment rate.

**Figure 31: Investment ratio**  
as a %



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (VGRdL)

### The joint federal/state programme to “improve regional economic structures”

The “joint federal/state programme to improve regional economic structures” (GRW) is the main instrument of national economic support.

It is of outstanding importance in promoting investment in eastern Germany. 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.

By promoting commercial investment, investment in business-relevant municipal infrastructure and measures in the area of networking and cooperation with regional actors, the GRW stimulates regional growth and helps create and safeguard competitive jobs in less-developed regions. In this way, it is helping bring about equivalent living conditions throughout Germany. As a result of its focus on growth, the GRW has done the groundwork in many regions, especially in the new federal states, to allow structural change to be successfully tackled, or at least a big step forward taken in coping with it.

The Federal Government has acknowledged the significance of the GRW, not only halting the originally planned phase-out of financial resources earmarked for it, and instead resolving to raise it to the level of 2009 step by step.

€1.036 billion in GRW financial resources was provided for eastern Germany (federal and state resources including

EFRE cofinancing) in 2013. Of this amount, subsidies to a tune of €822 million were approved for investment in manufacturing, €210 million for investment in business-relevant infrastructure projects and €4 million for projects promoting networking and cooperation among local actors. The investment volume set in motion in the eastern federal states totalled approximately €4.8 billion.

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. In comparison to previous arrangements, significantly more restrictive conditions surrounding state aid had to be respected here. This also goes for demarcation of the regions receiving support. Although the new federal states continue to be listed as a region receiving support with state aid status under European law governing regional state aid as a whole, they are no longer ranked at the highest level of support as in the past, but rather (with the exception of the region Northern Saxony/Leipzig) at the third level of support (C) with a slightly privileged status: aid rates five percentage points higher apply to these regions for a transitional period down to 31 December 2017. In addition, ten cities and counties that are not attached to any administrative district that share a national border with Poland are profiting from a border-related grant limited to 15 percentage points above the difference with the neighbouring country.

**Table 4: Maximum rates of state aid according to regions receiving support**

Category of region receiving support (per capital GDP in terms of Purchasing Power Standard (PPS) in comparison to average for EU 27)	Maximum state aid rates					
	2007 – 30 June 2014			1 July 2014 – 31 December 2020		
	Size of company					
	Large enterprises	Medium-scale enterprises	Small-scale enterprises	Large enterprises	Medium-scale enterprises	Small enterprises
A (≤ 45 %)	50 %	60 %	70 %	50 %	60 %	70 %
A (45 – 60 %)	40 %	50 %	60 %	35 %	45 %	55 %
A (≥ 60 – 75 %)	30 % <sup>1</sup>	40 % <sup>1</sup>	50 % <sup>1</sup>	25 %	35 %	45 %
Predefined C regions <sup>2</sup>				1 July 2014 – 31 December 2017		
				15 % <sup>2,3</sup>	25 % <sup>2</sup>	35 % <sup>2</sup>
				1 January 2018 – 31 December 2020		
				10 % <sup>2,3</sup>	20 % <sup>2</sup>	30 % <sup>2</sup>
Non-pre-defined C regions	15 % <sup>4</sup>	25 % <sup>4</sup>	35 % <sup>4</sup>	10 % <sup>3</sup>	20 %	30 %

1 Reduction to 20% / 30% / 40% beginning in 2011 in Halle, Leipzig and Brandenburg-Southwest

2 Regions removed from A support will in their capacity as "pre-defined C regions" receive a mark-up of 5 percentage points on the maximum state aid intensity until 31 December 2017. In addition, it is possible for the maximum state aid rate for C regions that border on A regions to be raised rate until 31 December 2020 so that the difference with supported regions bordering on Poland is no more than 15 percentage points.

3 In the case of large enterprises, only initial investment in a new economic activity in the respective region is eligible for support.

4 Different rates of support applied to some regions

The fields highlighted in grey indicate which category of support regions the eastern German regions belong to or used to belong to. Merely Leipzig Municipality, Country Leipzig and Northern Saxony are simple C regions. Berlin is in part a C region, in part a non-supported region.

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.

With the commencement of the new support period on 1 July 2014, federal GRW resources will no longer be distributed according to ratios stipulated for the new federal states including Berlin on the one hand and the old federal states on the other (thus far 6/7 east and 1/7 west). This is instead to be based on regional structural weaknesses calculated using a uniform approach. As a result of redistribution, which has been revised in a rational manner in which the federal states' absorption capabilities have also been taken into account, the computed decrease in support funds for the new federal states has been limited considerably. In the future they will receive around 90% of the amounts of funds they have received in the past. Map 3 below shows the distribution of support assigned to regions for the support period 2014–2020.

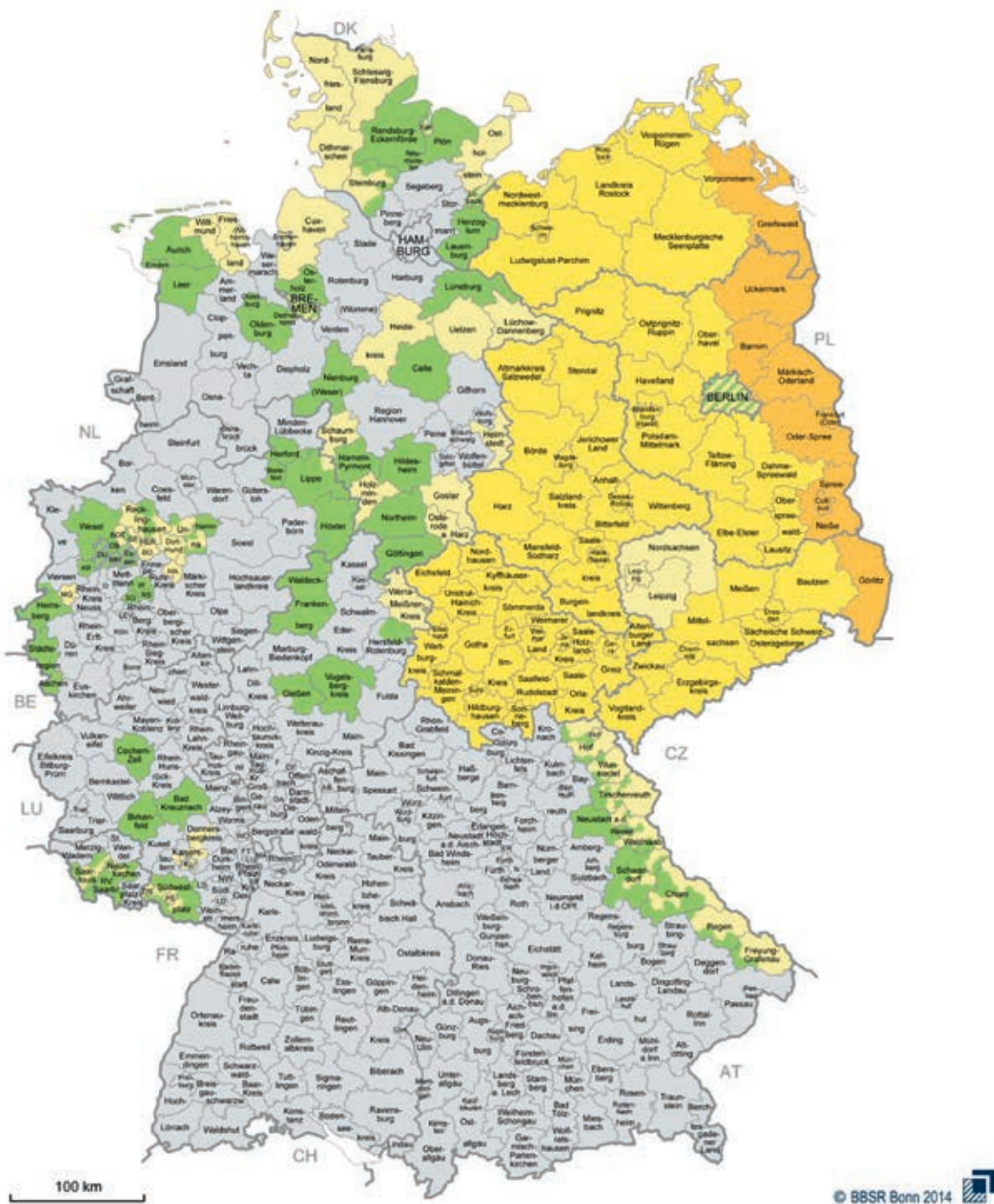
### Financing instruments

In addition to direct support for investment, support through funding and guarantee programmes are gaining increasing currency. Financing through the capital market

