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East Germany's Ailing Economy Breeds Extremism

by our Economics Editor Hans Donker, 22 August 2000

Chancellor Gerhard Schroeder, currently on a two-week tour through East Germany, has acknowledged that the former communist region still has a long way to go to catch up with the West. 10 years after unification, the East is still lagging behind. Mr Schroeder's trip comes amid concern that high unemployment has turned East Germany into a breeding ground for the far right. This, in turn, is frightening away much needed investment from the region.



The German economy looks back on track. During the previous quarter, Europe's economic powerhouse recorded 3.25 per cent growth, the highest figure since reunification in 1989. Massive investments in the former Communist East Germany have slowed down the country's economic growth. For a decade, its figures remained well below the European average. Now, the tide seems to have turned: growth is up, unemployment down and overall prospects are sound. Yet, the East doesn't seem to benefit from this economic upturn. The gap between East and West is still wide, particularly when it comes to unemployment.

Huge Differences

Economist Kees van Paridon of Rotterdam's Erasmus University believes that Germany still has a long way before it's fully reunified.

"The differences between the old and the new parts of Germany are still huge. For instance, the unemployment rate in the West currently stands at 7.5 per cent, compared to a hefty 17.5 per cent in the East. It is an indication that basic economic conditions are very different in the two parts of Germany. Then, there's the income gap and lower growth rates in the new states, which show that the differences have become even greater in recent years."

Uncertainty

Many East Germans find it hard to adjust to a free-market economy. Within the old system, they couldn't afford Western luxuries, but at least they were supported by the State from cradle to grave. Current economic uncertainties are difficult to accept, particularly among the older generation. Kees van Paridon says economic uncertainty is one of the factors that may help explain the current rise of rightwing extremism in German.

"People with low education facing economic uncertainty are looking for an explanation. They want to know why they no longer have a good job

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and why there is no job security anymore. They are looking for scapegoats, and have become easy prey for rightwing parties and neo-nazi groups."

Challenges

Whether Germany can keep up current economic growth levels remains to be seen. There are a few challenges ahead. The country's trade unions may be reluctant to continue the policy of wage restraints. Now that businesses are recording more profits, they may be tempted to call for higher wages. Moreover, the German economy has been driven by industrial activity; its services sector has been relatively underdeveloped. As other countries focus their economies on the less capital-intensive services sector, Germany could soon find itself lagging behind again.

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