

**Ongoing differences and ongoing transfers? The Role
of Labour market conditions in pension entrances in East
and West Germany**

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Abstract: The German Reunification is an excellent touchstone to analyse the impact of the divergent labour markets on both sides of the Berlin Wall since capitalist pension law was simply transferred to the former socialist system.

In Germany old age incomes rest on individual wage biographies. Apart from individual biographic decisions, this makes individuals dependent from labour market conditions. The labour market conditions are shown to be a result of political decision making and self-perpetuating processes after Reunification.

The changes in power resources of different actors such as the unionists and the Treuhandanstalt had consequences that explain ongoing differences between both parts of Germany. The specific developments in East Germany created winners and losers.

Key words: Pension systems, labour market, West and East Germany.

Introduction: "Now grows together what belongs together"²⁵

Back in 1989, West German government solved monetary challenges in the pension scheme due to the Ageing of the German society, when a new challenge, the Reunification emerged. By chance, both decisions with far-reaching consequences were made at the same date (November, 9 1989): Thus, the passing of a bill with major implications for the pension system (*Rentenreformgesetz 1992*) coincided with the German Reunification.

Pension reforms included first a step by step increase of retirement age, second awards for a postponed and discounts for an earlier pension entrance as incentives for a longer stay in employment. Moreover, several options for early retirement were cancelled. Additionally, the pension reforms of 1992 improved the conditions for parental leave with a better recognition for child care.

The case of Germany is a textbook example for investigating the impacts of the adoption of welfare capitalist rules by a former socialist society. Keeping the institutional context constant allows for a close look on these conditions: Because labour market conditions hardly shape employment biographies, reasons for ongoing divergence in pension income may be explained by different labour market situations.

In the German system pension benefits are linked to developments on the labour market and the overall demographics. Expanding the West German welfare system to the former German Democratic Republic (GDR) has to be treated like an external shock: An already ageing society was confronted with a fundamental shift in its population and labour force.

²⁵ *Willy Brandt on November 9, 1989.*

In this contribution it will be asked which distributional effect on pension income can be ascribed to the political responses to the German Reunification and the subsequent changes to the German labour market. The empirical analysis focuses on the distinct impact of the Reunification process on different cohorts and patterns of gender inequalities.

“Die Wende”: Simple Adoption as Transformation process

Political transformation and “Blühende Landschaften”

Political transformation in the GDR started back in 1989 with peaceful revolution and subsequent free elections in March 1990. Negotiations between political leaders of the GDR and the Federal Republic of Germany (FRG), as well as of the four world leading and NATO powers Soviet Union, United States, Great Britain, and France resulted in the *Treaty on the Final Settlement with Respect to Germany* (so-called two-plus-four Treaty).

On May 1990 the German Reunification was fixed in an agreement on monetary, economic, and social union. Since the inception of the agreement the five states (Länder) of the GDR joined the FRG. The Agreement included the adoption of financial policy, social market economy, social security system, labour, and industrial law with e.g. collective bargaining. One of the most far reaching decisions was the one-to-one exchange of Ostmark to the Deutsche Mark.

The Reunification was a relatively short era of legal transfer that brought the western institutions to the east. Sharing the same institutions and after implementing the same instruments expectations that East Germany reaches the same outcomes emerged. People anticipated at least convergence meant as asymmetric adjustments of the east towards the west. As “blossoming landscapes” (*Blühende Landschaften*) Chancellor

Helmut Kohl described his vision of economic prosperity in the East German states. Proclaimed already in 1990, “Blühende Landschaften” reflects a clear and high goal.

In contrast to other post-communist transformation countries, the GDR was “immediately able to import sound institutions, including political, legal, monetary, banking, and industrial relations systems from its more developed partner” (Burda/Hunt 2001: 2). Optimistic views attended the legal, economic, social, and cultural predominance of the “Western Scheme”. Eastern Germany had profits from the “largesse, labour market, and expertise of a rich neighbour sharing the culture, and language” (Burda/Hunt 2001: 2), subsequently the transformation in East Germany is much different from other post-communist transformation histories.

Even though, the complete adoption of East German people in the western system of social security was a new challenge: To the already faced internal institutional change regarding the greying of society in a pay-as-you-go system the external shock of Reunification must be added. But still, the solution simply was to remain on the path and to pass the bill on the major pension reforms without any changes. The main reason for not re-thinking the pension’s reform was the consensual and strong believe in the performance capabilities of the western national insurance system. Employment rose these years after a period of stagnation; surpluses in the social security system promoted this point of view (Ruser 2011: 134).

