

# Regional and rural development in an unequal Germany

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**Workshop:**  
**Regional development policies in the EU –  
experiences and trends**

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## Overview on the German regional policy

- Legal requirement: “establishment of equivalent living conditions”, German basic law (constitution), Art. 72.
- Regional policy – a long tradition. Initial approaches in the fifties (Zonal Border Development, redevelopment areas after the World War). On a much broader base since the sixties: Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur (GRW)”, a common program of the federal state and the Länder to improve regional economic structures. Always discussion: What are weak regions, how to measure economical weakness? In the early seventies the poorly developed (and subsidized) areas covered 61% of the complete surface and 36% of the inhabitants of the FRG.
- In 1990 a deep cut – **the German Unification**: The integration of an area with 16 million people and an uncompetitive, former socialistic economy.
- Until today, GRW is the heart of regional policy – combined and coordinated with several funds of the EU.

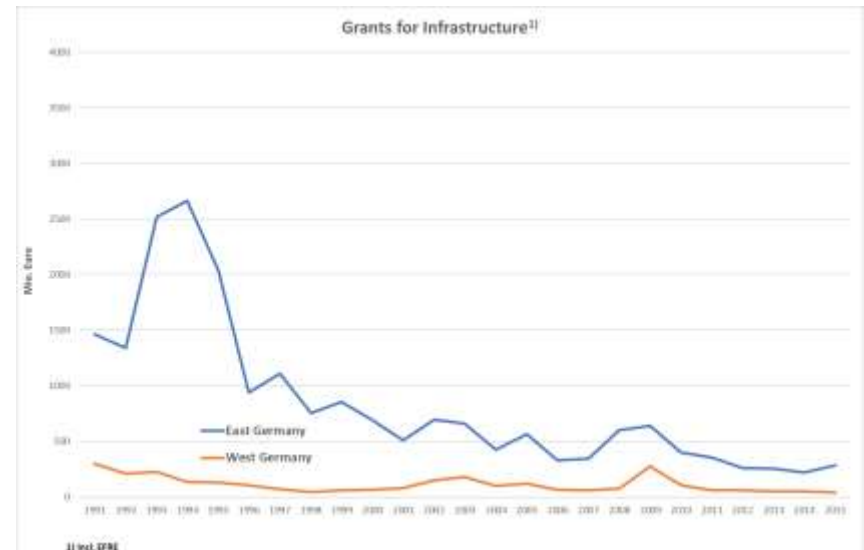
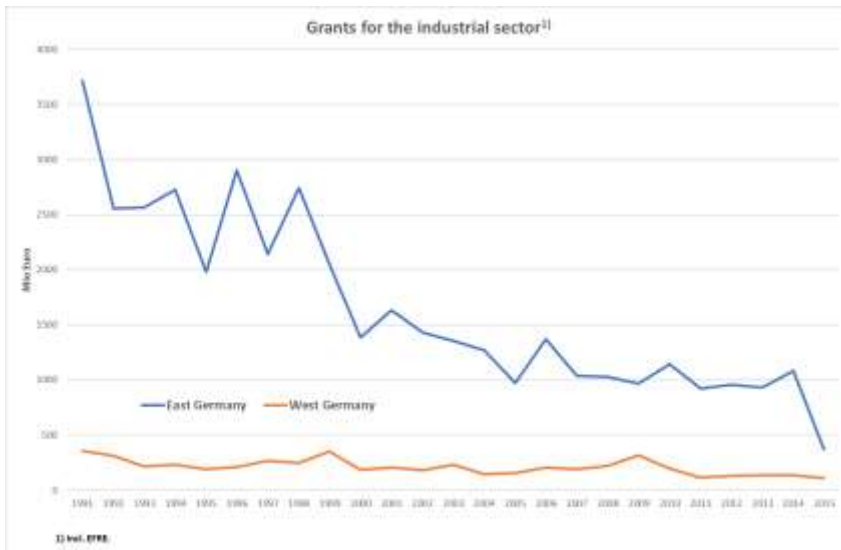
## The situation in East Germany after the fall of the wall

- Strong increase in wages: >50% in 1990, 40% in 1991. Orientation on the living standard in West Germany. Also consumer price inflation (esp. rental costs), but much slower than the wage increase.
- Collapse of the manufacturing production in summer 1990 – downturn of about 50% in some weeks. The remaining production was highly subsidized (for example: trade with the soviet union).
- High open and concealed unemployment (rate of 30% to 40%). Emigration to the west.