often poses a challenge 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 support for small-scale business start-ups. A special priority here in Federal programmes is assigned to innovative start-ups, with this form of support being used disproportionately frequently in the new German states and Berlin (EXIST, High-Tech Gründerfonds, INVEST). Most programmes providing financing are made available via the Kreditanstalt für Wiederaufbau (KfW). The regional support programme, which is funded with resources from the "European Recovery Program" (ERP) and provides special conditions for regions with weak structures, is of particular importance to enterprises in eastern Germany. 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, support from equity capital is gaining increasing importance. This includes not only financial resources from providers of venture capital, but also mezzanine financing, a hybrid made up of equity and outside loan capital.



Map 3: GRW support areas 2014–2020



**Fördergebiete der Gemeinschaftsaufgabe  
"Verbesserung der regionalen Wirtschafts-  
struktur" im Zeitraum 2014 - 2020**  
in gemeinschaftlicher Abgrenzung

- Prädefiniertes C-Fördergebiet
- Prädefiniertes C-Fördergebiet mit Grenzzuschlag gemäß Rz. 176 Regionalleitlinien
- Nicht prädefiniertes C-Fördergebiet
- Nicht-prädefiniertes C-Fördergebiet (davon Städte/Gemeinden teilweise)

- D-Fördergebiet
- D-Fördergebiet (davon Städte/Gemeinden teilweise)
- Teilweise nicht prädefiniertes C-, teilweise D-Fördergebiet
- Nicht-Fördergebiet

Datenbasis: BMWi  
Geometrische Grundlage: BKG, Gemeinden, 31.12.2011  
Bearbeitung: G. Lackmann

Name Landkreis

Name kreisfreie Stadt (bei Platzmangel nachweisliche Entfernung des Kreisnamens)

— Grenze Landkreis bzw. kreisfreie Stadt  
— Grenze Bundesland

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## 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 Investment Fund (EIF), 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 EIF 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 EIF fund.

### The European Fund for Regional Development and European Social Fund

Primarily company investment (SMEs), innovation and measures aimed at reducing CO<sub>2</sub> emissions receive support with the aid of the EFRD in all areas of the economy in the support period 2014–2020. Measures promoting long-term employment, the mobility of labour, social integration and combatting poverty as well as investment in education, training and vocational training for skills and lifelong learning are funded with ESF resources. The exact promotional measures emanate from the Operational Programme (OP) established by the Federal Government for the ESF and by the federal states for both funds. The Federal program EFRE Verkehrsinfrastruktur 2007–2013 is being phased out by the end of 2015, but is not being instituted again for the period 2014–2020. Measures supporting the transport infrastructure will only be eligible for support within the framework of regional EFRE OPs with the objectives of innovation, CO<sub>2</sub> reduction in all areas of the economy and sustainable urban renewal in the future.

Germany's regions are to receive a total of €27.5 billion from the EIF in the support period 2014–2020. Of this amount, approximately €13 billion are earmarked for eastern German regions (transition regions plus the region of Leipzig). Thus more than three times as much money is being channelled to eastern German regions per capita. The ERDF and ESF shares amounted to a total of €18.3 billion for Germany as a whole (excluding the funds from European Territorial Cooperation (ETC) in the amount of €900 million). Of this amount, approximately €9 billion is earmarked for eastern Germany. Another €8.3 billion are being channelled to Germany from the European Agricultural Fund for Rural Development (EAFRD). On top of this there are financial resources provided for under the EMFF, which amounts to €220 million. The EIF fund is co-financed with national public or private resources.

Because economic growth in eastern Germany picked up during funding period 2007–2013 in comparison to the EU average, with the exception of Berlin and the region of Leipzig the eastern German regions are among the “transition regions” in funding period 2014–2020. These regions and the region of Lüneburg have a higher funding intensity than in the other “more developed” German regions.

After the new EU regulations on the structural and investment funds went into effect on 17 December 2013 and approval for the German Partnership Agreement (for the implementation of EIF funds under the Common Strategic Framework in funding period 2014–2020) was issued by the EU Commission on 22 May 2014, the operation programme of the Federal Government for the ESF and the federal states for the ERDF and ESF were officially submitted to the EU Commission. This is the crucial step for ERDF and ESF funds to be used at the federal and state levels.

Now speedy approval of the OPs by the European Commission is important for the start-up into the new funding period.

### European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development

EU agricultural resources remain virtually unchanged at the EU level in the funding period 2014–2020 in comparison to the multi-year financial framework for 2007–2013. As a result of redistribution in favour of Member States with low average state aid amounts per hectare and historical distribution of funds being taken less into account, Germany is to receive around 7.1% less in EU agricultural funds over the period 2014–2020 than in the period 2007–2013. European agriculture and rural regions are being funded especially from two EU funds in the funding period 2014–2020:

- from the European Agricultural Guarantee Fund (EAGF) for direct payments and market measures, known as the first pillar of the Common Agricultural Policy (CAP). Approximately €42 billion is available for direct payments throughout the EU in 2014, of this around €5.1 billion is to go to Germany (the new federal states are to receive one-third of this amount). On average, direct payments make up about 38% of farmers' income in Germany.
- from the European Agricultural Fund for Rural Development (EAFRD), known as the second pillar of the CAP. For the funding period 2014–2020, Germany will receive about €8.3 billion from the CAP via the EAFRD. Of that amount, about €4 billion, i.e. 49% of the EAFRD funds, will be going to the eastern German states. With this slight decline in the share compared to the preceding

funding period, it is being taken into account that the new federal states are leaving the highest EU funding category (convergence area) beginning in 2014 and in addition to the historical distribution space in hectares is to be taken into account as a component in the distribution of funds in the future as well. A significant part of the obligatory national co-financing of EAFRD funds will be attended to by the federal and state governments within the framework of the joint programme “improvement of agricultural structures and protection of the coast” (GAK). Together with additional national resources, almost €17.6 billion in public funds will be available over the period 2014–2020 for measures under the second pillar. Of this amount, €5.9 billion will go to the eastern German states.

As part of the reform of the CAP, the European Commission has proposed introducing mandatory digression and capping direct payments to large farming operations. This would have affected eastern Germany more than the rest of the country, as it has the largest farms. The Federal Government was able to gain acceptance for its proposal with regard to the reform of the CAP to have additional subsidies made available to all operations for a limited amount of their land (“the first hectare”) rather than cutting or capping direct payments only for very large operations. This option, which Germany is taking advantage of in implementing the CAP, allows the Member States to adequately take into account the different structural conditions prevailing in agriculture in subsidies.

Starting in 2014, the eastern German states will no longer qualify for the highest level of EU funding (support for convergence areas). In negotiating the future multi-year financial framework (MFF), the Federal Government has therefore called for transitional provisions in the eastern states in this regard. It was able to gain agreement that, from 2014, second-pillar funding from EAFRD can be provided with 75% EU participation in the former convergence regions and with 63% EU participation in the other transitional regions.

### Privatization and leasing of former state-owned farmland by Bodenverwertungs- und -verwaltungs GmbH

Forestry and agricultural operations are of considerable importance to many rural regions of eastern Germany. The agricultural sector provides jobs and preserves the rural character of the regions. The Federal Government supports agricultural operations in their efforts to safeguard their economic viability over the long term through the privatization and leasing of former state-owned farmland to agricultural operations via Bodenverwertungs- und -verwaltungs GmbH (BVVG).

