CHAPTER 10

Lessons from East Germany: Labor Mobility

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In the next several years people in Central and Eastern European countries will be able to move freely into the labor markets of the current European Union, as membership is extended towards the East. Both old and new members are interested in knowing which people will move and why, how long they will stay outside their own country, and how many people will move. Economically, these questions are important because of their implications for income gains for movers, the impact on wages of workers in the receiving country, and workers in the source country.

The reunification of East and West Germany is an obvious place to look for answers to these questions. Since Hungary began allowing citizens of the German Democratic Republic to cross into Austria in August 1989, East Germans have had access to the West German labor market. This access became less costly with the fall of the Berlin wall in November 1989.¹ Figure 1 shows the flows between east and west from 1957-1999.² The outflows in 1989 and 1990 each represent 2.5% of the East German population. Emigration from the east fell quickly after 1990, with net emigration becoming almost zero, but has recently risen once more. This outflow of people to the west has contributed to a large reduction in the East German population, with a large decline in the birth rate being the other main contributor. Table 1 decomposes the population decline of 8.7% into excess deaths and emigration to the west, with net

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²Data are from the Statistisches Bundesamt.
immigration from abroad going in the other direction.

In this paper I will analyze data from the German Socio-Economic Panel and refer to existing research on migration to attempt to shed light on the main questions of interest.

Data

The data are drawn from the 1990-1997 interview years of the German Socio-Economic Panel. West Germans had been interviewed and followed through time since 1984, and the first wave of eastern interviews was conducted in June 1990, just before monetary union. The survey therefore does not shed light on migration that took place before this time. People are followed if they move between east and west, and the survey also asks people if they work in the opposite region of the country (east or west). I refer to these individuals as commuters.3

What Sort of People Moved?

The existence of the enclave of West Berlin and the long border between the two Germanies meant that commuting was a very feasible substitute for emigration for many people. Many easterners report having changed their workplace from east to west without having changed employer. I refer to these as "transferred" commuters or emigrants. The importance of commuters and transferred commuters is shown in Table 2. Over the whole period 63% of people who moved either their home or their workplace to the west were commuters. 28% of commuters were transferred, while 20% of emigrants were transferred, and the share of transferred commuters rose over time. Commuters work in the west for a less extended period than emigrants live in the west, however, and account for only 35% of mover time in the west.

Hunt (2000) conducts detailed analysis of which easterners emigrate and commute. Two common types of mover are young people moving to study in the west, and tertiary education graduates who move immediately after graduation. People who

3Wagner et al. (1993) describe the data.
move to the west between interviews are particularly likely to report having been laid off between the interviews. People living in a country (Kreis) right on the border with the west commute rather than emigrate. The exception to this is the Berliners, who both commute and migrate more than non-border residents. Table 3 shows that movers of all kinds are significantly younger than stayers, and that fully one third of commuters had been laid off. Transferred commuters and migrants by definition continued working with the same employer and could not have been laid off. The high proportion of border residents among the commuters can also be seen. The commuters include people who return home only at weekends (about one third of the commuters), so commuting fairly large distances is feasible.

**Why Did They Move?**

Up until the parliamentary elections in East Germany in March 1990, the main motivation for emigration was political, with family reunification the secondary motivation. At that point it became clear that unification with the west would come rapidly, and economic reasons became dominant. Work with data on migration flows between all regions of Germany by Hunt (2000) underlines the importance of the wage gap as a determinant of emigration from East Germany. As is well known, the tendency of individuals to move between two places is closely related to the distance between them, and Hunt also finds this. The individual-level data discussed above shows that unemployment and layoffs are also an important impetus for migration (or commuting).

**How Long Did They Stay?**

As already mentioned, commuters have shorter spells in the west than emigrants do. Table 4 shows the 1997 status of all the people who had worked or lived in the east in the 1990-1997 period. People who had emigrated were unlikely to be back in the east (only 16%). About one third of ordinary commuters had returned, while a higher percentage (54%) of transferred had returned, suggesting many had been sent for training.

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4 See references to surveys of emigrants in Grundmann (1998).
or experience in the west by their firm.

**How High Are Flows from New EU Members Likely to be by Comparison?**

Many people who look at Figure 1 and Table 1, and who note that the wage gap between old and new EU members is larger than the inter-German wage gap was, fear that a large proportion of the populations of the accession countries will move to the EU. They further note that social safety nets in the new member countries are less generous than in East Germany, and that the populations of the countries involved are large.

