

The German LCD 2003 and differences in East and West

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General Facts

- ▶ 82 million inhabitants (38.1 million households)
- ▶ 65 million inhabitants in the West; 17 million in the East
- ▶ TFR around 1.3
- ▶ The eastern part is aging more rapidly due to massive outmigration (3.7% of population migrated to the West in 1990; 1.55% annual outmigration 1995-2002) and a lower TFR



Magnitudes of Reallocation in Germany

- ▶ Private intergenerational transfers amount to approximately 7.5% of GDP (Lüth 2001)
- ▶ Total health expenditure amounts to approximately 10% of GDP
- ▶ Pensions amount to 60% of Social Security expenditure or 11.6% of GDP
- ▶ Education expenditure is 4.3% of GDP



Data

Macro Controls

Official Statistics about economic performance: National Accounts, Government budgets (separately for health, education, pensions, . . .)

Ministry of Health and Ministry of Education publications (if columns do not total, share is used).

Population Estimates

Single year population estimates available from the Federal Statistical Office (1890-2050).



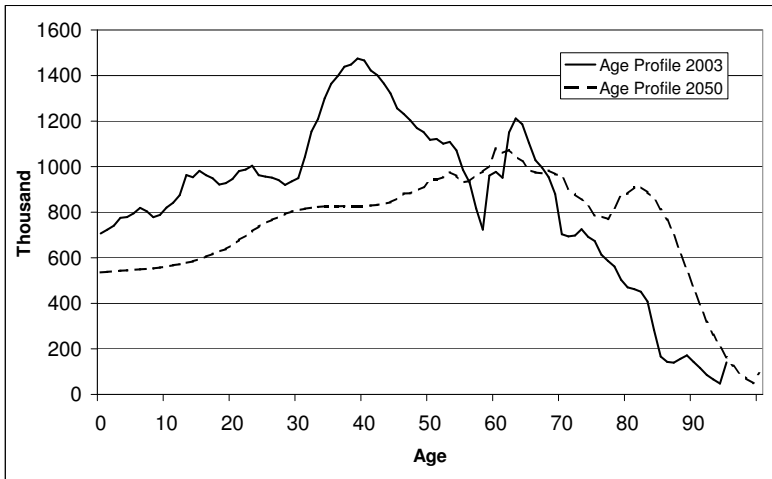
Macro Controls, Germany 2003

GDP	2163 bn
Private Consumption	1284 bn
Indirect Taxes	255 bn
Compensation of Employees	1132 bn
Self-employment Income	146 bn
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Total Outlays Gov't	1.049 bn
Other	330 bn
Health	139 bn
Education	93 bn
Social Protection (incl. long-term care 17 bn)	485 bn

Source: National Accounts for 2003



Age Profiles Germany 2003 and 2050



Micro Survey Data

- ▶ Income and Expenditure Survey (Einkommens- und Verbrauchsstichprobe (EVS) 2003).
- ▶ The EVS is conducted every 5 years by the Federal Statistical Office (since 1968).
- ▶ The wave 2003 includes 55.000 households with 125.000 individuals.
- ▶ Detailed account of income by source, consumption by type, saving flows, asset stocks by portfolio category for each household.
- ▶ Representative for households with a monthly net income less than 18.000 Euro (excludes 0.2% of the population), persons with no permanent residence as well as the institutionalized population (4.5% people aged 65+; 12% aged 80+).

