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**SYSTEMS TRANSFORMATION AND LABOUR MARKET STRUCTURE:  
THE CASE OF EAST-GERMANY**

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**SYSTEMS TRANSFORMATION AND LABOUR MARKET STRUCTURE:  
THE CASE OF EAST-GERMANY**

*by Holle GRÜNERT and Burkart LUTZ*

**1 Quantitative and qualitative consequences for the labour market due to the German Reunification**

There is no doubt that socio-economic transformation has many consequences. Among the most important are the radical changes in the labour market and employment which have far-reaching implications for the situation of the people in the New Federal States. Up to now, analyses have mainly focussed on the quantitative effects, above all on the number of job losses -- with good reason: whereas about 9.6 million people were employed at the end of 1989,<sup>1</sup> only 6.1 million people were by the middle of 1993.<sup>2</sup> A remarkable number of these positions (in 1993) only existed because they were financed by so-called "active" labour market policy: they were either funded entirely, mainly as "public job creation programs," or funded to a large degree, mainly as short-time work or training under continuation of the previous employment status. By the middle of 1992 the number of all these governmentally financed measures was equivalent to almost 0.9 million employment relationships (see Koller/Jung-Hammon, 1993: 4). In the summer of 1993 the number was a little, but not much lower.

Not included those governmentally financed employment relationships, far more than 40% of the jobs on the territory of the former GDR were lost within a few years -- a development which is certainly without precedent in the entire history of industrial nations.

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1 According to official statistics of the former GDR, there were 8.5 million employees in September 1989. But in order to compare this figure with those reported since 1991/92 based on West-German measurement standards, it is necessary to add 0.3 million apprentices and the more than 0.7 million employees who were not mentioned in most GDR-statistics: about 250.000 in the army and border guard, 125.000 in the police and similar jobs, 90.000 in the parties and mass organizations, etc. (see SÖSTRA, 1993: 37).

2 This figure is stated in several reports of German economy research institutes (e.g., DIW-Wochenbericht, 41/1993: 557).

Differentiating according to sectors of employment, these job losses -- of at least 4 million -- mainly affected the employees in industry and agriculture, where employment dropped by at least two thirds from about 3.2 million and 0.9 million respectively until the spring of 1993.<sup>3</sup> They affected the executives of the political and military sector in the former GDR (see footnote 1): Almost all of its about 0.7 million workplaces were lost. And they affected many other sectors and groups of employment.

Even considering that the supply side of the labour market was relieved by at least 0.5 million by migration and commuting to West Germany and West Berlin,<sup>4</sup> the loss of employment opportunities for the East-German population has nevertheless affected about two fifths of the positions existing in autumn of 1989. And even assuming that age-specific labour force participation will spontaneously adapt to the far lower level of the old federal states, there will still be a lack of labour force demand for at least one third of the positions that existed before, or half of the currently existing employment relationships. The age-specific labour force participation was exceptionally high in the former GDR since, on average, entry into the labour force took place very early and leaving the labour force for reasons of age, in particular, took place very late.<sup>5</sup>

It is obvious that up to now the quantitative consequences for the labour market had absolute priority in research and politics: How can this enormous gap in labour force demand either be temporarily bridged or permanently eliminated -- and which instruments would have to be applied to achieve this? Which tasks could and should be solved by labour market policies, the policy on wages and other governmental policies, and which ones should be left under control of market forces?

On the other side, the qualitative side of the debate regarding the implications of the transformation process for the labour market and employment has only played a secondary role so far. If such questions were considered at all, they were only focussed on sectoral and occupational changes in employment structures and the need for adjustments caused by such changes -- i.e., questions that have been discussed again and again in the old federal states since the 60s. The central questions in this perspective were and are: What kind of new jobs still have to be or already have been created after

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3 The majority of these job losses took place under "Treuhand" responsibility.

4 Koller and Jung-Hammon (1993) report that in the middle of 1992 0.22 million employees migrated and 0.46 million commuted from the East to the West - but only 0.11 million migrated and 0.08 million commuted to the East.

5 SÖSTRA (1993) counted the following employment rates for 1989 (as the share of employees in the population of working age, i.e., between 15 and 60/65 years old):

|     | Men | Women |
|-----|-----|-------|
| FRG | 82% | 56%   |
| GDR | 93% | 78%   |

These differences are even more remarkable because the fertility rate of the GDR was much higher than in West Germany.

Reunification? Which qualifications are needed to be able to take over employees? Consequently, which qualification deficits have to be eliminated first of all, and which are measures and instruments promising success?

