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The Transformation of the East German Labour Market: From short-term Responses to long-term Consequences

Thomas Ketzmerick*

Abstract: »Die Transformation des ostdeutschen Arbeitsmarktes: Von kurzzeitigen Antworten zu langfristigen Konsequenzen«. The article describes the short-term and long-term consequences of the German reunification on the East German labour market. It shows which active labour market policy measures have been taken and evaluates these interventions with regard to a possible Korean reunification. The immediate consequences included a rapid economic structural change, high unemployment and emigration. Many of the measures undertaken were crucial for the successful transformation, for example, by adaptation of qualifications. Others, such as job creation schemes, short-time working and early retirement had more sociopolitical impacts and caused long-term side effects on age structures of companies and the labour market integration of the younger generation. For a successful unification of labour markets such effects need to be considered when acting in the transformation phase.

Keywords: Reunification, transformation, labour market, active labour market policy, East German.

1. Introduction¹

The German reunification was an exception within the transformation process in Central and Eastern Europe of the last century. Unlike the other post-communist states East Germany was not alone managing the transition, but could also count on massive support and assistance of West Germany, without which the process of economic and social catching up would probably have taken much more time. Renouncing political experiments the union took place quickly in two stages. First, with the Treaty on Monetary, Economic and Social Union on 1 July 1990, the German Democratic Republic (GDR) adopted large parts of the economic and legal system of the Federal Republic. Three months

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¹ This paper is based on a report by Bettina Wiener and Thomas Ketzmerick (2015).

later the East German states joined the scope of the West German Basic Law only within half a year after the first free elections in the GDR.

The fast pace had become necessary not only because the collapse of the East German economy was feared but also because of the strong demand for the introduction of the West German currency expressed by the East German population, accompanied by a high level of migration to West Germany. The wish for a quick unification was reinforced by the relatively widespread confidence that the economic reconstruction would succeed quickly. This assumption was supported by forecasts of leading economic research institutes that the development would be characterized by stability and additional growth resulting in rapidly falling unemployment and low inflation. The optimism culminated in the promise of the then German Chancellor Helmut Kohl to the citizens in East Germany to create together “flourishing landscapes” within a few years. Although the German unification is now primarily considered as a success, in 1990 hardly anyone expected that the challenges in the field of economy and employment in East Germany would reach such a degree and would be of such a long time, in particular that:

- unemployment and underemployment would massively increase to an unprecedented level in postwar Germany,
- the new federal states would become partially de-industrialized and dependent on transfers from the West for decades,
- even 25 years after the reunification there would be still a significant wealth gap between the two parts of the country and
- the exodus of East Germans to the West would go on for more than 20 years.

The following article describes the development of the East German labour market after reunification. In the first part, the focus is on the interplay between employment trends, labour market policies and consequences for different groups of labour force in the transformation at the beginning of the nineties. Policies included the adaptation of qualifications, which is considered to be crucial for the successful transformation, and the massive use of short-time working, which reduced unemployment, but prevented many employees from taking advantage of the opportunities opened up in the structural change for a short time. The transferability of the results and conclusions concerning this period for the Korean case is likely to be the highest, since the consequences of the antithesis between former East and West German systems and of the rapid institutions transfer were most pronounced in this time. In the following period, the situation was more determined by the consequences of the early steps of transition on age structures, youth unemployment and the dealing with it, which is subject of the second part. This section shows, for instance, how the use of early retirement in an unprecedented scale caused long-term side effects on age structures of companies and on the labour market integration of the younger generation. The third part is about persisting peculiarities of East

German labour market and its constraints. In the final part, conclusions and recommendations will be given for dealing with the labour market consequences of a systemic transformation, as it was done in Germany.

2. Unification Shock, Job Losses and Structural Changes

2.1 Initial Situation of the Economy and Employment in the GDR

The economic structure of the GDR was typical of a centrally planned economy. It combined a less developed service sector in contrast to strong primary and secondary sectors. However, many social services were integrated into the companies, such as the supply of housing, medical and cultural services, childcare, boarding houses among others. The structural change in the first years after unification was mainly due to the collapse of entire sectors of the economy, but also partly consisted of the transfer of integrated services into separate institutions.

Open unemployment was an unknown phenomenon in the GDR. Every citizen had a right of a workplace, regardless of economic requirements. The employment rate was very high, also among women. However, the level of productivity was low. Despite the high nominal working volume, the aggregate income was relatively low. It was shown that the employment structures in the GDR enterprises as well as the social institutions and regulations had many features of internal labour markets (Grünert and Lutz 1996). Job changes were uncommon and the system lacked essential institutional preconditions. This fact and the integration of many social functions into the enterprises promoted a strong orientation of the East German workers on safety and loyalty to their company. The resulting difficulties in learning rational labour market behavior, as well as difficulties in using and interpreting the GDR education certificates partly explain the specific developments in the East German labour market after unification (ibid.).

2.2 Structural Change by Shrinkage

After the reunification and the first adjustment of wages to the West German level, the East German economy was faced with the challenge to rapidly increase its productivity, to make a transition towards a modern Western industrial society and to find new markets, which had to replace the previous East European markets. For this, a crucial role was played by the *Treuhandgesellschaft*, a state holding agency, into which much of the East German economy had been transferred before the unification. Comprised of 13,000 companies and 4 million employees, its task was transforming the state-owned conglomerates and businesses into market-oriented companies through restructuring and privatization or by closure of non-sustainable enterprises. In particular, the East

German economy had been directly confronted with the rigors of the world market by the Monetary Union. The Unification Shock and the weaknesses of the GDR economy, which became visible with the Monetary Union, resulted in an employment drop of about 40 percent within a very short time (see also Lutz and Grünert 1996).

Table 1: Labour Market Balance GDR/East Germany 1989-1993 (in 1000 Persons, for 1990 to 1993 Each 2nd Half Year)

	[1989]	1990	1991	1992	1993
Total employment	[9.747]	8.060	6.903	6.289	6.259
of which...					
measures of active labour market policy*		886	984	464	296
Regular employment		7.174	5.919	5.843	5.963
Unemployment		642	1.038	1.110	1.175

Source: Beschäftigungsobservatorium Ostdeutschland, Nr. 16/17, Nov. 1995.

* Job creation schemes and publicly funded short-time working.

