

Differences in consumption, labor income and transfer patterns in East and West Germany

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- ▶ Differing labor force participation rates and gender attitudes.



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- ▶ Pensions were converted generously. The development was driven by the continuous outmigration waves.
- ▶ Differing labor force participation rates and gender attitudes.
- ▶ Since then through direct (solidarity surcharge) or indirect (public cash transfers) channels money was distributed to the East.



Methodological Notes

- ▶ Macro controls available for East and West. Sometimes sub-categories are missing, then share is used.
- ▶ Berlin is treated as East due to macro control layout.
- ▶ Inter-household transfers between the two regions cannot be identified. The values are left to be the original ones.
- ▶ ROW control totals adjusted according to survey shares.



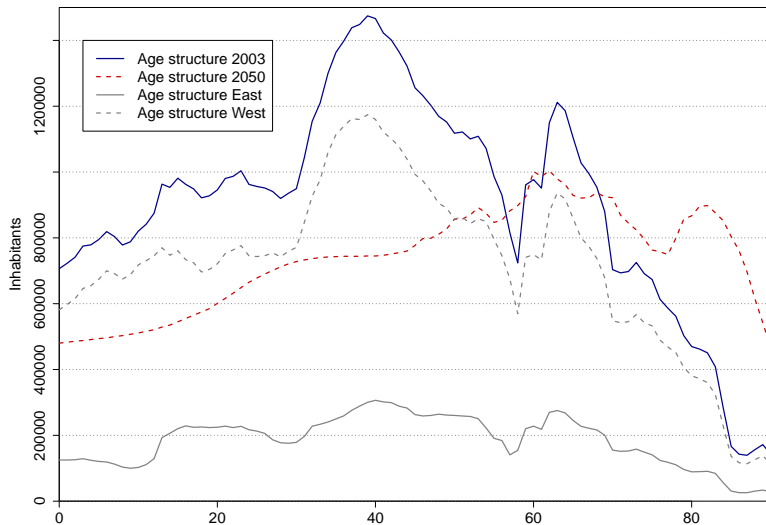
The macro controls for East and West 2003

	West Germany	East Germany
Population	65 618 912	16 912 759 (20 %)
Labor Income	1043.62	202.27 (16 %)
- Earnings income	957.56	189.27 (16 %)
- Self-employment income	86.06	12.99 (13 %)
Public consumption	327.42	89.42 (21 %)
Private consumption	905.88	188.31 (17 %)
Public cash transfer inflows	348.72	106.72 (24 %)
- Old age pensions	209.85	61.17 (23 %)
- Unemployment benefits	53.33	23.28 (31 %)
- Other social security	55.84	15.30 (21 %)
Public cash transfer outflows	667.65	128.34 (16%)
- Labor taxes	445.86	88.13 (16 %)
- Consumption taxes	130.80	27.19 (17 %)
- Asset taxes	90.98	13.03 (12 %)

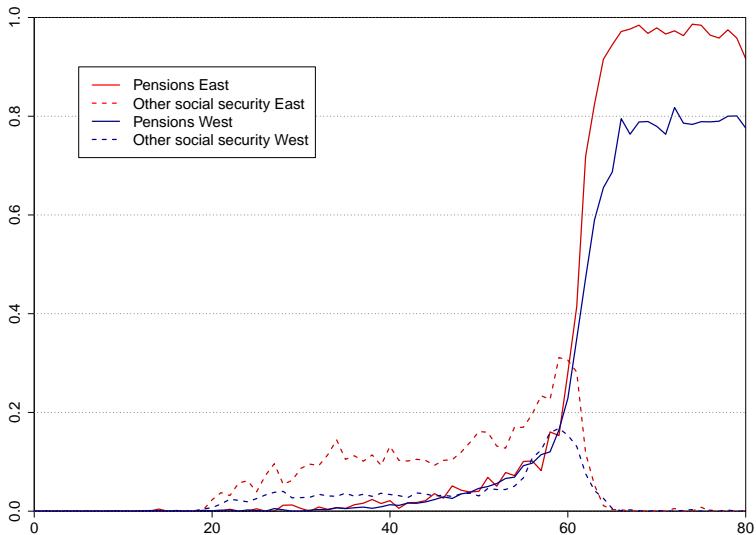
Source: VGR der Länder, author's own calculations