This perspective is thoroughly legitimate. In the former GDR -- as in the other formerly state-socialist countries -- the economy and employment structures were severely underdeveloped as compared to Western industrial nations. This cannot be made up for without radical changes. Thus, whereas primary productions such as agriculture, mining, and energy industry employed about 15% of all employees in the GDR, that figure is only slightly higher than 5% in West Germany. In contrast, employment in important services was much lower in the GDR than in all Western industrial nations.

As a consequence of first practical experiences and research work, understanding is gradually growing that the structural problems of the labour market and employment on the territory of the former GDR are not all only due to a delayed adjustment to the change in employment structures which has to take place at an accelerated rate. Obviously, Reunification and integration of the former GDR into the political and economic system of the former FRG has also led to serious distortions in the labour market. These are expressed by the partial or entire, more or less long-term exclusion of whole segments of the population from more or less adequate employment opportunities.

These processes of exclusion are not limited to large parts of the older birth cohorts who were forced to leave the labour market by early retirement measures, e.g., by the radical - but at least partially reversible -- reduction of the retirement age.<sup>6</sup> They also affect men and, especially, women who up to then had taken for granted (and are still dependent on) the fact that they would continue to be employed for a long time. In the wake of these exclusion processes massive disparities in employment opportunities and life chances have emerged for important parts of society. One cannot expect these disparities to recede by themselves after the gap in the labour force demand has been closed. It seems more likely that even the traditional instruments of active labour market schemes will not be able to overcome these disparities -- even if they are applied up to their capability limits. On the contrary, worrying assumptions and increasing circumstantial evidence give reason for the fear that they will constitute a severe burden on the economic and political development in sizeable parts of the New Federal States for a long time.

Therefore, the same attention should be paid to these structural distortions of the labour market -- which will perhaps become even larger over time -- as to the gap in available employment.

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6 In 1991 and the beginning of 1992 this process was especially drastic: according to data of the Federal Office of Statistics (Fachserie 1; Reihe 4.1.1, 1992: 27), there were at least 353.000 persons aged between 55 and 65 years in East Germany in May of 1992 who had left the labour force in the previous 12 months. In this age group only a fifth of those who had worked in 1991 were still employed.

## 2 New problems, new questions, and new needs for theoretical work

The mainly quantitative problems mentioned so far have been the central aspects of discussions and reflections on developments of the labour market and employment due to German Reunification. However, they have rarely been understood as a special theoretical challenge or, specifically, as a theoretical challenge for the field of labour market studies. The same is true in regard to the need for political activity arising from these problems.

The closure of the employment gap is above all expected to take place in the wake of dynamic and persistent economic growth. The debate on what has to be done to achieve this necessary growth process follows the arguments and conflict lines which have been presented for more than a decade in the West: neoclassical versus neokeynesian economic theories, deregulation versus state intervention, wage restraint or cuts versus active labour market policy which supports employment as much as possible.

In order to overcome delays or blockades of the adjustment to accelerated changes of employment structures, general opinion sees resolute and unconventional action as being necessary above all. The focus of attention would have to be on a massive qualification process for employees so that they could either meet new technological requirements or could have fast access to typical occupations of a market economy.

Completely different measures are needed when considering the structural distortions of the labour market and the resulting exclusion processes and differentiation in employment opportunities and life chances for entire segments of the population. When trying to counteract these phenomena effectively, i.e., to reduce them as far as possible, to avoid or overcome the possibly extremely expensive blockades in the actually tested labour market instruments one is confronted with a serious explanation and diagnosis deficit.

A characteristic example in this regard is that not only short-, but also medium- and long-term employment perspectives of important segments of the labour force are highly dependent on employees' chances to remain in their former enterprises.

To exemplify this we now present some findings of our own research work. Summarizing the results of an investigation on clerical staff in industry in the former GDR and the New Federal States Holle Grünert observed the phenomenon of a clear dichotomization (Grünert, 1993a: 71):

"On the one hand, we find clerks -- by estimation about one third of their former number -- who are still employed as clerical staff in industry (usually in their former enterprises or in these enterprises' successors). During the process of adjustment they had the opportunity to learn to evaluate retraining offers regarding their practical use, frequently also to prove their abilities and, hence, to develop new self-confidence. This, in turn, manifested itself in an increasing behavioural adequacy and the chance to gain further experience.

On the other hand, there is the majority of clerks who have lost their jobs. A group of them has definitely left the labour market via early retirement, returning to household work etc. The rest is currently unemployed, in public job creation schemes or retraining programs and suchlike... The chance for them to have gained not only the knowledge but also such behaviour and skills which are now increasingly expected of competent clerical personnel since their redundancies, must be considered as low to very low under the prevailing circumstances and without far-reaching innovations in the sphere of further education."