Thus, the number of non-subsidized employment changed from 9.8 to about 5.8 million in the period from autumn 1989 to 1992. Unemployment became a mass phenomenon. In the part of the East German population that was not directly affected, this also led to considerable uncertainty, because people were accustomed to full employment and stable jobs. The uncertainty was hardly diminished by the massive use of labour market policies. Through job creation schemes, short-time working, further training and retraining as well as early retirement one year after unification, about two-thirds of the dismissed were absorbed. Some of these were taken out of the labour market (“labour market relief” especially through early retirement), some enabled for a professional re-start, and often the unemployment was only postponed through short-time working but became a long-lasting destiny for many.

The decline in employment in East Germany was only, to a small extent, done by the cancellation of unproductive jobs, the closing of system-related organizations and services, or by the dismissal of ideologically encumbered employees. Most of the decline in employment turned out to be sectoral job losses, which particularly affected the agricultural and industrial sectors, i.e. manufacturing (including energy, water and mining). These areas represented almost half of the jobs in 1989, which was a high proportion compared with other industrialized countries and West Germany – even when taking into account that the enterprises in the GDR took over many social and cultural tasks, setting in many employees. The job losses included these as well as employees who were active in the core business of enterprises. But not only industry and agriculture, also several other industries dismissed en masse staff. On the other hand there were sectors remaining stable or even recording growth.

The dramatic decline in employment has been accompanied by an economic restructuring in a very short time. The employment share in the manufacturing

sector halved between 1989 and 1994; in agriculture and forestry, it even fell by almost two thirds. At the same time, the share of employment in construction increased more than twice (although the construction boom ebbed later somewhat) and, in service sector, it tripled. Thereby, different opportunities were mapped out for many employees out of structural reasons that were outside the scope of individual control. In addition to that, profound shifts in qualification requirements took place. Expenditures in education and social policies in extremely large dimensions became necessary.

Table 2: Economic Structural Change in East Germany (Employment Share in Percent)

Selected Industries	1989	1994	Change
Agriculture and Forestry	10.0	3.6	-6.4
Manufacturing	35.0	17.0	-18.0
Construction	6.4	16.0	+9.6
Services	6.0	17.0	+11.0

Source: Beschäftigungsobservatorium Ostdeutschland, Nr. 16/17, Nov. 1995.

The decline in employment did not lead to an increase in unemployment of the same level. Responsible for this, besides active labour market and social policy measures (more on this below) were the factors that led to a decline in the number of employed persons or employees, relieving the East German labour market (cf. Dahms and Wahse 1996):

- Decrease in employment of retired persons: in 1989 about 10% of pensioners, which corresponded to 280,000 people of retirement age, were employed to supplement their partly low retirement pensions. This group was particularly affected by job cuts.
- Return migration of foreigners: at the end of 1989 about 90,000 foreigners, mostly from Vietnam, Cuba and Mozambique, were employed in the GDR. The greatest part of these jobs has been terminated, reducing their number to about 30,000 within one year.
- Migration to West Germany: while in 1989 about 350,000 people had already migrated to West Germany (including 250,000 people of working age), this number peaked with 390,000 people in 1990. This was mainly due to labour market problems, poor work opportunities and earning opportunities in the East (Martens 2010).
- Commuting: out of the same reasons many people commuted to work in West Germany or West Berlin. In the mid-90s some 500,000 people were affected.

2.3 Unemployment and Socio-Demographic Characteristics

Despite intervening factors such as age relief through early retirement, migration and the massive use of other measures of active labour market policy

(more on this below), unemployment rose after the reunification in East Germany to an unprecedented extent. Due to the reduction of jobs and, in particular, after the expiration of special arrangements for short-time work in late 1991, which had previously prevented most of the job losses, the unemployment rate reached a peak in early 1992 with 16.5% (1.34 million unemployed), which was barely topped in the subsequent years.

From a social and psychological point of view, unemployment was a particular problem for the former GDR citizens. Not only did it represent a major setback in the life that brought about many other individual risks, but also the transition from the safety of the workplace and the life planning in the GDR into the uncertainty of unemployment was serious, not least because GDR citizens had strongly defined themselves by employment.

The prospects of individual employment were initially, first of all, dependent on the development of their own business or industry and, only then, on the individual characteristics such as gender, education and age or of the professional status in the years after reunification. In the case of job cuts, social plans were used. According to these plans, dismissals were carried out selectively, based on social criteria such as age, seniority, severe disability and family obligations. The idea behind this: Younger workers find new jobs quickly, middle agers, especially those with families, often stay or get retraining and older workers can be sent home. At the same time it was important to keep the best employees for the remaining core staff. Especially larger companies tried to ensure socially compatible job cuts by social choice, which came at the limits of possibility in a time of mass layoffs.

If unemployment occurred, reemployment opportunities and the further employment career have been strongly influenced by socio-demographic characteristics, of which three can be highlighted (Lutz and Grünert 1996):

- Gender: a few years after reunification women held a far greater proportion of the unemployed than men. This was partly due to higher risks of women to lose their jobs. Layoffs took place according to the positions in the economic and professional structures. Sectors producing mainly for private consumption such as agriculture, food industry, textile and clothing industry had traditionally a high proportion of women and were the first to react to increasing competitive pressure with redundancies. In addition, cross-sector female-dominated professions, such as office and administrative occupations, were more affected than others. But first of all, women were longer unemployed than men because their reemployment opportunities were significantly lower than those of men. The given oversupply of labour also let attitudes towards women come into play, which were based on prejudices regarding alleged lower performance and availability for the employer. Mothers and especially single parents were particularly affected. The causes for higher unemployment were both unequal distributed risks for lay-offs and unequal opportunities for re-

employment.² As a result, the unemployment rate for women in 1994 was twice as high as that of men with 21.5% (Wiener 1997, 31).

- Age: A substantial relief of the East German labour market in the first years after reunification was achieved by broad application of institutional arrangements for the transition into early retirement. East German workers could retire early upon dismissal (Wiener 1997, 21 et seq.). Therefore the elders had to bear a disproportionate share of job losses. This happened not only in the form of early retirement, but also via unemployment. Like women, the elders also had fewer opportunities than middle or young-aged people, to find a new job in the event of unemployment.
- Education level: The proportion of labour force without qualifications was very low in the GDR. Nevertheless, after the reunification of the East German labour market a clear relationship between formal qualification level and employment opportunities could be observed. This mainly led to significantly higher unemployment rates for people with medium skills (skilled workers) than among academics (with polytechnic and university degrees). A similar effect was seen in the professional status of employees in 1990; employees with simple tasks were more strongly affected by the job cuts in their industry than those with skilled tasks and had poorer reemployment opportunities, if unemployed.