A very special form of transformation. Unlike in the other countries of the eastern bloc: shock treatment. Urgent need for a rapid economic renewal process: creation of a competitive economical base (privatization, new political structures, modernization of the infrastructure).

**What is transformation policy, what is regional policy?**

# Subsidies of the GRW programme



Source: Bundesamt für Wirtschaft und Ausfuhrkontrolle.

- Concentration on East Germany.
- Decreasing volume in the East.
- More important: subsidies for enterprises.

# The GRW areas for assistance today

GRW-Fördergebiete 2014 - 2020



- No less developed regions (A-Type) like Extremadura or Mezzogiorno (GDP/Head < 75% EU average)
- Highest subsidized regions along the polish border
- All East German Regions, in West Germany only some GRW-regions

# Investment of enterprises: aid rates (investment grants)

Type of Region	Small enterprises	Medium sized enterprises	Big enterprises
	<b>Before 2014</b>		
A (< 45% GDP/Head EU average)	70%	60%	50%
A (45% to < 60% GDP/Head of EU average)	60%	50%	40%
A (60% to < 75% GDP/Head of EU average)	50%	40%	30%

Type of Region	Small enterprises	Medium sized enterprises	Big enterprises
	<b>June 2014 to December 2017</b>		
C (former A)	35%	25%	15%
	<b>2018 to 2020</b>		
	30%	20%	10%
	<b>June 2014 to 2020</b>		
C (not former A)	30%	20%	10%
	<b>June 2014 to 2020</b>		
D	20%	10%	max. 200 000 Euro

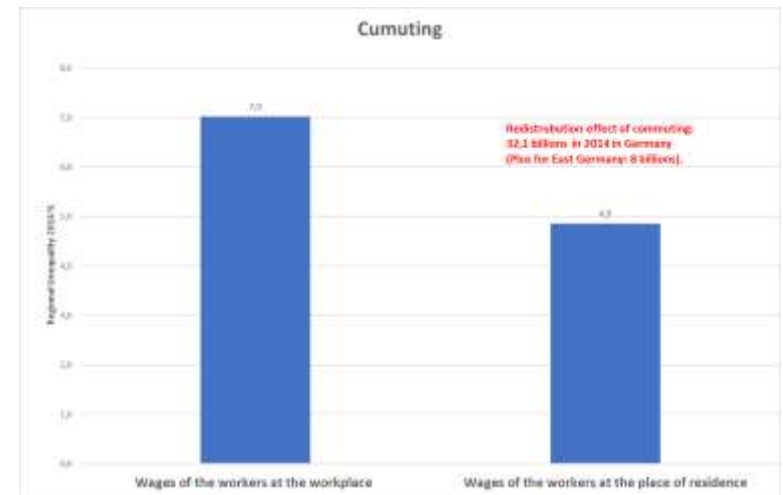
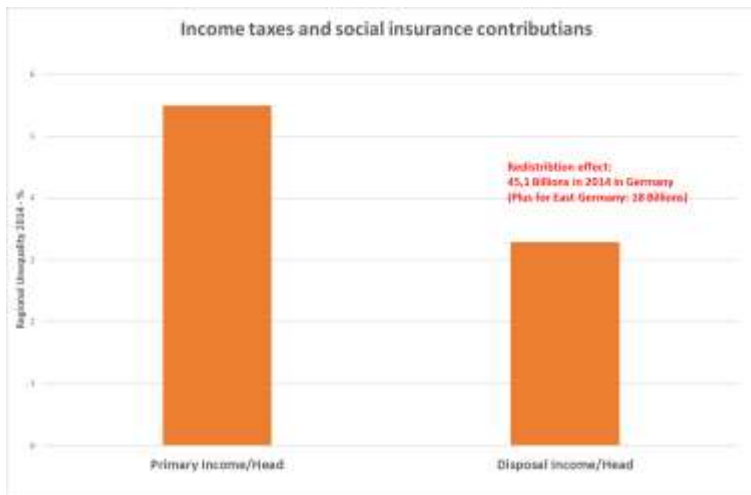
## Classification of the GRW-Programme

The programme is only one factor of regional redistribution and development. Other impacts:

- Measures of the central state or federal units: settlements of economical activities. For example: government authorities, state-owned enterprises, military, universities and other public R&D-institutions etc.
- Agricultural policies. Highly subsidized all over the EU.
- Urban development fundings.
- Transport policies (national roads, railways).
- Labour market policies (qualification measures).
- Financial redistributions between the central state and the regions (in Germany: between the 16 Länder plus the federal state).
- Social and tax policies.