In general, east German people were included in the national pension system without having paid any contributions to the scheme:²⁶ Already retired persons benefited from an exchange rate of one-to-one plus

²⁶ Frommert and Himmelreicher specify the amount to 3,8 Million people (Frommert/Himmelreicher 2010: 1).

a pension increase of 30 percent (Ruland 2012: 482).²⁷ Transitional regulations guaranteed the requirements for persons close to retirement with a pension level at least as high as expected including entitlements of special and additional pension insurances up to a maximum limit.²⁸ However, generous transitional arrangements did not apply for younger cohorts.

Reunification related additional expenditures regarding the pension system were paid from pension reserve and financed by an increase in social security contributions instead of tax based funding (Kerschbaumer 2011: 110).

German Pension System

The pension systems consist of three pillars. In Germany, the first pillar is the most essential one. The mandatory national pay-as-you-go system includes the largest part of the German labour force.²⁹ The second pillar, occupational pensions have also a long tradition in the German pension system, but they are far less relevant with regard to pension payments. Voluntary, private pensions have been the smallest pillar. The

²⁷ The rise was needed to achieve a net pension level of 70 percent. In 1989, the mean pension income in the GDR was 426,88 Ostmark what was less than 50 percent of net wages in the same year and compared to western standards low (Schmähl 2007: 551).

²⁸ The GDR had a unity social security system that in 1989 included 90 percent of the population (Frerich/Frey 1993: 271). But, and in contrary to popular opinion, the socialist system was more diverse and provided privileges for selected social groups and professions (Schmidt 2004).

²⁹ Only civil servants, self-employed, and some small professions are excluded.

importance of such pension schemes has only increased as a result of pension reforms of the early 2000s when the German Government implemented strong incentives for private pension provisions by paying subsidies for such plans. Nevertheless, the German pension architecture remains state-centred and dominated by the first pillar. Path dependencies apply especially for pension policies. The reason is long-term durability, investment security, and life planning dimension for pension plans and retirement.

The following results focus on the German national pension insurance (*Gesetzliche Rentenversicherung*). It covers over 80% of the employed population and approximately 90% of Germans are getting some pension income from the German national insurance (Bäcker et al. 2010).³⁰

The greying of Germany's society worsens the relation of contributors and recipients in the pay-as-you-go system. The pension system's funding is based on employers and employees who are obliged to pay contributions to the scheme. These contributions are the primary source for running pension incomes. Despite of benefit entitlements gained individually less contributors and more recipients may jeopardize the current pension level and individual pension income.

Individual pension income depend on life time earnings, timing of entrance (with discounts for earlier and awards for postponed entrance), general pension level, and actual value of pension (set by government

³⁰ The empirical basis is administrative data provided by the German National pension insurance and the Federal Employment Agency. Crucial data constraints are the missing information on the household level and the limitation on old age pensions (no widower, orphans, and disability pensions).

following the development of incomes according to the act on pension adjustments (*Rentenanpassung* § 68 SGB VI).³¹

Pension entitlements in the national system in Germany are based on personal earning points (PEP) of the insured. In the defined-contribution system PEP and wages are linked. The higher the earnings, the higher will be the pension entitlement. However, additional weight is placed on the overall wage development: One PEP reflects the average earning of all insured in one year. Accordingly, the actual value of one PEP depends on the gross wage developments on the labour market.

Low paid or part-time jobs systematically lead to low pension entitlements. In contrast, long, steady contribution records result in higher cumulated PEPs. Periods of unemployment, parental leave or unpaid work – although compensated to a certain degree, in the long run end in below-average entitlements. Since unemployment is unequally distributed among German labour force and child care duties are most often fulfilled by women, disadvantages can be explained by specific social characteristics. Differences in the outcome of insurance biographies may be explained by individual biographical decisions, institutional regulations, or labour market conditions (Czepek forthcoming).

