

Levelling up left-behind places: East Germany between 'long-neoliberalism' and state-capitalist cures

Dr. Christina Wolf (Senior Lecturer, University of Hertfordshire)

Post-Keynesian Economics Society, Annual Workshop, SOAS 13 June 2024

Introduction

The Geography of EU Discontent and the Regional Development Trap

Andrés Rodríguez-Pose, Lewis Dijkstra & Hugo Poelman

Far right makes significant gains in European parliament elections

Projections suggest they are on course to win almost a quarter of the 720 seats in bloc's legislature



- Increasing socio-economic polarisation at all geographical scales
- Regional scale: intensification, persistence and significance of 'left behind' places
- Overlap political and economic geography [Dijkstra et al., 2020; Rodríguez-Pose et al., 2023; Rodríguez-Pose, Dijkstra, et al., 2024]
- Regional development policy: regional resilience and levelling up
- Case study of East Germany
 - Severe transition shock and unprecedented fiscal transfers
 - Long lasting consequences ('long neoliberalism'): persistent gap in manufacturing density and persistent dependent position
 - Some recovery driven by retention of state-capitalist ownership recreating the functions of 'anchor firms'
- Contributions
 - Structural drivers of economic polarisation
 - Regional industrial policy: Nurturing of an agglomerating force in the form of anchor firms

Left-behind places and regional development traps

Supporting regional development in 'left behind' places



Community/ foundational economy
[MacKinnon et al 2022]



Place-sensitive approaches supporting regional economy
[Rodríguez-Pose, Bartalucci, et al., 2024; Iammarino et al., 2019]

Drivers of spatial polarisation

Increasing returns to scale: Market creating vs polarising forces

- Backwash and spread effects [Myrdal 1958]

Market power of lead firms and spatial division of labour

- Hymer 1972
- Lipietz 1987
- Lee et al 2018

Institutionally supported intellectual monopoly capitalism

- Feldman 2021
- Rikap 2021, 2022

In-Out-In Again

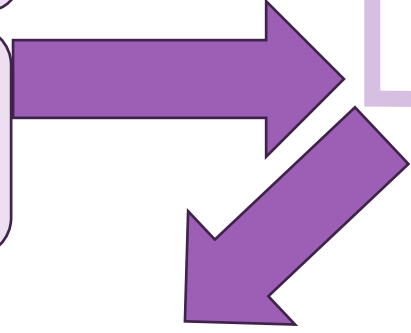
- Lessons GVC/ Middle Income Trap [Lee and Malerba 2017; Lee 2019]

Anchor firms/ institutions

- Anchor firms [Feldman 2003]
- Community wealth building [Dennis and Stanley 2023]

Mission-oriented Innovation Policy

- Mazzucato 2018; 2021



The neoliberal transition shock: Treuhand privatisation 1990-1992

- Historically unprecedented industrial decline after reunification (speed and depth)
- Unequal power relations against the background of a neoliberal policy turn: [Priewe 1993, Carlin 1992, Carlin 1994, Roesler 1994a, Roesler 1994b, Hall and Ludwig 1993, 1995, Kehrer 2000]

Governance

Treuhandanstalt (THA)

- Supervisory board and management board: federal ministries of finance and economics, representatives from new and old Lander, Unions and firms in competing sectors (!)
- Boards of firms under THA placed under West German management
- Conflicts of interest [Priewe 1993, Carlin 1992, Roesler 1994]

Nature of privatisation

1) Speed of privatisation

Rapid sale without rehabilitating investment or market-creating/stabilising measures

2) Type of privatisation

Discreet bargaining with potential buyers (market-dominating companies) rather than public listing or workers/ management buy-out

Consequences

Excess loss of productive capacity

1992: Industrial production 30% of 1989 levels (though 70% deemed viable by THA itself)

46% of population un-/underemployed

Dependent integration of the remaining industrial base

- Destruction of regional anchor firms: few viable SME suppliers
- Integration into W German industrial organisation as markets, extended workbenches or distant suppliers

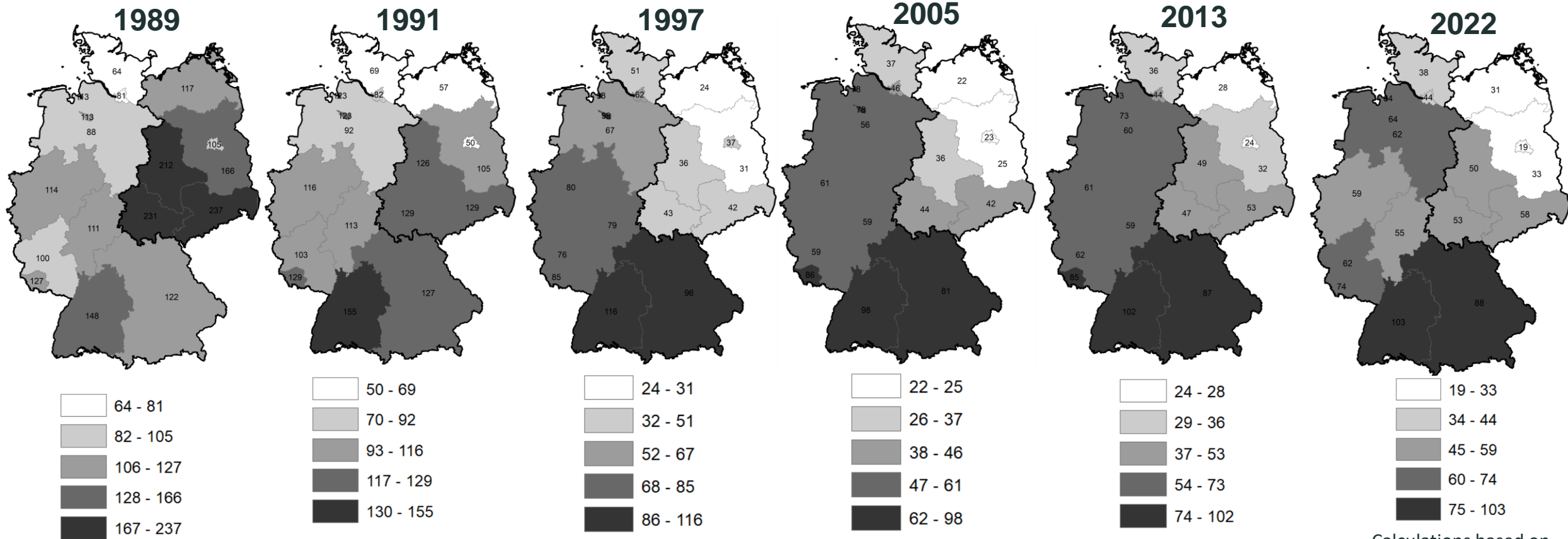
Fiscal and industrial policy support to preserve industrial cores