2.4 The Role of Labour Market Policies

From 1990, the federal government attempted to combat the effects of job losses with the active labour market policy of the Federal Labour Office (now “Federal Employment Agency”), by the mobilization of substantial resources. In addition to the early retirement arrangements, short-time work, employment-generating instruments such as job creation schemes (*Arbeitsbeschaffungsmaßnahmen*, ABM) and further training or retraining measures were used. Although these instruments were originally intended to assist structural change and improve individual employment opportunities, in the new federal states they served de facto to absorb mass unemployment. The following section provides an overview of these measures (see also Dahms et al. 1996).

From October 1990 until the end of 1992, early retirement benefit for people from 55 years could be applied for. In this way the then Federal Labour Office tried to reduce the labour supply and to relieve the labour market. The shrink-

² In many cases both worked together, so were industrial workers, according to West German legislation – unlike, for example, women in service occupations, such as nurses – until 1993 not allowed to work in shifts. Among others a typical East German woman occupation in the chemical industry was concerned, the system driver. With the unification the ban on night work for female workers was automatically transferred to the new federal states and only in 1992 it was canceled due to discrimination against women. But at this time dismissed workers hardly came back into the closed labour market (Wiener 2011, 97).

ing companies made extensive use of this possibility. A total of around 900,000 people availed themselves of retirement benefit. Whole age groups disappeared from the firms. In subsequent years, after the age limit was raised again, there were only a few regular transitions from employment to retirement per year left, thus keeping the replacement demand for young professionals and workers low over a very long period.

Short-time work is an instrument which is used to compensate a temporary operating-related reduction of working with unemployment insurance benefits to avoid redundancies for workers and subsequent re-occupations by employers. This measure was used in East Germany mainly in 1991 and 1992 to prevent an even higher unemployment. Special arrangements have made it possible that even subsidized temporary layoffs were bridged, and that benefits were granted even without any prospect of continuation of the employment. For the duration of these benefits, the affected workers should be allowed vocational training or retraining. At the peak of short-time work in April 1991, around 0.8 million people were unemployed compared to about 2 million workers on short time. From 1992, the conditions for these measures had been restricted, thus reducing the numbers in 1993 to about 150,000 workers on short time, and a further decline to 13,000 participants took place until 1999. While this instrument initially reduced open unemployment quite successfully, the majority of workers on short-time work had been affected by a long-term unemployment after this measure.

The former Federal Labour Office promoted employment measures in a large quantity. Employment subsidies such as job creation schemes (*Arbeitsbeschaffungsmaßnahmen*, ABM), so called structural adjustment measures (*Strukturanpassungsmaßnahmen*, SAM) and productive wage subsidies in accordance with §249h publicly funded temporary jobs to assist job seekers during the re-entry into employment, to maintain their employability, to counteract de-qualification and de-motivation tendencies among unemployed persons, and to secure a low income. Generally, low skilled and additional jobs were subsidized, which should not compete with economic activities. Nevertheless, it should be non-profit as well as public interest work. ABM was used mainly in municipalities and associations. Municipal employment companies, associations or social organizations were the agencies of ABM. Participants were employed in areas such as youth welfare, environmental protection, conservation, social services or tourism. Since the early 90s, so-called companies for employment support, employment and structural development (*ABS-Gesellschaften*) were established in East Germany, with which some of the measures were carried out within enterprises or municipalities. These companies were supported and advised by regional and sectoral management companies as well as a holding company of the federal state. The state holding agency (*Treuhandanstalt*, THA), managements of companies, employee representatives, trade unions, employers' associations and the Federal Labour Office were

involved too. The aim of the ABS companies was to support transitions to unsubsidized employment and start-ups by providing lasting jobs. However, these objectives have been achieved only to a limited extent.

Employment subsidies, such as job creation schemes, were important instruments of the so called second labour market beyond the year 2000, combining labour market and structural policy objectives. The usage of these measures increased quickly after reunification. In East Germany, an average of 400,000 persons was employed alone with ABM in 1992, in SAM about 40,000, employment in accordance with §249h reached more than 100,000 people still in 1995. Due to the high costs, the instruments were scaled back somewhat subsequently, but remained at a high level until 1999, so an annual average of about 250,000-350,000 people was subsidized. Women were underrepresented in the participation in these activities, mainly because the measures focused on infrastructure improvements and environmental protection with preference for male workers (Wiener 1997, 25 et seq.).

Criticism was raised especially on the achievement of these measures. Along with the increasing scale of temporary employment through ABM, the integration into the labour market became difficult. With a rising number of persons with disadvantages in the labour market that had been involved in ABM, not only the integration problems increased, but also the implementation of ambitious measures to achieve local, regional and structural policy effects became more difficult. The concentration of subsidies on (additional) off-market activities also ran counter to the aim of acquiring vocational technical, market-oriented qualifications to improve the employment prospects (BMAS 2005). Moreover, it was criticized that the funding was too short for people furthest from the labour market and, rather, a gradual, long-term, social and labour market integration strategy must be pursued (Obermeyer et al. 2013). It is unquestionable, however, with respect to structural mass unemployment, that these measures were an important contribution to social integration of many people having no other employment opportunities due to low demand, but also for society as a whole. Critics complained, furthermore, that the ABM was meant to whitewash the unemployment statistics and to keep the reported unemployment rate lower than it is in reality. Participants of a job creation scheme have not been listed as unemployed in the statistics.

Besides job creation measures, government-sponsored further training and retraining courses (*Fortbildungs- und Umschulungsmaßnahmen*, FuU) were increasingly used to prepare the mostly qualified employees for the new activities. Training schemes should improve the chances of persons seeking work, either by extending existing qualifications or by adapting to new developments, or, in the case of retraining, new professions were acquired. Furthermore, integration activities were supported on a small scale as well as measures in part-time education. While the funding lasted usually two years or sometimes even

longer at the beginning of the 90s, it was reduced to only 18 to 21 months for re-training, and not more than 12 months for training from 1993.

