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Chapter 1 : Economic history of the German reunification - Wikipedia

Monetary and fiscal unification in nineteenth-century Germany: what can Kohl learn from Bismarck? / Harold James. Monetary policy "Germany" "History" "19th.

First problems[edit] As economic unification proceeded, issues that had been recognized but inadequately understood in advance began to surface. There was massive confusion about property rights. As wave after wave of Nazi , Soviet , and later GDR expropriations had taken place between and , there was often little knowledge of the actual ownership of property. More than 2 million claims on properties in the territory of the former GDR were filed by the December 31, , deadline. As more claimants emerged, with many winning cases in the courts, potential investors were often scared off. Another problem was that East German production costs had been very high. The conversion rates of the GDR mark to the Deutsche Mark often kept those costs high, as did the early wage negotiations, which resulted in wages far above the productivity level. Western German firms found it easier and cheaper to serve their new eastern German markets by expanding production in western facilities. A third problem was that the inadequate infrastructure also became a problem for many potential investors. The telephone service was improved only very slowly. Many investors also complained about energy shortages, as many East German power stations were shut down for safety and other reasons. Roads and railroads, especially the Nazi-era Autobahns had to be virtually rebuilt because they had been so badly maintained. In addition to these practical problems, there was also a deep policy dilemma that underlay the entire process of unification. From the beginning, there had been a pernicious link between the earlier and later phases of the East German transition to a free-market economy. Policies calculated to make the initial adjustment as painless as possible hampered long-run growth and prosperity. Real economic efficiency could only be achieved by permitting and even forcing considerable immediate dislocations, whereas temporary compromises might lead to permanent structural burdens. However, excessive disruptions could jeopardize the economic and political stability required for a smooth unification process and might also cause streams of East Germans to move west. The government was never able to solve this dilemma. When it was forced to choose, it usually selected the more expensive and slower course to encourage persons to stay in the east. The Treuhand , staffed almost entirely by Germans from the west, became the virtual government of eastern Germany. It also decided who might or might not buy eastern firms or services. Whether correct or not, reports persisted throughout the first years of unification that foreign enterprises were being screened more carefully and more skeptically than German firms even as they were being invited to invest. Less than 5 percent of all investment in eastern Germany was non-German, and most of that was from companies with subsidiaries in western Germany who were expanding them to the east. The Japanese did not invest, although they had earlier expressed some interest, and the offices Treuhand established in New York and Tokyo found few investors. As might have been expected, the economy of eastern Germany went into a deep and precipitous slump immediately after unification. Within a year after unification, the number of unemployed rose above 3 million. Industrial production in eastern Germany fell to less than half the previous rate, and the total regional product fell precipitously through One estimate was that in the entire production of eastern Germany amounted to less than 8 percent of that of western Germany. Because the process of unification was managed by persons from western Germany, new eastern firms were usually subsidiaries of western firms, and they followed the western ownership and management patterns. Bank participation became customary, especially because the large Frankfurt banks assumed the assets of the former East German State Bank, and most eastern firms thus owed money to those Frankfurt banks. The banks installed their representatives on the boards of the new firms and assumed some supervisory functions either directly or through control by western firms with bank representation. The Treuhand had close contacts with western German banks. Many of its employees came from those banks and planned to return to their jobs at the banks. Little new equity capital flowed in. Investment during the early years of unification was only 1 percent of the all-German GDP, when much more