- Huge **fiscal transfers** after destruction of productive capacity: €1.5tn to € 3.4tn between 1991 and 2019 [Deutscher Bundestag 2020]
 1. 60-70% transfer payments (unemployment benefit, pensions, health care,)
 2. Infrastructure extension
 3. Industrial policy
- **Industrial policy** shift in 1993: preservation of some industrial cores [Karlsch 2017, Damm 2017] **with some effect** [Roehl and von Speicher 2009] **but gravitational forces of spatial unevenness unleashed** [Hall and Ludwig 2008, 2009; Kehrer 2000]
- **'Long neoliberalism'**: the lasting consequences of the neoliberal shock therapy
 1. Persistent if declining **gap in manufacturing density**
 2. Persistent **dependent integration** into German production structures: from large industrial conglomerates to peripheral suppliers
- **Geospatial clustering and hotspot analysis**: Jenks Natural Breaks and Getis-Ord G_i^* hotspot analysis

'Long-neoliberalism': The manufacturing density gap

Manufacturing density in the strongest performing East German regions reaches low to medium performing West German regions

Manufacturing employment per 1,000 residents (natural breaks)

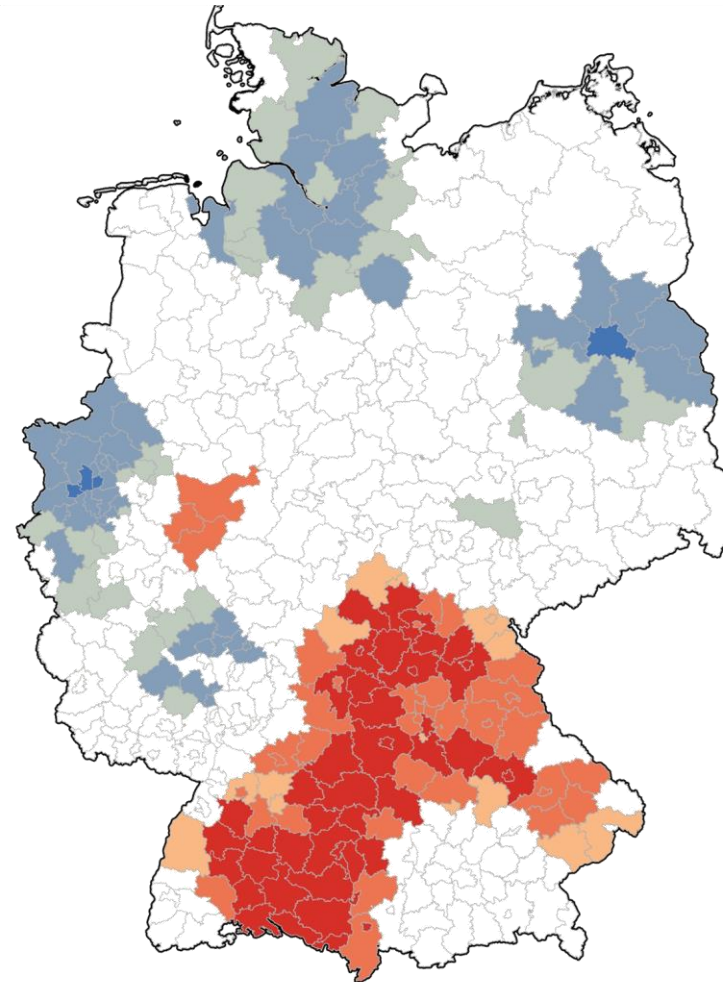
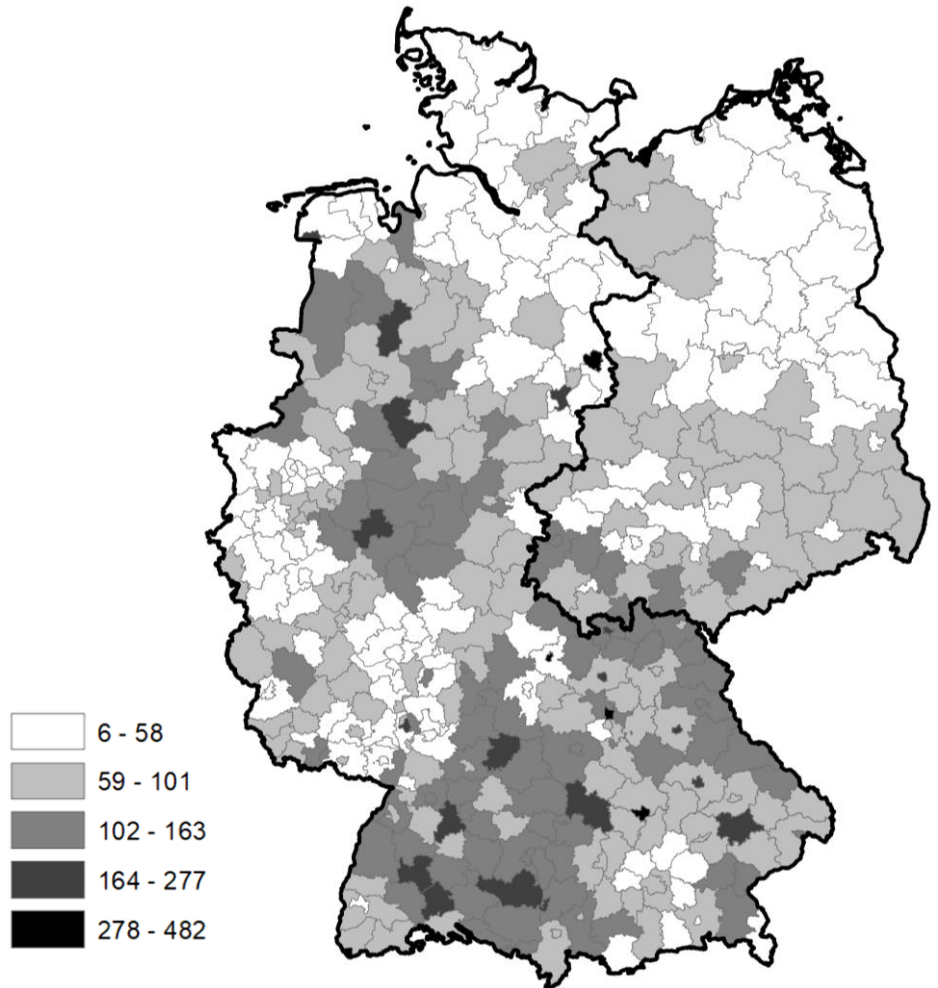


Calculations based on
 Statistisches Jahrbuch der DDR 1990
 Statistische Jahrbücher der Bundesrepublik 1990, 1992, 1998
 Volkswirtschaftliche Gesamtrechnung der Länder 2005-2022

'Long-neoliberalism': The manufacturing density gap

Only 5 East German districts reach middle cluster, significant cold spots and no hotspots

Manufacturing employment per 1,000 residents 2022 (natural breaks and hotspots)



Natural breaks clustering analysis based on the Jenks natural breaks optimisation is used to divide geospatial data into clusters that are as internally homogeneous as possible while maximising the differences between the classes.