After the rapid achieving of the peak level of about 500,000 participants in mid-1992, the instrument was gradually reduced down to an average of 140,000 people in 1999. Between January 1992 and July 1993 alone, there were more than 1.1 million participants in training schemes. The instrument played an important role in adapting the skills of many East Germans to the new requirements during the transition period. However, many courses did not meet the requirements in the labour market after the completion of the initial restructuring of the East German industry. During the decline in the creation of new jobs fewer participants succeeded in the transition into employment on the “first” labour market. Furthermore the ongoing structural change often contributed to a rapid devaluation of gained qualifications, for example, in the case of qualifications for the construction industry, as the construction boom lasted only a few years after the unification. Women were more often than men involved in the training and retraining measures of the nineties. However, their proportion in integration activities, which supported the opportunities for entries into employment in a special way, was always lower than the proportion of men (Wiener 1997, 26). Nevertheless it is important to note that the adaptation of qualifications by labour market policy measures played a crucial role for the success of the East German transformation.

Table 3: Unemployment and Measures of Labour Market Policy in East Germany (in 1000 Persons, for 1990 to 1993 Each 2nd Half Year)

	[1989]	1990	1991	1992	1993
Total employment	[9.747]	8.060	6.903	6.298	6.259
Unemployed		642	1.038	1.110	1.175
Taken out of the labour market by:					
Further training/Retraining		45	310	434	368
Early retirement		460	705	834	778

Source: Beschäftigungsobservatorium Ostdeutschland, Nr. 16/17, Nov. 1995.

Since youth unemployment developed in East Germany to a specific issue, which resulted in massive migration to West Germany, measures have been used to a large extent to support young graduates of initial vocational training in their integration in the labour market. Only a part of the action was specific and, in most cases, it was a rather spontaneous reaction to a very high demand comprising of measures for as many young people as possible. Lots of so-called “initial actions” or “assisting in placement” measures (candidate training, language or computer classes) were funded with no apparent goal orientation. This was meant to mobilize the participants, but due to the lack of individual customizing of the content offered to the different levels of the participants, it rarely worked as a bridge to permanent employment. The more successful measure types included special qualifications or complete reorienta-

tion (educational push) as well as measures that were aimed at the demand for workers such as “start-up by bridging allowance” or “pool solutions” for apprentices (employment pull) (Wiener and Meier 2006). Solutions in form of innovative and sustainable measures for young people entering labour market after initial vocational training never reached a necessary extent. Many young adults had to make biographical experiences, which sharply reduced their willingness to achieve and to integrate into society.

Considering the lessons to be drawn from these developments for Korea it has to be noted that the two German states had a far more similar economic as well as qualification structure of the labour force before the reunification than it is probably the case with North and South Korea. For example, the very high unemployment in East Germany from 1990 was mainly due to the lack of competitiveness of the East German economy, the subsequent partial de-industrialization and the decline in employment, but not due to a strong mismatch between available skills and the requirements of the economy. With their certificates acquired in the GDR, both on skilled workers and academic level, the majority of East Germans possessed qualifications that were either directly usable on the all-German labour market, or required only relatively short training and integration measures.³ By contrast, in the case of a reunification aiming at the alignment of living conditions Korea faces a double challenge, namely both the development of an efficient economic structure with adequate employment opportunities for the North Koreans, as well as a massive increase and adjustment of the qualification structure of the North Korean labour force.

2.5 Differentiation of Chances and Unequal Perspectives of Various Groups

While the older generation was sent into retirement to a large extent, there were different opportunities for the middle-age group, creating a gap between so-called stayers and changers. Many of the employees still working in their old positions in the first few years (stayers), had difficulties to enter into employment later. Because the number of job opportunities remained low for a long time, only the first dismissed were often those who found jobs in the new structures (changer) that turned out to be permanent in most cases.

This relation between the date of dismissal and the subsequent employment destiny is particularly evident in the example of the similarities and differences in job losses in the industry and agriculture. These areas had to bear the brunt

³ Technical modifications, the implementation in new professional activities or new tasks were less problematic for most East German employees because they felt well-prepared. Difficulties arose rather by changes in work organization and managerial achievement and communication principles in the transition from the socialist planned economy to the social market economy (Heinz 1996).

of job losses after reunification. Employment in industry fell below 40% of the value of 1989, in agriculture even below 25%. Employees of both areas were at particularly high risk of becoming unemployed, especially the low-skilled workers or those in low positions. In contrast to the industry, however, the decline in employment occurred much faster in agriculture. This was due to the rapid transformation of the legal form of GDR's agricultural cooperatives based on the Agricultural Adjustment Act of 1990. In contrast, the activities of the state holding agency (*Treuhandanstalt*, THA), within which the most industrial enterprises had been transferred, and which included privatization, restructuring or closure of companies, lasted until the mid-90s. Although a far higher proportion of the agricultural workers in 1990 was dismissed much more quickly, as it was the case with the industrial workers, their employment rate was hardly below the overall rate three years later. Many of these workers were confronted with the necessity to seek a new job very quickly. Unlike the former industrial workers, they were often successful in changing into other sectors with better employment prospects, particularly the construction, trade and local authorities. Regional mobility, especially towards West Germany, played also a major role. While workers from agriculture had been hit very fast and hard by job losses, in their case the instrument of short-time work was rarely used, compared to the industry, so that the dismissed workers were likely to be unemployed. But as quickly the unemployment rate increased, so did it go down again.

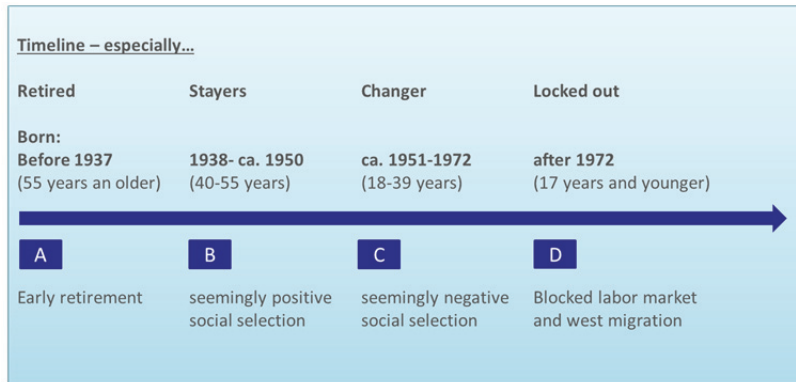
For a considerable time, most industry workers apparently believed that their company would soon be back on its feet and that it would be rational to wait until then and not to put their entitlements to benefits at risk through voluntary mobility, according to the widespread logic of internal labour markets within the former GDR industry. Instead of trying to re-orientate quickly, they lost irreplaceable time for the use of employment opportunities that were available only for a short period of time (Lutz an Grünert 1996, 117). In these differentiation processes, labour market policy measures such as short-time working and job creation schemes often proved to be a trap, because they held participants from making use of the open structures and new opportunities available only within a short time frame. As early as 1992, this time window of opportunities closed again, which brought about in many cases, long-term absence of market-induced employment chances.