The situation in many, though certainly not all, occupations seems to be quite similar. However, unfortunately such detailed analyses do not exist for these. Nevertheless, in more than one respect clerical personnel in industry is a particularly interesting occupational group for analysis of the transformation process: This group had much lower prestige in the former GDR than in the old FRG. Therefore, it can be assumed that a considerable upgrading effect is to be observed since 1990. Furthermore, the inadequate consolidation and low productivity of the most important spheres of clerical work was one of the clearest short-comings of the GDR-industry (while other departments typical for planned economies ballooned at the same time). Therefore, it was and still is reasonable to expect the demand for qualified clerical personnel to be reduced to a much lower extent than within industry as a whole. And last but not least, since this occupational group was highly feminized in GDR-industry, it should also serve as a useful indicator for analysis of gender-specific developments.

The dichotomy, or better trichotomy (under consideration of the persons in early retirement as a separate group) of employment opportunities and their possibly permanent worsening for considerable parts of an occupational group which actually should be in an upwind, opens a lot of questions. Under application of the common economic theories and previous experiences of Western labour market policies it is difficult to answer them.

- How did such a well defined dichotomy between "people having a job" and "people excluded" come about in this occupational group in parallel to a forced implementation of market-economic regulation patterns? That is, in a group whose employment opportunities should have improved clearly under the introduction of such measures as compared to other occupations.
- Why does the enormous effort of further training that temporarily even particularly emphasized the teaching of missing clerical-administrative ("market-economic") knowledge, obviously have such a low influence on the labour market chances of qualified clerks once they have lost their former jobs?
- Why were West-German firms, on the one hand, able to build up functioning clerical-administrative services according to the new regulations in the East-German enterprises they had taken over? And how could this be achieved without particular difficulties, within quite a short time and mainly with clerical personnel coming from these enterprises themselves? And why, on the other hand, did and

do the enterprises administrated by the Treuhand trust have a lot more problems, although their clerical staff has comparable qualifications, and despite an almost equally large range of further training, excepting firm-specific training programs?

- How is it to be explained that, on the one hand, a large number of clerks who, in part, have a good to very good formal qualificational background and most of whom have attended expensive measures of vocational further training and retraining, is unemployed -- whereas, on the other hand, it is still difficult to meet the demand for clerical "all-round-personnel" in the newly founded or expanding small and medium-sized firms?

Common economic theories hardly answer questions of this kind. Models based on theories of economic growth, which consider employment and underemployment as a mere result of macro-economic equilibrium or imbalance, cannot contribute to the explanation of the outlined processes of exclusion and dichotomization. The model that considers the labour market as a point market which is controlled by situation-specific, personal benefit- (wage- and productivity-) expectations, is rather misleading given the processes and structures in East Germany -- even if one takes into account the various extensions of transaction-cost or human-capital theories.

A reconsideration of the theories of labour market segmentation seems to be far more promising. This is particularly true for the German variation which was developed in Munich and Berlin during the 70s on the basis of concepts of Doeringer and Piore (1971) (see above all Lutz/Sengenberger, 1994; Sengenberger, 1975; Freiburghaus/Schmid, 1975; Sengenberger, 1978; Lutz, 1987; Sengenberger, 1987). In contrast to the originally pure dualism of Doeringer and Priore (that was completed by a further differentiation of the primary market in later work), the so-called "Munich approach to segmentation theory" applies three ideal types of labour markets: the "secondary labour market" characterized by easily replaceable skills, the internal labour market and the occupational or professional labour market. It pays special attention to the problems of qualification and training in the genesis of labour market structures. In recent work (above all Lutz, 1987) the situation of economies which are dominated by internal labour markets is described by the term "firm-centered labour market segmentation."

Based on this theoretical background two working hypotheses can be formulated:

- (1) In the economy of the former GDR (as well as in the other economies under the Soviet sphere of influence and the former Soviet Union), employment structures and labour market policies were strongly determined by those features generally considered as typical for internal labour markets and firm-centered labour market segmentation.
- (2) Essential labour market problems, which occur in the course of the transformation of the East-German economic system and in coping with its consequences, can only be sufficiently explained (and thus finally be solved) if they are analyzed as processes and consequences of the upheaval in labour market structures,



segmentation lines, and the allocation patterns and behavioural requirements connected with them.

Both hypotheses will be explained in more detail using the available empirical material. For understandable reasons particular attention will be paid to the first hypothesis.

### **3 A first working hypothesis: GDR-enterprises and -conglomerates<sup>7</sup> as internal labour markets**

#### **3.1 Preliminary methodological considerations**

Work, personnel and organizational structures equivalent to the concept of internal labour markets can only be understood and described empirically at the microlevel of a single firm or enterprise.