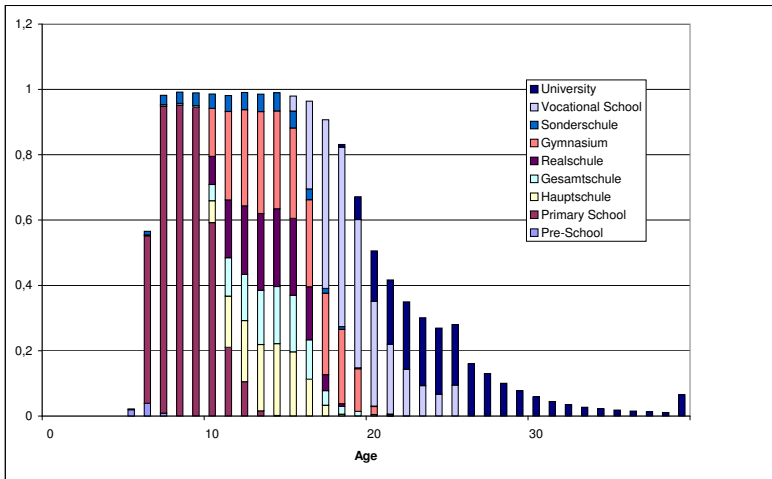


The German School System

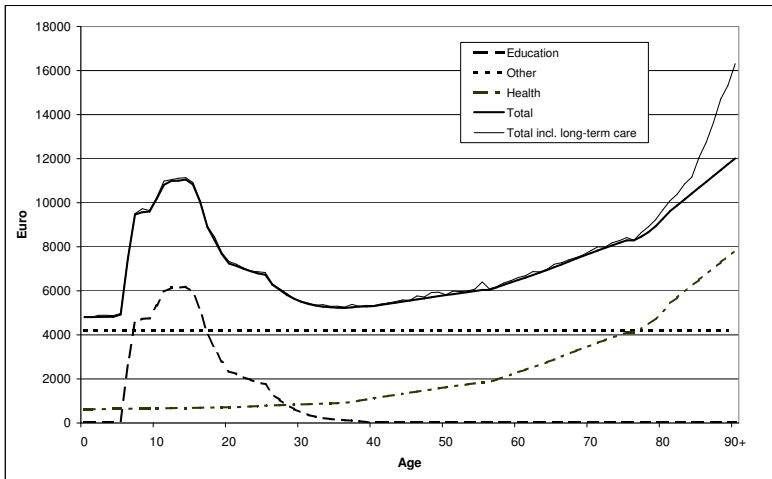
- ▶ Education is matter of the German Länder (16 different systems)
- ▶ Primary School from age 6 for 4 or 6 years
- ▶ Separation at age 10/12 → Gymnasium, Gesamtschule, Realschule, Hauptschule
- ▶ Real- or Hauptschule: Vocational School or Apprenticeship
- ▶ Gymnasium or Gesamtschule: Vocational School or University
- ▶ Many students after vocational school go on to University