It has been repeatedly stated that the German pension system is organised upon the normative assumption of a standard workers biography (Mückenberger 1985). This assumption refers to the normative ideal of steady, full-time employment from a relatively early age (after the completion of one's education) until retirement. A delayed entry into the labour market (e.g. due to prolonged times of education or training),

³¹ Individual pension income from National Insurance System also rest on the type of pension: Some national pensions have no wage replacement function as old age pensions do have (e.g. orphans pensions).

periods of unemployment, part-time work or so-called *mini-jobs* (450-Euro-Jobs free of social security contributions) are translated not only in immediate economic disadvantages but also have negative effects on the PEP.

Economic and Labour Market Transition

A high rate of unemployment and a low GDP show the ongoing “economic bloodletting” of eastern German economy and the labour market still needs to recover from the “initial shock” (Burda/Hunt 2001: 1-2). More than 25 years after the fall of the wall the era of the introduction of market economy to a socialist regime is over. In post-transformation era the eastern countries became a “problem region” in Germany (Burda/Hunt 2001: 11). Therefore, instead of analysing the Reunification process, nowadays the focus is more on the later economic outcomes such as the dramatic slowdown of productivity or the underutilization of labour as another symptom of the “dysfunctional nature” of the eastern labour market (Burda/Hunt 2001: 3).

For many authors, the main reason for the bad performance of the eastern labour market in Germany is too high wages. After Reunification wages were a result of bargaining conducted by more experienced negotiating partners coming from the west. Aiming an adjustment to western level the wages rose quickly and high from one third to 75 percent of western standards in the middle of the 1990s (Burda/Hunt 2001: 9). Later, after an employer’s revolt in 1993 massive escapes from both sides (employer and employees) led to a stagnation of the eastern wage level.

The *Treuhandanstalt* is a key player in the economic transition process because the privatization and restructuring of state enterprises was its responsibility. Again, mainly economic elites from the west were part of the public trust. The primary task was to restructure and privatise

state enterprises. If priority should be given to restructure or to privatise was a matter of intensive discussions: Restructuring first means to make enterprises more attractive for buyers, but not to restructure under the conditions of competition and funded by the state. Prioritising privatisation in fact resulted in poor outcomes for the *Treuhandanstalt* since pre-existing debts diminished profits of selling off the former GDR enterprises (Praqué 2010: 45-47). Later, the *Treuhandanstalt* was transformed to the *Bundesanstalt für vereinigungsbedingte Sonderaufgaben* to control the thousands of contracts regarding the “sell off” of eastern companies. Privatization was “rapid by transitions standards” (Burda/Hunt 2001: 5), even too fast other argue (Roland 2000).

As a result of rationalising and restructuring the state enterprise practiced massive lay-offs led to an enormous growth of unemployment and high amounts of people in job creating programs (*Arbeitsbeschaffungsmaßnahmen*). The stagnating level of employment and insufficient economic growth did not compensate the surplus of workers. Long-term unemployed and young career starters were confronted with a locked labour market. A preference for monetary transfers instead of services i.e. on-the-job-training, further qualification against mismatches led to obsolete instead of improved human capital (Burda/Hunt 2001: 40). That lowered the chances for labour market integration of unemployed. Social inequality and wage structure converge to western standards (Steiner 2013: 183; Burda/Hunt 2001: 41-43).

Early exits for labour market adjustments were not new: Due to economic crises accompanied with high rates of unemployment – especially of the youth – an alliance of politicians, employers, employees, and unions was forged during the 1980s in West Germany. High legal protection of older worker led to so-called social plans combined with benefits for unemployed and for retirees (Teipen/Kohli 2004). Unsurprisingly, these options were extensively used for East German labour market transformation.

These findings already indicate an increased contradiction or even conflict between short-term political goals (e.g. to ease the pressure on the labour market) and the more long-term imperatives of an aging society. The massive labour market transformation in the eastern part of Germany and the subsequent pressure on the social system worsened the situation.

Demographics: Causes or Consequences?

The domestic migration already starts before Reunification: Thousands escaped from the GDR Regime. Afterwards, only in 1989 to 1991 more than one million people left the eastern states to go west (Burda/Hunt 2001: 5). But for the coming period after Reunification, it is likely that people first left the east to the west because of the promise of prosperity and the “Blühende Landschaften” having had a slow take-off. Today domestic migration is not only result but also the cause of the suffering economy.

Germany yield first successes due to higher rates of employment of the elderly and regarding extended working lives but challenges of an ageing society persist. The uncertain era of political, social, and economic change had a strong impact on reproductive behaviour. The delay of child births and the lack of younger people escaped to the west left a gap in the eastern society. Today birth rates are pretty similar between western and eastern women – even though the historical background and socialisation differs.