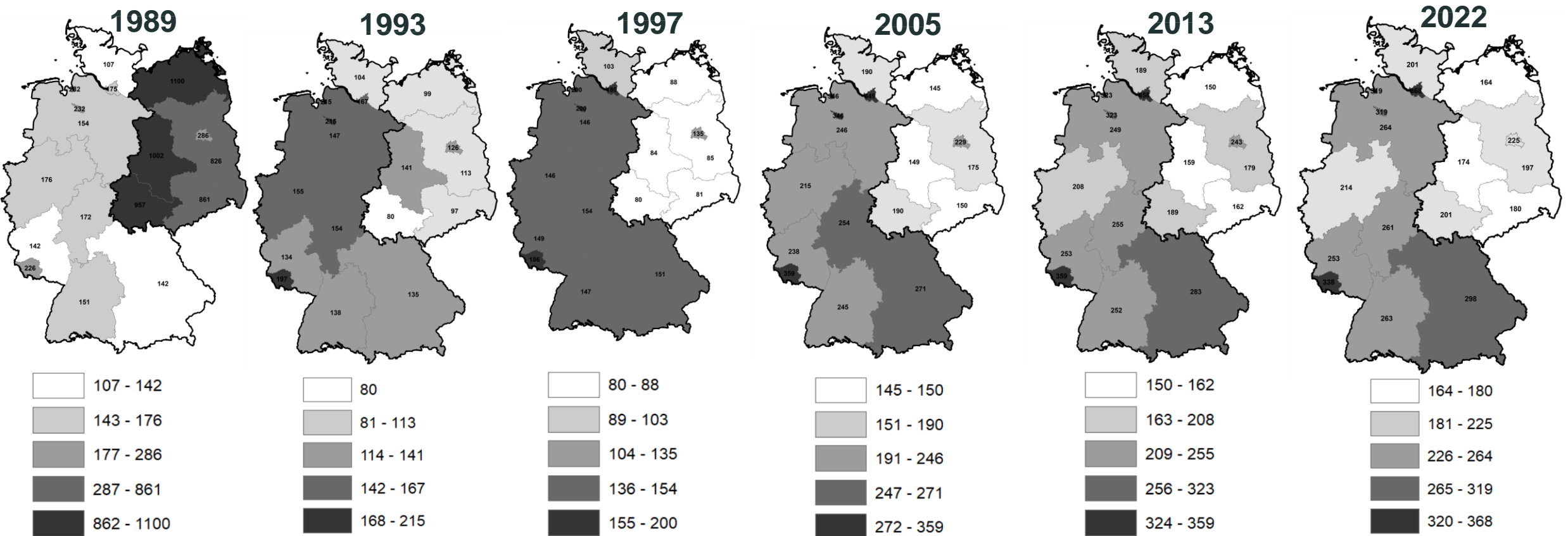
Hotspot (Getis Ord G_i^*): the Getis-Ord G_i^* statistic determines the degree to which a value at a given location is higher or lower than expected based on the values at neighbouring locations. A hotspot is a feature with a high value and surrounded by other features with high values. The local sum for a feature and its neighbours is compared proportionally to the sum of all features; when the local sum is very different from the expected local sum, and when that difference is too large to be the result of random chance, a statistically significant z-score results.

'Long-neoliberalism': Persistent dependent manufacturing

The privatisation method demanded break-up of industrial combines and caused a fundamental restructuring of East German industry: From large industrial conglomerates to peripheral suppliers

The liquidation of industrial combines is followed by disproportionately large number of SMEs

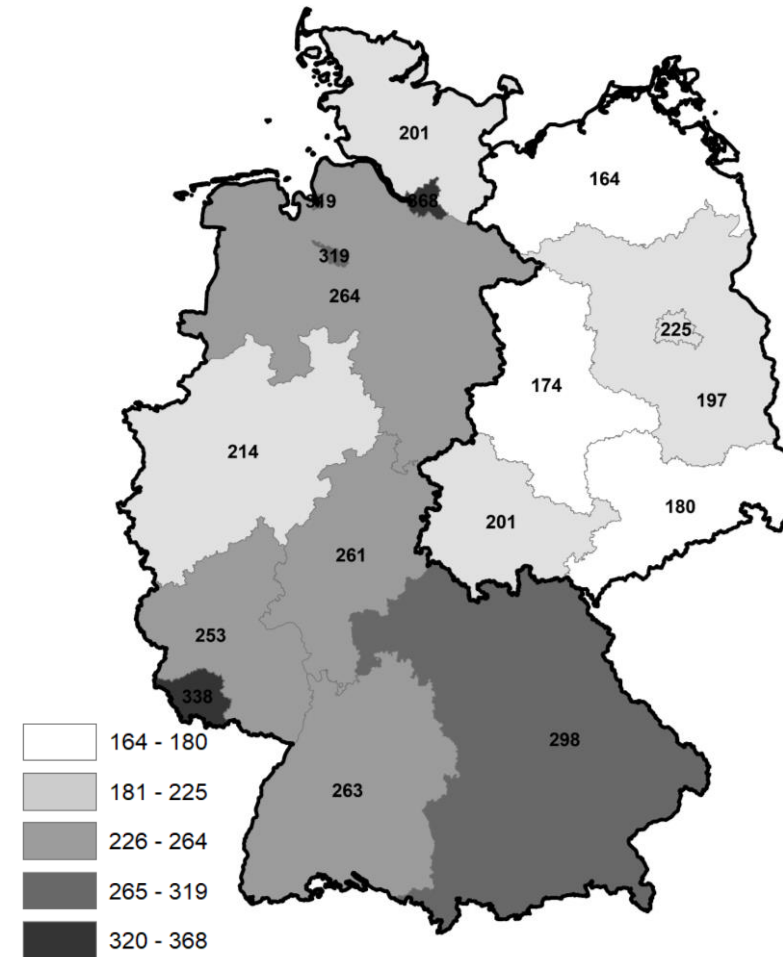
Average Manufacturing Firm Size (natural breaks)