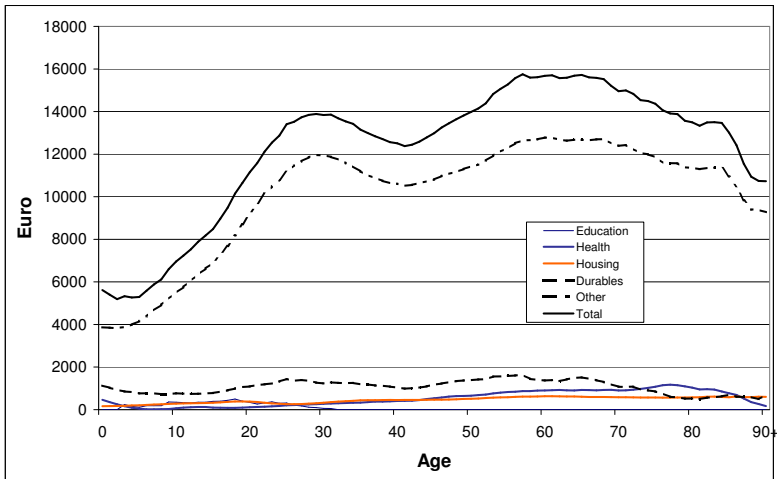
Enrollment by school type, Germany 2003



Public Consumption Germany 2003



Private Consumption Germany 2003

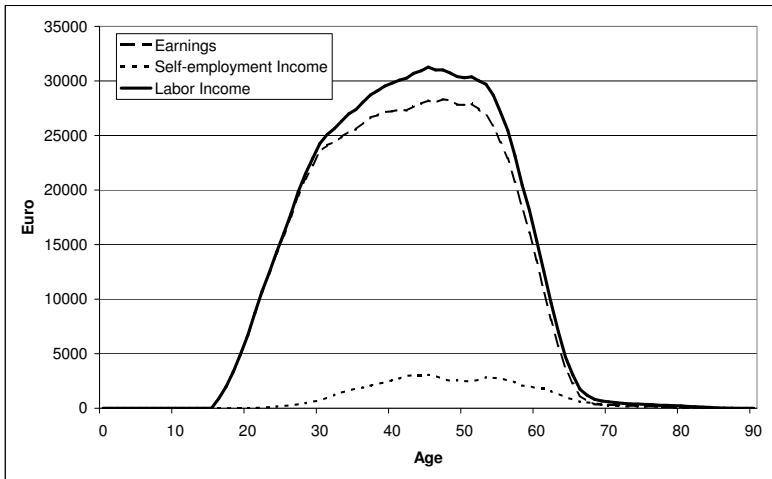


Early Retirement in Germany

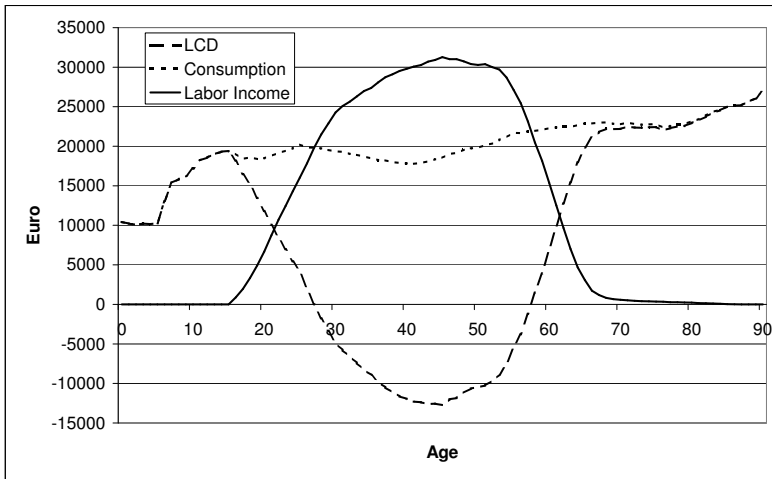
- ▶ German Pension System introduced in 1889 as a capital funded system
- ▶ Since 1957 reorganized as a PAYGO-System
- ▶ In early 70s introduction of generous arrangements (replacement rates about 70%, mandatory retirement abolished for long service life)
- ▶ Today it covers 85% of the workforce, the effective retirement age is 61



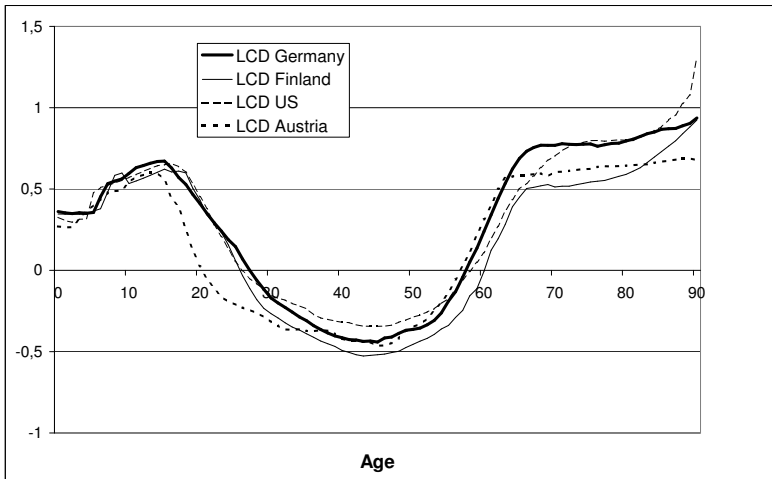
Income Germany 2003



Lifecycle Deficit Germany 2003



Normalized LCD Comparison



Transfers from West to East

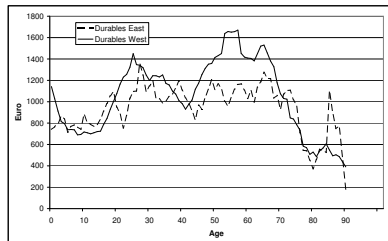
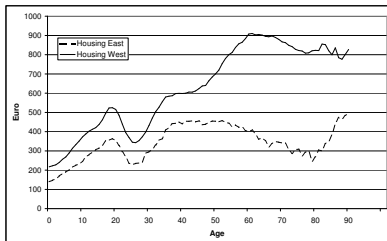
- ▶ Since Reunification 1990 transfer flow from West to East
- ▶ Financial equalization scheme between the Federal Government and the Länder
- ▶ Between 1991 and 2003 net flows of 980 bn to the East (IWH)
- ▶ But through general equalization schemes (pensions, student loans, unemployment provisions) that the weaker West would also be eligible for
- ▶ Pure East support only 15 bn/year (solidarity surcharge)