The Division of Labour among Gender in West and East Germany

Crompton (1999) states the division of labour among gender to vary across different societies and to change over time. Therefore, a society in a given time can be placed somewhere in the continuum between a male-breadwinner/female-carer model and a double-earner/double-carer model.

Since gender and family policies were quite different during the division of the country, pre- and post-reunification trajectories in the gender division of labour are of great interest: While in the former socialist GDR women's full-time employment was high, western women and men followed a more traditional and conservative division of labour with a male breadwinner and a home caring wife.

In East Germany war reparations to the Soviet union and escapes from the east to the west create a need for workers (Trappe et al. 2015: 232). Activating women for work was firstly institutionalised in 1949 in a granted right for own employment decisions. To push women to work the devaluation of home caring was implemented on a cultural as well as on a legal level with incentives for female employment and better perspectives for higher positions. But still, the division of labour focused on women carrying for children (Trappe et al. 2015). A double burden of work and motherhood in the East was the result. In the 1960s, family policies aimed to improve the compatibility of family and labour only for women. That included free state-funded child care, save re-entry on the former job, and reductions of working hours for mothers. There was no equality, but the female employment rates rose and women in the east still have a higher attachment to work.

In contrast, the economic miracle in the west after World War II allowed a male-breadwinner/female home-carer model. For expanding work force people from Italy, Turkey, and later from the south-east Europe

were enforced to come to Germany for work. Institutional regulations regarding the division of labour and gender issues were a result of conservative family policies: For example, until 1977 western wives legal obligation was housekeeping. Later, generous regulations allowed women relatively long maternity leaves and a return to a comparable but not similar job up to three years after child birth. Additionally, a lack of child care infrastructure led to long periods of labour market absence among western women. Later cohorts of western women re-enter into the labour market only as part-time workers and mini-jobber. Hank and Kreyenfeld (2000) found that the availability for child care is more important for female employment than the costs. Therefore, an ongoing lack of child care infrastructure hinders western women to work.

Rosenfeld et al. (2004) overall assess the gender equality to be greater in the East. Their findings indicate for convergence of a male breadwinner/female part-time worker in both parts of Germany: Western women tend to work more and eastern less. Eastern women have some voluntary as well as involuntary reductions in working hours (Wanger 2011). But these are served also by demand-sided constraints that hit women especially hard (Figure 1; Rosenfeld et al. 2004: 120) .

Results: Convergence, Divergence or divergent Convergence?

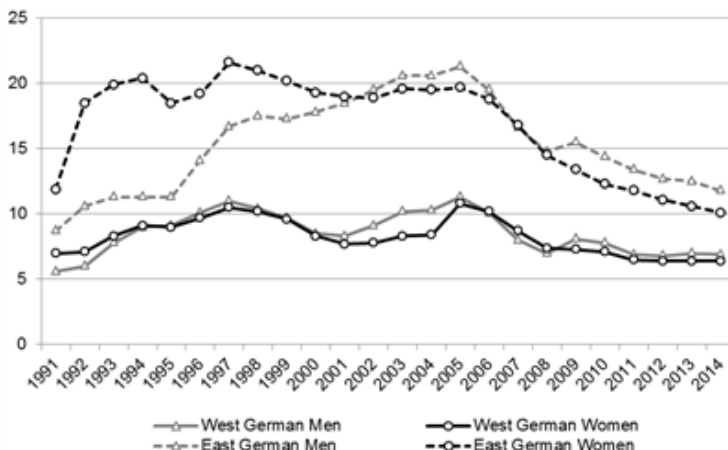
Labour Market Participation

Labour market participation is crucial for sufficient pension income. To investigate convergence or divergence between West and East Germany the following results focus on changes over time, regional, and gender differences.

Figure 1 clearly shows two levels of unemployment in West and East Germany: In 2014 the rate of unemployment is 6,7 percent in the west and 11 percent in the east.

After Reunification the rate raised quickly and high among eastern workers. Initially, eastern women were hit especially hard. But since 1995 the eastern men’s rate rose near to the eastern women’s rate that was 19 percent in 2001. The same year the western rates of unemployment were around 8 percent.

