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Marginality in East Germany - a case study

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Marginality in East Germany – a Case Study

(Paper at Conference)

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Abstract

The reunification of 1990 changed the patterns of geographical marginality in Germany. While some regions along the former Iron Curtain have become somewhat more central, regions along the German-Polish border have become even more peripheral. The focus of this paper is to shed more light on the causes for lagging economic performance in remote East German regions, using the county Uecker-Randow as a case study. The county Ludwigslust, located in the same federal state, but in a more favourable geographic location, is used as a reference. The results of the study are derived from statistical analysis, expert interviews and business surveys in the course of the EU project 'DORA' (=Dynamics of Rural Areas). Contrary to other case study regions of the project, the results for Uecker-Randow suggest that here the geographic location and related deficits of transport infrastructure have in fact been the most decisive explanatory factor for economic decline in the post Socialist period. Additionally, the region has suffered from the unfavourable economic structure it inherited from Socialist modes of production.

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Marginality in East Germany – a Case Study

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Introduction

The current EU research project DORA ("Dynamics of Rural Areas")¹, is an exploratory study analysing the different economic performance of rural regions in a comparative and interdisciplinary way. The project is investigating eight 'matched pairs' of sixteen case studies in four EU countries – Greece, Germany, Sweden and Scotland. Each 'matched pair' consists of one region that exhibits successful economic development over the medium-term (10-20 years) and one that exhibits less successful economic development, measured according to a range of indicators (including employment change, investment activities, productivity, migration and unemployment rates). An exploration of differences in regional development success is attempted by analysing both 'tangible' factors (such as infrastructure, economic structure, natural resources etc.) and 'intangible' factors (such as community, networks, institutions, quality of life, etc.). This paper draws principally on the results from the two East German case study regions, Uecker-Randow and Ludwigslust. In addition to statistical data, the results are based on expert interviews with regional actors from local institutions, enterprises, associations and others. Furthermore, a postal business survey was conducted, focussing on location factors and institutional performance, in each of the German study regions.

Patterns of marginality in East Germany

The issue of geographical marginality in Germany has changed twice in the last century, firstly, by the delineation of borders after the Second World War, and secondly, with the collapse of the GDR and German reunification in 1989/1990. In East Germany, at both the intra-German and the Polish border formerly central regions became peripheral as a result of WW II.

¹ This paper draws on the joint work of the DORA team. I would like to acknowledge the contributions of our research team members Birgit Koch, Helmut Schrader and Lars Masurek, and our research partners from Scotland, Greece and Sweden: John Bryden, Jane Atterton, Paul Courtney, Anja Timm, Keith Hart, Gilian Munro, Vania Ceccato, Lars Olaf Persson, Angelos Efstratoglou, Sofia Efstratoglou, Emmanouela Kouroussi. DORA is funded by the European Commission under the Fourth Framework Programme for Research and Technology Development, Contract FAIR6-CT98-4162. Further information on DORA can be found at: <http://www.abdn.ac.uk/arkleton/dora1199.htm>

Just as in West Germany, a North-South economic divide evolved in the GDR, too. The northern parts of the country have traditionally been sparsely populated, economically weak and dominated by agriculture. The so-called 'industrialisation of the north' attempted to counterbalance the backward position of the region and located clusters of industries here. However, due to the Socialist modes of production, the forces of centralisation and agglomeration in the post-war period were arguably not as strong in the GDR as in West Germany. Instead, the location of industries in the GDR was guided by the aim of full employment and equal living conditions. Accordingly, industries were also located in peripheral regions in order to supply workplaces.