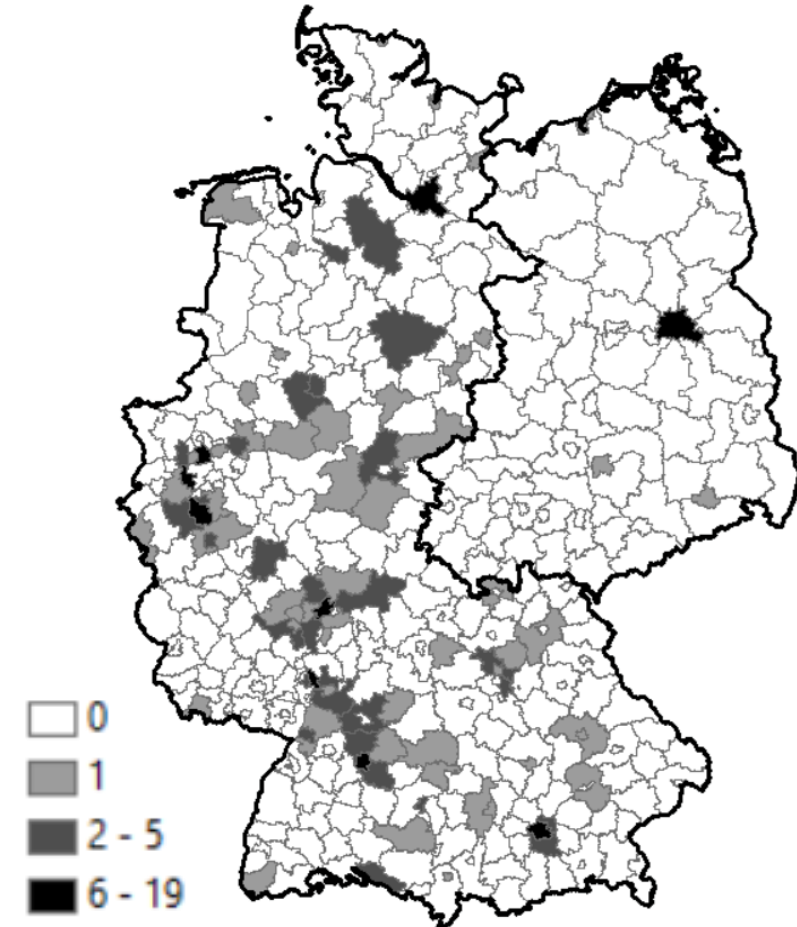
'Long-neoliberalism': Persistent dependent manufacturing

East German manufacturing is characterised by a disproportionate number of small firms and a headquarters gap

Average manufacturing firm size 2022



Headquarters distribution 200 largest German firms 2022



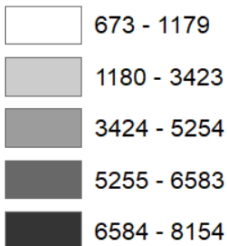
- Lack of anchor firms
 - Less gravitational pull into the region (anchor firms as market-creators)
 - Less Marshallian agglomeration externalities (knowledge-spillovers, value-chain proximity...) → static and dynamic innovative capabilities of SMEs
- Implications:
 - Persistent unequal value capture
 - Persistent gap in research- and technology intensity

'Long-neoliberalism': Persistent dependent manufacturing

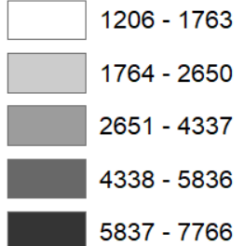
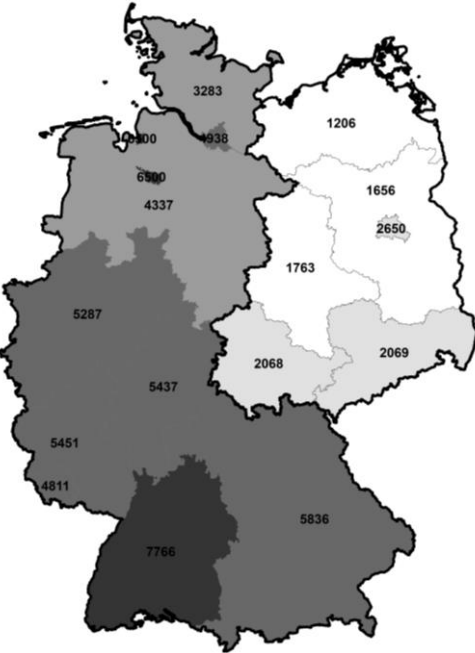
Unequal value capture: Manufacturing value added in the strongest performing East German regions reaches medium performing West German regions

Manufacturing value added per capita (natural breaks)

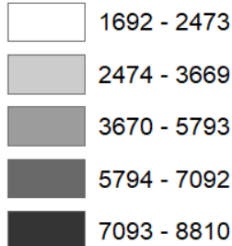
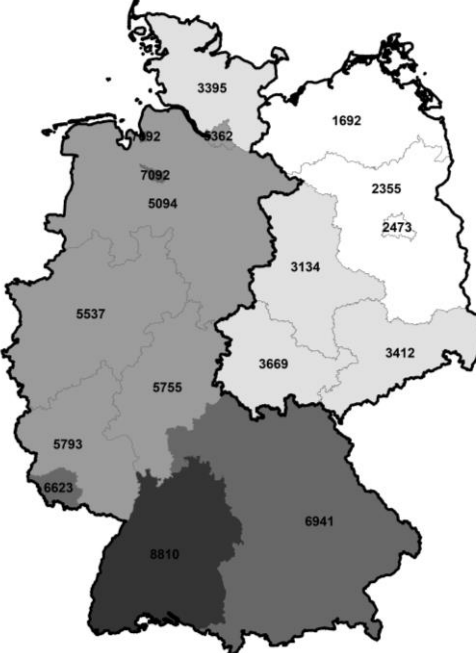
1991