The privatisation of state-owned farmland and forests continued in the year under report as well. In 2013, a total of 36,071 hectares of farmland and 15,245 hectares of forests were sold to the old owners and their heirs under the terms of the Compensation and Corrective Payments Act (EALG). A total of 781,300 hectares of farmland and around 569,300 hectares of forests have been sold in this manner since 1 July 1992. By 31 December 2013, about 225,152 hectares of farmland and 33,099 hectares of forests remained in the possession of the Land Utilization and Management Company (BVVG).

In order to better take into account changed framework conditions since the adoption of the privatization principles in 2010, amendments to the privatization principles were introduced in 2013. Lot sizes were generally reduced to a maximum of 25 hectares. Young farmers were allowed to take part in so-called limited calls for tenders as well. The amount of farmland offered in such limited calls for tenders is being expanded from 5,000 hectares annually to 7,500 hectares.

### Promoting innovation

#### The “entrepreneurial regions” (Unternehmen Region) programme

The Federal Government offers six funding programmes under the heading “**entrepreneurial regions**” (*Unternehmen Region*) which target various stages of the innovation process in order to align with structural idiosyncrasies of the eastern German research landscape (many innovative small and medium-sized businesses, few large companies with in-house R&D departments, recognized research sites in sometimes less-developed regions):

- “Innovation forums” promote building up or reorienting regional innovation net-works. So far, more than 145 innovation forums have received or will receive funding of up to €85,000.
- The programme for innovative regional growth cores or growth core potential (*Innovative regionale Wachstumskerne/Wachstumskern-Potenzial*) is intended to strengthen profit-oriented regional alliances with shared technology or unique problem-solving platforms. 44 growth cores with more than a thousand individual projects, and 29 potential growth cores with more than 135 individual projects are being funded.
- The programme Centres for Innovation Competence: Creating Excellence, Securing Talent (*Zentren für Innovationskompetenz: Exzellenz schaffen – Talente sichern*) aims to establish international high-performance research centres which will set standards through their excellent



research, entrepreneurial strategy and innovative approaches to promoting young talent. There are now 14 centres attracting talented researchers from Germany and other countries.

- The programme InnoProfile or InnoProfile-Transfer is intended to strengthen the capacity for innovation in eastern German regions through collaboration between young researchers and regional enterprises. Roughly €157 million has been ear-marked for 42 groups of young researchers. The programme InnoProfile-Transfer started in 2012 with the aim of creating stronger ties between regional companies and research groups by means of greater financial involvement.
- In the federal programme ForMaT, the Federal Government (Ministry of Education and Research) provides encouragement for overcoming the division between market-driven industrial research and knowledge-driven public-sector research. €60 million were available up to 2012 in three rounds of funding.
- The programme Twenty20: Partnership for Innovation (*Zwanzig20 – Partnerschaft für Innovation*) 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 is providing up to €500 million for ten initial consortia, to be selected in a juried competition, to bring together strengths from the research and business communities. These consortia are to work across sectors and state boundaries in order to harness existing expertise in different areas to work on solutions to key problems of the future.

#### The programme on “top-level research and innovation in the new federal states (*Spitzenforschung und Innovation in den Neuen Ländern*)

Since 2008, the programme on **top-level research and innovation in the new federal states** (*Spitzenforschung und Innovation in den Neuen Ländern*) has provided further incentive to strengthen the capacity for innovation, build long-term research collaborations and support universities in defining their profiles. To this end, the programme supports subject-oriented multi-organisational networks between universities, research institutes and private companies. So far, 17 initiatives have been funded with approximately €225 million in the years 2008–2014.

#### Higher Education Pact 2020 (*Hochschulpakt 2020*)

The federal and state governments are seeking to achieve a supply of studying opportunities that conforms with needs

in the guise of Higher Education Pact 2020. This programme aims to confront the growing need of the labour market for skilled workers and ensure a high quality of higher education for the growing number of persons entitled to study at schools of higher learning. The aim is to guarantee the younger generation is able to study in higher education, ensure that there are enough up-and-coming researchers and boost Germany's innovative power.

Successful university research which successfully competes for support from the German Research Foundation (*Deutsche Forschungsgemeinschaft – DFG*) will receive a block funding sum of €1.6 billion under the programme between 2011 and 2015. The Federal Government is contributing over €7 billion to the expansion of studying opportunities in Germany in the period 2011–2015, of which €950 million will go to the new federal states, and about €650 million to Berlin.

The new federal states will thus profit disproportionately from the Higher Education Pact: the percentage of federal funds being channelled to the new federal states (excluding Berlin 13.5%; including Berlin 22.8%) 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 2012 (excluding Berlin 11.1%; including Berlin 17.1%).

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

#### Top Cluster Contest (*Spitzencluster-Wettbewerb*)

With a solid infrastructural footing for research, 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:

Started up in 2007, the Top Cluster contest embedded in the Federal Government's high-tech strategy provides targeted support for the most effective clusters along the path to joining the group of top international research institutions. By promoting the further strategic development of these clusters of excellence, regional innovative potential is to be harnessed more intensely in the value-added chain. Three out of the 15 top clusters receiving funding under the Federal Government's high-tech strategy are located in eastern Germany. Two of the three clusters in eastern Germany have in the meantime completed their projects supported in the competition: the microelectronic cluster Cool

Silicon in Dresden and the photovoltaic cluster Solarvalley in central Germany. They are carrying on with their strategy, will also be working with other top clusters in the future and already now 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, successfully completed the preliminary evaluation in May 2014 and will continue to receive funding until 2017.

### The initiative “Research Campus”

Following preliminary assessment in June 2014, six additional research campuses were selected for support in the main phase in the “Research Campus” initiative. Three of these research campuses come from eastern Germany: the research campus “MODAL – Mathematical Optimization and Data Analysis Laboratory” in Berlin, which is focusing on process optimization, the medical technology research campus “STIMULATE – Solution Centre for Image Guided Local Therapies” in Magdeburg and “InfectoGnostics”, which is exploring new methods for diagnosing infections in Jena. The research campus “EUREF – Mobility2Grid” set up in Berlin to support sustainable energy and mobility development will undergo assessment in 2015, as its two-year preliminary stage is still ongoing.

### The central innovation programme for SMEs (Zentrales Innovationsprogramm Mittelstand – ZIM)

The central innovation programme for SMEs (Zentrales Innovationsprogramm Mittelstand, or ZIM) provides support for ambitious small and medium-sized businesses resulting in new products, processes or technical services. Development may take place in-house, using own staff or in collaboration with other businesses or research institutions, such as universities or Fraunhofer institutes, or as cooperation networks combining R&D projects and network management. Support from ZIM helps SMEs finance research projects, thereby intensifying their involvement in the development of new products and more efficient processes. In many cases, cooperation in networks can make up for size-related disadvantages.

Since mid-2008, roughly 26,000 applications for funding were approved, amounting to grants of more than €3.5 billion to spur investment of more than €7 billion in research and development. Twelve thousand businesses and 365 research institutions cooperating with them were reached, while more than two thousand businesses were active in networks.

About €513 million for ZIM funding is earmarked in 2014 federal budget. This money will encourage further industry

investment in R&D, having positive effects on the market and employment in the medium to long term.

40% of ZIM funding goes to eastern Germany, which is thus overrepresented in this demand-oriented programme open to different technologies and sectors. SMEs conduct most of the projects in the field of production and materials technologies. But other areas such as health and energy efficiency also receive a healthy share of funding as well. As a result, increased research activities not only increase companies’ competitiveness but also speed up the solution of technological challenges. Cooperation with research institutes is the project form most requested by companies. So ZIM plays a major role in expanding cooperation between research and business and in increasing technology transfer.

ZIM will be terminating at the end of 2014, but it is planned to extend it.

### The INNO-KOM-East programme – promotion of external non-profit industry research facilities in eastern Germany

The tested-and-proven instrument of private external non-profit industry research facilities, also known as “Research GmbH”, is slated for continuation.