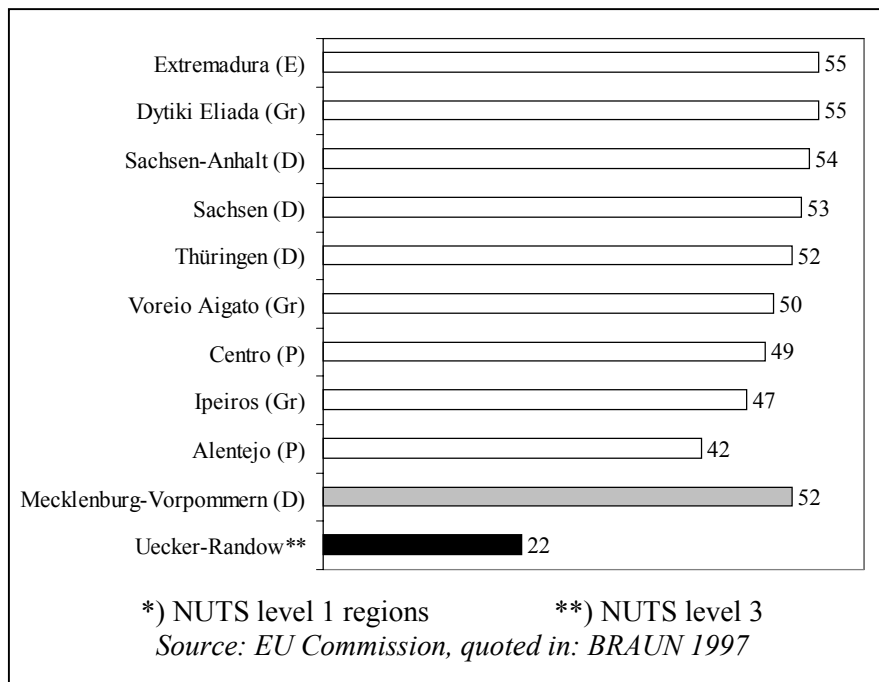
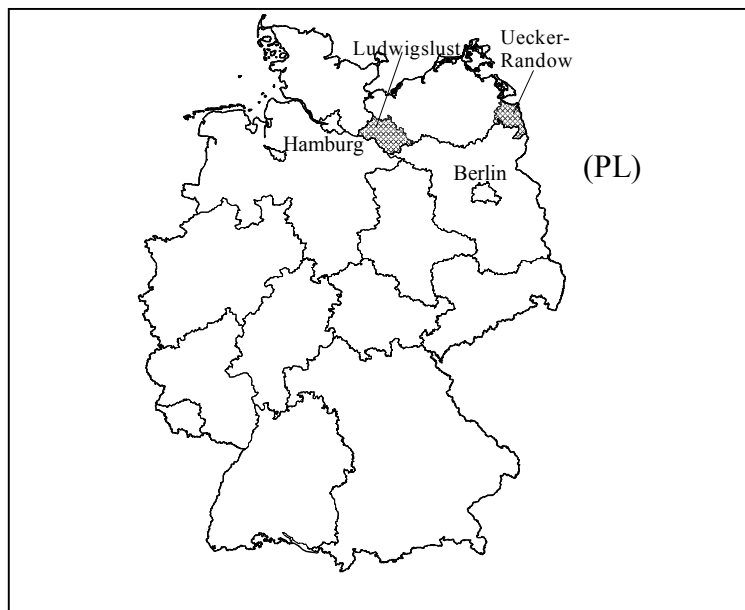


Fig. 1: GDP per capita in Mecklenburg-Vorpommern, compared to the lowest income regions of the EU*, 1996 (EU =100)

After German reunification and the introduction of market forces, industries in Mecklenburg-Vorpommern often suffered from lacking suitable location factors. The distance to markets, based on the low population density and the peripheral location in Germany and the EU, reduced the attractiveness of the region for new investments. Furthermore, in the GDR production had been primarily directed towards the COMECON countries,

where markets collapsed in the early 1990s. As a result, Mecklenburg-Vorpommern did not have the best start in the West German market economy. In fact, the state today features the lowest income of all German states, has the lowest density of industries, the lowest innovative capacity and the lowest share of exports. Fig. 1, using data from the mid-1990s, shows that Mecklenburg-Vorpommern has been one of the poorest regions in the EU context.

Locational features of Uecker-Randow



Map 1: Location of the counties Uecker-Randow and Ludwigslust

With Mecklenburg-Vorpommern on the periphery of East Germany, the county Uecker-Randow is clearly the ‘periphery of the periphery’, in terms of both geography and income (Map 1, Fig. 1). The region is located on the Polish border, and prior to WW II, was the hinterland of Stettin, which today belongs to Poland. Hence, the particular marginality of the region today has also been caused historically by the cut off from its former centre of economic activity. The weak interregional transport infrastructure adds to the geographic marginality of the region: Access to the railway system is poor, and only the very south of the county has access to a motorway, which is in poor condition. Accordingly, the accessibility of agglomerations and airports is still considerable (Fig. 2). Results of the DORA project

suggest that for Uecker-Randow, this geographic and infrastructural marginality has been the most decisive factor for economic decline.