And a market effect: Commuting of the employees.

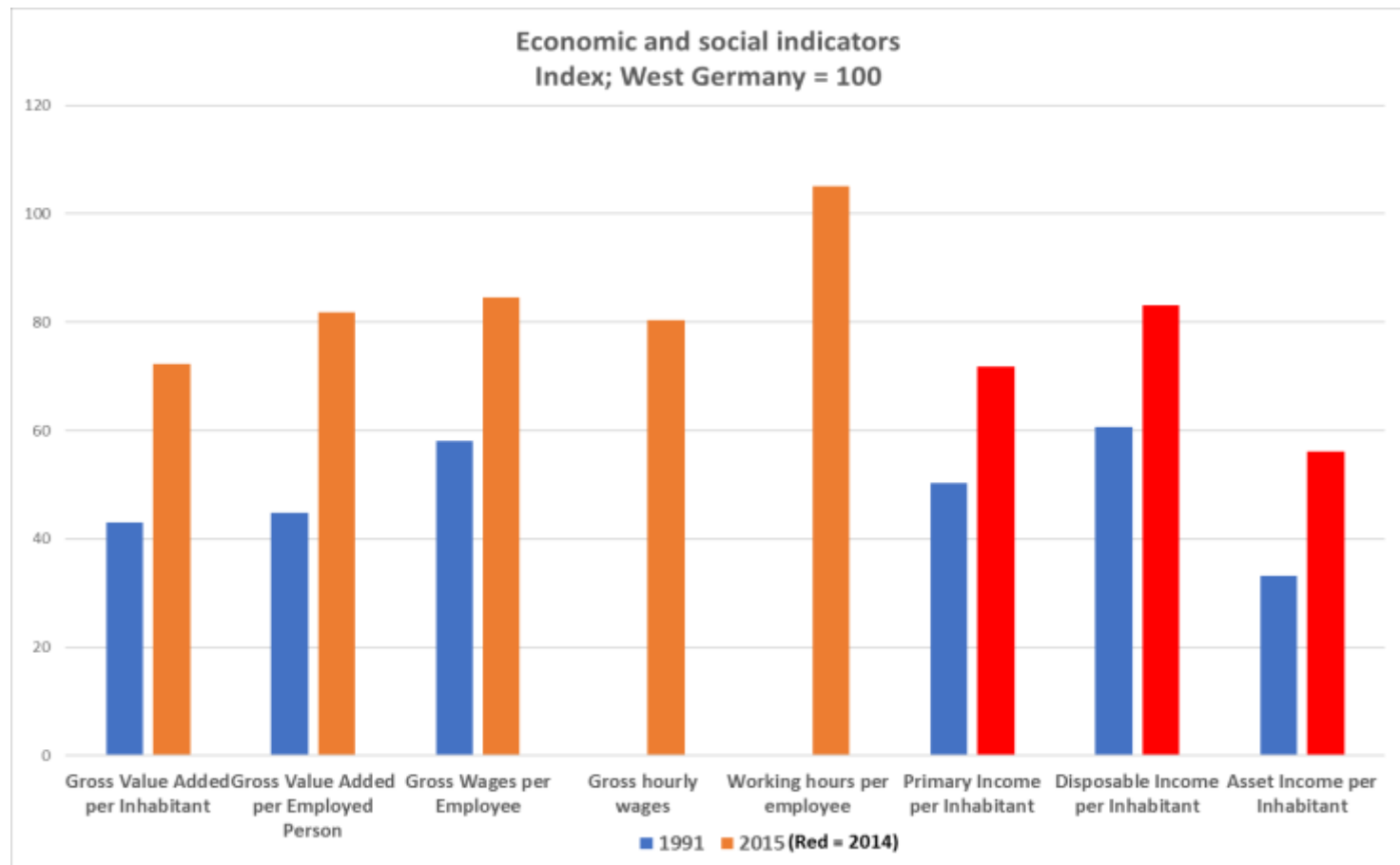
# Two examples of „silent“ mechanisms to reduce regional disparities among the 16 Federal States



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnung der Länder, own calculations.