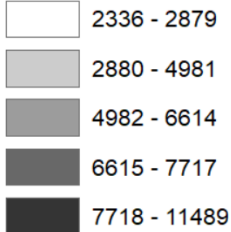
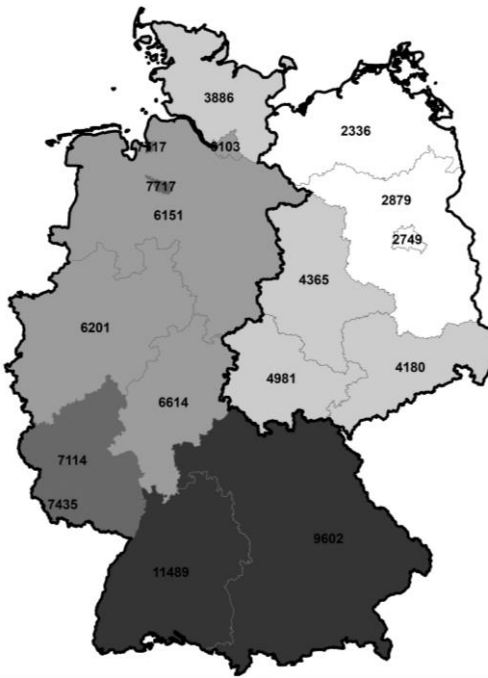
1997



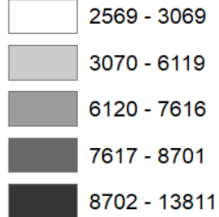
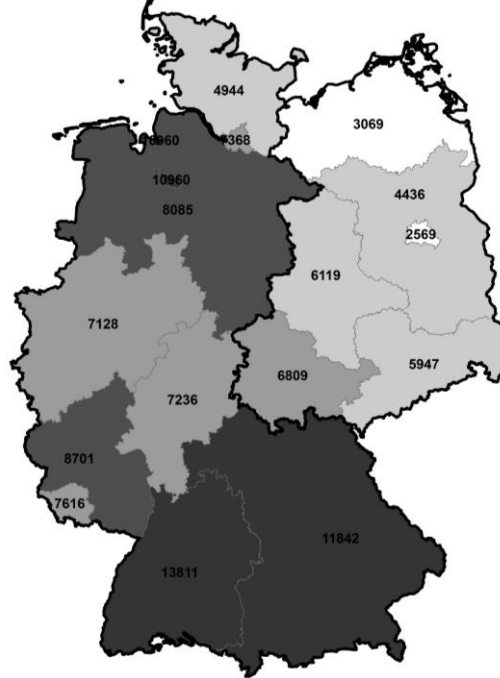
2005



2013



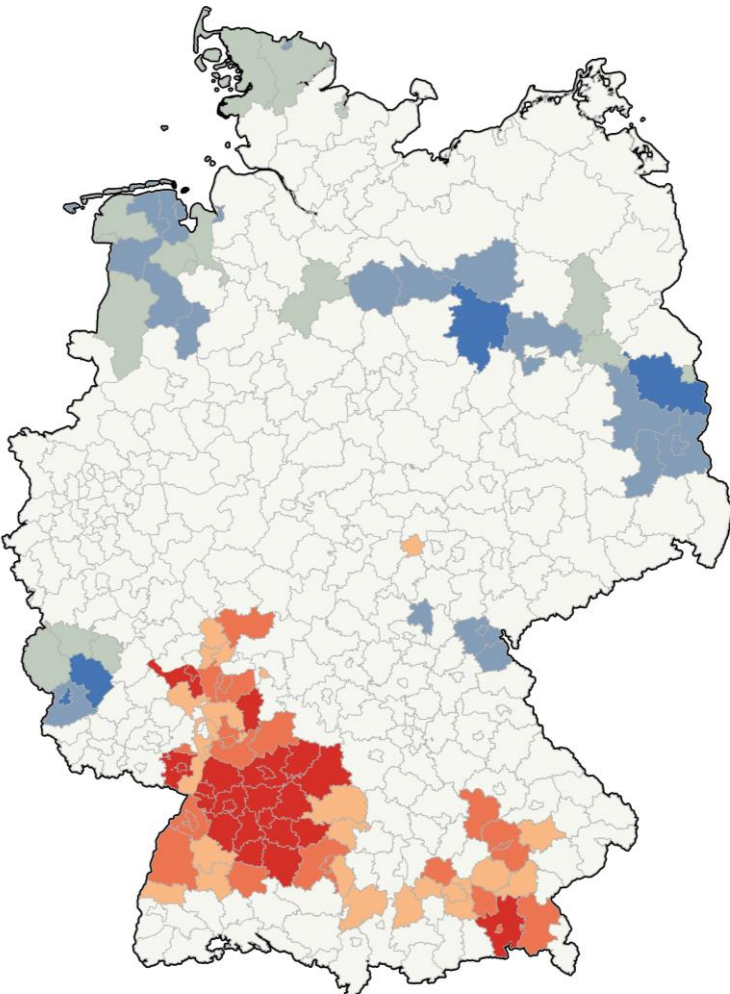
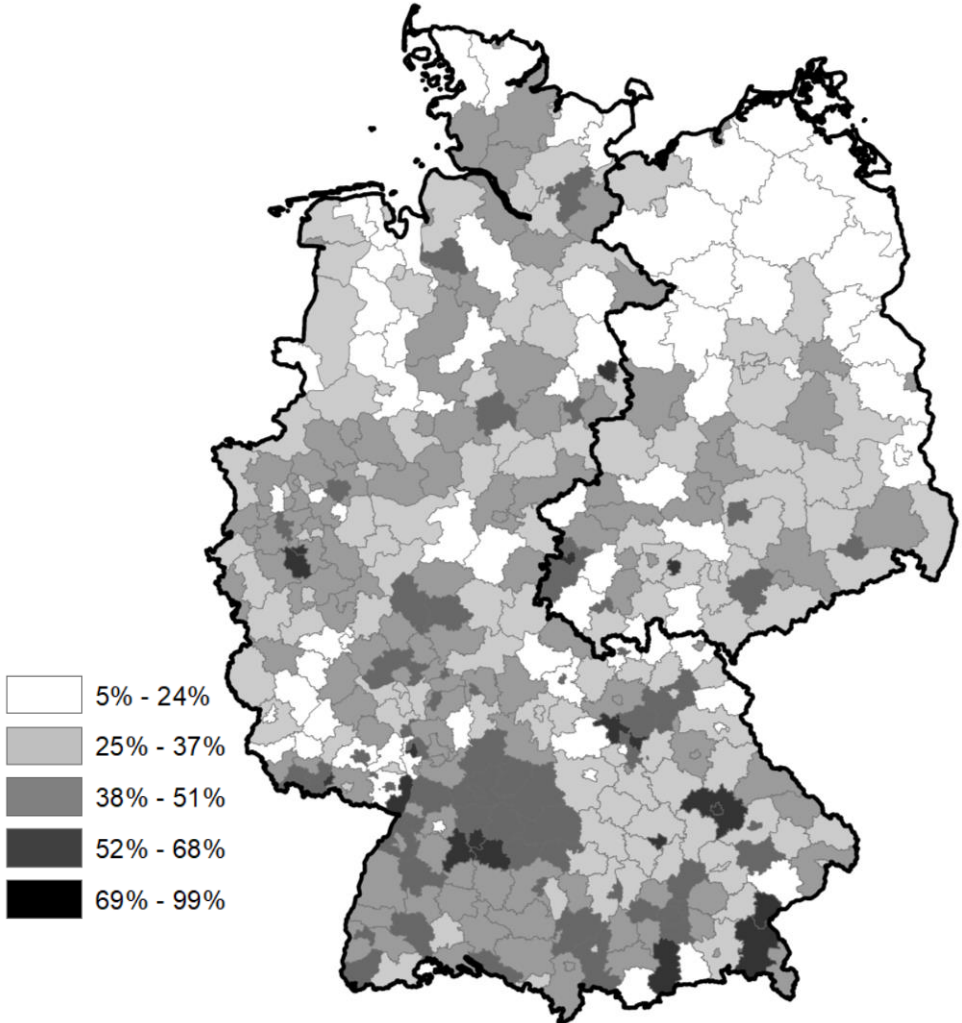
2022