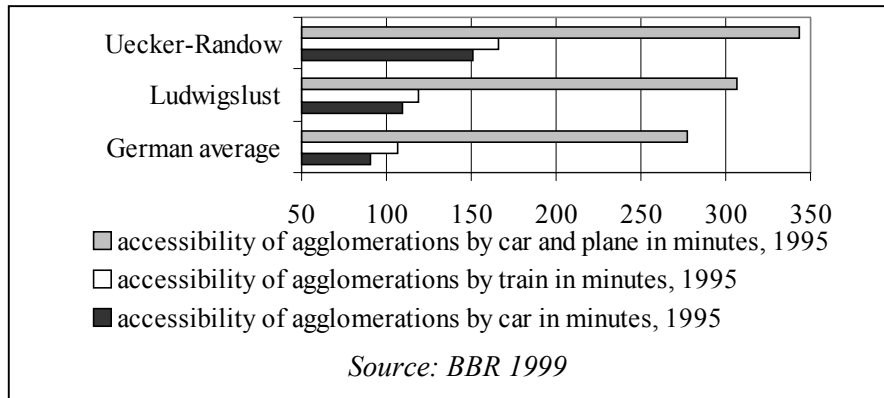


Fig. 2: Accessibility in time distance

By contrast, the county Ludwigslust, which serves as a reference for Uecker-Randow in this paper, features a very positive economic record since reunification. The region is also located in Mecklenburg-Vorpommern but in a more fortunate geographic location (Map 1) and with good access to interregional transport infrastructure: The motorway from Hamburg to Berlin intersects the region, and the western rim of the county is only 45 km away from Hamburg, which provides substantial employment and services for the population in Ludwigslust.

Lack of Investments

The basic economic obstacle for Uecker-Randow since German reunification has been the lack of external investments, despite considerable investment incentives available in the East German regions. Production sites from the Socialist period have generally not been taken over by West German companies, and new investments were rarely attracted. In the interviews, most local actors attributed this lack of investments to the geographical marginality. Mayors of the communities commented on the poor interest of investors because of the geographical remoteness of the region, and some local entrepreneurs reported that they would locate in a more central region rather than in Uecker-Randow, if they could choose again.

By contrast, Ludwigslust became very attractive for investments in the early 1990s due to the region's proximity to West German markets. Numerous branches of western parent companies were established just behind the former border. According to interviewed executive managers,

this was primarily done in order to take advantage of the investment incentives available in East Germany, without losing the proximity to Western European markets. Fig. 3 illustrates the contrasting investment activities between Uecker-Randow and Ludwigslust.

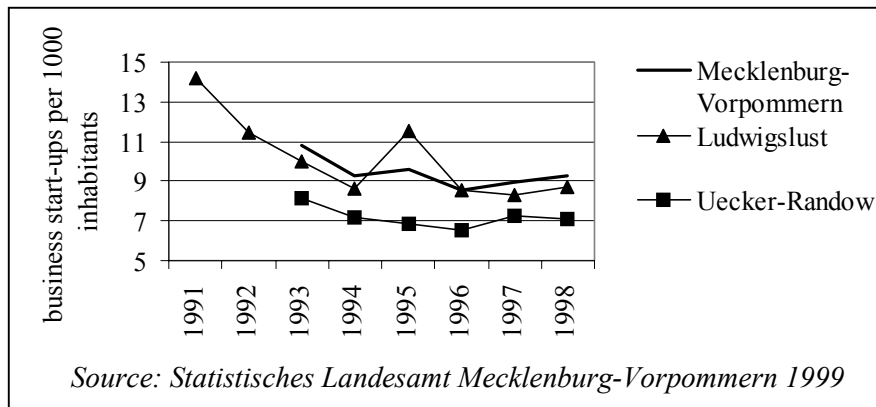


Fig. 3: Business start-ups per capita

Since local authorities in Germany enjoy a certain degree of financial autonomy, a secondary effect of the insufficient investments in Uecker-Randow is low local tax income. As a consequence, local authorities sometimes face difficulties in co-financing the policy funds from EU and national sources for investments which the communities so badly need.