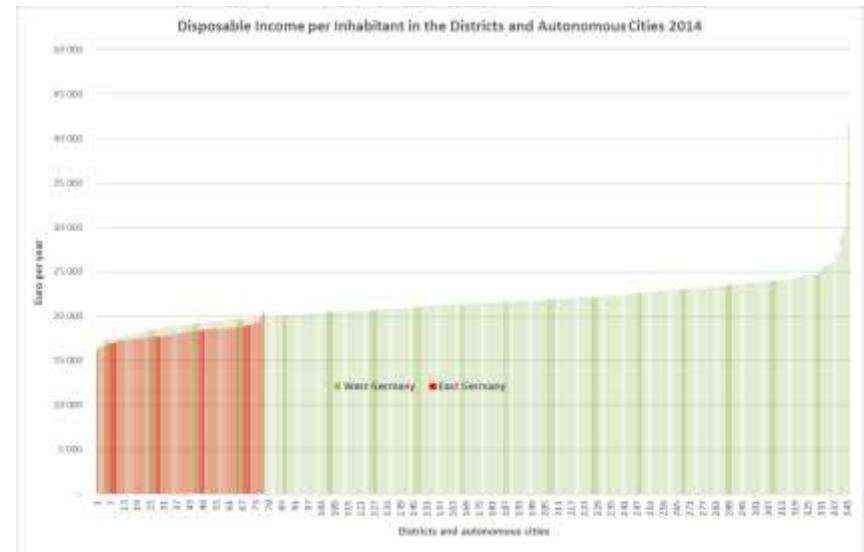
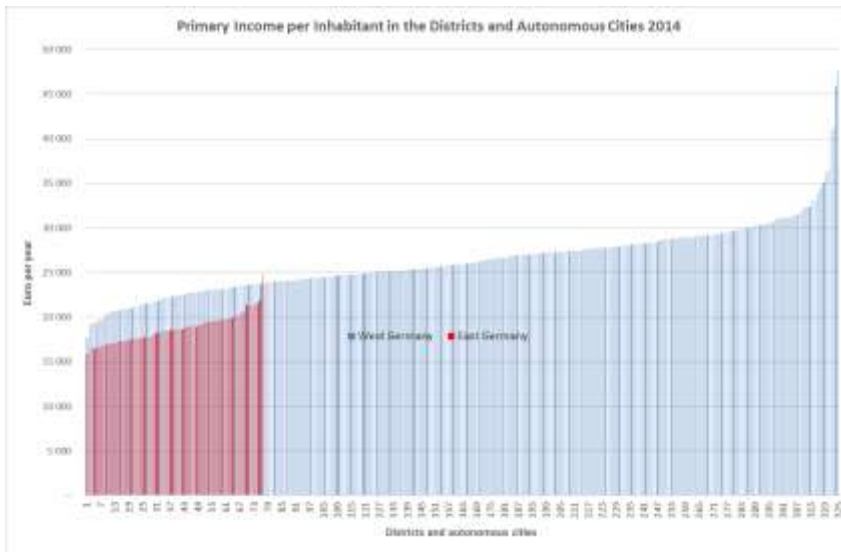