Calculations based on Volkswirtschaftliche Gesamtrechnung der Länder 1992-2022

'Long-neoliberalism': Persistent dependent manufacturing

Technology-intensive manufacturing employment in East German districts remains below West German districts
High tech manufacturing employment as % total manufacturing employment 2022 (natural breaks and hotspots)

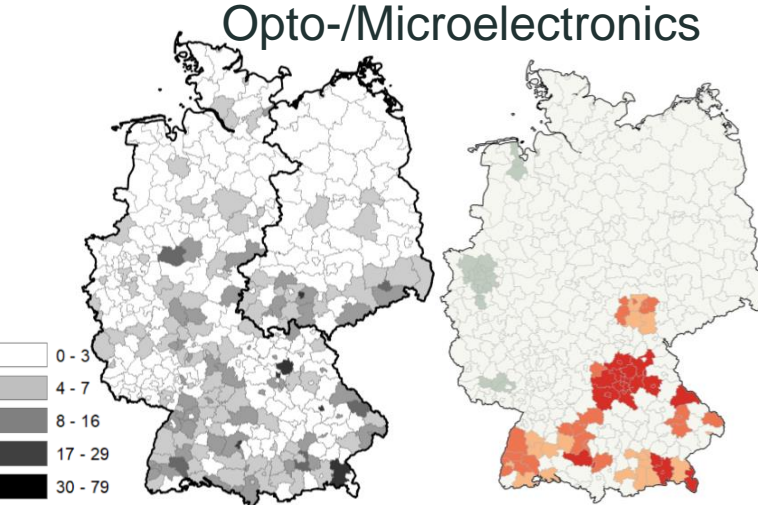
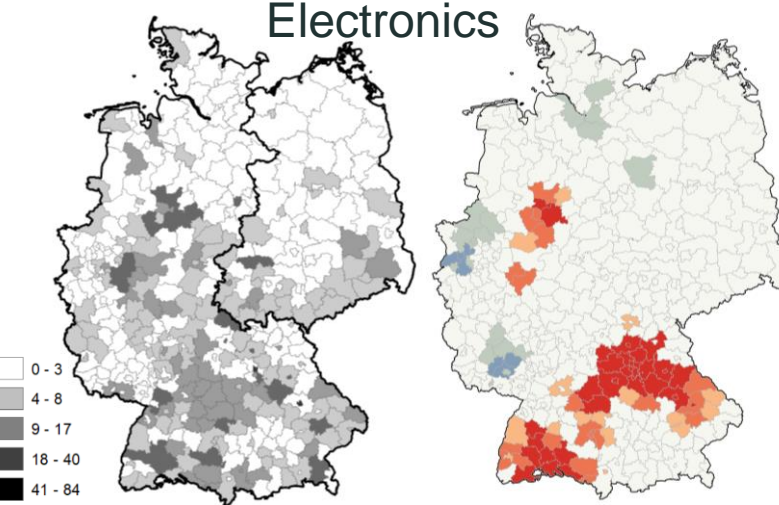
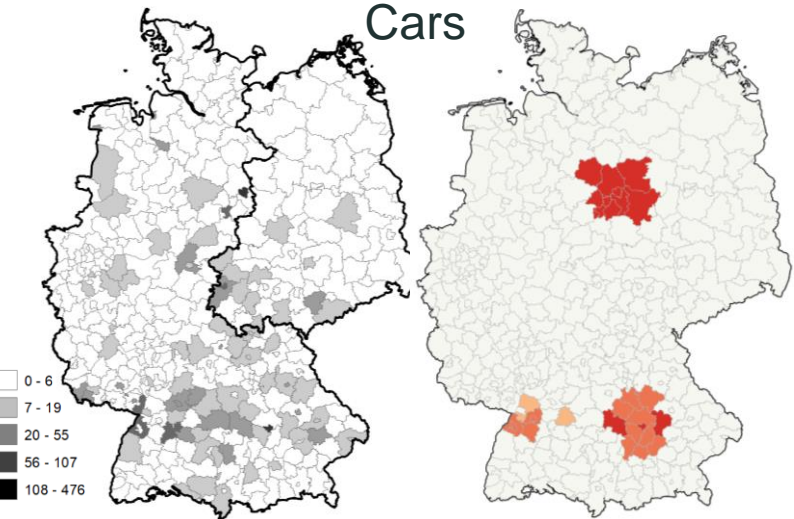
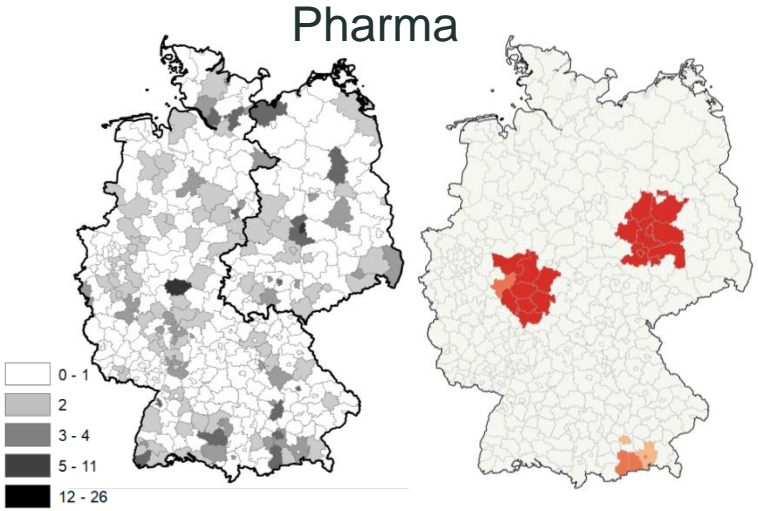
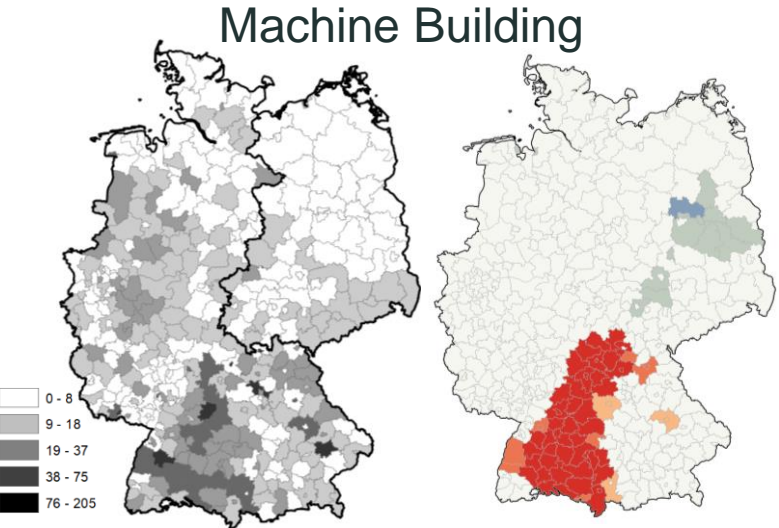
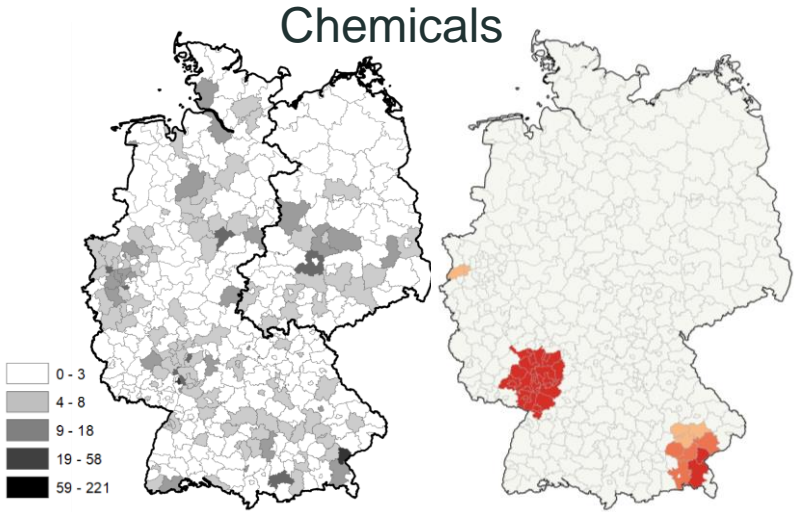