By the year 1993, the employees of 1990 were thus divided into three groups of approximately equal size with different employment perspectives which were closely linked to their age:

- About one third was no longer employed, either as early retirees or as a pensioner or unemployed until retirement – the “retired”
- Approximately another third had to leave their previous job either voluntarily or forced and found a new job or became self-employed – the “changers”

- One third was still employed at the same place – the “stayers.” This also includes internal changers with changes within their old employment.

Figure 1: Unequal Perspectives of Different Groups



These three groups were supplemented by a fourth a few years later, whose chances had already been affected by the developments in the first period after reunification – the “locked-out.” The age relief of the labour market mentioned above led to a drastic reduction in the replacement demand by sending a big part of the older employees home within a short time. For about 10 years there were very little retirements. At the same time, there was hardly additional demand through employment growth. Thus the baby boomers, leaving school from mid-90s, entered a de facto blocked labour market (see also Section 3.2).

It is important to note here, that large-scale, temporary measures like early retirement focusing on socio-demographic groups (especially age groups) may have serious long term consequences, if they disturb the succession of generations within the employment system.

2.6 Migration

A significant impact of the labour market changes were emigration waves expelling particularly skilled, young people and women from the eastern regions due to lack of job opportunities. From the political change in 1989 until August 1995, more than 1.5 million East Germans have left their homes and have moved into the old federal states or abroad. This was not offset by half a million people from West Germany and foreigners moving to the new federal states in the same period. In net terms thereby arose a migration loss of a million people at the expense of the eastern federal states.

Due to the problems of the baby boomers career starts a few years later, there was a second wave of migration especially among young people. Poor initial vocational training and career opportunities for young East Germans

resulted in over half a million young East Germans moving temporarily or permanently for a training or employment to West Germany from 1999 to 2008 (Grünert and Ketzmerick 2010). Women were particularly concerned in the second wave. Despite higher average degrees, they experienced greater difficulties at their labour market entry than men, but were more likely to escape this by emigration too (Ketzmerick, Meier and Wiener 2007, 9). In addition, they attained higher levels of education, which also brought about a stronger inter-regional mobility and out-migration. All this led to a partly lack of women, especially in rural regions of Eastern Germany, with negative consequences for the integration of the remaining men and further demographic development. To counter this development, it has been proposed to promote the male population in education and training, and to improve the integration of local women (Kröhnert and Klingholz 2007, 48 et seq.).

Without labour market support, the new federal states probably would have been depleted even more. But despite the various measures and schemes of ALMP the exodus from East to West Germany was unstoppable for a long time.

After a Korean reunification, the migration pressure on the south by young North Koreans will probably also be high. South Korea's economy and society is exposed to the long-term risk of aging by the low birth rate. The fertility rate was 1.3 in 2012. Currently aging proceeds fast, in the period between 2003 and 2013, the share of the over 64-year old increased from 8.5 % to 12.2% (EU: 16.2% to 18.2%), at the same time the number of below 15-year-old declined from 20.0% to 14.9% (EU: 16.6% to 15.6%) (World Bank 2014). In contrast the population in North Korea seems to be very young, the fertility rate is still relatively high with 2.01 in 2011 (DPR Korea 2008). Young North Koreans represent a potential both to cushion the consequences of demographic change for the South Korean economy and society as well as to mitigate North Korean unemployment in the future. To avoid a brain drain and to make migration a success, it requires controlling and helping interventions. Large-scale assistance for the integration into the education system, the labour market and for social integration would be necessary.

3. Further Developments after the Transformation of the East German Labour Market

3.1 Deformed Age Structures in Companies and the Risk of an Ageing Workforce

After completion of the initial rapid restructuring of the East German employment structures from the mid-90s, a strong tendency of closing the personnel structures became visible in many surviving plants in East Germany. It was

characterized by persistent job losses, but usually no more mass layoffs. Due to social plans for redundancies in 1990/91, the proportion of young workers had been significantly reduced, and at the same time almost all older workers were disappeared through early retirement. This very often led to homogeneous age structures dominated by middle ages within companies. Sectors with a structural internal orientation of their personnel policy i.e. major industrial companies, agriculture, public establishments and education were affected particularly.

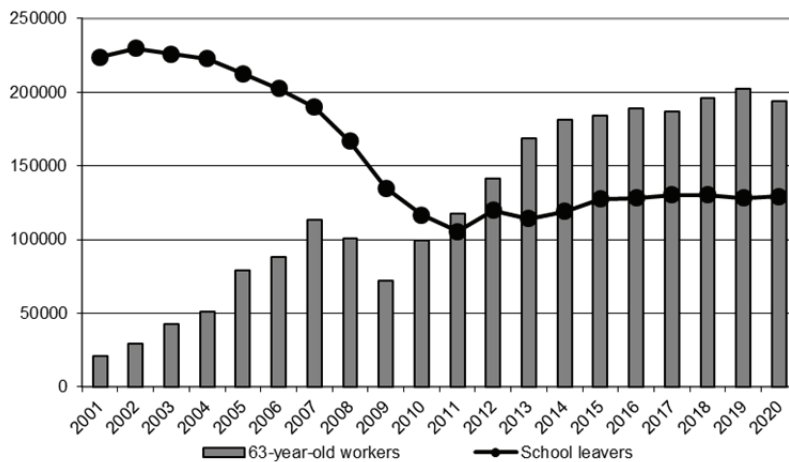
In these areas, a high value is traditionally placed on permanent staff. Instead of frequent recruitments from the external labour, market vacancies are filled by promotion through internal tracks, while acquiring in-house skills gradually (see also Doeringer and Piore (1971) on internal labour markets). These companies depend on balanced age structures to achieve a continuous flow of internal careers and to ensure the necessary loyalty of employees through predictable advancements to more attractive jobs with better pay.