Figure 1: Unemployment – Rate of unemployment in West and East Germany by gender, 1991 to 2014, in percent



Note: The rate of unemployment rate is a yearly average of the dependent civilian labour force. Source: Statistics of the Federal Employment Agency, 2015.

A rapid decline of unemployment happened since 2005 parallel to a great labour market reform (so-called Hartz I to IV), initialised by the social democratic-greens coalition governed by Chancellor Gerhard Schröder. The new third way policy was controversial and included the introduction and

support of new types of employment (Mini-/Midi-Jobs, fictional self-employment, all with low or without social security contributions), changes in the treatment of unemployment that involved new rigidities for recipients of unemployment benefits and mean-tested social benefits, and new procedures at the Federal Employment Agency. The scientific discussion is as controversial as the political one is: The discussion revolves around the lower rates of unemployment being the result of a successful implementation of the Hartz Reforms, the effect of economic growth or a simple testimony for measurement changes with unemployed people being excluded if they are participants of active labour market instruments introduced these days (Pilz 2009: 177-200). Recently, unemployment in the west is constant while the eastern rate is falling over the last years.

East German's higher rates of unemployment cause a lower level of employment (Table 1). Despite of this fact, in 2014 the labour market participation seems to be quite similar among men: Their employment rate is highest in the age group of 35 to 44 years and part-time work among men is marginal in both parts of the country. Lower working hours is only a little higher among western young men at career start.

In contrast to men, women tend to work to a higher extent in part-time: In 2014, in West and East Germany part-time work is quite common. However, western women still have higher rates of part-time work in all age groups: This is true for the period of family building and caring (25 to 44 years) and even later. In the female 45 to 54 age group 52 percent in the west and only 37 percent in the east work less than regular working hours per week. The reason for western women having a 15 percent higher rate of part-time work is that they re-enter into the labour market after child care only in part-time while eastern women prefer (or need) to work in full-time (Wanger 2011). Matysiak and Steinmetz point out that a lower magnitude of child and husband effects only partly adjust east women's behaviour: East Women face more difficulties to find a job after child birth, but higher husband's earnings increase their risk for labour market

inactivity (Matysiak/Steinmetz 2008: 338-339). Close to retirement female full-time employment is only 19 percent in the west and 27 percent in the east. In general, female employment in this age group is quite low. While around 60 percent of 55 to 64 year old men work in full- or part-time work in the west, with 51 percent the rate is significantly lower in the east as it is for women in both parts of Germany.

Table 1: Employment – Participation on the labour market by age groups, in West and East Germany in 2014, in percent

Age in years	Men				Women			
	Full-time		Part-time		Full-time		Part-time	
	est Germa ny	ast Germa ny	est Germa ny	ast Germa ny	est Germa ny	ast Germa ny	est Germa ny	ast Germa ny
under 15	0,0	0,0	0,7	0,3	0,0	0,0	0,5	0,3
15 to 24	6,6	2,8	7,9	3,0	0,0	4,7	3,3	9,4
25 to 34	2,0	9,8	7,6	5,2	0,8	5,6	4,1	2,9
35 to 44	6,2	2,2	3,2	1,2	6,3	1,6	9,1	0,0
45 to 54	2,7	0,9	1,8	,9	5,9	6,5	0,8	5,9
55 to 64	5,0	8,8	3,3	1,7	7,9	5,6	6,4	8,5
65 and older	0,9	0,6	7,9	5,2	0,3	0,2	4,9	2,7

Note: Share of employees in the population. Cross-sectional data.

Source: Statistics of the Federal Employment Agency, 2015.