Difficult operating conditions for enterprises

In addition to the lack of new investments in Uecker-Randow, existing enterprises are in a difficult competitive situation due to the peripherality of the region. Interviewed entrepreneurs reported difficulties in competing with enterprises located closer to German and European markets which have lower transport costs for both supplies and sales. As an executive of a manufacturing plant reports: *“When I need some special tool for my production process, I order an engineer from, say, the Ruhr area to bring and install it. It takes him seven hours to come here, and he needs to stay overnight. Apart from the mere costs for transport and accommodation, the production process pauses for a very long period. Such operations are very costly for my enterprise”*.

Such problems are also evident in the business surveys in Uecker-Randow and Ludwigslust, which reveal very different levels of satisfaction with the access to interregional transport infrastructure. A large majority of entrepreneurs in Ludwigslust are “satisfied” or “very satisfied” with this location

factor, while the majority in Uecker-Randow is “dissatisfied” or “very dissatisfied”.

Massive unemployment

The crash of various industrial branches in the early 1990s led to very high unemployment in Uecker-Randow (Fig. 4). While the “official” unemployment rates have lately been reported at about 24%, interviewees estimated that without employment schemes this figure would be around 40%. Next to the public employment schemes, attempts to counterweight the high unemployment focussed on employment in the public sector, in particular in the army and public administration. However, these kinds of employment do not spread major economic effects into the local economy and make a minimal contribution to improving the human capital.

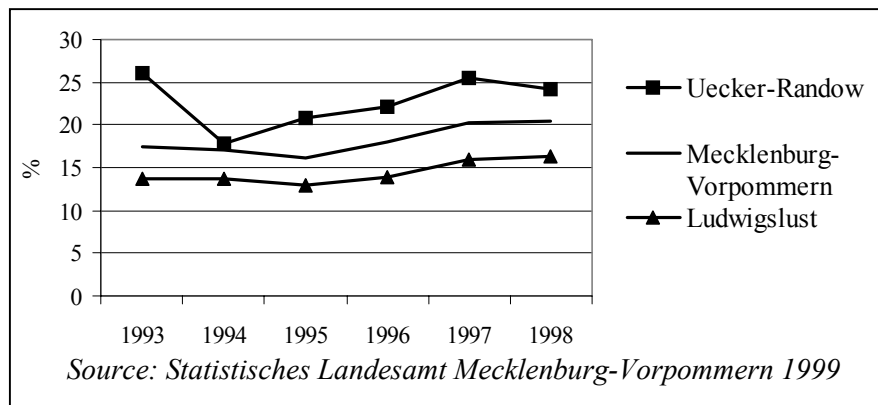


Fig. 4: Unemployment rates, annual average

After the transformation shock in the early 1990s, employment in Uecker-Randow continued to decline, as Fig. 5 illustrates. To some extent, this was caused by cut-backs in the army. However, the main reason was the lack of investments. Ludwigslust, by contrast, recovered relatively quickly from the transformation to a market economy, and employment has grown since the early 1990s with the help of investments from West German parent companies. Additionally, the labour market was very much assisted by the proximity to Hamburg, allowing for commuting on a daily basis.

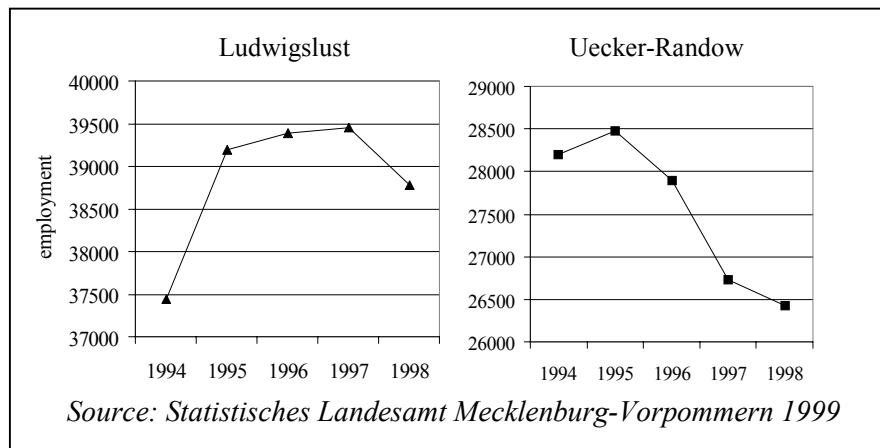


Fig. 5: Development of employment since 1994

‘Brain drain’