Ironically, in these establishments the resulting age structures led to a halt of internal mobility by resignation of older employees. At the same time only few younger employees were left that could form the future core of the workforce. The resulting blockage of the process of generation exchange was even exacerbated by a low additional employment demand due to the low growth rate in East Germany since the mid-90s. Thus, in most establishments of this type, often there was a hiring-freeze that prevailed for years. This led to exposure to the risk of progressive aging of entire workforces. Internal careers came largely to a halt and the flow of knowledge inside companies through newly trained youth ripped off. Many businesses stayed in this solidification until the early 2000s.

3.2 Blocked Exchange of Generations and the "Demographic Trap"

The blocked generation exchange in the East German companies was also reflected at the level of the entire employment system in the form of a significantly reduced demographic reproduction of the active workforce. As a result, the number of workers below the age of 35 declined from about 1.8 million to 1.1 million in the period 1998 to 2006. This held true, although at this time baby boomers finished education and training and entered the labour market. The high labour supply was a result of the family policy of the GDR. In the mid-70s, the GDR leadership had tried to counter the decline in birth rate that was to be observed here like in all developed societies with some very complex social and family policy measures to promote the birth rate. These measures proved effective to such an extent that the annual number of births rose rapidly from around 180,000 in the years around 1975 to around 240,000 in the early 80s. This cohorts left from the mid-90s school and vocational training and came across a more or less closed labour market.

Figure 2: School Leavers and 63-Year-Old Workers in East Germany 2001-2020



Source: School leavers statistics publications from the Conference of Ministers of Education and Cultural Affairs; employees extrapolated from the Employment Panel of the Federal Employment Agency and from subject matter series 1, series 4.1.1 of the Federal Statistical Office.

The East German labour market has long been characterized by imbalances in demand for and supply of young talent. Each stable employment system is, in principle, reliant on an even relation of the numbers of older workers retiring and younger workers replacing the older. In eastern Germany this ratio is severely disturbed. Figure 2 shows the development of the theoretical supply by the annual number of graduates in general education, while the replacement demand is expressed by the annual average number of 63-year-old who will probably be retiring soon.

The picture shows a striking image: Two opposite imbalances follow one another closely. While the annual influx of school leavers into the initial training and labour market exceeds by far the age-related loss of employment in the early 2000s, the number of school leavers dropped dramatically since the middle of the following decade. In contrast, the number of retirements increases rapidly. The long-term oversupply of school leavers changes quickly into a shortage since around 2011. Some of the causes of these imbalances date back to the social policies of the GDR leadership and the labour market policy decisions of the early nineties. The good economic development since 2006 strengthened this trend considerably. In the situation of the early 2000s it was very difficult for establishments, chambers of crafts and trade, associations and politics to anticipate the coming quick changes and to prepare appropriate measures before it was too late. This problem was referred to as “demographic trap” (Grünert et al. 2012).

3.3 Youth Unemployment and the Promotion of Initial Vocational Education and Training

The constellation of high numbers of people finishing school and low capacity of the training and labour market for young people held for more than ten years. It led to high youth unemployment, particularly long-term unemployment over a year. Affected training applicants were primarily for vocational training in the dual system of education and training graduates. In the system of dual initial training qualifications in the upper secondary level are acquired in collaboration of companies and vocational schools, monitored and certified by the relevant chambers according to the German Vocational Training Act. Traditionally, due to the strong involvement of companies in the professional qualification process, the dual vocational training ensures a good coordination between training contents and specific requirements of the workplaces and provides successful transitions from school to employment. On the external labour market, the system is also successful. The strong signal function of generally accepted diplomas contributes to high numbers of graduates finding appropriate jobs. Even before the reunification, training systems of this type existed in both parts of Germany and produced similar certificates which promoted the creation of a common labour market for skilled workers with a high intra-German mobility of professionals.

Around the turn of the millennium, however, the problems of transition from school to initial vocational education and training (VET) and from VET into employment led within the baby boomer cohorts to underemployment rates⁴ of 40 to 50% in East Germany, and over 20% of VET graduates were without a job for more than one year (Ketzmerick 2011). To improve the chances of young people in the labour market, subsidized VET was implemented on a large scale in East Germany by promoting both dual VET and external (extra-company) VET. The aim was to offer every willing and able applicant an apprenticeship. This will be discussed briefly below.

Temporarily almost one in three apprentices received a publicly funded external training at private educational institutions in the new federal states. Unlike the apprentices at the classic dual system, the external trainees cannot transfer directly into a job at the end of training. Rather, they have to apply on the external labour market, making transition into employment riskier. The external training takes place mostly at school. It has a low proportion of internships and is also often not geared to the requirements of the future workplace. That reduces the value of this form of training with respect to the dual training. The trainees were later stigmatized as second-class applicants for jobs (Prein 2005). The situation had worsened due to a negative pre-selection of applicants for external trainings and yielding a focus on young people, which had been

⁴ Share of workforce in unemployment or in measures of active labour market policy.

unable to find a dual VET out of individual reasons. As a result, graduates had bad chances to find employment. Around the millennium, only about one in two found a job within the first year after the training (ibid). Considering the individual labour market careers in longitudinal perspective, it was shown that the chance of a successful labour market entry for dual trained was almost twice as high as for external training graduates (Sackmann and Ketzmerick 2010). Nevertheless, this form of training was the only way for many of the baby boomers to prevent them from even more difficult labour market entries without any vocational qualification.

In addition to the creation of external training opportunities, up to three quarters of all dual training apprentices were state-subsidized to increase the supply of such promising training courses. However, despite high use of resources, this strategy helped relatively little for the sustainable improvement of employment opportunities for young people, because a gradual habituation of training enterprises to government funding occurred (see Grünert and Lutz 1999). Moreover, the funding policy had an adverse impact on the sustainability of the occupational structure of the apprentices. Especially low-cost training courses were funded mainly for professions with low potentials for the creation of additional value and were merely applicable in rather small ranges of occupational positions. Promoting in such way supported a professional structure that neither fostered good employment opportunities for young people in the long-term nor matched the skill requirements of an economic structure toward which the settlement and economic development policy were oriented.

Since the late 2000s, the employment opportunities for the former unsuccessful entrants have improved because of an increasing labour demand and falling numbers of graduates. The majority of them could find jobs later. However, about a quarter of these unsuccessful job starters did not manage to enter into the profession they had learned, so they were just employed as unskilled workers (Ketzmerick 2011). But this kind of employment destroys – like unemployment – usable skills and human capital, increasing individual employment risks in the future.