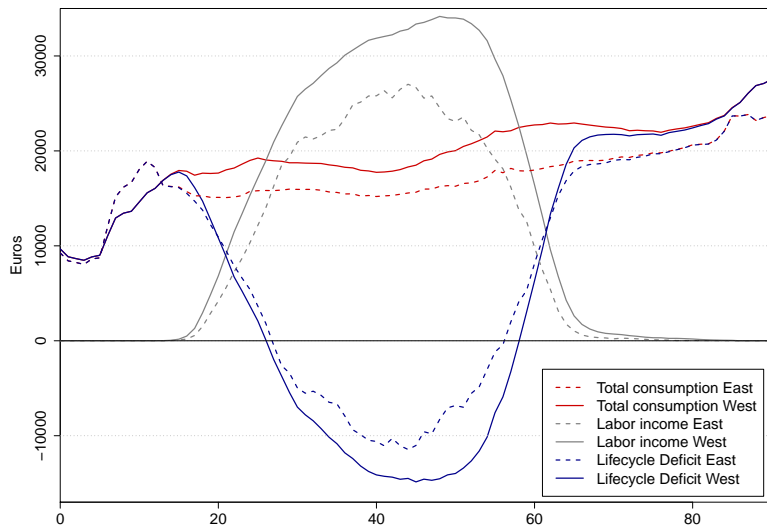
Age Structure



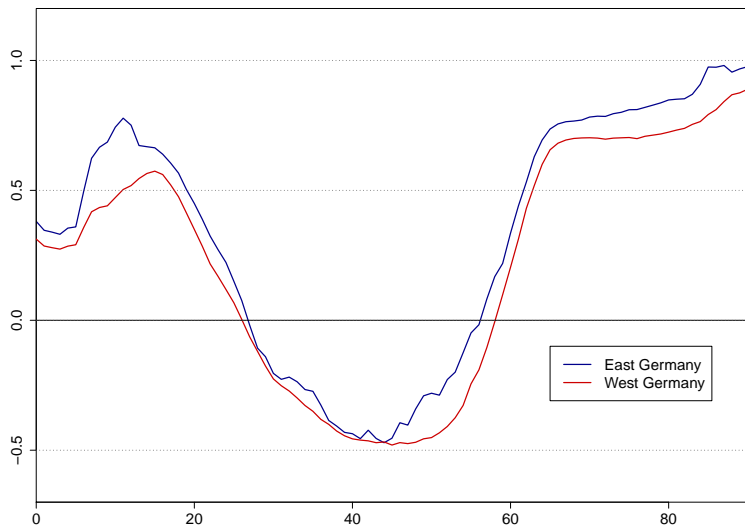
The main income source



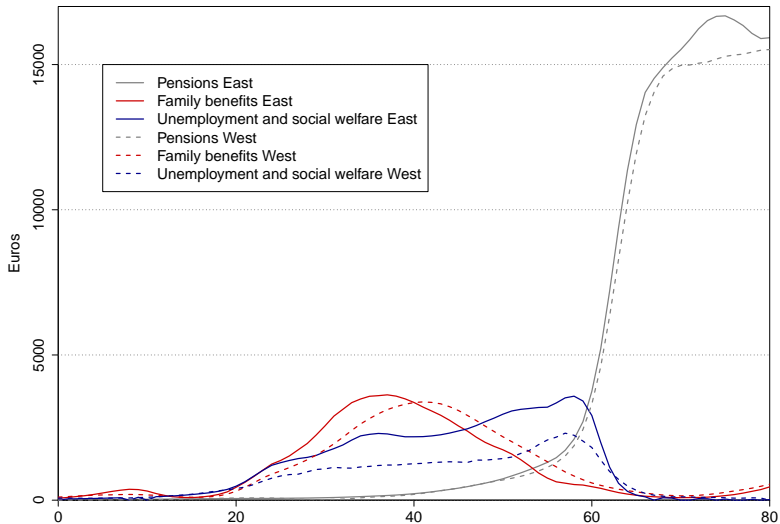
LCD East and West



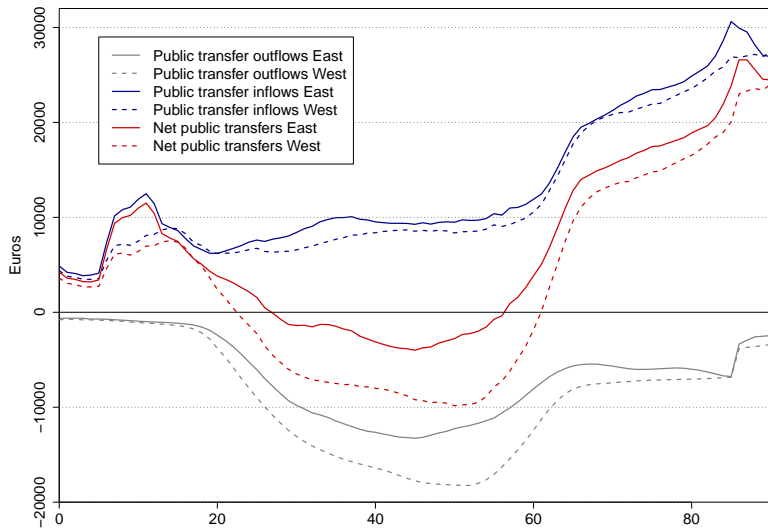
Normalized LCDs, East and West 2003



Public Transfers decomposed, East and West 2003



Public Transfers, East and West 2003



Income sources of the elderly

Table: East West differences in income 65+

	Germany	East	West
Assets	32.7 %	16.8 %	39.2 %
Public Transfers	71.8 %	86.2 %	65.0 %
Private Transfers	-4.5 %	-3.0 %	-4.2 %



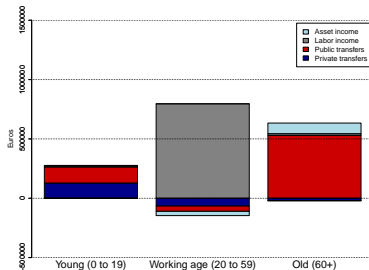
Transfers to children

Table: Share of transfers to children in 2003

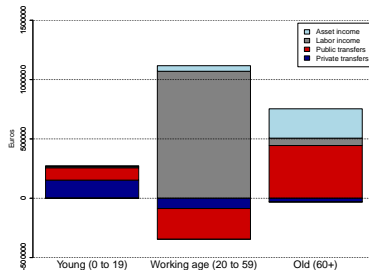
	Germany	East	West
Public Transfers	40 %	50 %	40 %
Private Transfers	60 %	50 %	60 %