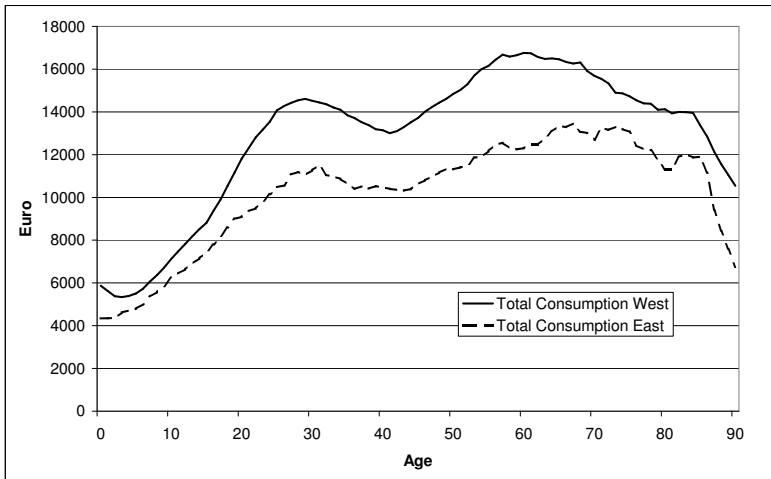
Private Consumption Components



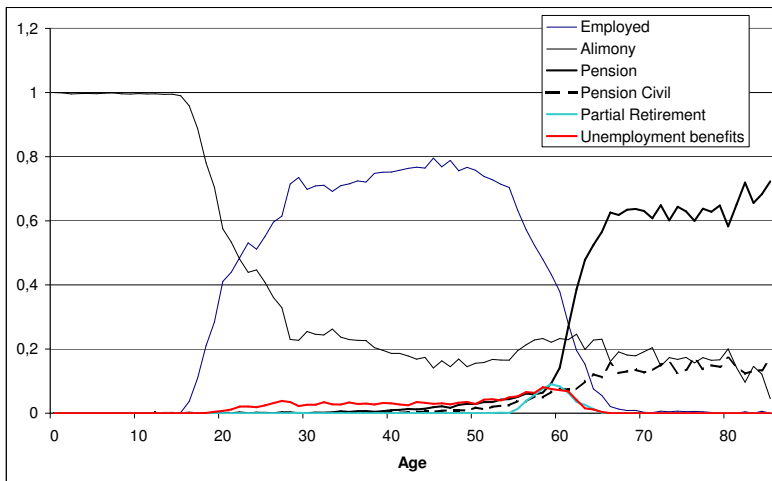
Private Consumption Components



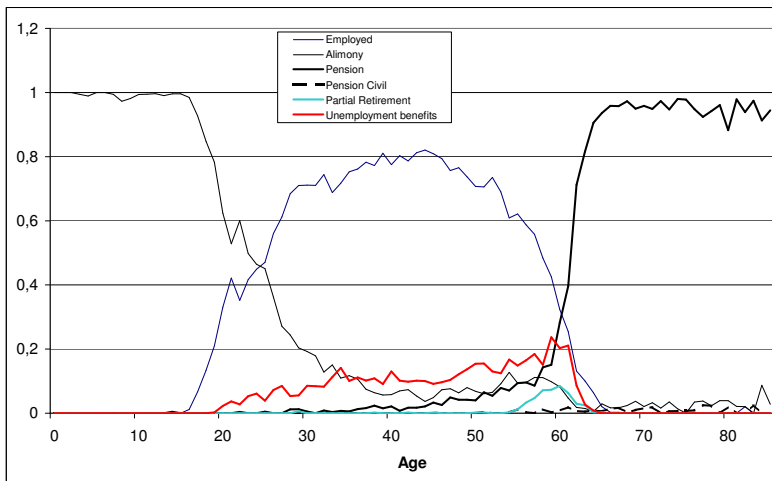
Total Private Consumption