There are basically two approaches towards specification of the degree to which firms' employment patterns within an entire national economy are organized according to the pattern of internal labour markets:

(1) The first approach starts out from the close nexus between typical structures of internal labour markets on the one hand, and (primarily firm-internal) processes of occupational mobility on the other hand. It specifies mobility indices for an entire economy or for large economic segments -- such as the average duration of employment relationships in an enterprise (i.e., the rate of firm shifts), the frequency of inter-firm job shifts and so forth.

(2) The other approach presupposes that the larger diffusion of internal labour markets also expresses itself in the normative institutional system of the respective country (or that their growing importance leads to considerable changes of that system). The questions then are either: which are the conditions that promote the diffusion and consolidation of internal labour markets and by that the emergence of firm-centered labour market segments? Or instead, ex negativo: what are the conditions that determine the existence of alternative, more externalized employment patterns or their capability to function?

Data on occupational mobility in the former GDR are, at best, only very rudimentarily available or scarcely interpreted up to now.<sup>8</sup> Therefore, systematic analyses of mobility

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7 The German term for these conglomerates is "Kombinate." They were large state-owned concerns covering almost all enterprises belonging to one production branch.

8 In this respect, analyses of the life course data of the Max Planck Institute for Human Development and Education in Berlin (see Mayer, 1991; Mayer, 1993; Huinink/Mayer,

cannot be realized -- at least not for now. At best it is possible to use unsystematic, more or less anecdotal or common knowledge based information on the mobility behaviour of certain occupational groups in the GDR-economy, thus complementing other analyses.

Therefore, the following considerations will be mainly restricted to the second approach, that is to the question to what extent the normative-institutional relationships of the GDR could have supported the formation, diffusion and consolidation of employment structures with typical features of internal labour markets. Or instead, to what extent they could have prevented the existence of a considerable degree of different, more externalized labour market structures.

### **3.2 Strong factors of internalization**

Labour market policy and personnel management of enterprises in the former GDR -- presumably quite similar to enterprises in the Soviet Union and the other member countries of the Comecon -- were influenced by effective and increasingly obvious tendencies of progressive internalization. Three of these tendencies will now be outlined:

(1) In the first place, very powerful norms which were partly directly derived from constitutive principles of the societal system have to be mentioned. These norms

- provided all employees with a practically unrestricted guarantee of employment, and
- forced the respective employing enterprise to realize this guarantee.

Since all citizens had the right to work and since there were no other institutions able to implement this legal claim (this will be mentioned again below) an employment relationship, once entered, was not terminable by the enterprise under normal circumstances. Each enterprise was therefore forced to cope with the employees it had either taken over from a previous enterprise at some time (in the course of expropriation or reorganization of "Kombinate"), had been allocated or had hired itself.

This state of affairs and its consequences were -- presumably increasingly -- considered as a matter of course, so to speak, by all those involved and affected. Target figures, directives, obligations or incentives from higher instances were just as naturally taken for granted. Hence, enterprises could only achieve adjustments, broadening and improvements of their employees' general qualification and specific competence profiles by firm-internal measures and incentives for further training. Supported by explicit orders to set up and implement "cadre plans," this increasingly led to enterprise-internal

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1993; Trappe, 1992) as well as the retrospective data of the German Socio-economic Panel (see, e.g., Wagner et al., 1990) seem to be promising.

careers, especially affecting medium and higher level technical and administrative positions. For life planning purposes an individual could also take a job in his/her respective employing enterprise for granted as a fixed base to which one could either "fall back" if necessary, or which one could use as a starting point for firm-internal upward moves.

(2) The ties to the enterprises resulting from this first tendency (which, by the way, were rather asymmetrical to the employees' benefit) were strengthened even more. This was due to the fact that the traditional principle of "the firm as 'Lebensraum'," known from previous periods of industrial history (e.g., described by Götz Briefs for German industry of the 20s), not only survived in the real-socialist planning economy, but even gained additional importance due to the transfer of new social functions to the enterprise. As a consequence, employees were embraced in a dense and -- in accordance with the official maxim of the "unity of economic and social policy" -- increasingly developed network of entitlements through their employing enterprise. These benefits included housing, childcare facilities, medical services, holiday homes, care of senior citizens and so on. At the same time, access to scarce commodities in sufficient quality -- from tropical fruit to building material for houses or weekend cottages (usually referred to with the Russian term "Datscha") -- was almost only possible or at least easiest via the employing enterprise. And it seems that quality and volume of these non-monetary forms of earnings were of considerable importance for the actual living standards of the GDR-population.

Because of this, the costs and risks of a possible job shift increased in two ways from the employees' point of view: Directly, since it was difficult, if not impossible, to evaluate the quality and opportunities of fast access to respective benefits in a new enterprise beforehand. And indirectly, since rather binding moral conventions had emerged in time by which it was considered to be quite indecent to turn one's back on the enterprise (and the various firm-related social networks) whose support one had profited from as a matter of course so far.