John Doe alias Max Mustermann



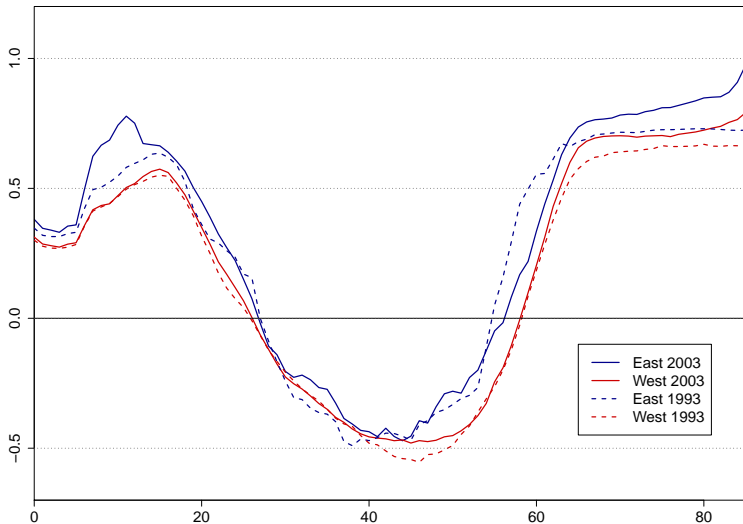
East



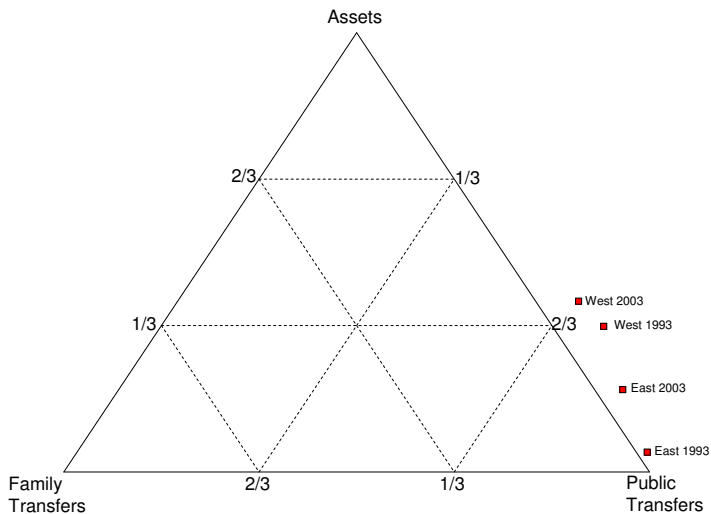
West



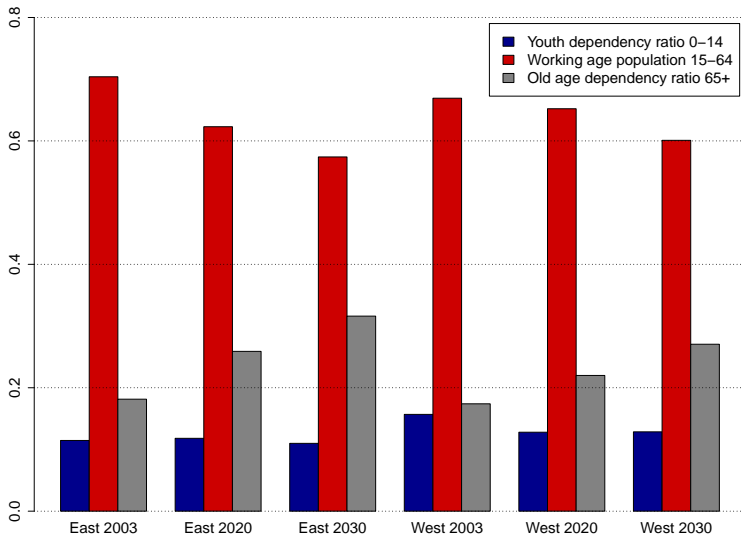
Any sign of convergence...



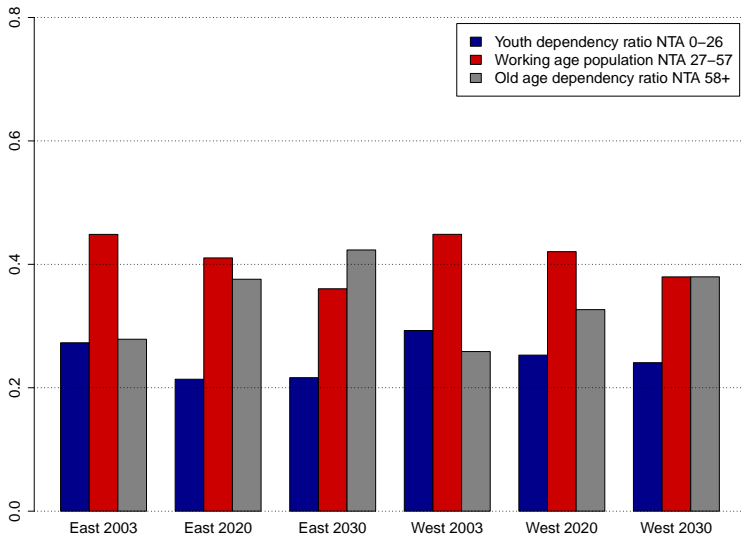
The Triangle



Dependency ratios (conventional)