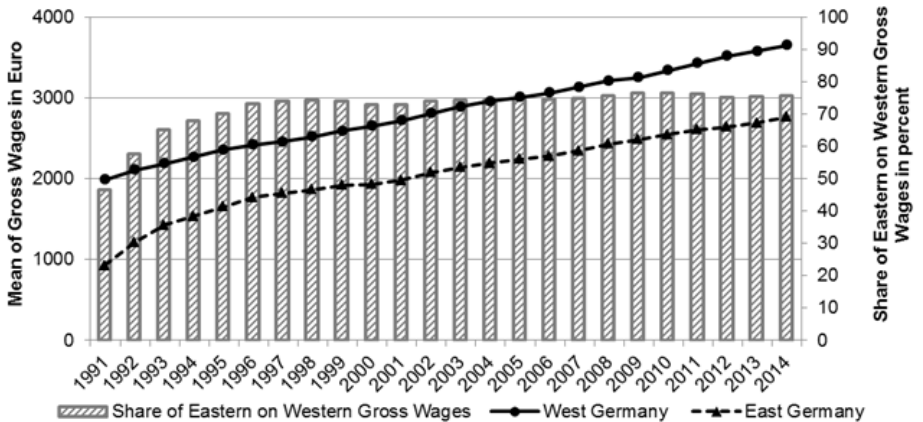
The results are in line with the research on female employment behaviour after Reunification in Germany: The high unemployment rates persist even though the tendency in East Germany is more positive in the last few years. Convergence had ever been between western and eastern men, but currently there is some convergence among women, too. In general, two-earner households have risen already for years (Liebig et al. 2010). Considering the different cultural, social, and economic background this is surprising. In comparison to the past, western women favour part-time work instead of non-work in a male-breadwinner/female-home-carer-model. However, differences after child birth with western women re-entering in part-time and eastern women to prefer full-time work persist.

Wages

Wages are directly transferred into pension income. This makes the mean of wages an important indicator for the impact of ongoing differences between East and West Germany. Furthermore, the general pension level adjustments are based on wage development.

Figure 2 illuminates the development of wages in both parts of the country after Reunification. The dark lines on the first axis show the mean of employee's full-time gross wages. As figure 1 on unemployment, figure 2 reveals a two level scheme with a mean wage more than the double in west rather than in East Germany in 1991 (second axis). But eastern wages rose high and quickly as it was politically required. In 2014 the share of eastern mean wage is approximately 75 percent. With slide variations this is the case since wage adjustments came to a preliminary end in 1996.

Figure 2: Wages – Mean of employee's full-time gross wages by region, in Euro, 1991 to 2014



Source: Statistics of the Federal Statistical Office, 2015.

How can the increase and later stagnation of wages be explained?

Before Reunification, in 1989, the wage level in the eastern part of Germany was only one third of the western level. Political requirement was an adjustment on the living standard and subsequently in wages.

Western union stakeholders replaced eastern abandoned unionist. Their interests were not only driven by political interests towards eastern workers and memberships but they also protected the western workers against eastern worker's competition (Burda/Hunt 2001: 38). Under the external requirements of political legitimation western unionists had additional power to negotiate high wages in East Germany. Their strong position was supported by the weakness of the employer's representatives of yet unprivatised enterprises.

Even though, wage increases were the highest for low skilled workers, this group was threatened the most (Burda/Hunt 2001: 45). At least, higher wages require for higher unemployment benefits – one reason to negotiate higher wages in time of higher unemployment risks. Economist criticise the wages being so high because of reservation wages (Burda/Hunt 2001: 38). Contrary, defenders of the high wage policy argue that high wages were set against the massive escape of workers to the west (Bonin 2005: 148). Burda and Hunt explored that higher wages actually were a successful incentive to stay in the east (Burda/Hunt 2001: 38 and 61-62)

The bargaining system collapsed in 1993 (Burda/Hunt 2001: 37). High wages, subsequent high labour costs, low productivity, and improved job security regulations led to massive employer-sided escapes of the bargaining system (Bonin 2005: 148): At the beginning employers used the standard opting-out regulations only implemented for rare and dramatic cases (Burda/Hunt 2001: 50). Later, escapes of employers and employees being afraid of losing the job resulted in flexible and lower wages (Bonin 2005: 153). Although, the process of wage adjustments towards western standards is stopped, wage politics failed due to ongoing differences in unemployment rates (Bonin 2005: 154). As a response to western institutional transfer the ongoing differences in wage level are a consequence of specific decisions at and developments after Reunification era.

Pension Entitlements

The individual gained pension entitlements are reflected by the PEP as the individual position in wage structure. Comparing West and East Germany, the mean of PEP in the East among men is lower, but not among women (Table 2): Up to 1997 the male mean of PEP varies being sometimes higher or lower in the east than in the west. But in line with the

wage development, the pension entitlements decline in the east. This trend is true for West Germany, too, but weaker. East German men have the greatest losses: In 1993 the mean of PEP was 1,092 and 20 years later it is clearly less than one. In this group the disparity increased (Frommert/Himmelreicher 2010: 3).