4. Persisting Peculiarities of the East German Labour Market

Today, the real wages in East Germany are at 85 percent of the western level. The long lasting high unemployment rate has halved since 2005, from 18.7 percent to 9.4 percent, but it is still about twice as high as in Western Germany with many long-term unemployed. In addition, the labour market integration was achieved to a considerable extent with atypical, low-paid and precarious employment. In the structure of employees there are many women and skilled workers. The continuous strong labour market participation of women in the

younger generation is often interpreted as the continuation of GDR tradition, but it is also forced by lower wage levels. The men's incomes are often not enough to supply households. These individual observations relate to permanent, structural differences of economy and labour market between East and West Germany today, which are briefly summarized below.

The year 1994 marks the end of the first phase transformation period of the East German labour market after reunification. Until that time, the majority of the restructuring and the decline in employment was completed and the so far high inter-organizational mobility declined significantly. It became clear that not all the expectations of the reorganization of the employment structure would be fulfilled (see Lutz 1996). In the course of transformation the industrial employment had fallen drastically to a share, which was only half of the West German value. This was not compensated by a growing service sector in terms of tertiarization despite a rising employment share here. In East Germany the market-induced demand for modern corporate or household-related services is low. It comes neither from the small-scaled and mainly to regional markets oriented industry, nor from the households that have only a comparatively low purchasing power due to the decline in employment and the persistently low income. Likewise, the East German service sector does not have sufficient access to national or international markets that could trigger a dynamic employment here. As a result, the employment in East Germany after the reunification never again reached the level of the former GDR.

Large industrial companies with high innovation and market strength had to bear the brunt of the employment contraction since 1990. Until today the East German economy is dominated by small businesses with predominantly manual production for the local or regional supply. After 1990, the majority of new jobs was created here (Hartmann, Vienna and Winge 2006). The qualification structure of their workforce is dominated by skilled workers, ensuring flexible quality production. In West Germany, on the other hand, there are to be found in average larger companies with internal labour markets and higher levels of unskilled and semi-skilled workers that can be used in mass production with Taylorist work organization. Those workers can be recruited relatively easy. For the supply of qualified personnel in East Germany is – in addition to their training – particularly for small businesses, a functioning external, inter-firm labour market of great importance to adjust the employment of seasonal or cyclical fluctuations in the order situation. But during the 90s, in East Germany the conditions for the adequate supply of qualified personnel in the external labour market have deteriorated.

This applies to the orientations of the actors of the labour market, both the personnel decision-makers in companies as well as the workers. For many years they were still strongly influenced by their experience with inward-oriented human resources policy on the internal labour markets of GDRs combines. On the companies' side, there was an adherence to core staff and an

inadequate understanding of the importance of the external labour market, of the rational use of supply and demand and the successful signalling in the form of wage offers for vacancies. This was connected with the orientations of employees. In the situation of high unemployment and low prospects of re-employment, they were interested in stable employment (Köhler et al. 2008) and accepted low incomes in exchange.

These constraints, as well as the long-standing low retirement figures and the low employment growth resulted in stagnation in parts of the East German labour market for a long time. Closed employment systems dominated, with low rates of external, direct and voluntary job changes (Ketzmerick 2002, 2006). Big parts of the mobility were associated with interruptions, unemployment or to job creation schemes. Even direct changes between jobs led more scarcely to advancement in income; thus, it served to achieve other advantages, let alone to avoid unemployment (ibid). Changes in professional fields frequently led to unemployment (Diewald and Pollmann-Schult 2009), on the other hand, professional advancements on the external labour market and re-entries of unemployed into skilled employment were relatively rare. Therefore, involuntary mobility was more frequent as in West Germany, although the small-scale economic structure should actually involve a greater use of the external labour market.

The picture, which was dominated by a long-term stagnation, has revived since around 2005 by the reform of legislation and the flexible labour market as well as the economic and employment growth in East Germany. Here, however, not only the proportion of the external labour market has increased, but also the secondary labour markets has grown, with rising numbers of positions with high income or unemployment risks (see. Krause et al. 2012). Jobs in the external segments of the labour market are more uncertain and worse paid than those in West Germany. Instability affects not only the low skilled workers in East Germany, as it is the case in West Germany, but also those with vocational qualifications. While East Germany is only approaching the west in its dynamics of “externalisation,” it outperforms West Germany regarding the weight of secondary labour markets.

Therefore not only the supply function of the labour market for firms was weak for many years, but also the function of allocating life chances, status and income for workers was often likewise insufficient. The sharp increase in the risk of unemployment and professional descents had exercised an uncertainty effect even on not directly affected workers in East Germany. In pursuit of employment security, many employees were willing to make concessions to employers, both in terms of employment conditions as well as the job performance including overtime, and, in particular, with regard to the payment. That is related to the weak position of unions in East Germany. The German system of collective bargaining has been degraded for many years by the decline in trade union and employers’ federation membership, of which East Germany

was particularly affected (Frerichs and Pohl 2004). In addition, decreasing firm sizes through outsourcing and dismantling of conglomerates led to fragmentation and division of the workforce, diminishing the regulatory and guidance function of collective agreements (Fichter, Gester and Zeuner 2004). In 2004, only 41% of East German workers were covered by sectoral agreements, compared with 61% in West Germany (Bothfeld 2007). Meanwhile it becomes evident in some areas, such as the metal industry, that the situation broadly stabilizes on a low level in East Germany (Ellguth and Kohaut 2013) and that there are new combinations of works councils and agreements on company level in the form of works agreements between company management and works council (Kohte 2012).

However, the high proportion of skilled workers is a key success factor in the small-scale economic structure of East Germany since reunification. These workforces ensure a high degree of operational flexibility and quality production, despite low wages. Given the pending retirement wave and the changed framework (recruitment problems, increasing demands on wages) the exchange of skilled workers will be the decisive challenge for the East German firms for the coming years. This holds true, especially since the numbers in company vocational training are low (Buchwald et al. 2014). Today the reason for this is no longer the low need for junior staff, but the difficulties in filling training places due to the shrunken number of school leavers. In the current situation of rapid demographic change and increasing replacement demand (see section 3.2), which is also an echo effect of rapid transformation 20 years ago, the supply of qualified junior staff is too low. In particular, small businesses with poor resources are most exposed to the risks of a competition for skilled workers. Only few companies have prepared for the changing conditions in the last years. Overall, the pace and extent of changes have overstrained the ability to anticipate and the adaptability of businesses, also in the chambers, associations and politics. Meanwhile, measures for dealing with the challenges of demographic change on the East German labour market are promoted comprehensively, but the remaining time for establishing effective measures is short.

