



Slides

Outline



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The Unification of Germany and the Unification of Europe

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Introduction

- The problem of Germany is the problem of Europe:
 - Can unity be reached from diversity without requiring diversity?
- For over a thousand years the much-divided Germans have struggled to create unity, but each time they succeeded, they overreached by attempting to absorb their neighbors in a universal empire.
- For Europe then, does the 1990 reunification of West and East Germany show that Europe can also be united or remain fundamentally divided in reality?

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Introduction

- The cost of subsidies to the former East Germany raised the budget deficit of Germany
 - Raised interest rate by central bank
 - Raised interest rate in Europe
 - Recession
 - Italy and Britain dropped out of ERM (European exchange rate system) and devalued their currency
 - Italy rejoined ERM but UK did not

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Introduction

- 4th largest economy
- Highest per capita income
- Educated and hard working population
- Germany industrialized rapidly after 1871
 - Fast ambition in aggression in WW I and II
- Defeat in WW II its economy collapsed
- It divided into Federal Republic of Germany (FRG) and German Democratic Republic (DDR)

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Introduction

- FRG in West – Market Capitalist Economy
- DDR in East – Command Socialist Economy

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- FRG in West – Market Capitalist Economy
- GDR in East – Command Socialist Economic System
- Two competed vigorously during the cold war
- Both grew rapidly
- FRG's growth outstripped the GDR
- In 1990 GDR ceased to exist and joined the FRG

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Introduction

- Adopted Social Market Economy
 - Respect private property rights
 - Market Forces
 - Central planning
 - Extensive social safety nets and income redistribution system
- In 1880 world's first government-run health insurance, social security, workers compensation system

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Introduction

- Germany has strong banking sector that dominates the economy and owns stocks of major corporations
- Some argue that bank domination is the major reason for stagnation
- German central bank is most independent bank in the world
 - Followed rigorous monetary policy
 - Produced low inflation

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Introduction

- Germany reluctant to give up strong Deutschmark for weak Euro
- The new European Central Bank (ECB) is located in Frankfurt
 - Attempted to imitate Bundesbank (the central bank of Germany)
- Germany recently has developed problems in sustaining growth – EU in recession in the 1990s

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Introduction

- Germany's fading miracle
- Current issues: unemployment, challenges for new markets

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- Current issues: unemployment, inflation, the euro, the market

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- 1990s: Germany's economic performance has been mediocre

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Introduction

- Germany's fading miracle
- Long term slow down: violence by neo-Nazis on foreigners
- Export of technological advanced engineering products
 - Tough competition from Asian products

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Introduction

- The urban problems
 - Reunification with GDR is costlier and more difficult than predicted
 - Lack of demand for East Germany products
 - Massive structural output
 - Massive expenditures on unemployment compensation
 - Budget deficit
 - High interest rates
 - No recession and currency union
- Deep division between East and West
 - Lady East and Dr. West

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A Tale of Two Post War German Economies: The West Germany

- Growth Rate:
 - 12% - 1955
 - 9% - 1960
 - 8% - 1969
- Annual Rates of Increase in Productivity
 - 5.1% - 1951-61
 - 8.9% - 1962-73
 - 2.9% - 1973-79
 - 1.0% - 1979-87

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A Tale of Two Post War German Economies: The West Germany

- Why has this miracle faded?
 - EU has slowed down since 1970
 - High unemployment:
 - 0.6% 1960-69
 - 1.2% 1970-79
 - 1.4% 1980-89
 - 4.6% 1990-99
 - 7.6% 2000-09
 - 8.6% 2010-19

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Industrial Relation

- Industrial Relation

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- The other problems
 - Reunification with GDR is costlier and more difficult than predicted
 - Lack of demand for East Germany products
 - Massive collapse of output
 - Greater expenditure on unemployment compensation
 - Budget deficit
 - Higher interest rate
 - EU recession and currency crisis
- Deep division between East and West
 - Lazy East and Dominant West

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 - 12% - 1955
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 - Lack of demand for East-Germany products
 - Massive collapsed output
 - Massive expenditures on unemployment compensation
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 - No recession and currency crisis
- Deep division between East and West
 - Lady East and Gentle West

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 - Reunification with GDR is costlier and more difficult than predicted
 - Lack of demand for East-Germany products
 - Massive outflow of capital
 - Massive expenditures on unemployment compensation
 - Budget deficit
 - Higher interest rates
 - No recession and currency union
- Deep division between East and West
 - Lady East and Dr. Strangelove West

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Industrial Relation

- Industrial Relation
 - consequences of labour management relation — blamed for fading away economic miracle
- Codetermination:
 - Established workers' Council in the firm with more than five employees — elected by workers in a given work site
 - Councils are supposed to advise management on day-to-day operation
 - Do not set prices, output or wage
 - They deal with working hours, hiring and firing rules and technical aspects of products

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Industrial Relation

- Election of workers to company supervisory boards
 - Share holder — 2/3rd
 - Workers and Unions — 1/3rd
- Designed to bring peace between labour and management
 - Reduced strikes and loss of output

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The Social Safety Net

- Share of GDP for Social Program
- The Development of East German Command Socialist Economy

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Two Economies Compared

- General Living Standards
- Environmental Quality
- Macroeconomic Stability
- Distribution of Income and the Social Safety Net

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- The Costs and Outcome of Unification
- The Process of Unification and its General Prospects

Industrial Relation

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 - Unique system of labour management relation — blamed for fading away economic miracle
- Codetermination:
 - Established Workers Council in the firm with more than five employees — elected by workers in a given work site
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Industrial Relation

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 - consequences of labour management relation – biased for taking away resources inside
- Co-determination:
 - established system: consider the firm with more than 5 employees – decided by workers as a group work on
 - decisions are supposed to alter management on day-to-day operation
 - do not set prices, output or wage
 - they deal with working hours, hiring and firing rules and national aspects of products

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 - disappearance of labour management relation → shared for taking away economic power
- Codetermination:
 - Industrial workers: Consider the firm with more than 500 employees → elected by workers as a part of work
 - Representatives are supposed to share management on day-to-day operation
 - do not set prices, output or wage
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 - discrepancy of labor management relation → biased for taking away economic inside
- Co-determination
 - established system: Council at the firm with more than half employees → elected by workers as part work rule
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The Costs and Outcome of Unification

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 - Big Bang economic transformation
- The Rise of Unemployment in the East
- The Privatisation Process
- East German Attitude
- A Reunified Germany and a Unifying Europe

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