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was needed to jump-start the economy of eastern Germany. Much of the investment was for the purchase of eastern German companies, not yet for their rehabilitation. Many western German firms bought eastern firms on a standby basis, making sure they could produce in the east when the time came and paying enough wages to satisfy the Treuhand but not starting production. Many others, including Daimler-Benz, did not even meet the commitments that they had made when they had purchased the eastern German firms from the Treuhand. Thus, western German private investment was not strong enough to boost the eastern German economy. Federal budget investments[edit] As private funds lagged, and in part because those funds lagged, federal budget investments and expenditures began flowing into eastern Germany at a consistently high rate. Government funds were used essentially for two purposes: The infrastructure projects sustained employment levels, and the income maintenance programmes sustained income. But neither had an early growth payoff. A review conducted in of twelve years of individual employment histories found that, generally speaking, the training of unemployed East Germans was beneficial, but involved initial negative participants cease to actively seek employment for the first twelve to eighteen months of training lock-in effects and that long-term retraining for construction was misguided. After this requirement has continued at an annual level of around DM billion, so that the sum of private and public funds put into eastern Germany during the half-decade between monetary unification in and the end of would probably amount to at least DM billion and perhaps as much as DM billion. Between one-fifth and one-fourth of those funds were private, and the remainder were government funds. This constituted an infusion of outside money of about DM50, for every resident of eastern Germany, a far greater level of assistance than contemplated for any other area that had been behind the Iron Curtain and a token of German determination to bring eastern Germany to western levels as quickly as possible. Western German GDP grew at a rate of 4. The highest growth rate came during the second half of , but growth continued at only a slightly slower pace into early Prices, however, remained relatively stable because the cost of living grew at only 2. Employment rose during the year, from Notably, the number of registered unemployed in western Germany only declined by about ,, showing that at least half of the new jobs in western Germany had been taken by persons who had moved to or were commuting from eastern Germany. The dramatic improvement in the western German figures resulted from the opening in eastern Germany of a large new market of 16 million persons and the simultaneous availability of many new workers from eastern Germany. Many easterners did not want the shoddy goods produced at home, preferring western consumer products and food. Moreover, many easterners were coming to the west to work. By the end of , as many as , were commuting to work in the west, and that number was estimated to have grown to , or even , by the middle of This meant that western Germany not only had a vast new market but also a growth of over 1 percent in its workforce, as sharp an increase as since the days of the economic miracle. It also increased its capital base because eastern German deposits were placed in western German banks that had come east and because those deposits moved back to the central German financial market at Frankfurt. The Bundesbank became worried about three elements of the sudden boom: The bank warned that interest rates would have to remain high to keep price increases under control. The bank raised short-term interest rates sharply through and , with the average rate of short-term interest climbing from 7. The Bundesbank permitted rates to begin falling only in â€”to 7. For all of , the western German growth rate was 1. The eastern German growth rate was 6. The number of employed in western Germany fell for the first time in ten years, by 89, persons. Despite the slowdown, during the German economy reached a milestone of sorts. However, the total of German unemployed also reached a record number, 4 million. Two-thirds of that number were unemployed in western Germany; the other one-third were unemployed in eastern Germany. Eastern Germany contributed more to unemployment than to production. By , however, after the Bundesbank had been lowering short-term interest rates for over a year, German growth resumed at an annual rate of about 2. The absorption of eastern Germany, and the methods by which it had been accomplished, had exacted a high price throughout all of Germany.

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It then reviews both the monetary and fiscal aspects of nineteenth-century German unification. Finally, it discusses what modern Europe can and should learn from nineteenth-century Germany. This essay examines the connection between the establishment of a common market and additional moves to monetary and political union.

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Furthermore, it is unlike the unification of Germany in the 19th century under Bismarck, when political centralization spearheaded by Prussia over the various German states went ahead of monetary.

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This essay examines the context and consequences of German monetary unification during the s. The creation of a new central bank in a federal setting was politically highly controversial and was accompanied by a struggle between the states for influence on banking policy. The Reichsbank.

Chapter 6 : Monetary and Fiscal Unification in Nineteenth-Century Germany : What Can Kohl Learn from

monetary and fiscal unification This essay draws on material prepared for a short history of the Reichsbank, which will appear in a volume commissioned by the Deutsche Bundesbank to commemorate.

Chapter 7 : Harold James : Monetary Policy : OMFIF

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