These facilities are intended to compensate for the structural competitive disadvantage of the eastern German economy and in particular industrial research as a result of the virtual absence of research-intensive big companies. They are therefore serving as pillars for industrial research in eastern Germany, where SMEs dominate the landscape. These facilities transfer results produced by their R&D work to companies, in particular SMEs, and serve as initiators and moderators for regional and national networks as well as brokers between research institutions and enterprises. Thanks to their market-oriented approach, they help strengthen the competitiveness of the eastern German economy.

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 support programme.

The R&D support programme for external non-profit industrial research facilities in eastern Germany (INNO-KOM-Ost) is accordingly of major importance to industrial research facilities. On average over 50% of R&D funding comes from the programme. Approximately 60 industrial research facilities receive funding from 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 science-technical infrastructure of industrial research facilities (with a programme volume of €65.5 million per year).

The programme's main module is strictly oriented towards bringing funded R&D results to market, generally by means of transfer to SMEs. It thus targets important weak points in the eastern German economy dominated by SMEs, bringing about 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 research-technical infrastructure of industrial research facilities at a competitive level, thereby securing the basis for effective, efficient research work.

1,080 R&D projects with funding of around €312 million have been since from the beginning of the programme in January 2009 to June 2014.

Evaluations attest to the need for, the effectiveness and efficiency of the INNO-KOM-Ost programme with an eye to establishing self-sustaining economic development in eastern Germany. Experts have recommended that the programme be continued and opened up to similar facilities in the old federal states.

### Support for networks and clusters

The predominance of small business units in the eastern German economy often has a negative impact on development prospects for enterprises. By integrating related companies, sectors or research facilities in networks or regional clusters, these disadvantages can be compensated for at least in part while leveraging special regional potential.

The most frequent form of cooperation are innovative networks and clusters. These may involve cooperation with technology specialists and research facilities or the use of specific skills and technologies. If the market requires complete solutions, products and services that a small enterprise cannot cover on its own, cooperation at the production level (production cells), cooperation in marketing and in the supplier area all the way to joint penetration of export markets may prove helpful. These elements also explicitly include the networking of services along value-added chains.

A whole host of successful networks and clusters have formed in eastern Germany in the meantime, providing significant impetus in their various industries. The number of eastern German clusters varies depending upon the respective definition employed and delimitation. Independently of the definition used, there is a noticeably imbalanced spatial distribution of company concentrations in eastern Germany. There is a very dense concentration of clusters in the larger Berlin metropolitan area, for example in the media industry, mechanical engineering and biotechnology. There are also numerous clusters in Saxony, Saxony-Anhalt and Thuringia, for example in the chemicals industry, micro- and nanoelectronics, rail transport technology, medical technology, car manufacturing and biotechnology. Cores of development have also begun to coalesce in the fields of biotechnology and health in Mecklenburg-Western Pomerania as well.

Another example of a successful network initiative encompassing several states is the chemicals-synthetics cluster in central Germany (CeChemNet). It was established in 2003 as a platform for both big companies and SMEs. The chemicals-synthetics cluster in the meantime covers around 750 companies accounting for annual sales of approximately €18 billion with 71,000 employees. New technologies are being developed in these clusters today, for example in the area of renewable energies and energy efficiency.

The Automotive Cluster for Eastern Germany (ACOD) is an additional successful initiative spanning different federal states created in 2004 by automobile manufacturers that had recently set up production in eastern Germany and now comprises suppliers, service providers, research institutes and associations. The latest figures indicate it has more than 180,000 employees and €38 billion in sales. Roughly 676,000 cars were produced in 2013. The objective of the ACOD is to pool regional activities, generate synergies within the industry for all of eastern Germany and above all to establish a competitive automotive supplier industry in the new federal states.

A relatively new network, the Cleantech Initiative for Eastern Germany (CIO) was started up in 2011. The aim of this initiative is to pool the enormous potential to be found in eastern Germany in the area of so-called clean technologies and thus encourage the implementation of environmentally compatible, energy-efficient and resource-saving technologies in all areas. The business consultancy KPMG estimated the magnitude of economic potential to be found in the cleantech area in eastern Germany in a study performed in 2013, identifying at present 3,000 enterprises operating in eastern Germany in the six leading markets in the cleantech sector with annual sales of around €31 billion. The initiative comprises around 80 active members from manufacturing companies and service providers at present.

## Export promotion

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

Significant growth potential awaits eastern German enterprises by gaining a toehold in international markets and boosting exports. A “programme to help small and medium-scale manufacturing and service providers to enter foreign markets”, started up in 2012, pools and reinforces support opportunities for business enterprises. The programme encourages the acquisition of business as well as market reconnaissance. An additional module supports matching between foreign purchasers or decision-makers and SMEs. Thanks to the broad availability of information provided by the federal foreign trade and inward investment agency Germany Trade and Invest (GTAI) on the current situation in various international markets, companies are furthermore offered the possibility to make strategic decisions on the development of their international business on a reliable basis. The objective underlying all the various measures and support possibilities is to create an awareness for opportunities through internationalisation and to dismantle barriers to the development of an export business.

## Encouraging foreign direct investment

International enterprises have been playing a key role in economic growth in the eastern German federal states since 1990, making a crucial contribution to the modernisation of the economic structure there. In the meantime the new federal states have turned into an extremely competitive location at the international level. The GTAI markets the strengths of eastern Germany internationally and targets potential investors. The GTAI’s activities will constitute an important locus of efforts to attract investors to the new federal states in the future as well.

Above and beyond this, the Federal Government supports projects of the economic promotion agencies of the eastern German federal states aimed at attracting investors. This thus makes an important contribution in approaching investors and in the communication of the specific advantages offered by the region.

The most salient and in some cases unique strengths and advantages of eastern Germany as a location for business and industry are its central location in the heart of Europe, its efficient transport infrastructure, its wide-ranging research landscape and the tremendous potential to be

found here in the guise of highly trained and motivated specialists and skilled labour. In efforts to attract investors, incentives through subsidies for investment are being gradually scaled down, as internationally operating enterprises have their sites fixed on the greatest efficiency, performance and innovative dynamics over the long haul rather than the greatest subsidies that can be obtained in the short term.

## 2.3 Securing the base of skilled labour

Challenges such as the demographic shift and bottlenecks in the supply of skilled workers also affect regions of low economic growth in eastern Germany and will lead to a sharpening of regional disparities if no countermeasures are taken. These regions, which include peripheral rural areas, could be permanently cast adrift from general development if the spiral between different factors such as high infrastructure costs, insufficient municipal revenue and a dearth of economic prospects cannot be stopped. The loss of skilled labour and bottlenecks in the supply of skilled labour play a very crucial role in all this. If this trend is not halted, this first of all has an impact on economic growth in a region, but also has massive repercussions for social life at the local level.

The Federal Ministry of Education and Research and the Federal Ministry of Economics and Energy have been supporting inter-company vocational training centres (*Überbetrieblichen Berufsbildungsstätten – ÜBS*) since the 1970s. Together with funding from the respective federal state and the holding institution of the ÜBS, projects are provided funding in the area of initial vocational training supplementing on-the-job training in small and medium-scale enterprises (SMEs). This creates additional foundations for small and specialised enterprises to be able to train people in recognised training occupations.

This support has also proven to be necessary because first of all demographic trends in eastern Germany were forecasted much too optimistically at the beginning and because the east has for years been wrestling with an ongoing exodus of companies, trainees and labour, the magnitude of which could not be foreseen back then. For all these reasons, almost all the ÜBS in the new federal states have to struggle with serious capacity-utilisation problems. The primary objective has to be to maintain the substance of inter-company vocational training centres that are truly needed and to consolidate the supply side.