As a result of the high unemployment level, Uecker-Randow has faced severe emigration in the post-Socialist period (Tab. 1). This was additionally fostered by the lack of commuting possibilities. The closest larger towns are difficult to access for commuters and also suffer from high unemployment. Berlin is clearly outside daily commuting distance for the region, and few workers choose the burden of weekly commuting to the German capital. Overall, the local labour market is hardly relieved by outward commuting. Instead, many people willing to work leave the county for good and move to West Germany or Berlin.

Tab. 1: Overall Net migration per 1000 inhabitants

	Mecklenburg-Vorpommern	Ludwigslust	Uecker-Randow
1997	-2	+15	-7
1998	-2	+12	-8

Source: BBR 1999; Stat. Landesamt Mecklenburg-Vorpommern 1999

These migration patterns drastically diminish human capital in Uecker-Randow, particularly because the young, well-educated and economically active people emigrate. In contrast, we find the reverse situation in Ludwigslust. People generally find employment within commuting distance, particularly in Hamburg. This relief on the labour market in turn reduces the pressure to emigrate.

As a result of the persistent emigration, the population in Uecker-Randow has declined steadily in the 1990s. By contrast, Ludwigslust recovered quickly from emigration in the early 1990s, and is today one of the few East German regions with a record of steady population growth (Fig. 6).

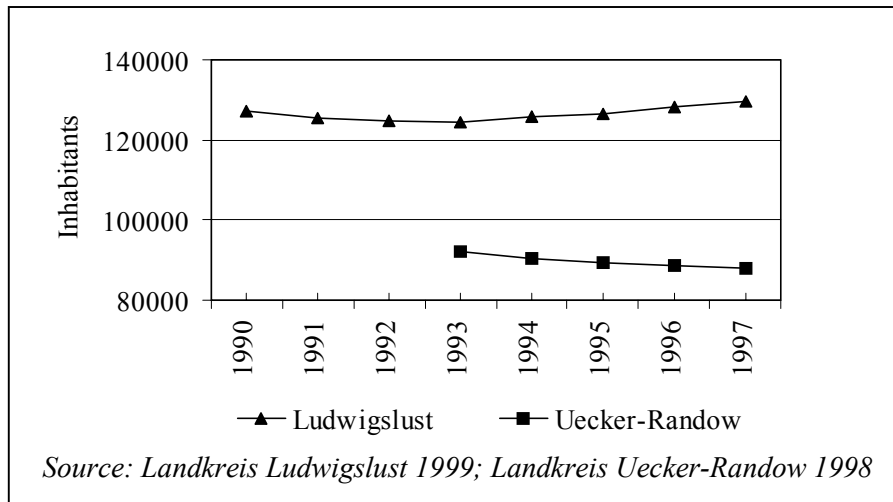


Fig. 6: Population growth

Institutional performance

Another problem linked to the peripheral location are difficulties to recruit capable regional actors in Uecker-Randow: Due to the poor access to services, the high unemployment and various social problems, many of the academic people leave the local labour market. In the same time, it becomes increasingly difficult to recruit the best people for leading positions in the public sector from outside the region. Interviewees reported that sometimes people who failed to be successful in their prior positions from West Germany come to the region to fill vacancies in local institutions. As a local politician notes: *“Those who ended up here did not make it anywhere else”*. As a result, local institutions are not always managed by the best qualified people, which leads to limited capability to positively stimulate the regional economy. Conversely, in Ludwigslust, local institutions were more often described as led by the right people.

These impressions are supported by the results of a questionnaire among the interviewed regional actors. The majority of interviewees in Uecker-Randow characterised their county as *“badly governed”*, while in Ludwigslust, regional actors by the majority associated their region with the description *“well governed”*. However, the impact of institutional

performance on the economic development in Uecker-Randow and Ludwigslust should not be overestimated. The results of the DORA research suggest that in both regions a certain amount of local selfishness, dualism between former sub-counties and parochial thinking among the parishes prevail.