Table 2: Pension Entitlements – Mean of PEP by gender, in West and East Germany 1993 to 2014

Year of Entrance	Men		Women	
	West Germany	East Germany	West Germany	East Germany
1993	1,09	1,02	0,693	0,73
1994	*	*	*	*
1995	1,09	1,03	0,723	0,88
1996	1,08	1,08	0,741	0,80
1997	1,03	1,02	0,694	0,88
1998	1,01	1,04	0,724	0,84
1999	1,08	1,07	0,755	0,70
2000	1,01	1,06	0,763	0,81
2001	1,08	1,01	0,772	0,85
2002	1,05	1,01	0,768	0,87
2003	1,00	1,02	0,771	0,81
2004	1,09	1,06	0,765	0,88
2005	1,09	1,05	0,753	0,85
2006	1,08	1,07	0,743	0,86
2007	1,07	1,00	0,735	0,87
2008	1,08	0,97	0,724	0,80
2009	1,00	0,98	0,740	0,83
2010	1,01	0,90	0,705	0,83
2011	1,00	0,93	0,696	0,77
2012	1,00	0,90	0,682	0,87
2013	0,99	0,93	0,674	0,87
2014**	1,05	0,87	0,950	0,75

Note: * Not Available. ** For better comparison a unique effect of an actual pension reform is excluded.

Source: Deutsche Rentenversicherung, 2010, 2015.

Note: * Not Available.

Source: Deutsche Rentenversicherung, 2010, 2014.

In contrast, women in the east have higher pension entitlements than their counterparts in the west. The differences are bigger than among men. Even though, western women's labour market participation grows, the mean of PEP decreases recently. Frommert and Himmelreicher (2010) found a rising spread in between this group, too. The weakening mean of PEPs of western women even enlarges the difference between both parts of the country. Own, individual pension income gain importance and female employment in West Germany rises too, but the unbalanced gender division of labour, part-time work, social unsecured low paid jobs, and gender inequality on the labour market in both parts of the country harm positive effects on pension income. Due to the lower pension entitlements of women, legal revisions for a better acknowledgement for child care compensate to less (Czepek forthcoming). Additionally, Frommert and Strauß's (2012) cohort analysis about western German women shows that a higher educational level and labour participation do not reduce the gender pension gap.

Reunification brought some special legal provisions for eastern people to compensate for the wage differences: There is a factor to convert the eastern PEPs to western level. The conversion factor always reflects the relation between the mean wage of West and East Germany. The revaluation creates a fictional income that is multiplied with the actual pension value. The actual pension value differs between both parts of

Germany, too. For the mean of earnings in each part of the country, eastern retirees currently benefit because the wage inequality is overcompensated (Frommert/Himmelreicher 2010: 2).

To approximate the information on the mean of gross pension income one can multiply the conversion factors with the pension payment amount (Appendix, Table 3). The result is only different for western and eastern men with a higher mean of gross pension income for male east Germans. Important is that east Germans overall depend more on national insurance outcomes because the second and third pillar of old-age provision is better distributed in the west (Bäcker et al. 2010: 464-465).

In general, simulations indicate for a high labour market dependency of pension incomes: Several scenarios estimating the pension entitlements of future cohorts of entering retirees depend on the prediction of developments on the East German labour market (Steiner 2013: 186): More or less pessimistic views cause different cumulated durations of unemployment and in order to institutional framework lower pension incomes. A disadvantageous labour market trend will lead to a sharp decline in pension entitlements. Whereas, an ongoing positive trend in unemployment rates gives rise to the assumption that these effects may attenuate even with continuing wage differences between West and East Germany.

Conclusions: Ongoing differences and ongoing transfers?

For the FRG the Reunification is about to secure the continuity of institutions (Pierson 2000). While for the GDR the transformation is a radical change in a critical juncture (Beyer 2006). Thelen and Streek characterise the process of dismantling and replacement of institutions as exhaustion (Streek/Thelen 2005: 9). According to DiMaggio and Powell three forms of institutional isomorphism can be distinguished to explain

institutional replacements: Coersive, mimetic, and normative isomorphism. For them, institutional isomorphism in organisations is a product of competition for political power and institutional legitimacy rather than for economic efficiency (DiMaggio/Powell 1983: 150) and less efficient organisational forms do persist for political rather than economic reasons (DiMaggio/Powell 1983: 157). Coersive isomorphism is a change as a direct response to a governmental mandate as it happened after peaceful revolutions and the subsequent free elections in GDR in advance of the legal Reunification. Mimetic institutional isomorphism characterises the Reunification process later when East German institutions were based on the model of West Germany. The transfer of western institutions was on the political, social, economic, and even personnel level.