## Skilled labour strategy

Adopted in 2011, the Federal Government's strategy regarding skilled labour consists of measures intended to secure the skilled labour base. The strategy above all seeks to activate and train domestic potential. The five paths specified in it include both "education and training opportunities for everyone from the very beginning" and "qualifications: initial and further training". The target groups are in particular women and older employees. The influx of skilled labour from abroad is also to be more effectively harnessed, for example through the launch of the "Blue Card" <sup>27</sup> on 1 August 2012 and the Reform of the Employment Regulation that went into force on 1 July 2013. The objectives and measures taken by the Federal Government are to be reviewed annually and the measures further developed and refined. The second progress report on the skilled labour strategy was issued on 12 March 2014. The national and international campaign instituted by the Federal Government and the Federal Employment Agency (*Bundesagentur für Arbeit*), known as the "skilled labour offensive", informs and sensitises the public sphere on the need to ensure a reliable supply of skilled labour. The objectives associated with securing a supply of skilled labour are first of all the maintenance of prosperity and secondly the creation of better work opportunities for groups that have thus far been disadvantaged in the labour market.

## Training initiative

In autumn 2008 the federal and state governments agreed within the framework of the training initiative that the number of young people leaving school without a graduation certificate should be cut in half to 4% by 2015.

Measures adopted and implemented in the training initiative are having an impact. The amount of young people leaving school without a graduation degree has dropped from 7.9% in 2006 to 5.9% in 2012. There is nevertheless a need for additional action to be able to attain targets. This goes in particular for pupils with a migration background. Here there was even a slight increase from 9.5% in 2006 to 10.4% in 2011.

A comparison of federal states shows that there is a disproportionately high number of pupils who do not receive a graduation degree in all of the eastern German states. 12% of pupils in one class-year thus left general schools without a graduation degree in Mecklenburg-Western Pomerania. This figure is 11% for Saxony-Anhalt. These above-average levels for the eastern German states may be attributable to greater-than-average percentages of pupils at special schools compared to overall numbers of pupils.

At the same time, it also needs to be taken into account, however, that the statistics do not capture those pupils who are successful in obtaining a lower-level secondary school graduation degree at vocational schools or in other institutional settings at a later point.

A decrease in the percentage of young people dropping out of school prematurely (18 to 24-year-olds without any upper secondary school graduation degree) to below 10% is also being targeted within the framework of national EU 2020 objectives. The trend from 2006 (14.1%) to 2011 (11.6%) shows that the footing created by the federal and state governments to attain these goals is bearing fruit.

## 2.4 Support for regions especially affected by demographic change

Regions are affected very differently by demographic changes. Many regions characterised by weak economic growth and peripheral rural regions, but also cities with weak structures have been registering declining populations for years. The percentage of older people rises considerably with migration of especially younger people out of these areas. Most of those regions hit hardest by these demographic trends are to be found in eastern Germany. A growing number of negatively affected regions and cities can be seen in the old federal states as well, however.

The repercussions of demographic change for the quality of life and social life at the local level, for the residential market and the local supply of vital services can no longer be coped with by many communities. That is why the Federal Government is supporting regions and cities in its policy with targeted programmes and model projects.

## Urban reconstruction and development

The Federal Government is earmarking €700 million for urban reconstruction and development in 2014 – 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.

In addition, an independent federal support programme known as "promotion of investment in national urban reconstruction and development projects" is being

<sup>27</sup> The "Blue Card" is a residents' visa designed for members of third states in the Member States of the EU.

launched with a total programme volume of €50 million. The programme targets investment as well as conceptual projects with a particularly great national exposure and quality with above-average volumes of investment or high potential for investment. In particular, concentrations of listed national landmarks of national importance such as, for example, UNESCO world heritage sites and culturally important architectural goods of exceptional value including measures in their vicinity as well as overhauling energy systems in existing buildings and “green cities” are being supported. This makes it possible to dovetail with a sub-area of the special support program for “investment in national UNESCO World Heritage Sites”, for which the implementation of measures is to end in 2014.

### The “Urban Reconstruction East” (Stadtumbau Ost) programme

The successful “urban reconstruction east” programme (Stadtumbau Ost) is being ramped up to an even higher level of €105 million in 2014. Cities and municipalities use this programme to maintain and improve the quality of their location including in the context of economic and demographic structural 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 not be any demand in the future.

### The “Socially Integrative City” (Soziale Stadt) programme

The Federal Government has also boosted resources earmarked for the “Socially Integrative City” programme (Soziale Stadt) significantly from €40 million to €150 million in the 2014 federal budget – the new federal states are also profiting from this. In “Socially Integrative City” programme municipalities receive support for investments in urban reconstruction and development in the residential environment, the infrastructure and in 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 inter-generational justice and more family-friendly neighbourhoods, an improvement in integration and participation and social interaction between neighbourhoods. The ESF/federal programme “education, business, work in the neighbourhood (BIWAQ)” has been lending a helping hand here since 2008. The programme supports labour-market projects promoting integration in training and work and strengthening the local economy. It is being continued and further developed in the EU funding period 2014–2020.

### The “small and medium-sized towns and communities – regional cooperation and networks” programme (Kleinere Städte und Gemeinden – überörtliche Zusammenarbeit und Netzwerke)

The “small and medium-sized towns and communities – regional cooperation and networks” programme focuses on **small and medium-sized towns** in rural and sparsely populated regions, helping them develop strategies to cooperate with other communities and ensure the supply of vital public services. The federal budget for 2014 has raised federal aid to €70 million. The programme is part of the “rural infrastructure initiative”. It aims to strengthen urban reconstruction and development and social infrastructure in rural areas. One of the main objectives of the initiative is to secure the quality of life and supply of vital services in rural regions in spite of profound demographic change. In particular small and medium-sized towns are being assigned special importance in sparsely populated rural regions. They are to be strengthened as anchor points in the supply of vital services and their potential activated and leveraged. Above and beyond this, the aim is to involve people in shaping the supply of vital services at the local level. Their involvement in a variety of different ways often helps produce practical, efficient solutions.

### Support for communities to protect the climate

The Federal Government is supporting climate protection in municipalities throughout Germany within the framework of the National Climate Protection Initiative. An institution has been created in the guise of the service and skills centre: municipal climate protection (SK:KK) to work with municipal peak associations to support municipalities in reducing their greenhouse emissions, thereby profiting from the positive effects of climate protection in terms of their municipal budget. SS:KK in particular informs people about the wide-ranging support available via the National Climate Protection Initiative. The Federal Government is supporting e.g. climate-protection projects in social, cultural and public facilities within the framework of the National Climate Protection Initiative (municipal guideline) as well as the hiring of climate-protection managers, climate-protection activities at schools or the implementation of climate-protection measures. The SK:KK is redoubling its efforts especially in eastern German municipalities in order to increase their involvement.

### New accents in policy for rural areas

The Federal Government has specified new priorities to cope with demographic challenges in structurally weak and/or peripheral rural regions and is planning to further develop tested-and-proven promotional instruments.

These include in particular further development of the societal task of “improving the agricultural structure and protection of the coast” into a societal task for rural development, better coordination of ministerial domains of responsibility and the elucidation of a priority focus on rural regions, demographics and vital services.

Because eastern Germany is dominated by rural regions and this is where many of the regions hardest hit by demographic developments are, further development of policy for these areas of the eastern German states is of major importance. Good examples can already be witnessed now.

### Model project “vital services 2030”

The model project “vital services 2030 – modern and innovative – a response to demographic change”, jointly supported by the Commissioner of the Federal Government for the Eastern Federal States and the eastern federal states at the time, was completed in December 2013. Existing infrastructures and benefits available were modernised in innovative organisational models and in this manner adjusted to cope with the challenges of demographic change in the model stage. Important aspects here were a more effective mobilisation of regional self-initiative and with it a strengthening of regional identity. The aim was not to dismantle infrastructure in view of fewer inhabitants, but rather to revamp and modernise existing structures. The success of such projects depends on the broad involvement of regional actors, as infrastructure is just as important in meeting the vital needs of the population as it is for the regional economy. Equally crucial is a willingness at ground level to accept new forms of services.

This willingness to embrace change and find pragmatic solutions to problems is highly extant in the eastern German states. That is why eastern Germany is especially suited for testing innovative approaches and to serve as a source of impetus for a new strategy for regions in decline.