To some extent, the institutional performance in both counties is indirectly influenced by their geographic location: In a situation of sound local finances because of sufficient external investments and low unemployment, like in Ludwigslust, distribution fights between communities can easily be prevented and pragmatic policy making is facilitated. By contrast, regional bodies in Uecker-Randow face a more difficult task. The tense financial situation as a result of few investments, unemployment and a high share of social welfare recipients sophisticate policy making and local governance.

Mismatch and work ethic

Problems in recruiting the best people for the job also apply to the private sector in Uecker-Randow. Entrepreneurs often reported the need to bid away highly qualified personnel from other regions with either high salaries or low cost housing. Also for less qualified jobs employers find it increasingly difficult to recruit people. This is a somewhat surprising observation, taking into account the massive unemployment in the region. In Uecker-Randow, a certain share of the unemployed who have chosen not to emigrate appear to be either poorly qualified or not willing to seek employment at all. The result is a pronounced mismatch in the labour market, where employers find it difficult to fill certain vacancies despite a high level of unemployment. As a local entrepreneur notes: *“It was difficult to find 350 new employees for this enterprise in the county. Many are no longer willing to work or have lost their skills. (...) I am considering relocating production to Berlin if I can not find sufficient employees here”*.

Tab. 2: Business survey: Work ethic and mismatch

	Ludwigslust	Uecker-Randow
How pleased are you with the mentality of the local workforce?	71% “pleased” or “very pleased”	55% “pleased” or “very pleased”
Do you have difficulties to fill certain job vacancies?	42% “Yes”	50% “Yes”
Official unemployment rate 1998	16.4 %	24.1 %

Source: Own survey, Stat. Landesamt Mecklenburg-Vorpommern 1999

This problem is highlighted by results of the business survey, shown in Tab. 2. In Ludwigslust, entrepreneurs reported to be more satisfied with the mentality of the regional workforce and have less difficulties to fill vacancies, compared to Uecker-Randow.

Many entrepreneurs also complained about the public employment schemes ("ABM"). Since the unemployed can rely on social benefits and relatively good payments with occasional ABM employment, some no longer seek 'proper' employment. Furthermore, the prospect of future unemployment was reported to shatter the motivation of young people. As interviewees note: *"People have lost perspectives"*. As a result of the demotivation and low morale, there is a particularly high burden of social problems in the region, for example, there is a very high share of alcoholism. Interviewees also reported a decay of human capital through long-term unemployment. As a public official notes: *"Many of those who lost their job in the early 1990s have lost their skills in the meantime"*.

Economic structure

Factors directly related to peripherality are not the only independent variables responsible for the lagging economic performance in Uecker-Randow. In addition to geographic marginality, many interviewees commented on the problematic industrial structure in Uecker-Randow, both before and after German reunification. The county harboured large military units even before transition. In order to employ the high number of women who followed their soldier husbands to the region, the government of the GDR located manufacturing plants in the area. In most of these cases however, the location decision was not at all based on location advantages, but solely served Socialist employment strategies. The few exporting production sites in Uecker-Randow under Socialist rule exported entirely to the COMECON markets. Finally, Uecker-Randow had served as a popular holiday destination for the people of the GDR, due to its beautiful landscape and coastline along the "Stettiner Haff".

This industrial structure turned out to be a difficult legacy for the time after reunification. Many manufacturing plants in the area, lacking reasonable location factors, proved unprofitable under market conditions (especially taking into account the unfortunate geographic location of the region). A serious recession in the German construction sector in the late 1990s hit the region particularly hard. The outright collapse of the COMECON markets additionally damaged the local economy. Due to the region's industrial structure and few Western take-overs, little local export revenues accrued through the opening of Western European markets. Finally, with the

freedom to travel abroad after 1989, the people of the former GDR predominantly chose holiday destinations in the Mediterranean or overseas instead of the Baltic Sea, thus the tourism industry in Uecker-Randow declined sharply.