Partial reforms involve the risk of losses of complementarities (Roland 2000: 33) what is the case in East Germany: The pension reform was an adoption of the pension system under different conditions. The unbalanced pension entitlements of East Germans are institutionally compensated by the special legal provision of eastern PEP, although both parts share the same rules: However, the differences in labour market performance and the institutional framework linking employment biographies tight to pension entitlements lead to a shift of risks towards the insured. Later cohorts do not benefit from the generous regulations on transition to retirement during Reunification. But they have to take the risk of (long-term) unemployment and its consequences.

From political economy two perspectives on constraints of reforms are known: Positive political economic focussing on the clash of interest groups and the power balance to be recognised in wage bargaining process with the consequences of massive exists of employers and employees. Normative political economy is more interested in political decision making. The normative perspective deals with uncertainty and reversal costs. Both, uncertainty and reversal costs create path dependencies. Individual uncertainty is about the winners and loser of reforms. Aggregated uncertainty is economic-wide effects of a given reform. (Roland

2000: 31-32). Both theories are able to explain constraints in reforms in Germany:

Poor labour demand is recognized to be a major problem (Burda/Hunt 2001: 48). Snower and Merkl explain the low demand with the low qualification as a result of the transition process (2006: 376). Moreover, the amount of long-term unemployed and the aging of the eastern society show the absence of (young) skilled workers. The poor demand on labour was supported by subsidies for labour saving investments that caused rigidities, now resistant for change (Portes 1994: 1181). The transformation from socialist to social market economy created winners and loser. Justified by this fact, political decision makers tend to protect the losers of the transformation process (Portes 1994: 1181). But the level of social security and welfare had impacts on both central labour market outcomes: Supply and demand. For compensating losers, Roland argues, there must be financial resources, distinguishable winners and losers, and commitment of decision makers (Roland 2000: 32). Today's debates on financial transfers and the "problem region" East Germany show the loss of commitment and the potential run dry of financial support. But "as long as there are many unemployed in eastern Germany, the transfer problem and the problem of lagging GDP per capita will continue to haunt the region" (Burda/Hunt 2001: 11).

Originally, the revaluation of eastern PEPs was limited until the incomes are unified. Against the background of ongoing differences in central dimensions of pension income, the removal of special legal provisions and separated calculation of pensions as well as the shutdown of financial transfers must be set in a distant future.

Today one of the consequences of the incomplete transformation is valid again and it was recognized by Roesler already in 1994 (Roesler 1994: 512): "One of the consequences of not changing the transformation policy despite its poor results has been that the political forces of the far right have won influence in the west as well as in the east of Germany.

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Appendix

Table 1: Pension Income – Approximated mean of Gross Pension Income of National Insurance by gender, in West and East Germany 1993 to 2014

Year of Entrance	Men		Women	
	West Germany	East Germany	West Germany	East Germany
1993	915,84	846,40	373,12	502,09
1994	*	*	*	*
1995	941,64	929,22	436,24	615,90
1996	967,93	961,05	457,31	658,98
1997	967,93	1001,61	448,79	666,66
1998	966,86	1005,63	469,04	698,11
1999	968,99	1007,79	475,44	726,17
2000	975,54	1017,50	464,34	735,88
2001	972,65	1014,53	460,28	728,05
2002	973,54	1035,72	450,89	725,76
2003	949,32	1031,97	450,36	731,70
2004	914,17	1008,08	443,50	721,15
2005	894,62	992,98	432,04	724,46
2006	893,80	1001,56	449,63	734,99
2007	946,71	994,20	476,10	722,26
2008	951,50	994,91	493,90	735,70
2009	946,86	1084,99	509,76	742,13
2010	942,70	971,07	526,90	755,40
2011	956,54	960,64	536,67	754,55
2012	989,60	999,62	543,29	833,57
2013	1007,04	1013,82	557,02	870,89
2014	1082,04	1054,82	619,89	931,83

Note: * Not Available.

Source: Deutsche Rentenversicherung, 2010, 2015.