Technology intensive sectors: ISIC Rev 4. 2 digit

'Long-neoliberalism': Persistent dependent manufacturing

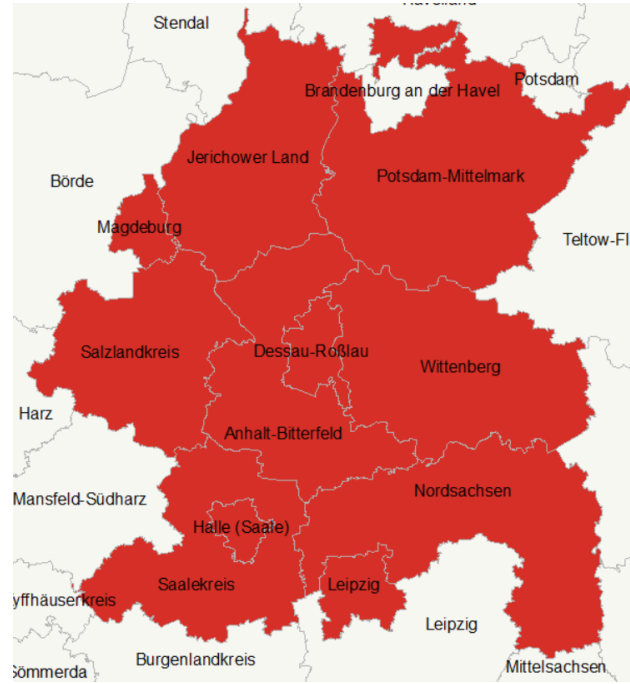
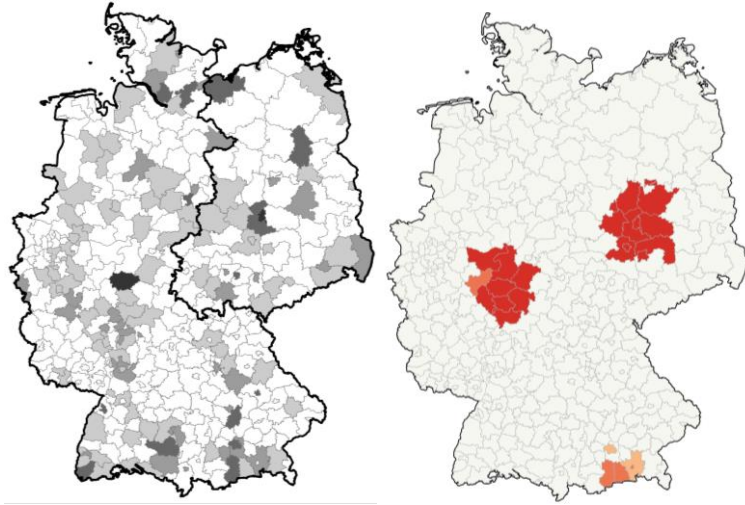
Few high-tech manufacturing sectors have hotspots in East Germany

Manufacturing employment per 1,000 residents by high tech sector (natural breaks and hotspots)