### “Action programme for vital services at the regional level”

The “action programme for vital service at the regional level”, a demonstration project of spatial planning (MORO), promotes the development and implementation of regional strategies aimed at ensuring the provision of vital services and an intensive dialogue between the regions. In the regional strategy completed at the end of 2013, the regions drafted a long-term planning horizon, an integrated perspective cutting across all areas in the provision of vital needs and a strategy for measures coordinated with local authorities and administrative levels. The regions will be supported in the implementation of their regional strategy in 2014 and 2015 through innovative pilot projects.

Four of the new and four of the old federal states are involved in support.

Three projects in the Urban Transport Research Programme (FoPS) are supporting activities in a model project seeking to strengthen mobility components. Integrated mobility strategies are being developed in two respective model regions of the new and old federal states in order to reveal opportunities in the design of transport at the level of counties as the agents of local transport planning and even below this level. A regional strategy for the supply of vital services involving cooperation at the federal state and county levels is being developed in the domain of the Central German Public Transport Network. Conferences, events and publications are to ensure transfer of the “regional strategy” method, which also offers a suitable platform for the effective use of investment promotion programmes such as urban reconstruction and development in smaller cities and towns or the promotion of rural development, especially in LEADER projects.

### A new model project: “Securing the long-term supply of vital services and mobility in rural areas”

A new model project has been initiated in the supply of vital services and mobility with an eye to multi-sectoral planning of vital services and locations, bringing together regional planning and traffic planning strategies in a two-pronged approach. Vital services are to be pooled over the long term within or between communities at places that are as centrally located as possible in order to guarantee that people have access to these services within a reasonable distance over the long term as well. The objective is to develop a “strategy for spatial cooperation” laying down the parameters for voluntary cooperation between communities in the area of vital services and the training of service centres at central, easy-to-reach sites and, using this as a basis, develop an “integrated mobility strategy” which along with existing local urban public transportation services also contains flexible forms of operation, mobility services offered by volunteers, private ride services and new forms of electromobility.

The project is on the one hand setting its sights on a flexible blend of publically accessible mobility services with which people can travel to regional vital service centres in a reasonable time and at reasonable expense, and on the other mobile services that come to where people live, hence reducing their need for mobility.

The model project started up in 2015 and is focused on counties and their partners in rural regions of the new and old federal states that are especially hard hit by demographic change.



## Cohesion between generations in multi-generational homes

To nurture and maintain the cohesion of society, reinforce individual responsibility for one's neighbourhood and promote voluntary commitment, easy-to-reach contact points as well as help and support services for people of all age groups are of tremendous importance.

A social infrastructure has been established in around 450 multi-generational homes, making a valuable contribution to inter-generational living and solidarity in times of demographic change. In the new federal states young and old come together in 124 of these multi-generational homes to benefit from their different sets of skills, experience and interests. The multi-generational homes work closely with their communities, initiating and networking services, forming cooperative projects and thus strengthening the social infrastructure.

The Federal Government together with the federal states and local communities will be reviewing under what conditions multi-generational homes can be established in as many communities as possible to further develop the successful strategy of multi-generational homes and to achieve the sought-after stabilisation of funding.

## Young people are the future (*Jugend ist Zukunft*)

### Autonomous youth policy

In view of the migration of young people out of certain regions and the quickening pace of demographic change, youth policy is of special importance to development in the new federal states in many places. Rural regions also have to remain attractive for young people in the future as well. Opportunities for young people to participate and shape social life strengthen their ties to a region. The transition from school to the working world and an independent life have to be assured in rural areas and regions with weak structures as well.

The Federal Government is helping to strengthen children and youth policy and hence strengthening the young generation in eastern Germany as well by developing a political strategy for an "autonomous youth policy".

At the heart of the autonomous youth policy is the principle that the interests and concerns of young people should be given ample attention in decisions that affect them. Together with youth associations, the Federal Government is developing a "youth check" with which political measures at the federal level are to be reviewed to determine their impact on young people and younger generations in the future.

In the multi-ministerial national model programme "STRENGETHEING YOUTH in the neighbourhood" the Federal Government will be backing communities in an effort to strengthen social work with young people using resources from the European Social Funds beginning in 2015. With €190 million in ESF funds, the new project is directed at local agencies working in the field of aid to youth that set out to offer special support to young people experiencing problems in the transition from school to work in disadvantaged residential neighbourhoods (embedding of youth aid measures in social spaces). Communities in eastern Germany are also profiting from this.

The Federal Government's children and youth aid plan supports the infrastructure for education of children and young people, in this manner reinforcing the development of their skills. Young people not only learn basic skills for later occupations in non-school educational programmes and in youth association work – they also develop independence.

In its children and youth aid plan, the Federal Government is supporting youth association work in rural areas with an innovation fund to promote innovative, practical projects. The focus is on answering the question as to how young people can be involved in the development of rural areas in the face of demographic change and what preconditions need to be in place for them to stay there. Projects make a contribution to the further development of an autonomous youth policy at the local level.

Involvement of young people is also being afforded support in a structured dialogue taking place in connection with the implementation of the EU youth strategy. Here possibilities for dialogue between the policy sphere and young people are being created in wide-ranging forms focusing on young people and their interests. In the "Youthpart" project, participation models are being developed encouraging involvement of young people in digital society. The Federal Government will continue to move forward in the development of autonomous youth policy as a consistent political principle in order to offer all young people a promising future, fair opportunities, participation in society and a positive childhood. The Federal Government will be devoting special attention to the situation of young people in regions with weak structures in its demographics strategy (see the following section "youth shaping the future").

### "Youth shaping the future" (*Jugend gestaltet Zukunft*)

In order to give the young generation more say in a more visible manner, a newly established working group known as "youth shaping the future" is compiling findings and collective experience within the framework of the demo-

graphics strategy in order to then evaluate it with an eye to forwarding recommendations specifically relating to young people as well as steps to help shape demographic change. All actors involved in youth policy as well as federal ministries, federal states, local communities, (youth) associations and research are taking part in the working group.

To promote their independence, young people are being given the chance to articulate their interests, contribute their ideas and help shape demographic change in the future. The involvement of young people is for this reason an integral element of the new working group. The topic of the first working stage will be “young people in rural regions”. In this phase advanced experience gained in the new federal states in coping with the effects of demographic change in rural regions is to be leveraged. Important findings gained for example in the “youth at focus – coming to terms with demographic developments at the regional level” project (*Jugend im Blick – Regionale Bewältigung demografischer Entwicklungen*) are to impact the demographics strategy of the Federal Government.

The “youth at focus – coping with demographic trends at the regional level” project (*Jugend im Blick – Regionale Bewältigung demografischer Entwicklungen*)

The aim of the “youth at focus – coping with demographic trends at the regional level” project will be to explore in a fine-tuned manner how young people grow up under conditions of demographic change taking into account interaction between different factors at the regional level and trace out possible modes of action in coping with demographic developments in rural regions. Recommendations for action are to be developed that can be put into practice by (youth) policy-makers at the various administrative levels. Strategies, studies and projects in the field of “youth and demography” will be evaluated along with secondary regional data already available to generate more findings in the research process. The promotional project will be running until December 2015. One county each in five eastern German and three western German federal states will be the subject of focus.

### 3. Social cohesion in Germany

The Federal Republic of Germany exhibits many regional differences. These relate to economic structure, geographic peculiarities and cultural aspects. By the same token there is general agreement that regional differences enrich our nation. Social interaction and cohesion make possible peaceful coexistence, mutual respect with all the variety of human diversity, forming the underpinning for our democracy. This is why there is a major political interest in promoting social cohesion to serve as the foundation for social and economic success in Germany.

#### 3.1 Strengthening our democracy

Our basic rights and our federal state form a framework that needs to be instilled with life anew with every passing day in order to assure our democratic way of life in the future as well. This is a permanent task that is the responsibility of all citizens as well as the state. The Federal Government makes a wide variety of services available to strengthen democratic participation and prevent extremism. The Federal Agency for Civic Education (Bundeszentrale für politische Bildung – BpB), for example, has the task of promoting the understanding of political issues, encouraging a democratic consciousness and strengthening willingness to perform political work.