Conclusion and outlook

The analysis of the economic situation of the county Uecker-Randow in the last decade has shown that the integration of the former GDR into the (West-) German market economy has not necessarily reduced problems of marginality in peripheral regions of East Germany. Instead, the case study has shown that geographic remoteness can trigger substantial economic and social problems even in an industrialised country with decentralised economic and political structures, such as Germany. The regional decision-makers interviewed in Uecker-Randow overwhelmingly attribute the lagging performance of the county to its geographic remoteness and poor access to interregional transport infrastructure. The peripheral location appears to have made the region less attractive for external investments after reunification, and obstructed the operational success of already existing manufacturing plants. This has led to particularly high unemployment, which has in turn produced a high level of social problems. Since there is practically no possibility for the unemployed to commute to workplaces outside the county, the unemployment problem is further aggravated. These features provoked substantial emigration and thus a considerable loss of human capital. Accordingly, statements of local actors concerning the future prospects of the region are not too optimistic, as a policy maker notes: *"We can be happy if we retain the current stagnation [and do not slide into even deeper recession]"*.

There are manifold vicious circles rooting from the above mentioned features:

- The emigration and long-term unemployment reduces the human capital in the region, which obstructs investments to counteract unemployment and emigration.
- The marginality and low quality of life make it difficult for the institutional and political sector to recruit the best people for the job. This problem is made worse by the emigration of well-educated. As a result the region lacks the human resources for effective regional management to overcome the problems rooted in regional marginality.
- The marginality and low purchasing power in the region reduce the attractiveness for investments in the service sector or consumer good production, in turn adding to low purchasing power.

So far, neither national nor EU regional policy has managed to initiate self-sustained growth processes in Uecker-Randow. As a local mayor noted: *“Regional policy has shipwrecked in Uecker-Randow”*. In the future, regions like Uecker-Randow are in urgent need of further aid from both national and EU regional policy.

Firstly, access to interregional transport infrastructure appears to be a much-needed improvement. The current construction of the A 20 motorway along the Mecklenburg-Vorpommern coastline to the Baltic Sea, will certainly help to improve the accessibility of the region. However, further improvements of the road and rail network are necessary to help Uecker-Randow overcome the considerable distance to markets and supplies.

Secondly, Uecker-Randow would benefit from a more pronounced gradation of funding categories. The whole state of Mecklenburg-Vorpommern is subject to national investment support schemes by ‘GRW’ funding. Most Western counties and the cities are in the ‘normal’ funding category, while the Eastern counties, including Uecker-Randow, are in the ‘special’ funding category, allowing for particularly high investment incentives. However, Uecker-Randow can not compete with the other regions inside the ‘special’ funding category when trying to attract investments, because of its particular remoteness. A more fine-tuned splitting of funding categories and levels of subsidies could possibly stimulate growth in Uecker-Randow more effectively, without completely eliminating market forces and efficient resource allocation.

Apart from regional policy, the eastward enlargement of the EU could change the prospects of Uecker-Randow substantially. At first glance, the envisaged entry of Poland into the EU would have two positive effects on Uecker-Randow: Firstly, the region would lose its status as an external EU border region, and secondly, it would regain access to its former centre, the city of Stettin. However, regional actors fear hazardous impacts of the EU-enlargement on Uecker-Randow, too: Already today there is a certain amount of commuting Polish construction workers in Uecker-Randow. This comes about through the combination of high wage differential between Poland and Germany, and relatively high social benefits for unemployed in Germany. The effect on the labour market in Uecker-Randow is a rise in unemployment in the construction sector which is in deep recession anyway. Therefore, many people in Uecker-Randow are not too enthusiastic about the increased mobility of labour created by EU-enlargement. Furthermore, interviewees reported a drain of purchasing power to Stettin,

where large supermarkets opened recently, which attract consumers from Uecker-Randow with low-priced goods.

Taking a macroeconomic perspective, it is questionable whether Uecker-Randow can reap comparative advantages vis-à-vis Poland in the future. Theory suggests that the new accessing East European countries like Poland would have comparative advantages in labour intensive, and low- and medium skill intensive production, whereas countries like Germany should realise comparative advantages in capital and skill intensive production. While in general this might in fact become the overall division of labour between Germany and Poland in the medium term, this pattern does not necessarily apply for each region along the border between the two countries. Uecker-Randow, for example, lacks skill-intensive production and instead has strongholds of medium skill and labour intensive production like food processing, construction and agriculture. Therefore, for Uecker-Randow the competitive pressure from neighbouring Polish regions could in fact outweigh the advantages of open borders after the first stage of EU enlargement. Hence, the continuation of EU community initiatives for border regions of member states, such as INTERREG, appears particularly important for marginal East German regions like Uecker-Randow.

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