However, there are many important differences with the East German case that suggest emigration and commuting could be less significant for the new EU members. One of the most important remarks is that the political reason for emigration, which spurred perhaps half of the cumulative outflows from East Germany, is now absent in the accession countries. Furthermore, the emigration from East Germany following the political wave occurred at the time of the mass layoffs in the east. The accession countries are gaining mobility after the shock of price liberalizations and other events leading to the dramatic output falls around 1990, not at the same time.

Clearly, language and culture are less similar than in the German case, and family ties between the source and destination region play less of a role. Family ties are important not only as a direct cause of migration, but as an indirect one, through the facilitation of information about jobs and housing. Also, for much of the population in the accession countries the distances involved are much greater, and the closest thing to the unique Berlin is the proximity of Bratislava and Vienna.

The last two points are that some migration has already occurred, so it is not clear to what extent free labor mobility will constitute a big bang for the accession countries, and that fewer workers are likely to be transferred by their companies.

**Economic Impact for Migrants**

The study of the economic impact of migration is often very difficult. The one certainty is that immigrants themselves benefit a lot. Table 5 shows the wage growth
(ratio of wages in adjacent years) for stayers and all mover types for East Germans. Commuters, who benefited from the low consumption prices in the east, doubled their monthly wages by moving to the east. This compares to average yearly wage growth of 16% for stayers. Transferred commuters gained much less, 27% on average, apparently because they were earning western wages to start with (which can be verified in Table 5). Emigrants gained 85% on average. As a check, the wage growth for those who stop commuting or who return to live in the east are also reported. Return commuters have zero wage growth (again compared to 16% for stayers), while return migrants have their wages almost cut in half.

In terms of how the movers do compared with westerners: in 1997 male movers (migrants and commuters) earned 10% less than western men (controlling for their characteristics), while female movers had a statistically insignificant 2% wage disadvantage.

Impact on the Destination

Theoretically the impact of immigration on the receiving labor market is ambiguous. It is important to realize that if the immigrants are similar to the natives, there is no reason to expect immigration to have any impact once capital stocks and housing stocks have had a chance to adjust. A thought experiment where every person in a country acquires a twin suggests only short run effects. On the other hand, immigration of less-skilled workers could reduce the wages of less-skilled natives. It is important to remember that in this case high-skilled workers or firm owners would benefit, and that in all cases allowing people to work where they are most productive is good for overall efficiency.

The empirical literature is somewhat inconclusive, with zero impact and large impacts being ruled out, but the exact size of the medium impact uncertain. The opportunity to study the huge immigration to West Germany of the ethnic Germans (or Aussiedler) cannot be seized due to data difficulties. However, the wage structure of
West Germany has been remarkably stable over the 1990s, and there have been no marked changes in unemployment over the long term.\textsuperscript{6} I have attempted to use the German Socio-Economic Panel to look for particular wage or unemployment changes along the border with the east, but the sample size is such that only large changes can be ruled out.

**Impact on the Source Country**

This is an interesting topic which space does not allow me to pursue. Since inequality is now higher in the accession countries than in West Germany, it is likely to be the less-skilled who have most to gain from moving, unlike in the East German case.\textsuperscript{7} The young will be those most likely to leave, and remittances will play a role.

**Implications For Migration from EU Accession Countries**

The young and the unskilled will be the typical movers, and commuting will be important along the Bavarian and Austrian borders, and along the Italian border with Slovenia. Little commuting to East Germany is likely to occur, based on foreign migration trends in the past. The probability of emigration could be lower than in the East German case. The emigrants and commuters will have very large wage gains, and allowing labor mobility is thus the surest way of helping citizens of the accession countries. There is no convincing evidence that the immigration and commuting will have serious negative consequences for the receiving countries.

**Policy Recommendations**

Receiving economies must adapt their capital stock and housing stock to the arrival of immigrants. This argues for a quota system that gradually increases the number of citizens of accession countries that are allowed to live in the EU. The quotas should be extended until they are no longer binding, with this occurring at the latest in about 2007. To allow for this gradual process, the quotas should be introduced now. This will have

\textsuperscript{6}Prasad (1999) documents the lack of change in the wage structure for males.

\textsuperscript{7}See Brainerd (2000) for wage inequality numbers.
the additional benefit of signalling to accession countries that the EU is serious about granting membership. Delaying labor mobility for seven years then introducing it all at once serves no obvious purpose.
References


Figure 1: German East-West Migration 1957-1998