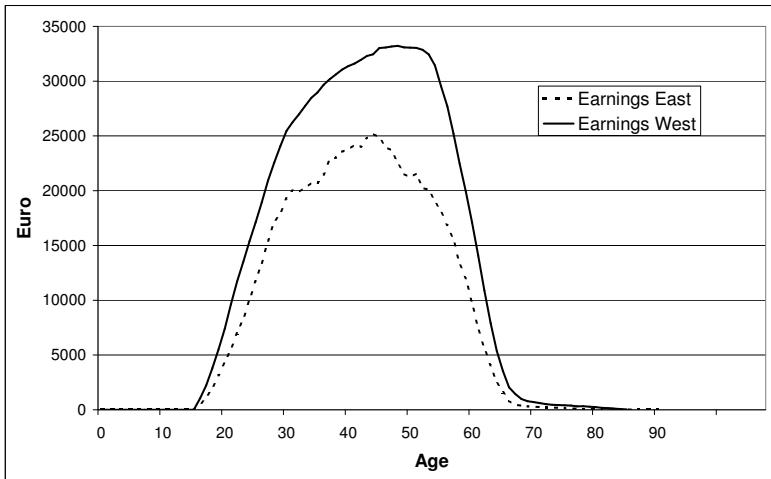
Main Income Source (West)



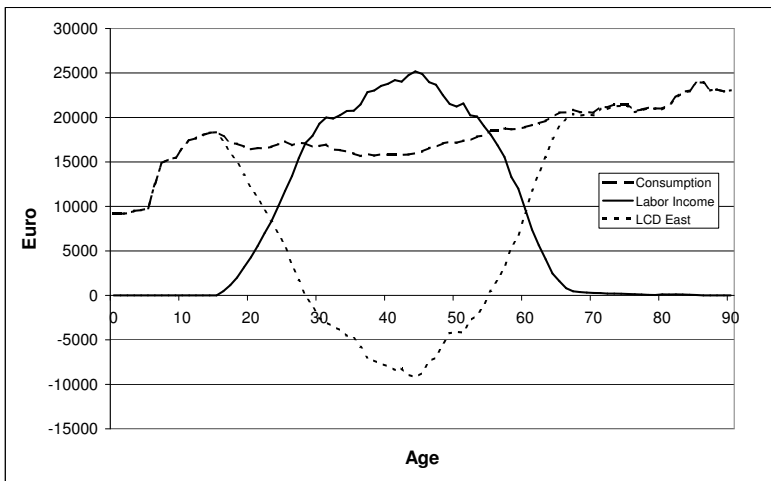
Main Income Source (East)



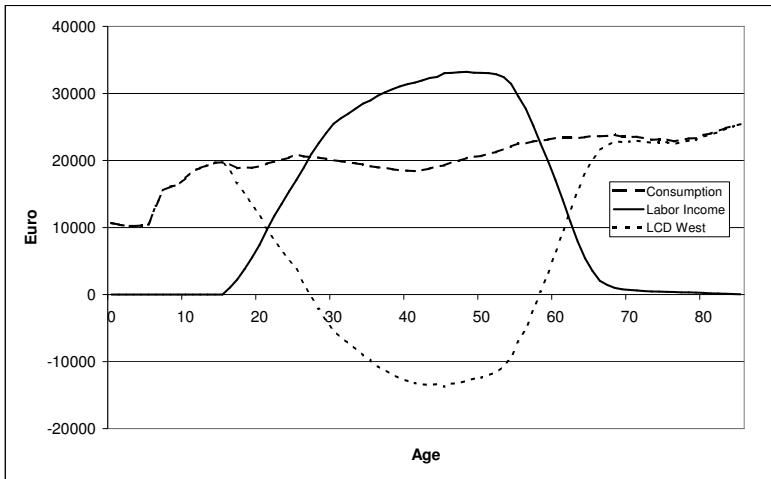
Labor Income Differences in East and West



