Extended Abstract

This paper investigates the relative economic integration of two major groups of newcomers in modern German history: the German refugees ("Vertriebene") who arrived in West Germany following World War II, and the population of the former German Democratic Republic (GDR) integrated into the Federal Republic after German reunification in 1990. Using microcensus data from 1973 and 2015, the study provides quantitative benchmarks for assessing the success of these two large-scale integration processes. The results show that East Germans were significantly less economically integrated 25 years after reunification than the refugees were a quarter-century after their arrival to West Germany—despite the vastly greater financial resources devoted to rebuilding the East German economy than devoted to integrating the World War II refugees.

Reunification is said to be a unique economic experiment. Upon joining the Federal Republic, East German states underwent rapid systemic transformation—from a socialist centrally planned economy to a market-based system. Though income convergence did occur, substantial socio-economic disparities across the former inner-German border persist. Thus, it is difficult to decide whether the integration of East Germans into the economy of the Federal Republic was successful or not. We argue that a benchmark can be found in the integration of German refugees after World War II. Between 1945 and the early 1950s, roughly 8.2 million displaced Germans resettled in West Germany, amounting to almost 17% of its population. In 1990, the share of former GDR citizens within unified Germany was similarly large at 21%. Both groups consisted of German citizens without language barriers and with relatively minor cultural differences compared to typical migrant populations.

However, the initial conditions of the two groups diverged significantly. Refugees after World War II typically arrived with almost no assets, often without employment, and lacking the social networks that might support economic reintegration. Their arrival contributed to high unemployment, which peaked at 8.2% in 1950. East Germans, by contrast, retained some assets after 1990, although generally at much lower levels than their West German counterparts. Some employment relationships and much of the social structure persisted during the transition years, and nationwide unemployment did not surpass the 1950 West German rate until 1994. These divergent starting positions shaped the respective policy responses aimed at integration.

The post-war integration effort centered on the *Lastenausgleich* ("burden sharing"), a policy framework designed to compensate those who suffered the greatest wartime losses. Enacted in 1952, it included sharply degressive compensation payments, start-up aid, and pension entitlements. By 2001, approximately DM 115 billion had been redistributed under this system, financed through a mixture of federal budget funds and property levies. During the 1950s, transfers represented about 2% of GDP.

By contrast, the integration strategy after reunification focused not on individuals but on the reconstruction of East Germany's economy and infrastructure. The strategy was called *Aufbau Ost*. Through mechanisms such as the German Unity Fund, the Solidarity Pacts the Legacy Debt Redemption Fund, EU regional support, and significant private investment incentives, vast financial resources flowed to the East. In the early 1990s, these transfers amounted to an estimated 5–6% of Germany's GNI, far exceeding the relative scale of post-war support for refugees. However, these funds were predominantly invested in physical and institutional reconstruction rather than directly supporting East German households.

The empirical heart of the paper compares the relative income positions of the two groups 25 years after their respective integration points. Using microcensus data from 1973, we first analyze the income of refugees relative to West Germans. Based on a sample restricted to working-age individuals born between 1909 and 1930, and using equivalized net household income across 15 income categories, the analysis finds that refugees lagged behind West Germans by 4.8% in mean income. A regression controlling for household characteristics confirms a small but statistically significant negative effect of refugee status — approximately a 4% income disadvantage.

The analysis of East Germans uses analogous methods on the 2015 microcensus. Since birthplace data are unavailable, individuals are classified as East or West Germans based on their school-leaving qualification — specifically, whether they attended a polytechnic secondary school (exclusive to the GDR). Applying the same restrictions to working-age adults, the authors find that East Germans had mean equivalized incomes 22.9% lower than West Germans in 2015. This gap is nearly five times larger than the refugee disadvantage in 1973.

To disentangle the roles of origin and residence in the unified country , the paper separates individuals into four groups: West Germans living in 1973 in the West, East Germans in the West, West Germans in the East, and East Germans in the East. Adjusting for a roughly 5% lower price level in East Germany, the findings reveal that East Germans living in East Germany earned about 19% less than comparable West Germans living in the West. East Germans who had migrated to the West, however, exhibited a much smaller disadvantage — around 5%, closely mirroring the 1973 refugee gap. Meanwhile, West Germans who had relocated to East Germany enjoyed incomes comparable to their Western counterparts. These patterns indicate that regional economic conditions in the East, rather than deep-rooted personal characteristics, account for much of the income disparity.

The findings raise the question: why was the economic integration of East Germans less successful than that of the post-war refugees? The paper discusses several possible explanations. One hypothesis is that East Germans might have lacked certain forms of human capital relevant in the market economy of the Federal Republic. Although GDR schools provided a solid general education, their vocational training and workplace socialization were tied to production methods that partly became obsolete soon after reunification. Social attitudes shaped under socialism — such as lower levels of interpersonal trust or different cooperation norms—may also have played a role, though some factors, such as higher female labor force participation, have been actually advantageous.

Another explanation concerns the selectivity of East Germans who migrated westward after 1990. This group likely consisted of individuals with higher motivation or adaptability, which helps explain their relatively strong income position in the West. The majority of East Germans, however, remained in the East, where structural disadvantages hindered growth. Despite massive public investment, the East lacked the dense networks of medium-sized, specialized firms that are were the core of West Germany's economic dynamism. While Western companies did establish production sites in the East, headquarters and innovation centers overwhelmingly remained in the West, limiting opportunities for higher-value-added employment in the East.

From this perspective, the main cause why refugees after World War II integrated faster than East Germans in the united country was that the type of government support between the two eras. Post-war transfers under the *Lastenausgleich* were directed at households and aimed at stabilizing individual livelihoods. In contrast, reunification policy focused on regional infrastructure and institutional reconstruction. As a result, much of the substantial investment in the East did not translate into direct income gains for East German individuals.

In conclusion, this study shows that, 25 years after the event, East Germans were economically more disadvantaged relative to West Germans than post-war refugees had been a quarter-century after their displacement. The findings highlight the importance of distinguishing between regional development and individual economic integration. They also underscore that even massive financial investment cannot easily compensate for structural economic disadvantages or the absence of strong regional economic ecosystems. The comparison with the post-war refugee experience suggests that policies directly supporting individuals may sometimes be more effective in fostering long-term income convergence than regionally targeted reconstruction strategies.