Dependency ratios (in NTA age brackets)



The role of outmigration

- ▶ According to Heiland (2004): 2 outmigration waves (wave 1 in 1989/90 due to uncertainty: 3.7% of the population left to the Western part; continuous outmigration annually 1%; wave 2 peaked in 2001 due to economic developments, 1.64% of the population migrated. (2.5 million people outmigrated of a total of 16 million).
- ▶ Migration highly selective: mainly young skilled inhabitants (Kempe 2001, Hunt 2000).
- ▶ Estimate the effect of outmigration.

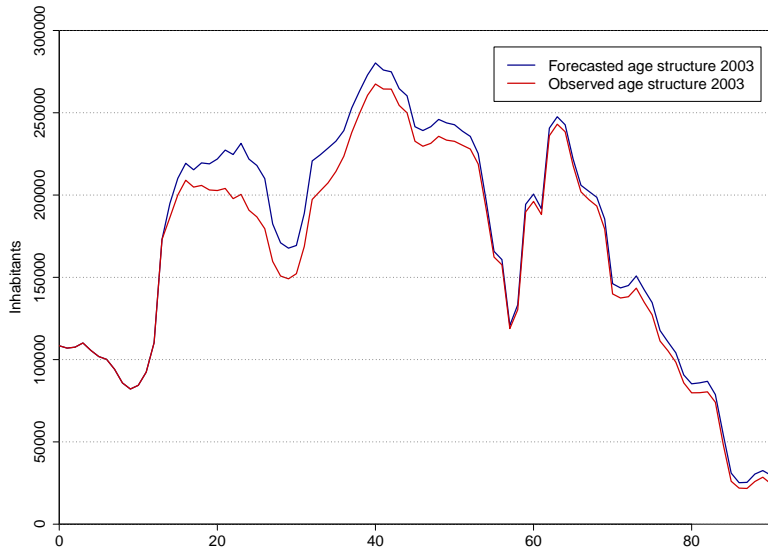


The Population

- ▶ Age-specific migration data not available.
- ▶ Use age specific death rates and fertility observed.
- ▶ Human Mortality Database provides death rates.



Population Forecast



The loss due to outmigration

- ▶ About 830.000 people left eastern Germany 1990 until 2003.
- ▶ LCD: 2 bn higher surplus. (4%)
- ▶ 1 bn higher net transfers (5%) already today.
- ▶ Main outmigration between 20 and 30 when still in deficit period. From now on they will be in surplus period, so values will even be higher.



Complete Convergence of profiles?

- ▶ What if the per capita profiles from the Western part are used for the whole population?
- ▶ LCD 13 bn less (237 bn instead of 265 bn)
- ▶ Net Transfers 8 bn less (reduction: 8%)



Next Steps

The layers of government

Lee, R. and R. Edwards (2003): "The fiscal impact of population change"; Seitz, H. (2007): "The Impact of Demographic Change on Fiscal Policy in Germany".

Seitz

Age cost profiles for public consumption, transfers etc. for 7 age groups. Age matrices broad and age groups are assigned values in between 0 and 1 for specific expenditures.

NTA estimates

Most of the items by single year age groups. Aim: to estimate the change in public transfer in- and outflows due to age structure changes.



The End

- ▶ Thank you for your attention!
- ▶ Comments and Questions welcome.
- ▶ E-Mail: kluge@demogr.mpg.de

