

Editorial

Christian Pfeifer, Werner Smolny and Joachim Wagner* 25 Years of German Reunification

DOI 10.1515/jbnst-2015-1008

2015 was the year of the Silver Wedding of the two parts of Germany. This is an appropriate date to analyze various economic aspects of the German reunification and to collect the results in a special issue of the *Journal of Economics and Statistics*. The contributions in this issue deal with the development of differences between East and West Germany in core areas of the economy (including labour markets, productivity, innovation and international trade), policy measures to promote East German Firms, and convergence or divergence of living conditions and happiness.

In his paper “United, yet apart? A note on persistent labour market differences between western and eastern Germany” *Claus Schnabel (2016)* surveys the characteristics and results of labour markets in eastern and western Germany. He shows that labour markets have become similar in some respects but still differ markedly in others even 25 years after reunification. The evidence reported shows no substantial differences in firms’ labour demand decisions and in employees’ representation via works councils or trade unions. However, both parts of Germany are somewhat apart concerning labour supply behaviour, productivity, wages, and bargaining coverage, and they exhibit substantially different unemployment rates. These differences may reflect observable and unobservable characteristics of economic actors as well as differences in behaviour, norms, and individuals’ attitudes.

Uwe Blien, Joachim Möller, Phan thi Hong Van and Stephan Brunow (2016) look at long-lasting labour market consequences of German reunification and investigate how the impulses of the transformation process in eastern Germany have spread through the economy and the labour market. The authors argue that the form of transformation has long-term effects on the form of control over the economy because it is managed largely from western firms. According to Blien et al. this fact has manifold consequences for the innovation behaviour of plants, among others, which in turn is further related to productivity and thus to the labour market.

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Are these persistent differences in wages and unemployment reflected in differences in reported life satisfaction between both parts of Germany? To what extent has convergence between East and West Germany been achieved? *Inna Petrunyk* and *Christian Pfeifer* (2016) update previous findings on the total East-West gap in overall life satisfaction (happiness) and its trend by using data from the German Socio-Economic Panel (SOEP) for the years 1992 to 2013. Additionally, the East-West gap and its trend are separately analyzed for men and women as well as for four birth cohorts. The authors find that reported life satisfaction is on average significantly lower in East than in West German federal states and that part of the raw East-West gap is due to differences in household income and unemployment status. Interestingly, the conditional East-West gap in overall happiness decreased in the first years after the German reunification and remained quite stable and sizeable since the mid-nineties. Furthermore, their results indicate that gender differences in life satisfaction are small. For younger birth cohorts the East-West gap is significantly smaller and shows a trend towards convergence.

The other papers in this issue focus on aspects of firms in East and West Germany. *Alexander Eickelpasch*, *Georg Hirte* and *Andreas Stephan* (2016) look at the evaluation of location quality by firms in East Germany. They use data from a survey conducted in 2004 with responses from 6,000 East German firms which asks questions on the importance and assessment of 15 different location factors ranging from closeness to customers and suppliers, transport infrastructure, research and universities, but also performance of local financial institutions and image of the region. The results show a large heterogeneity in terms of which firm- or regional-level characteristics are important for explaining evaluation of a specific location factor. A policy conclusion that the authors derive from these findings is that location policy should consider the perception by firms in addition to improving the true attributes of a specific location.

Arnd Kölling (2016) investigates the impact of public funding on the performance of establishments in Eastern Germany. He uses data from the German Institute for Employment Research (IAB) establishment panel from 1996 through 2012 to study the effect of economic promotion in the eastern part of Germany on a number of indicators. For this purpose, he derives conditional difference-in-differences estimators using a propensity score matching approach. According to Kölling treated establishments in the area of the former German Democratic Republic invested more, had a higher value added and hired more labour than untreated firms when the amount of public funding is considered. However, on average, establishments with a history of previous investments also receive more funding than establishments that do not receive promotion. Furthermore, he

reports that some of the results are not permanent, such as the share of investment. Other effects of economic promotion in Germany include increases in wages, but these effects are rather small when compared to the size of the economic promotion. In addition, outcome for firms' productivity is always insignificant and close to zero. Also, the results for Eastern Germany do not differ from those for Germany as a whole.

The last paper by *Joachim Wagner* (2016) looks at exports. He uses a new tailor-made data set to investigate the differences in extensive and intensive margins of exports in manufacturing firms from East Germany and West Germany. The paper documents that these margins do still differ in 2010, 20 years after the reunification of Germany. West German firms outperform East German firms at all four margins of exports – they have a larger propensity to export, export a larger share of total sales, export more goods and export to a larger number of countries. All these differences are large from an economic point of view. A decomposition analysis shows that in 2010 between 59 percent and 78 percent of the difference in margins can be explained by differences in firm characteristics.

The papers in this special issue document that there are still large differences between both parts of Germany in most of the fields investigated. The shadow of history is long. Only time will tell whether these differences will persist even until the Golden Wedding after further 25 years.

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