# Results of East Germany's adjustment process



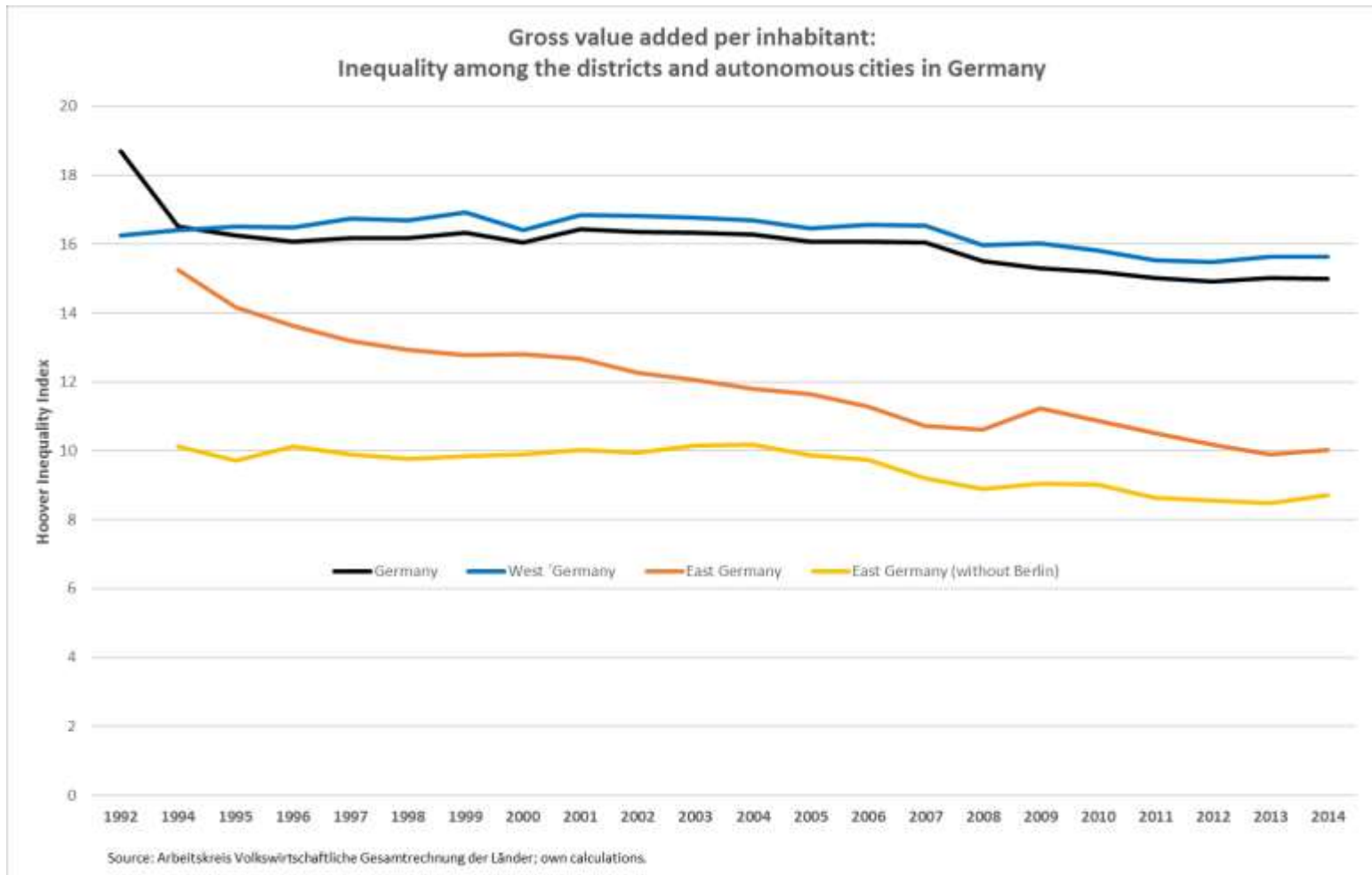
Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnung der Länder, owm calculations.

# Most of the eastern regions lag behind



Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnung der Länder, owm calculations.

# Reduction of regional disparities



## Some concluding remarks

- Progress in the adjustment process – but always a long way to go to achieve convergence. But is convergence a realistic aim? A big part of the east are traditionally economic weak regions.  
„Ostelbien“: mainly agricultural, low population density, and (since the early Ninties) a low birth rate and emigration. In the future: more disparities among the regions in East Germany.
- What are the effects of the regional policy? The investment grants of the GRW added up 62 billions (1991 to 2015). But the total costs of the German unification were about 1.5 to 2 trillions. GRW played only a support role.
- Sometimes (or often?) GRW has lead in the wrong direction. A lot of fun and adventure parks or pools were build, and some of them are not economically viable. The same problem: some river ports or small airports. Grants for enterprises: risk of subsidy mentality.
- Also disparities among the regions in West Germany.

Thank you very  
much for your  
interest.

