



West v east in Germany A Ruhr deal

Poor westerners don't want to hand money to thriving easterners

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Go east, young man

CRACKED streets, silent factories, idle workers. Eastern Germany circa 1992? Yes, but also parts of western Germany today. The Graf Bismarck coal mine in Gelsenkirchen, once one of Germany's biggest, closed in 1966. Like many of its neighbours in the Ruhr region, the city has not recovered from the near-extinction of coal and steel production. Its

unemployment rate is 14.6%, roughly the same as Ireland's. Nearly one-third of its 258,000 inhabitants receive benefits. By 2016 Gelsenkirchen will be deemed "overindebted", sharply restricting investment. "A city that can't invest goes kaput," says its spokesman, Martin Schulmann.

Meanwhile, eastern Germany sparkles with freshly paved roads, roomy university campuses and lovingly restored town centres. Some €1.3 trillion (\$1.7 trillion) has flowed into the east since unification in 1990. Germans in poorer parts of the west think they deserve some of this money. "The need here is much greater," says Gelsenkirchen's mayor, Frank Baranowski.

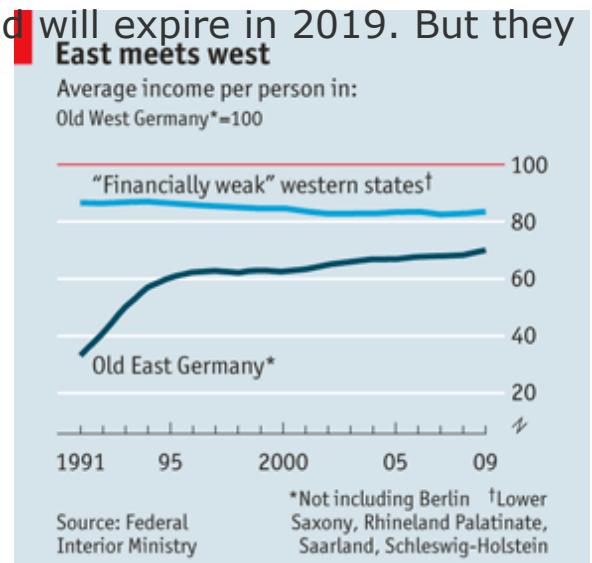
The Ruhr has been moaning for decades. But the explosive idea that poor westerners are furnishing luxuries to the east has grabbed national attention and enlivened an election to be held in May in the state of North Rhine-Westphalia, where the Ruhr is located. The main target of complaint is "solidarity pact 2", which is to transfer €156.5 billion to the six eastern states between 2005 and 2019.

Gelsenkirchen blames its contribution to the pact for one-third of its €850m debt. Aid should be distributed according to need, not "points on a compass", say Ruhr mayors. Easterners are fighting back. "People with problems shouldn't bash other people with problems of their own," says Brandenburg's premier, Matthias Platzeck.

The east has made progress, but income per head is still only 70% of that in the west (see chart). Local tax revenues are just 60% of western levels, one justification for the solidarity pact. Convergence has slowed since the 1990s, points out Jutta Günther of the Halle Institute for Economic Research. Some regions, like "Silicon Saxony" near Dresden, are booming. Others are ageing and emptying. There are few corporate headquarters staffed by well-paid managers. Most eastern firms work on earlier, less lucrative bits of the value chain.

The Ruhr grumblers have little hope of grabbing a slice of the solidarity

support, which in any case is shrinking and will expire in 2019. But they have ignited a discussion about three interlinked issues. The first is about the west's infrastructure, which looks shabby next to much of the east's. If you account for depreciation, public investment in western infrastructure is negative, notes Klaus-Heiner Röhl of the Cologne Institute for Economic Research.



The second is what principles should govern help for poorer regions. The wasteful “watering-can” approach that sprinkles whole states with cash ought to be ditched along with the compass-point principle, says Mr Röhl. It would be better to target help to cities with high unemployment (rather than merely to poor regions that might be losing population). A few hundred million euros a year would suffice for poor western areas. The debate will be fuelled by the expiration in 2019 of the rules for interstate transfers, under which four resentful rich states subsidise the rest (to the tune of €7.3 billion last year).

Then there is the question of whether any amount of help can erase regional inequalities. Decades of coal-mining subsidies probably delayed the Ruhr's transformation. Gelsenkirchen is gamely trying new things, and has cut its jobless rate from still-higher levels. The Graf Bismarck land was expensively reclaimed for housing and business investment, but rents are forbiddingly high. Gelsenkirchen's solar-energy ambitions took a knock in February when Scheuten Solar, a Dutch owned-company, filed for insolvency. Germany “has to live with the fact that some regions prosper and others are peripheral,” says Ms Günther. A Ruhr comeback is possible, but still looks decades away.

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