The use of infrastructure and regeneration investment to support stabilisation of Eastern Germany during the period of post-unification transition — a summary and lessons learnt.

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The use of infrastructure and regeneration investment to support stabilisation of Eastern Germany during the period of post-unification transition – summary and lessons learned.

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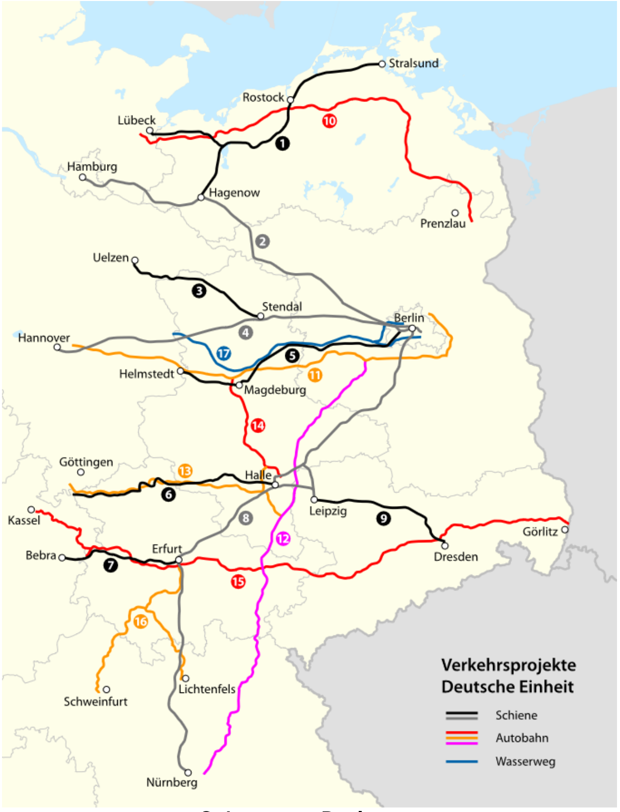
The near total collapse of the economic system of the German Democratic Republic (GDR) [East Germany] following the July 1990 currency union and the October 1990 political unification with the Federal Republic of Germany (FRG) [West Germany] was distinctly different from what happened in other Eastern European countries at the same time. Just before the currency union, the territory of the GDR had witnessed dramatic levels of out-migration. Stopping - or at least slowing down - the drain of human skills, knowledge and labour towards the FRG became a key political priority. The dominant political opinion at the time was that exchanging East to West German Mark partially at rates of 1:1 and 1:2 (the 'unofficial' exchange rate stood at about 1:10) was the best way to stop people flocking to the West. However, it was also clear that this would make most GDR businesses (usually state-owned) uncompetitive – literally overnight – mainly because infrastructure, machinery and products made in the GDR were outdated compared with Western Germany.

Predictably, in the years immediately following unification, the economy in the territory of the former GDR went into what can only be described as a 'freefall' and every third job was lost (amongst which, over 80% of all jobs connected with industrial production). Particularly serious was the near total loss of trade with the countries of the other former socialist Eastern European countries. There was consensus in Germany overall (including the former FRG, where at the same time the economy experienced a sustained boom as a consequence of unification and the decline of the Eastern German economy) that this required a decisive public response in order to stabilize what became known as the 'new' German *Länder*. The ensuing programme '*Aufbau Ost*' (Rebuilding of Eastern Germany) consisted of numerous elements, including substantial subsidization of investment into regenerating and renewing cities, towns, regions and infrastructures in the East.

Whilst it is impossible to provide for an exact estimation, (all figures are contested), by 2014 about €1.5 trillion in public money had been made available by both, Western and Eastern parts of Germany to support rebuilding the 'new' *Länder*. This equates to about €100,000 per person over a period of 25 years or €4,000 per year per person (as the biggest net beneficiary of EU funds, Poland currently receives about €220 per year per person). Concerning infrastructure renewal and city/town regeneration investment, there are estimates that about €500 billion were spent by 2014, i.e. over €30,000 per person or roughly €1,300 per year per person over a period of 25 years[1]. About €40 billion (i.e. around 8% of the total amount) went into the so-called 'Transport Projects of German Unity', a major motorway and railway (and one waterway) investment programme. The map below shows the projects of this programme, which included extensions of existing as well as new transport infrastructure. The remainder of the €500 billion went into various actions, in particular the subsidization of investment into regeneration and renewal projects.

[1] A solidarity tax raised in all of Germany (i.e. West and East) from 1991 onwards (7.5% of the tax bill of wage earners and companies, post 1998 this became 5.5%) generated about €200 billion.

Map: Transport Projects of German Unity



Schiene – Railways
Autobahn – Motorway
Wasserweg – Waterway
Source: https://commons.wikimedia.org/wiki/File:Karte_Verkehrsprojekte_Deutsche_Einheit.svg

Overall, there can be no doubt that the substantial infrastructure construction efforts, as well as the subsidization of investment into renewal and regeneration projects, played a key role in stabilizing the 'new' German *Länder* at a time of major job losses and serious economic woes. Furthermore, the creation of a functioning, modern infrastructure has been a key factor in keeping and attracting businesses to invest and create jobs (both, industry and services). Had there not been any substantial rebuilding and regeneration, it is very likely that out-migration and decline of infrastructure, towns and cities would have continued to a much greater extent than it did. Whilst average unemployment in Eastern Germany has remained slightly higher than in Western Germany (at about 7% as opposed to 5%), this has dropped by a long way since its peak in 2005 (when it was about 19% in the East and 10% in the West). Infrastructure and regeneration investment undoubtedly played an important role in enabling that drop. The overall employment rate (which in 1989 was higher in the former GDR than the FRG, mainly due to many more women being in employment) in Eastern Germany has remained slightly higher than in Western Germany (80% as opposed to 78%).

However, whilst investment in infrastructure and regeneration was crucial in particular for a transition period, there has been criticism with regards to how investment was used. Projects were frequently aimed at short to medium, rather than at long-term effects. In this context, it is of particular relevance that to date relative productivity levels in Eastern Germany have remained lower than in the West, creating a competitive disadvantage for businesses; and there has been criticism that this remains a key issue that has not been sufficiently tackled. Furthermore, whilst infrastructure and renewal investment did create much-needed jobs, frequently these jobs only required low levels of skills.

With hindsight, in addition to investment into infrastructure, renewal and regeneration; what should have received more attention and funding was education and training, in particular concerning highly skilled jobs and innovation. This is in line with what was observed by this author with regards to the UK 2011 National Infrastructure Plan, suggesting that 'regarding the goal of economic growth, there are some indications that this would be best achieved by using public monies to invest in education and training infrastructure' (Fischer, 2012, p68). Whilst some of this did happen throughout the 'new' German *Länder*, in comparison to the investment into construction related activities, the amount spent was much smaller. A main conclusion from the experiences in Eastern Germany is therefore that whilst short to medium term infrastructure renewal and regeneration can play a highly important role in stabilising an economy in transition, a more substantial effort needs to be made in developing sought after skills through education and training.

Reference

Fischer, T. B. 2012. Best Value for the Taxpayer? (The Treasury's National Infrastructure Plan 2011), *Town and Country Planning*, 81 (2): 81-86.