

Paul J. J. Welfens (Ed.)

Economic Aspects of German Unification

Expectations, Transition Dynamics
and International Perspectives

Second, Revised and Enlarged Edition

With 34 Figures
and 110 Tables



Springer

TABLE OF CONTENTS

Preface to the Second Edition <i>Paul J.J. Welfens</i>	V
--	---

Preface <i>Robert G. Livingston, Director of the American Institute for Contemporary German Studies at the Johns Hopkins University</i>	VII
---	-----

Introduction: Economic Aspects of German Unification <i>Paul J.J. Welfens</i>	I
---	---

I. STRUCTURAL AND MACROECONOMIC CHANGES

A. The Structural Renewal of Eastern Germany: Some Initial Observations <i>Ulrich Heilemann, Klaus Löbke</i>	9
--	---

1. Introduction: Why Structural Analysis of the East German Economy?	9
2. Determinants of Structural Development	11
2.1 The Economic Policy Framework	11
2.2 The Factors of Production and their Prices	13
3. Structural Changes in the Eastern German Economy	14
3.1 Industrial Structures	14
3.1.1 Production	14
3.1.2 Factor Input	16
3.1.3 Agriculture	18
3.1.4 Small and Medium-Sized Enterprises	19
3.1.5 Production and Employment Structures	21
3.1.6 Economic Structures in East and West Germany - a First Appraisal	24
4. Conclusions	25

B. Integrating the East German States into the German Economy: Opportunities, Burdens and Options <i>Lutz Hoffmann</i>	39
--	----

1. Introduction	39
2. The Currency Union: Its Genesis and Impact	40
3. Pattern and Extent of Structural Adjustment Needed	45
4. The Starting Position of Individual Industries	50
5. Reconstructing the Capital Stock	53
6. Structural Adjustment Policy	54
7. The Financial Burden on the Public Sector	58
8. Concluding Remarks	59
9. Postscriptum: East Germany in Transition	61
9.1 Macro-Economic Imbalance	62
9.2 Structural Adjustment	64
9.3 External Trade	70
9.4 Employment and Growth Potential	71

C. Sectoral Shocks and Structural Adjustment in the East German Transformation Process

Manfred Wegner

77

1. Unification Concept and Transformation Shocks	77
2. Past Macroeconomic and Sectoral Performance	78
2.1 Production and Employment Trends	78
2.2 Manufacturing	81
2.3 Small Businesses	84
2.4 Services	85
3. Investment and Labor Productivity	85
3.1 Investment Activities	85
3.2 Labor Productivity	88
4. Regional Developments	89
5. Policy Orientation and Growth Prospects	92
6. Conclusions	95

D. Intergovernmental Fiscal Relations after German Unification: Problems and Solutions

Klaus-Dirk Henke, Peter Lutz, Claudia Ade

99

1. Introduction	99
2. Basic Elements of the System of Intergovernmental Fiscal Relations in Germany	100
2.1 The Distribution of Public Functions between Levels of Government	100
2.2 The Structure of Public Revenues	102
2.3 Primary and Secondary Distribution of Taxes: An Overview	102
2.4 The Vertical Assignment of Tax-Revenues	106
2.5 Horizontal Allotment of Local Tax Returns	109
2.6 Fiscal Equalization Among Länder	111
2.6.1 Horizontal Turnover Tax Distribution	111
2.6.2 The Fiscal Equalization Among Länder	112
2.6.3 The Federal Supplementary Grants and Other Elements of the System of Intergovernmental Fiscal Relations	116
3. Interim Regulations for Unified Germany and their Necessity	117
3.1 The Political and Economic Framework after Unification: The Development 1990-1994	117
3.1.1 The Situation in East Germany	117
3.1.2 The Situation in West Germany	119
3.1.3 The Necessity for Interim Regulations	122
3.2 Interim Regulations for the New Länder until 1994	124
3.2.1 Separated Turnover Tax Distribution	124
3.2.2 A Separated Fiscal Equalization System Among Länder	124
3.2.3 The German Unity Fund	125
4. Long-Term Solutions for Newly Formed Germany: The Federal Consolidation Program and Subsequent Measures	127
4.1 Overview	127
4.2 Changes in the Turnover Tax Distribution	127
4.3 Changes in the Horizontal Fiscal Equalization System Among Länder	128
4.4 New Functions for the Federal Supplementary Grants and the Financial Aids	129
4.5 Financing the New Regulations	130
5. Conclusion	132

E. Macroeconomic Aspects of German Unification*Hans-Werner Sinn*

135

1. A New Germany	135
2. Unification in International Perspective	136
2.1 A Comparison With Other Eastern Countries	138
2.2 Implications for the West	141
3. The Currency Conversion Problem	146
3.1 Purchasing Power Parity	147
3.2 The Problem of Two-sided Competitiveness	150
3.3 The Money Overhang and the Real Asset Overhang	151
3.4 The Planned and the Actual Money Supply	152
3.5 Wealth Effects of the Currency Conversion	152
3.6 The Bundesbank Unification Gain	154
3.7 Portfolio Reactions	155
3.8 Demand Reactions	156
4. The Privatization Problem	157
4.1 The 49 Rule and the Pre-Coasian State	158
4.2 The Legal Role of the Treuhandanstalt	160
4.3 Risks of the Privatization Process	161
4.3.1 Sluggish Privatization	161
4.3.2 Cross-Subsidization	161
4.3.3 Competition and Market Concentration	161
4.3.4 The Erosion of Sales Prices	162
4.4 Another Method of Privatization	164
5. Structural Unemployment	166
6. Conclusion	169

F. Comments*Rudiger Dornbusch*

190

G. Transforming a Socialist Economy: Currency Unification, Banking Reform and Capital Markets*Karl-Hans Hartwig*

199

1. Socialist Economies and Systemic Transformation	199
2. Money and Banking in a Traditional Socialist Setting	200
2.1 Banking System	200
2.2 Active and Passive Money	201
2.3 Two Distinct Monetary Problems	201
3. Money, Credit and Banking in a Reformed System	202
4. Monetary Problems in the Process of Transition	203
4.1 German Economic Unification	203
4.2 Some Lessons from East German Reform	205
4.3 Elements of a Monetary and Financial Reform	206
5. Perspectives	209

H. Comments*Jürgen Klose*

211