On the other hand, from the enterprises' point of view it was obvious to make more or less systematic use of the allocation of these benefits to reward company loyalty (directly or via the respective "firm's trade union officials" which functioned as a kind of social agency) or rather to clearly increase the cost of a possible job shift.

(3) In this context, the development of vocational training and further education also played an important role.

In the GDR, first vocational training originally maintained the tradition of the German dualistic system of training skilled workers and qualified white-collar workers. However, over time vocational training increasingly took on the character of pure job-preparatory basic training. At the same time, the actual practical qualifying process was conducted in the form of a more or less systematic introduction only after formal training was completed and the employee had been taken on in a regular employment relationship.

This will be illustrated by the example of clerical personnel in industry:

Compared to West Germany, the training of clerical personnel in the GDR was characterized by several striking differences (see Grünert, 1993a: 41-46):

- a shorter duration (two years compared to three years, at the cost of practical experience);
- a higher importance of "wide-ranging basic training" compared to immediately applicable skills and knowledge;
- a more "school-like" character, even of the practical parts of training in enterprises;
- and a 60 day block completing the training that was explicitly labelled "training at the future workplace." It was designed to support the young employees' move into the job and ensure senior colleagues' further responsibility for the young clerks.

This had two consequences for the employees' actual competence profiles: These could only be developed in the course of practical work, that is after completion of training. Therefore, they were far more specific to the firm and to the place of work than the skills of qualified personnel in West Germany. In particular, they were determined by the technological level and the complexity of the respective scope of work demanded within the enterprise. In addition, they depended on the individual employee's occupational position in the enterprise and in the firm-internal division of labour.

The same certainly also applied to many other occupations. In accordance to that, it is reported, on the one hand, that there were skilled workers in industrial plant manufacture, in the so-called "Rationalisierungsmittelbau,"<sup>9</sup> or maintenance who had to develop very high occupational competence in order to fulfill their tasks. And on the other hand, there were "skilled workers and qualified white-collared employees" who had to carry out repetitive tasks in industrial and administrative spheres characterized by a high division of labour. Therefore, they did not differ much from employees in semi-skilled jobs in the old federal states.

In parallel to this, further job training became increasingly tied to enterprises and therefore grew to be an instrument to steer intra.firm careers. This happened in two ways:

- On the one hand, enterprises which were large and technology-intensive had their own powerful training facilities. Of these the so-called "enterprise education centres" ("Betriebsakademien") were the most ambitious.

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9 A possible translation would be "industrial plant manufacture specialized in equipment necessary for rationalization."

- On the other hand, GDR enterprises were able to take advantage of the state education system's resources to a large degree. They were able to do this by "delegating" people to take up a university or, more often, technical college course when upward mobility met the (probably relatively low) threshold beyond which formally higher qualifications became necessary. Of course this was possible without a large risk of these employees leaving the enterprise.

It seems very likely that, at least in the 70s and 80s, a large proportion of the young professionals moving into middle and higher clerical-administrative functions were trained via this highly internalized route.<sup>10</sup>

### **3.3 Missing prerequisites for the functioning of external labour markets**

These strong tendencies towards internalization of personnel management are strengthened by the fact that the GDR, as well as the Soviet Union and the other Comecon-states, did not have the essential prerequisites for functioning external labour markets. Mainly, these are the institutions and regulations which have existed in most Western industrial nations for a long time and are particularly developed in West Germany. They include:

- an employment exchange as the most important instrument through which one can gain information on the external labour market;
- a system of social insurance which does not only mean a protection against loss of income in case of involuntary unemployment, but also substantially reduces the costs of looking for new employment, even in the case of voluntary unemployment;
- enterprise external institutions of retraining and further training;
- efficient institutions representing industry-wide interests;
- and last but not least, an education and training system that offers qualifications independently and certifies these with skilled worker's certificates or university degrees useful on the labour market.

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10 As early as the beginning of the 80s nearly 30% of all clerically trained industrial employees of the GDR had a university- (8,5%) or technical college degree (21%). The proportion of these qualifications which were even expected for fulfilment of group leader functions further increased during the 80s. Between 1982 and 1989 the relation between other forms of courses and direct university courses was 0,4:1 for graduates of economics. For technical colleges, the proportion was 1,6:1. This indicates that correspondence (i.e., Open University) degree courses at technical colleges were often part of enterprise-internal careers (Grünert, 1993a: 18; 27).