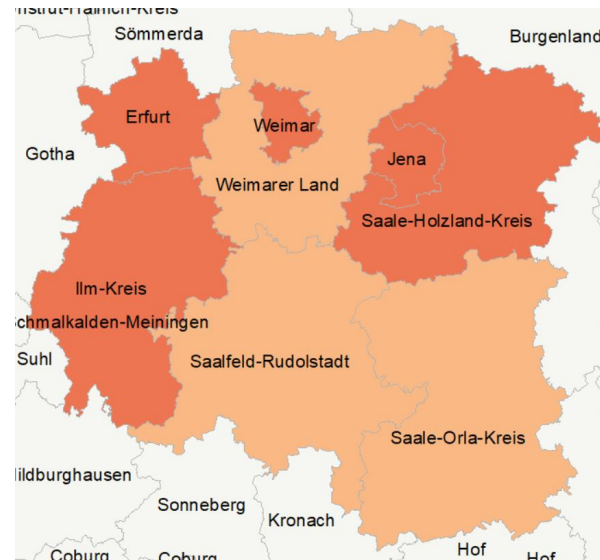
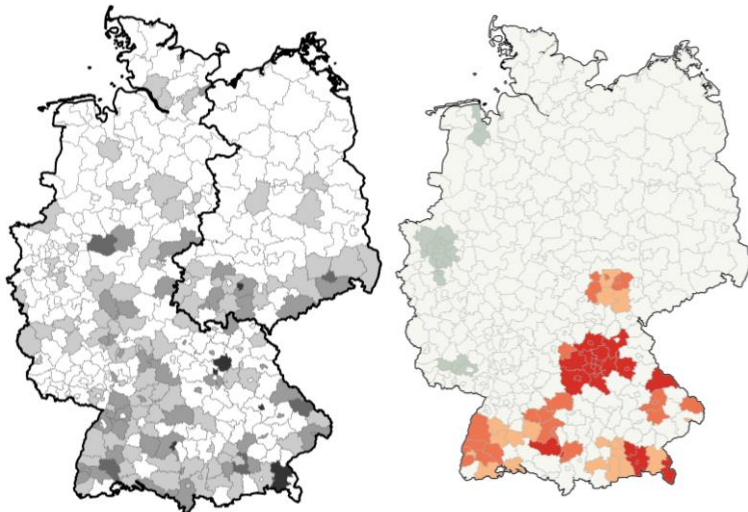


... and some of its cures

Pharma

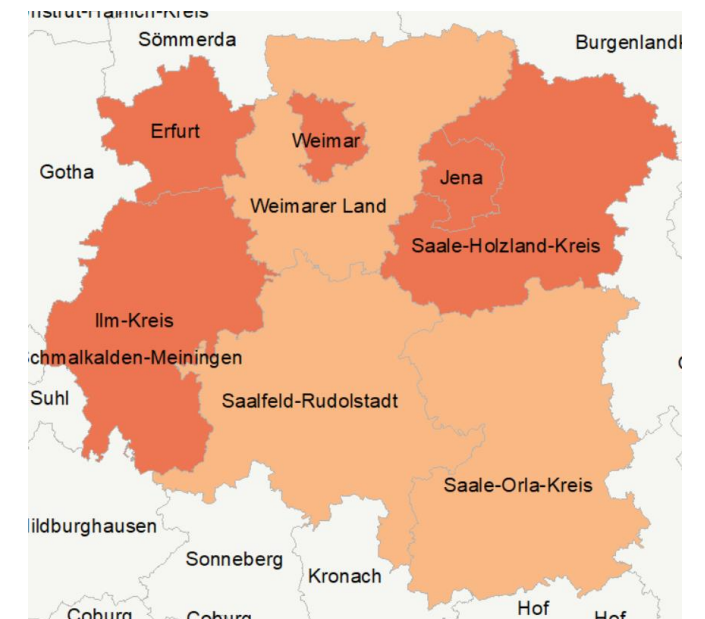
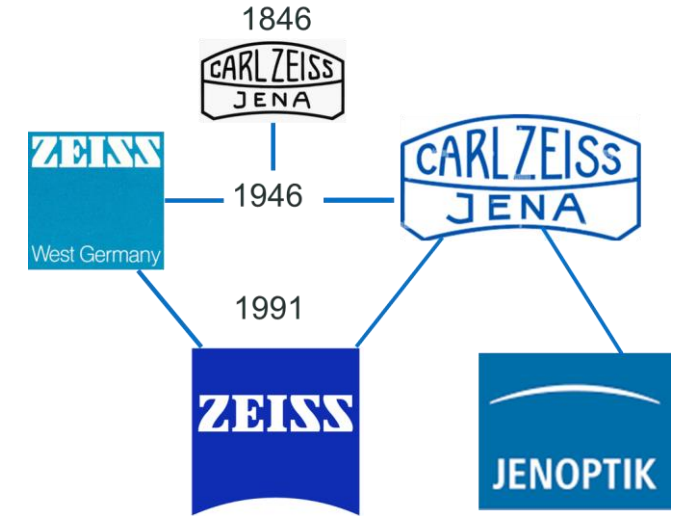


Opto-/Microelectronics



... and some of its cures

- Peripheral integration into W German production structures but some recovery driven by retention of state-capitalist ownership and building on socialist foundations in micro- and opto-electronics
- Carl Zeiss and Jenoptik
 - Zeiss founded in 1846 as cooperative in Jena
 - Company divided between East and West Germany: VEB Zeiss Jena vs Zeiss Oberkochen
 - At reunification: Smaller Zeiss Oberkochen acquires VEB Zeiss Jena
 - Of the 60,000 VEB Zeiss Jena employees, less than 3,000 retained
 - Zeiss Oberkochen received more than DM 3bn in financial support for the acquisition from Thuringia and Treuhand
 - Viable non-core business of Zeiss retained in Jenoptik under Thuringian state-ownership
 - Acts as anchor firm/ institution [Heimpold 2016]



Conclusions

- Long-lasting consequences of neoliberal transition shock ('long-neoliberalism')
 - Persistent gap in manufacturing density
 - Persistent peripheral position in German production structures
 - Some signs of recovery of productive capabilities in high-tech sectors
- Contribution to *place-sensitive approaches* to regional development policy (without negating the importance of place-based, foundational economy centred approaches!)
 - Poly-centric emergence of agglomeration economies relies on the nurturing of an agglomerating force in the first place (not just removing barriers to agglomeration economies)
 - Anchor firms play an essential role
 - Successful cases of industrial recovery in high-tech sectors, relied on attracting anchor firms or recreating their functions in state-ownership (Jenoptik)
 - Could be structured around missions (medi tech, green tech,...)

Thank you

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