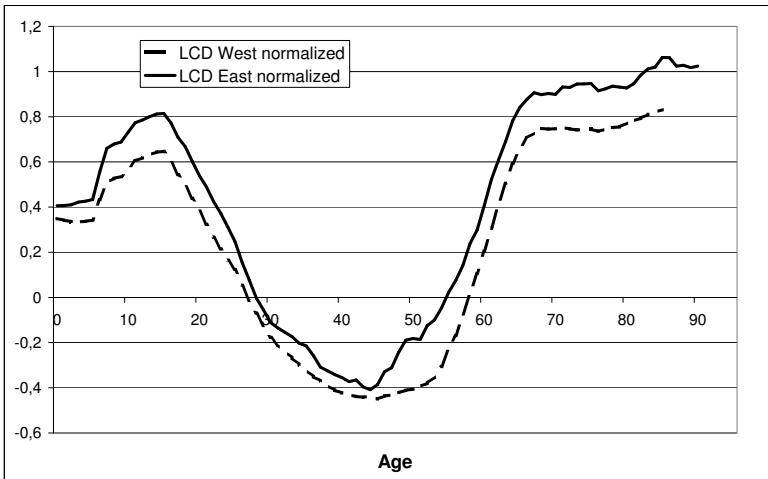
LCD East



LCD West



LCD Comparison East/West



Conclusion

- ▶ Age-specific costs (education, health) publicly financed
- ▶ Surplus period between age 27 and 57
- ▶ Long periods spent in education although vocational schools
- ▶ Early exit due to early retirement provisions and high unemployment rates of people age 50+
- ▶ Differences in East and West especially at older ages (Exit West: 58; Exit East: 54)
- ▶ Mainly due to high unemployment rates or part-time retirement (20% less in workforce)

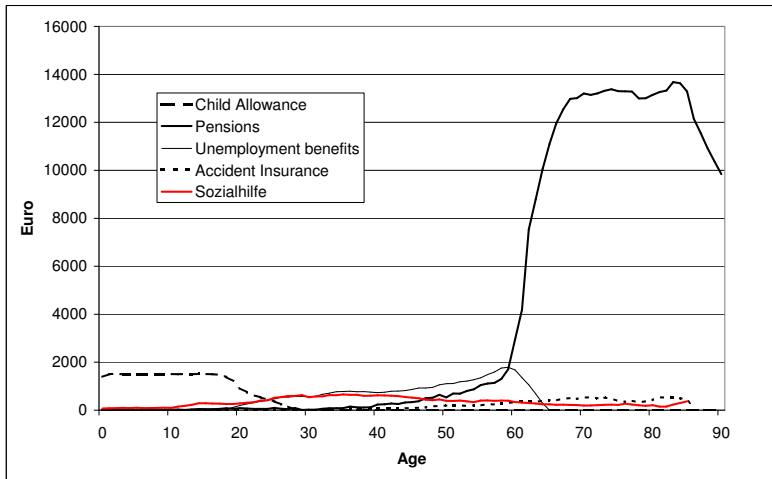


The End

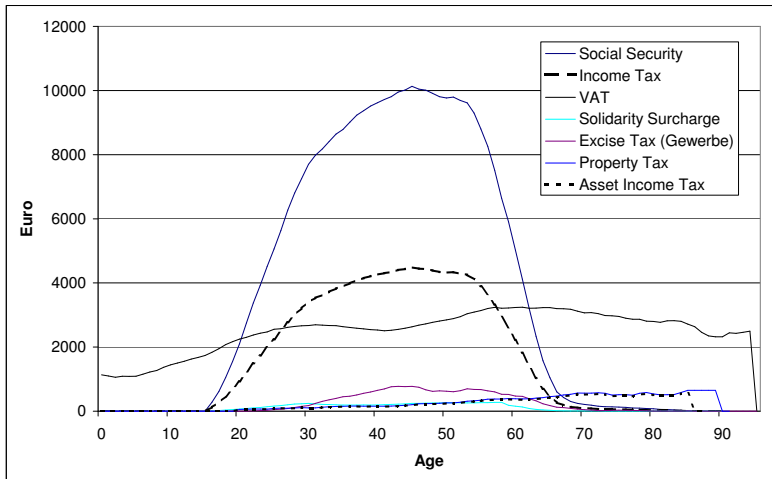
- ▶ Thank you for your attention!
- ▶ Comments and questions welcome.



Public Transfer Inflows (Prelim)



Public Transfer Outflows (Prelim)



Public Transfer In/Outflows (Prelim)