In the GDR, institutions and regulating systems such as these either never existed or were destroyed as being non-conformist to the system. The employment exchanges and social insurance were abolished quite soon after the founding of the GDR, because no unemployment was conceivable in socialism, per definition, and because open unemployment, at least, indeed did not exist. The trade unions allied in the "Free German Trade Union Association" ("Freier Deutscher Gewerkschaftsbund," FDGB) were neither interested in nor able to homogenize the quality and accessibility of enterprise specific (particularly non-monetary) benefits which differed much more than the centrally fixed nominal wages. This would have made it possible to make use of mobility between enterprises to adapt labour force resources to the varying labour force demand.

Therefore, external labour "markets" (as far as it is possible to use this term for a society that expressively emphasized that labour do not have the character of a commodity) only existed in rudimentary form and in certain areas. The setting-up and regulation of these market segments was often carried out by some of the few "basis institutions" of GDR-society (Lutz, 1992: 141; 1994a), in passing as it were, and with a decided interest in the steering of employees' mobility.

The interest in state control of employees' mobility was particularly obvious in the case of those "labour force entry markets," through which careers began: The start of working life was mainly channeled by education institutions together with future employers. This was true for the school-leavers from the 10-year "polytechnical secondary school" (the majority of each birth year) who began occupational training in a certain enterprise and usually remained there after their apprenticeship. This was also true for graduates' transition from university to their first employment. In both cases school-leavers and graduates were only offered a narrow spectrum of choices (of apprenticeships, training enterprises, university courses and first employments). Only if there was an unexpected shortage of graduates with certain degrees, did marketlike exchange structures develop, e.g., so-called "graduate exchanges" ("Absolventenbörsen").

State interest in a type of market segments which could be called "spot markets" was equally strong. These were very demand-dominated markets for certain qualifications that were opened by employers (enterprises or entire "Kombinate"), and were limited in time and content. These employers had to be able to assert the high priority of their demand for employees. Poaching experts was usually absolutely prohibited for enterprises of less priority, but was more or less silently accepted in connection with the forceful support of so-called "new technologies." "Campaign markets" were the most highly developed forms of the spot markets. These were activated when employees were needed at short notice for state assigned tasks. Their recruitment entailed special conditions (such as the allocation of newly built flats) to the detriment of other enterprises. In borderline cases enterprises could even be forced to accept deliberate recruitment of their employees for state campaigns.

Besides, certain forms of marketlike allocation of employees were mainly to be noted in the following two cases:

On the one hand, there were relatively indistinctly outlined markets or market segments for -- mostly female -- employees who could not or did not want to remain at their old work place. Frequent reasons for wanting to change one's job were spouses' transfers or periods of child-minding. The latter forced women to look for a position without shift work and/or closer to home, at least for a while.<sup>11</sup>

On the other hand, market segments for jobs with common and unspecific qualificational profiles (e.g., shop assistants, secretaries, drivers) developed more or less secretly. The employees who appeared here were (often only slightly) dissatisfied with their work and wanted to change the enterprise they worked for, or just wanted to test the offers to "improve" their positions. This kind of behaviour was considered as a sign of disloyalty to the enterprise and as at least morally dubious. However, it seems that, particularly in the industrial areas, the turnover on these markets increased enormously towards the end of the GDR -- when internal malfunctioning of the planning system became more and more obvious, with a striking lack of labour force coinciding with over-staffing of enterprises and institutions.<sup>12</sup>

Until the end of the GDR, allocation forms such as these still remained exceptions to the prevailing internal labour market structures. They could not pose a serious threat to the dominance of these typical patterns of individual occupational careers. Even less were they able to initiate the development of the essential institutional prerequisites for functioning external labour markets.

#### **4 A second working hypothesis: Large-scale structural labour market problems following German Reunification.**

The relevance of the second hypothesis is the immediate consequence of the first's realities: If it is true that labour market structures and employment were strongly or very strongly shaped by the features of the internal labour market in the former GDR (in fact much more strongly than this was and is the case in West Germany), this must lead to grave qualitative and structural labour market problems in the wake of the transformation process. These are all the more serious because they are superimposed on, and combine themselves with, the quantitative employment problems presented above.

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11 Although women with small children were granted many privileges in the GDR, part-time work, as a possibility to combine a career and family obligations, was very rare.

12 It would be worth a separate investigation to elucidate whether these first attempts at external labour markets had the features of "secondary labour markets" according to Doeringer/Piore, or rather of occupational labour markets in the sense of the Munich segmentation approach.

The plausibility of this hypothesis will be demonstrated in the following by three labour market consequences of the economic and monetary union, the "Unification," and the resulting problems.