It turns out that, despite all the achievements in the unification of the German labour market and the convergence of living standards, differences remain that will never or only very slowly disappear. This must be expected also in case of a Korean reunification aiming at the alignment of structures. Many of these differences are inevitable, as they are determined by the initial conditions. These can include on average smaller businesses with less innovation and market strength as well as lower wages. Other differences can be successfully fought and reduced, for example, through the expanding of infrastructure, the development of human capital, including the prevention of a lost generation of young people. However, some of the differences could be exacerbated or even created as a side effect of the initial efforts to solve problems. Examples of this in East Germany are the division of employment chances by age, the promotion of imbalances of

companies' age structures and the subsequently increased integration problems for young people. In these cases it is important to act from the outset and to predictively assess and combat side effects. Thereby measures are helpful that improve skills and the employability of the workforce, as well as those that help companies to become competitive on a pan-Korean labour market and to sustainably secure their personnel through training and familiarization.

5. Conclusion and Recommendations

Not all policy decisions that have been taken initially to help and support the labour market have positive effects in the long run. However, for a long time there was a danger of strong inequalities between the two German labour markets, which had to be offset by significant labour market policy interventions and transfers. The aim was to contribute to similar living conditions and counteract mass migration, economic depletion in East Germany that would have been even stronger otherwise. Against this background, the last section draws some conclusions for dealing with the labour market consequences of systemic transformation, as it was done in Germany, which might be relevant for a possible Korean reunification.

The period of transformation during which new opportunities arise is short. Political action within this time span can help or harm in the long term. Government funding after reunification contributed in part to the conservation of unsustainable jobs. The people who had been affected by this had poorer employment opportunities afterwards than those who had to find a new job quickly. During the transformation, a fast follow-up employment is often better than a lengthy retraining.

However, public interventions are often necessary. Measures focusing on socio-demographic groups (such as the low-skilled or older workers), influencing the employment status and life career of large groups, can solve problems in the short term. However, negative consequences can be expected in the long term. Early retirement schemes for large sections of employees in Eastern Germany led to deformed age structures in companies, deficits in employment strategies, and subsequently they promoted integration problems of young professionals which contributed to the exodus of young people to Western Germany. These consequences can be overcome only gradually and they need to be anticipated and considered before taking action.

There are two ways of using labour market policies measures educational-push and employment-pull. In the case of educational-push high-quality, market-oriented measures with specific content orientation have proven effective. The integration success can justify the high cost. Widespread general measures, on the other hand, received negative evaluation results, so they are perceived just as a temporal bridge in unemployment phases. If financial support for initial

vocational education is granted, it should be strategically focused on high quality programs for the occupations of the future. If only aimed to enable any education for as many young people as possible, the problems are just moved from the education market into the labour market. In the case of creating an employment pull into companies, so-called transitional labour markets are discussed. They make it easier to switch between different training phases and employment and they provide for social security. In particular, the interaction of professional experience at an early stage and the deepening of this experience in the general education system ensure sustainable employability (Schmid 2006).

People who have been absent from the labour market for a long period cannot be expected to hold a performance orientation when they are needed again. Holistic and rather costly approaches for re-integration are necessary for them. First, they need to learn and develop behaviour patterns and norms that are considered essential in the modern world of work but this can only be gained with practical experience. Additionally, they must acquire elementary professional knowledge (about rules, regulations, performance expectations, etc.), which mostly cannot be learned in courses, but by a close hands-on experience. Finally, they should obtain an update of competences or new professional qualifications – either building on an original vocational training or in the form of retraining for a new occupation. Crucial for the success of these measures is the practical relevance of training and the strategic focus on a promising occupational structure. High quality trainings with good prospects for employment are – despite a possibly limited number of participants – likely to bring more people into work than great numbers of qualification measures at low costs.

Generally, the reduction of employment policy to labour market policies can lead to long-lasting dependence on transfer payments for large parts of the population. Active labour market policies must be part of an investment and growth-enhancing strategy. At the same time, the decentralization of labour market policies and a bigger on site-authority in decision-making is desirable because the local actors know the relevant circumstances and will meet the action needs best.

A reunification involves abrupt changes and uncertainty in many spheres of society. At the same time, serious effects are to be expected due to biographical disruptions, interruptions in the course of generations in the education system, labour market and employment, as well as demographic discontinuities due to changes in the birth rate. In case of a reunification, a strong decrease of the currently high birth rate in North Korea would be conceivable, as it was the case in Eastern Germany. Even decades after reunification, echo effects are possible in the form of strong changes of supply and demand in the education and employment system. This may overstrain the adaptability of the institutions in politics, society and economy. A foresighted policy should prepare the affected stakeholders in advance and offer assistance.

After reunification, it is also conceivable that the migration pressure on the south by young North Koreans will grow. Young people have rather good integration opportunities. A labour market policy that encourages regional mobility can have positive effects for the people concerned. Jobs far from home are better than long lasting effects due to gaps in employment careers. Until now, the employment chances for North Korean defectors in South Korea are poor. However, in the long term South Korea is exposed to the risk of an ageing workforce caused by the low birth rate. Young North Koreans are in principle a great potential to cushion the consequences of demographic change on the South Korean economy as it could improve the age structure of the employees. Not at least this would relieve the North Korean labour market. To make this possible, the education system needs to be opened for North Koreans more than in the past. In addition, it may be necessary to counteract the adverse effects of selective migration. Disproportionate migration of East German women to the West after the reunification partly led to a lack of women in rural areas, because women, despite higher average degrees, experienced greater difficulties than men on their career start. Such developments need to be identified early in order to improve local integration opportunities with special measures. The South Korean companies would also be required to undergo adjustment processes in order to integrate people socialized in North Korea into existing structures. Qualification and professional support for the social integration can help to improve the chances of success.

The transfer of institutions and formal regulations during the transformation goes fast; on the other hand, the acquisition of appropriate orientations by the people takes a lot of time, since old structures continue to have long lasting effects. In addition, the economic development is hardly predictable. Accordingly, the process of alignment will take a long time, and some differences remain in place for ever. The population must be included in this process; however promises that cannot be met raise false hopes and lead to disappointment.

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