Paqué, Karl-Heinz: *Die Bilanz. Eine wirtschaftliche Analyse der Deutschen Einheit*. München: Carl Hanser Verlag 2009. ISBN: 978-3-446-41958-2; 310 S.

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Anniversaries invite contemplation. The twentieth anniversary of the fall of the Berlin Wall provides an opportune moment to assess the economic unification experience. Views differ, influenced by the benchmark used. Relative to initially popular expectations of a „second economic miracle" allowing for rapid growth with full employment, the economic performance in the new states since 1989 has been disappointing. Relative to other benchmarks, the performance has been quite impressive: in two decades the infrastructure has been modernized, the capital stock largely replaced, the gaps in productivity and living standards have been significantly reduced.

The realized economic performance reflects initial conditions, the choices made by individuals, firms and policy makers during the last two decades and to some extent the vagaries of fortune. The literature on economic unification differs in the relative weight given to the first two factors. In his readable and informative book „Die Bilanz - Eine wirtschaftliche Analyse der Deutschen Einheit" Karl-Heinz Paqué challenges assessments of the episode suggesting policy mistakes importantly shaped the economic unification experience. Paqué advances two counter-arguments; arguing that initial conditions played a more important – and lasting – role than widely appreciated; and that the concrete economic circumstances – notably the possibility of migration – importantly constrained feasible outcomes and government policy. In combination, he concludes: „Nicht das Erreichte ist enttäuschend, sondern die Aufgabe war extrem schwierig" (p. vii). To establish his argument, Paqué analyzes the initial conditions and addresses the major controversial policy areas to explore the feasibility of alternatives. The book - written in an accessible style, delegating more technical issues to an extensive set of footnotes, and using vignettes to illustrate and liven up the conceptual discussions - provides an informative integrated perspective to two decades of economic unification, embedding the more narrow economic issues into the broader political economy environment.

The first chapter explores the lasting impact of the starting conditions, a theme taken up again in the concluding chapter. Paqué argues that the inherited challenges include not just the more easily solvable problems of a technologically dated capital stock and a public infrastructure in urgent need of modernization, but also more difficult to address inheritances, notably the lack of a competitive product portfolio and an impaired innovation system. In addition, he argues, post-unification policy options and feasible scenarios were constrained by the migration option necessitating a rapid reduction in the wage gap.

In the second chapter, Paqué turns to controversial policy choices in the early phase of economic unification in the areas of monetary unification, privatization and property rights. On the monetary side, Paqué convincingly rejects the argument that a lower conversion rate for flow magnitudes (including wages) would have made a lasting difference to ultimate outcomes, pointing out that the lower relative wages would have either resulted in higher migration or be undone through subsequent wage increases. Compared to the relatively easy task of monetary unification, privatization and ownership rights proved a thornier issue, both economically and politically. Paqué provides an insightful analysis of the process and the debates it raised.

Chapter three turns to a review of economic policy. Paqué first explores the broad array of economic reconstruction programs, including the transfer of institutional arrangements. In this context, the question has been raised whether the application of the existing West German set of rules, regulations and institutions to the new states constituted a missed opportunity to reconsider arrangements that in a number of cases had been identified as potential barriers to growth in the old states. Paqué expresses some sympathy for this notion, but argues that the task of unification already imposed significant burdens on institu-

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tional capacity. While the argument is convincing if applied to the entire institutional framework, one may wonder whether targeted reforms in areas of particular relevance would not have been both feasible and productive.

Paqué next turns to the remarkable construction boom in the early nineties. Within a few years, a housing stock in poor repair was both modernized and augmented, supported by generous incentives. Ex post, the growth in housing supply exceeded demand, putting downward pressure on returns and prompting criticisms. Paqué argues for a more holistic view, emphasizing the importance of the construction sector for employment, supporting a range of associated activities and improving the quality of life. The final section analyzes the role played by the extension of the social insurance system and labor market policies in supporting and influencing the economic reconstruction.

In the fourth chapter, Paqué turns to the challenge of achieving an industrial renaissance, which he argues to be a precondition for more broadly based sustained growth. Reviewing developments over the last two decades, he highlights several at times underappreciated aspects, including the steady recovery of industrial production following the initial decline, the importance of both path dependence and good infrastructure connections for the emerging pattern of activity, and the improvement in labor cost competitiveness accompanied by the emergence of differentiated wage setting arrangements.

Chapter five turns to the overall assessment and the remaining challenges. On the cost side, Paqué provides an instructive overview of the various components of resource transfers, separating flows into the cost of reconstruction proper and the additional funds transferred through the social insurance system. Turning to the more difficult task of assessing the success of economic unification, Paqué balances the benchmark of the old states – as measured by the remaining productivity gap – with a comparison of the new states and the Central European economies, coming to a broadly positive view. While the latter comparison is informative, some caveats apply, notably the concentration of the relative productivity gains in the new states in the early post-unification period, with more robust recent growth in the Central European economies.

In summary, in „Die Bilanz“ Karl-Heinz Paqué, by emphasizing the importance of initial conditions and of constraints on policy choices provides an insightful challenge to the notion that the outcome of the economic unification process could have been quite different were it not for (mistaken) policy choices.

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