#### **4.1 Rapidly accelerating change of employment structure and the difficulties in learning rational labour market behaviour**

As already shown, the incorporation of the GDR economy which had conserved rather traditional branch and employment structures into the West-German national economy, forced very fast and deep structural change. Its most important tendencies concerned the shift of employment emphasis from agriculture and industry to the service sector, from large enterprises to small and medium-sized production units and, at least in part, from dependent employment to self-employment. Time was and is far too short to be able to deal with this structural change by generational alternation as happened, to a large extent, in the Western industrial nations. Rather, it has and had to be dealt with by inter-enterprise mobility, i.e., millions of employees were forced to look for new job outside their former enterprises. Their further employment chances were therefore decisively dependent on how well and how quickly they learned to behave rationally on the labour market.

It is common knowledge that the population of the former GDR had to learn the elementary principles of market economy rationality very quickly in the course of the economic and monetary union in order to be able to take advantage of the opportunities open to them. Of course rational labour market behaviour needs more than just the general disposition and ability to recognize advantages and disadvantages and to weigh them against each other in the interests of benefit maximization. To have at least fairly good chances as a supplier of labour force, it is most important to show active information and signalling behaviour which is adequate for certain situations and labour market segments. This requires not only exact knowledge of one's own strengths and weaknesses, but also clear criteria for the judgement of the market situation and the assessment of possible employment offers. Last, but not least, this also means sufficient familiarity with the most promising offer, search and choice strategies specific to the respective market segments.

All this was new territory for the large majority of GDR-citizens for which none of their previous experiences of rational behaviour in working-life had prepared them. Probably the only exceptions were employees who were on the good side of structural change anyway. Examples are employees in the more traditional service sector, manual workers or (mainly younger) university graduates, particularly if they already had contacts to the West, and/or they could count on solidarity of Western colleagues.

Moreover, most media and institutions whose help would have been absolutely necessary to be able to learn labour market behaviour effectively did not exist at all or worked inefficiently. Because of this, it is very probable that an employee who lost his/her job in



the first years after German Reunification will have to accept long-lasting worsening of his/her employment chances.

This risk was presumably increased by the behaviour of many employers. Not only the employees, but also very many of the new employers, e.g., from newly founded enterprises or establishments of firms partitioned off from the old "Kombinate," were confronted with the difficulty of assessing chances and opportunities in the external labour market and acting accordingly.<sup>13</sup> Apart from the fact that, of course, a good part of these employers came from the GDR themselves, those looking for employees also suffered from the effects of the totally insufficient media, codes and systems of information and signalling on the external labour market.

In this context, the experiences made by West-German employers are informative. They tell of mass offers of labour force from the (former) GDR -- migrants of 1989, East-West migrants and commuters later on. To demonstrate their qualifications these people showed training certificates of low information value which said much less about an applicant's true qualificational profile than usually expected in West Germany.

#### **4.2 The "employment gap" and the danger of a long-lasting massive differentiation of employment opportunities**

The labour market problems outlined above were consequences of the necessary rapid structural changes and the totally inadequate functioning of the external labour market. They were eclipsed by the massive loss of employment which was described at the beginning of this article.

All studies up to now agree that the remaining jobs (as to be expected according to hypothesis 1) are nearly all still held by those employees who previously worked in them or in the same enterprise context. It is therefore to be feared that all those who lost their original jobs and did not manage to find a new position adequate, to some degree, to their qualifications via an occupational segment of the external labour market, will have to accept a long-lasting massive worsening of their employment opportunities.

It is difficult to number these people, but the figure is certainly a lot higher than the present official 1.2 million unemployed. Whether they have other perspectives than permanent unemployment or more or less precarious employment far beneath their previous qualification level and occupational status hardly depends on themselves, but rather on general developments. However, it is crucial to see whether this will lead to a permanent "dichotomization" of the working population which would presumably reveal

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13 In the meantime many case studies and first reviews have appeared on the differentiation of employers' conditions of action. (e.g., Brussig et al., 1992; Grünert, 1993b; Grünert, 1993c; Steinhöfel et al., 1992).

itself in the development of clearly "depressed areas."<sup>14</sup> The alternative is that it will be possible to bridge the employment gap with heavy support and steering through labour market policy. In part, such policy instruments still need to be developed. They should aim towards a more or less continuous exchange between employed and unemployed to open new opportunities for those who are now excluded.

Nevertheless, the answer to the question whether someone is a winner or a loser after the Reunification is highly dependent on the former employing enterprise's survival (including newly partitioned enterprises and suchlike). Of course this is most true for people living in a depressed region.<sup>15</sup> Events such as occupations of firms with mass hunger strikes in enterprises that were the only regional employer and are threatened by closure can be interpreted as a sign that these facts are becoming increasingly obvious to the people affected.