The Federal Government also feels responsible for encouraging participation and civil society work. The aim is to preclude the development of criminality, violence and extremism long before it can come about by means of broad promotion of democratic structures and systematic prevention. Democratic programmes for the promotion of democracy and diversity within the Federal Government, which also help prevent extremism, ascribe to this task as well and will be pooled even more and further developed in an overall strategy in the future.

#### Youth for diversity and democracy (Jugend für Vielfalt und Demokratie)

The Federal Government's programme "PROMOTING TOLERANCE – STRENGTHENING SKILLS" has been integrating a variety of action strategies in the struggle against right-wing extremism, racism and anti-Semitism since 2011. The objective of this programme is to arouse the enthusiasm of children and teenagers for peaceful, democratic coexistence in an educational manner, at the same time taking into account individual perspectives and needs of children and youth while standing by them and their parents with advice and support. There are three action strategies in this: local action plans, model projects and national advice networks. In the 171 local action plans

being supported, 95 of them are in the new federal states, persons in charge in communities and civil society jointly work on targeted local strategies against right-wing extremism, racism and anti-Semitic tendencies at the local level, implementing these in specific activities, projects and initiatives. The federal programme is backed up by the "Strengthen Democracy Initiative", which is devoted to the prevention of left-wing and Islamic extremism. Both Federal programmes are scheduled to terminate on 31 December 2014.

The follow-up programme "*Demokratie leben! Aktiv gegen Rechtsextremismus, Gewalt und Menschenfeindlichkeit*" is to start up on 1 January 2015. This Federal programme will encourage civic commitment and democratic behaviour at the community and regional levels. 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. By the same token, local "partnerships for democracy", national democracy centres, national institutions and model projects on selected phenomena involving group-related xenophobia in rural areas and prevention of radicalism are to be supported.

#### The "cohesion through participation" project (Zusammenhalt durch Teilhabe)

In the "cohesion through participation" project, the Federal Government is promoting analysis of bias and extremist images of the world especially in rural and structurally weak areas of eastern Germany. The main objective of the programme is to support projects encouraging democratic participation and rejecting extremism to strengthen a lively and democratic community culture. Programme measures are intended to support the infrastructure of citizens' commitment and reinforce, activate and refine democratic attitudes. Projects focus on structures and potential already present in the regions. These are intended to firmly embed democratic participation in society and develop skills with which to counter extremism. "Cohesion through participation" is funding five eastern German state sports associations and state fire brigade associations as well as German Youth in Sports (*Deutsche Sportjugend*) and the Junior German Fire Brigade (*Deutsche Jugendfeuerwehr*). Workers' welfare associations, Diakonie, the German Red Cross and additional large associations are involved in the programme. Existing structures are being encouraged with training programmes to operate more democratically and create new possibilities for advice, conflict management and participation. Institutions that want to internally strengthen themselves democratically in this manner will then generate an impetus for democratic interaction at the local level. By working in projects, people at the local level

will be able to experience that they can actively shape their own futures together with others.

Whereas the “cohesion through participation” programme was solely focused on eastern Germany in the first programme stage (2010–2013), in its second phase (2013–2016) successful project concepts will be adopted by handpicked holding institutions in the western German federal states.

One concentration of the programme is on the training of “democracy trainers”. 158 democracy trainers are to be trained by March 2014; another 580 are completing this training at present. The Federal Government is devoting another €24 million to the continuation of the “cohesion through participation” programme over the period 2013–2016.

### 3.2 Re-evaluating and coming to terms with the SED dictatorship

It is important to keep up efforts to process the legacy of the GDR because this makes a significant contribution to the development of internal unity. This will remain an essential element in strengthening our democracy and foundations for political education in the future as well. Refer to the discussion in the report by the Federal Government on the status of the SED dictatorship regarding the assignment of tasks within the Federal Government and the operational domains of its ministries (Bundestag printed matter 17/12115).

In addition to analysis of and coming to terms with the history of the GDR, recognition, rehabilitation and compensation of victims of the SED dictatorship also play an important role.

#### Remembering the events of the Peaceful Revolution of 1989 in the GDR 25 years ago

The historical analysis and processing of the SED dictatorship stands in 2014 under the banner events in the Peaceful Revolution in the GDR 25 years ago (see part A of this report). The host of individual activities and events taking place are reflected on the homepage of the Federal Government under the caption [www.freiheit-einheit.de](http://www.freiheit-einheit.de).

The following exhibitions, events and projects merit special mention:

Efforts to analyse and come to terms with the SED dictatorship are clearly perceivable in the work of the Federal Agency for Civic Education (BpB) especially upon the occasion of this historical anniversary. This has been and still remains one of the main areas of the BpB's work.

The Stiftung zur Aufarbeitung der SED-Diktatur has addressed the chequered history of the 20th century in Europe in a poster exhibition entitled “dictatorship and democracy in the age of extremes” in the anniversary year 2014.

State minister Monika Grütters and State Premier Christine Lieberknecht opened Point Alpha Stiftung's new permanent exhibition in the “Haus auf der Grenze” on 26 March 2014. Funded jointly by the Federal Commission for Cultural and Media Affairs (BKM), the Free State of Thuringia and the federal state of Hesse, it vividly documents the history of German division and the inhuman border regime of the GDR during the Cold War.

The Kulturstiftung des Bundes provided support in the context of an open air festival celebrating freedom and democracy with performances of Beethoven's “freedom opera” Fidelio in former Cottbus Prison, where many political inmates were incarcerated before 1989.

Support was also provided to the “Freedom Express” of the multilateral European Network Remembrance and Solidarity. Creative young people from different nations set out together to look for historical footprints and traces of historical events in 1989. Their journey took them by bus and train from Danzig to Berlin, visiting several cities in eastern-central and south-eastern Europe along the way.

The Deutsche Gesellschaft e.V. placed the spotlight on events in the Peaceful Revolution in these cities, above all on their historical contexts, at the same time in Berlin, Leipzig, Dresden and Plauen in a series of exhibitions and events entitled “the Decision”.

On 29 September 2014 Falling Walls Foundation gGmbH explored the “walls that need to fall” in the field of research in the coming decades in order to get a grip on problems faced by humanity and to solve the most stubborn riddles in the area of basic research at present in the run-up to the annual international conference, an event dedicated to the “quest for freedom” and funded by the Federal Government examining the question of success and failure of freedom movements in Germany, Europe and the world.

Federal Chancellor Dr. Angela Merkel will open the new permanent exhibition on the context, building and fall of the Wall at the Documentation Centre of the Berlin Wall Memorial on 9 November 2014, the 25th anniversary of the fall of the Berlin Wall.

The future of this important institution, which addresses state repression against children and youth in the GDR at this historical site, has furthermore been secured with the inclusion of memorials in the former restricted “Jugendwerkhof Torgau” complex in the institutional funding of

the Federal Government in tune with the Federal Government's conceptual strategy for memorials.

On 4 July 2014 the German Bundestag resolved to appoint a commission of experts to prepare proposals on how and in what form the tasks of the Federal Commissioner for the Records of the State Security Service of the former German Democratic Republic emanating from the Act on Documents of the State Security Service of the GDR (*Stasi-Unterlagengesetz*) can be continued and when this is to happen.

### Recognition, rehabilitation and compensation for victims of the SED dictatorship

Clinical drug trials research project in the GDR on behalf of western German pharmaceuticals companies

The Commissioner of the Federal Government for the New Federal States is taking part in the "clinical drug trials research in the GDR, 1961–1989" project at Charité Institute for the History of Medicine in the context of the analysis and exploration of injustice under the GDR dictatorship. The aim is to gain an overview of all the drug trials carried out in the GDR on behalf of western companies and shed light on the political and economic reasons underlying these drug trials. Individual cases which have come to light are being analysed in the research network by means of interviews of contemporary witnesses.

### Forced labour project

The Federal Government's Commissioner for the New Federal States has commissioned a study on "historical analysis of forced labour among political prisoners in the GDR penal system". In terms of its content, the focus is on the question as to the role and responsibility of the SED state in the injustice perpetrated.