### 4.3 Limits to the efficiency of labour market policy

The establishment of Germany's economic and political unity was linked to the immediate transfer of practically the whole instrumentarium of "active labour market policy" which had been developed and tested in the old federal states for years. For this transfer an unprecedented amount of funds was used. The change of employment structure was considered inevitable. Through the financial measures one wanted, on the one hand, to accelerate and socially cushion the change according to the pattern tried and tested in the post-war era for the old federal states. On the other hand, one wanted not only to bridge the at least temporary employment gap, but to make use of it productively by extensive further training.

The considerations mentioned so far -- which are all meant as hypotheses to be tested -- would be able to explain the reasons for there being more and more signs that these aims are being at least partially missed, if not even missed to a large extent.

Labour market policy of the old federal states which was applied to the new states without substantial modification is still primarily oriented towards supporting structural change by adaptation processes between enterprises. In particular, this is achieved by encouragement of mobility between professional labour markets by support of retraining and further education. This does not seem to have changed since the criticism of Lutz/Sengenberger (1974). This orientation and its limits should manifest itself in the development of the labour market during the transformation process in several ways.

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14 The GDR's industrial structure was characterized by a strong regional concentration of those industries (mainly mining, metallurgy and industrial chemistry) that were later affected most by the transformation, so that in some regions nearly half of the previously existing jobs were lost.

15 Büchtemann and Schupp (1992) first pointed out this connection.

There are already several signs to be noted:

- In the context of continuing enterprisal organisation and production structures in which qualificational adaptation has very good prospects, the public contribution is more or less insignificant.

It usually limited itself (and still does) to supporting necessary personnel reduction through measures organizing short-time work and suchlike, or to making enterprisal search processes easier by offering the use of job creation schemes.

- Labour market oriented training and further education is not very effective because, corresponding to the West-German model, it usually requires that the participants are in the process of moving between enterprises. This process is then presumed to lead, without great problems, to a new, higher-ranking, or at least safer job.

Essentially, the training contents and methods tested in the West were only transferred. Attempts to direct further education towards facilitation of the first entry into a professional labour market (and thus to support the establishment of new markets of this sort) have hardly been made so far, although this would be very useful.

- The main part of labour market policy expenditure is more likely to lead to further deepening of the segmentation gap between those who continue to be employed and the unemployed than to bridge the gap.

Therefore, the worry does not seem to be groundless that, in the face of continually high levels of unemployment, the weaknesses of state labour market policy will lead to "deregulation" in the sense of a dismantling of standards previously seen as being essential. These weaknesses of efficiency are the result of the conflict between the strongly internalized labour market of the GDR-economy and the instruments of active labour market policy, which are primarily oriented towards the external labour market and its processes.

## **5 Conclusions**

Current knowledge makes it very likely that German reunification has indeed triggered grave structural fractures in the New Federal States' labour market which manifest themselves in complex and hitherto unknown problems due to the dramatic increases in unemployment. However, as shown here, the nature of these structural fractures and their causes can hardly be described in any other way than in well substantiated hypotheses, founded on more or less disparate empirical evidence.

The majority of necessary research remains to be done and will presumably still have to be carried out when the Commission of Research on Social and Political Change in the New Federal States<sup>16</sup> has finished its reports.

The detailed examination of the structural fractures of the East-German labour market is highly important for two reasons:

First, there is every reason to believe that complete integration of the East-German labour market into the structures of Germany as a whole will not be accomplished as soon as many people expected when the Wall fell and after political unity was achieved. This is due, in part, to the structural upheavals of which some were briefly outlined above. In the second half of the 90s, efficient labour market policy will still have to entail more than just routine use of the rules and measures applying to Germany as a whole. It can not be ruled out that this policy will be more dependent on good research work than ever before.

Second, there is a lot of interest in making use of the structural fractures in the East-German labour market, their consequences and the hopefully successful attempts of their management as a sort of gigantic laboratory for other nations in the East and West. Not only the former Soviet Union and the other former Comecon-states are still characterized by a high degree of enterprise-centered labour market segmentation. These states are now forced to newly build up functioning external markets, in particular ones that are occupational in nature, very quickly. Even in Western industrial nations the fear is growing that the widespread practice of producing a major part of necessary qualifications enterprise-specifically in the context of internal labour markets will lead to highly rigid structures which will be difficult to overcome. Increasingly, this practice will be in conflict with the obligation to act flexibly on markets which are becoming more and more turbulent. Western states should therefore break old traditions and also begin to externalize qualifications and allocation of employees much more. They can also learn a lot from what happened and is happening in the New Federal States, and from what went right and what went wrong.

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16 This commission is based in Halle and was founded by a larger group of scientists from West and East Germany at the end of 1991. It is financed by the federal state government -- probably until the end of 1996 -- and has two strongly linked aims: Firstly, to document and analyze the process of transformation, and secondly, to open opportunities of scientific reintegration for the social scientists and economists of the former GDR who nearly all lost their jobs.

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