The aim is to portray forced labour by political prisoners in the GDR penal system in a systematic manner. Contemporary witnesses are also to provide input from the perspective of the persons directly involved in a representative way. Among other things, key issues include the role of forced labour in the GDR economy, working conditions, special treatment of political prisoners and consequences and effects suffered by prisoners as a result of forced labour. An additional study by the Federal Government's Commissioner for the New Federal States in the near future is to explore forced labour of adolescents in the GDR.

### SED victims pension

The amount of the "SED victims pension" has remained unchanged at a maximum of €250 since as far back as 2007. The Federal Government is working on a draft bill to improve provisions for victims of political persecution in the former GDR under law governing rehabilitation that provides for an increase in victim pensions in accordance with § 17a of the Penal Rehabilitation Act (*Strafrechtliches Rehabilitierungsgesetz*) to a maximum of €300 and a rise in monthly compensation payments under the Occupational Rehabilitation Act (*Berufliches Rehabilitierungsgesetz*) to up to €214. It is planned to have the Bundestag complete its debate over the bill before the end of the year so that the increase can go into effect on 1 January of the coming year.

### The "child raising in GDR orphanages between 1949 and 1990" fund

The Federal Government and the eastern German federal states jointly set up the fund for "persons mistreated as children in East German orphanages between 1949 and 1990" in July 2012.

Former children in orphanages who experienced mistreatment and serious abuse in GDR orphanages and facilities for minors have been receiving aid and support benefits for injury and suffering from the experience down to the present day. This includes among other things compensation payments for foregone pension claims (substitute pension benefits) resulting from forced work, for which no pension insurance contributions were withheld at the time. The fund also supports former children in orphanages in coming to terms with their personal pasts there, providing them advice on possibilities to obtain help, while also offering support for non-individual measures analysing life in orphanages between 1949 and 1990.

In the implementation phase it was apparent that demand for benefits from the fund "child raising in GDR orphanages" by persons suffering from their experiences there greatly exceeded projections at the outset of the fund and the amounts earmarked for it so far.

The federal and state governments therefore resolved to scale up the funds while maintaining the guidelines on benefits.

In order to obtain the planning security required to meet greater needs, a deadline for registration has been introduced in connection with the increase in the "child raising in GDR orphanages" funds. All former children in orphanages who would like to claim benefits from this fund have to register using a simple form with regional contact-and-advice offices in charge of them by 30 September 2014.



### 3.3 Culture connects and unites

Culture is of special importance to people's quality of life. It promotes the process of eastern and western Germany growing together after our country was divided for more than 40 years, as both parts of Germany were continuously linked by a common language and culture. The cultural legacy offers a common space for remembrance by Germans. It is the fabric of our cohesion. The promotion of culture is therefore an investment in a Germany with a high quality of life.

During the division it was very difficult to take part in the cultural development of the other respective part of Germany. The cultural stock of the GDR included 217 theatres, 87 orchestras, 955 museums, 112 music schools, 9,349 libraries, 250,000 individual memorials and memorial complexes and around 180 city centres of historical importance.

There are numerous sites in the new federal states recognised by UNESCO as World Cultural Heritage sites (Stiftung Preußische Schlösser and Gardens in Berlin/Brandenburg, the Luther Memorials in Eisleben and Wittenberg, the Wartburg in Eisenach, Bauhaus Dessau, the Dessau-Wörlitzer Garden Kingdom and the Fürst Pückler Park in Bad Muskau).

Since the fall of the Berlin Wall it has once again become possible for all Germans to experience the rich, precious cultural landscape of the new federal states with their numerous cultural facilities of outstanding and national importance.

The Federal Government has attached high priority to the renewal and preservation of cultural goods in the new federal states since reunification. The Federal Government has supported culture in the new federal states from the very beginning. In addition, it sets its own accents with targeted programmes, jointly promoting institutions of national importance together with the federal states in which they are located.

The Federal Government pays more than €400 million each year for cultural institutions of national significance. One special example of cultural support in Berlin is the Stiftung Preußischer Kulturbesitz. The Federal Government foots 75% of grants required to operate these museums, archives and libraries. The federal states bear another 25%, making the Stiftung a good example of cooperation in the federal system of the Federal Republic of Germany. The Federal Government foots the entire bill for grants for construction measures by the Stiftung Preußischer Kulturbesitz that are also needed for the restoration, remodelling, modernisation and development of the Berlin Island, a World Cultural Heritage site.

Founded in 2002, the Kulturstiftung des Bundes (German Federal Cultural Foundation) moved into a new building constructed to house its main offices in Halle an der Saale (Saxony-Anhalt) in 2012. The Foundation has awarded more than €54 million for projects in the new federal states since it was established. In addition, the Foundation has developed special promotional measures to support art and culture particularly in the new federal states. These include the programme on "cultural aspects of German unification" established in the year of the Stiftung's founding. The "funds to strengthen the civic commitment to culture in the new federal states" (short form: funds for the new federal states) has supported more than 170 cultural associations and projects from the areas of the visual and performing arts, literature, music, film, photography, architecture and new media with a total of €4.6 million to date.

The Federal Government is supporting the programme on "investments for national cultural institutions in eastern Germany" to a tune of €4 million per year at present. More than €67 million was earmarked for outstanding cultural institutions and projects by the Federal Government over the period 2004 through 2014. The federal programme is primarily devoted to the renovation and modernisation of cultural institutions of national importance, enhancing their appeal and national impact. On top of this, €11 million was made available for the further expansion of the Residenzschloss in Dresden by the German Bundestag in 2013 and 2014.

The Federal Government is supporting measures in the "Luther decade" in preparation of the anniversary of the Reformation in 2017. A total of €41.9 million has been earmarked for this until 2017. Restoration and renovation of authentic sites from the Reformation have been funded from the national promotional programme "Reformation Anniversary 2017" since 2011. In addition, numerous cultural projects with low-threshold access all the way to important exhibitions are being funded in preparation for the anniversary. The main focus is on the Reformation heartland in the states of Saxony-Anhalt, Saxony and Thuringia. Project institutions from other new federal states are also making increasing use of this programme.

Deutsche Zentrale für Tourismus e.V. (DZT) has been placing the anniversary "25 years since the fall of the Berlin Wall/German unity" at the heart of its communications for two years now. The DZT is advertising Germany as a travel destination in other countries on behalf of the Federal Government. The "Fascination Unity" campaign is supposed to shed light on that which sets Germany off as a travel destination 25 years after the fall of the Berlin Wall. The official start-up of the two-year DZT campaign took place at the Berlin Tourism Exchange at the beginning of 2014. The DZT is planning press conferences, press trips

and PR events throughout the world in the second half of 2014. The DZT campaign is presenting 25 perspectives on tourist attractions, cultural sights and fascinating natural landscapes that have come about in the last 25 years online and offline.

## 4. Outlook

On balance, the anniversary year shows that much of what moved people in the GDR to go out on the streets in the autumn of 1989 and reject the system of “real socialism”, characterised by the sole rule of the SED, ideological indoctrination and omnipresent state surveillance, has in the meantime become reality. Personal freedom, democratic participation in political processes at all levels and the autonomous rule of law have become normal elements of the everyday lives of citizens in eastern Germany.

It is in this spirit that the anniversary draws our attention to a priority task in the period lying before us: the continuation and promotion of the societal process further deepening internal unity while securing and strengthening our democracy.

There can be no doubt about it: the eastern German federal states have made incredible strides in the establishment of equivalent living conditions. At the same time, they continue to need the solidarity and support of the economically strong federal states in the west to further approach their level of economic growth. To this end, new ideas and structural strategies will be needed in the future. The establishment of equivalent living conditions enshrined in the Basic Law remains on the political agenda, serving as a standard for German policy dedicated to the common good.

# Part C

## Economic Data for the New Länder

The German version of the Annual Report of the Federal Government on the Status of German Unity in 2014 contains a Part C entitled Economic Data for the New Länder. 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](http://www.beauftragte-neue-laender.de)

[www.bmwi.de](http://www.bmwi.de)

