

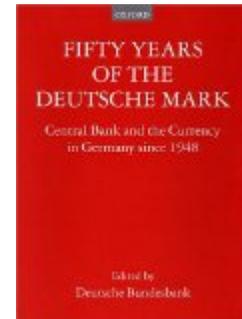
H-Net Reviews

in the Humanities & Social Sciences



Deutsche Bundesbank, ed. *Fifty Years of the Deutsche Mark. Central Bank and the Currency in Germany since 1948*. New York: Oxford University Press, 1999. xxvi + 836 pp. \$90.00 (cloth), ISBN 978-0-19-829254-8.

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This volume was written in commemoration of West Germany's post-war currency reform. In June 1948, the Allied military administration in the Western occupation zones of Germany distributed a new currency which had been printed in the U.S. and brought into Germany in a secret operation of the U.S. Army. The bank notes carried no signatures and made no mention of an issuing authority. But they did carry the name of *Deutsche Mark*. Seldom has a peacetime operation of the Army created a more successful brand name, but that is not the theme of the book.

Actually, this is not the first festschrift issued by the Bundesbank. Two previous ones appeared in 1976 and 1988. The former intended to commemorate the establishment of the Reichsbank in 1876 and consisted of a collection of very carefully edited essays plus a statistical companion volume [1,2]. The 1988 volume, celebrating forty years - why just forty? - of the deutschmark, was an updated data collection for post-war Germany [3].

So, this is the third such festschrift, and in fact it is an obituary. It comes at a time when the deutschmark has already disappeared from official quotations and is scheduled to be withdrawn from circulation in the near future. As the text inside the book jacket asserts, the purpose of the book is an eminently political one: "On June 20th, 1998, the Deutsche Mark was 50 years old: this book will ensure that its legacy lives on." We have some doubts that it will be sufficient to do that, but the volume is actually a collection of interesting and sometimes very good essays.

Harold James leads with a historical retrospective on the Bundesbank's predecessor from 1876 to 1945, the Reichsbank, commenting also on the role of notorious Dr.

Schacht in financing Hitler's preparation for war. James argues quite convincingly that except for the interlude of the inter-war gold standard, the general theme of German central banking was a religious belief in a radical version of the banking doctrine. Engineering the credit expansion of the early 1930s was thus not just an invention of Schacht but followed a firmly established intellectual tradition within the bank (of which, lest it be forgotten, the hyperinflation formed an integral part).

After all this, the saving grace of the new currency was that it was originally not German. After World War II, Germany remained under the military administration of the four Allied powers, and attempts to establish joint administrative bodies soon fell victim to the upcoming Cold War. Attempts by the U.S. in 1947 to overcome the deadlock and establish separate structures in the Western zones included preparations for currency reform, which was seen as the only viable way to cope with the monetary overhang created by the Nazi war debt. For this, a separate central bank (called "Bank deutscher Länder") was created, an act which both manifested and deepened the political division of the country between East and West. Christoph Buchheim has a chapter on the institutional background of the currency reform of 1948, which provides a meticulous review of the scattered literature on the reorganization of central banking prior to that date. It also details the various technical aspects of the project and highlights the principal distributional conflict that underlay the reform process. It is notable that currency reform and a unified central bank preceded political reform in the late 1940s; the Federal Republic was established only a year after the deutschmark had been introduced.

Carl-Ludwig Holtfrerich reviews monetary policies during the Bretton Woods era. He identifies the target of German monetary policy in the 1950s to have consisted of traditional credit-expansion doctrines, which he argues clashed with the needs for monetary stabilization after the middle of the decade. This appears to be a minority view, though. Recent research [4] has argued that German monetary policies in the 1950s just reacted to increasing capital mobility and did so in a roughly consistent way. But clearly, if there were lessons to be learnt for what later became the Mundell-Fleming model, West Germany provided a case in point. Since the mid-1950s, the country experienced growing capital inflows, and whatever monetary sterilization measures were attempted proved to be counter-productive. Several contributors to the book mention also the failures of fiscal policy at the time. These were largely due to an inept attempt at public saving for a future German military contribution to the NATO. The funds were ultimately spent in the run-up for a general election, heating up the economy even further at a time when external stability would have called for budget cuts and tax increases. A nice institutional detail in this context is the foundation of the Bundesbank, which came as late as 1957. Much of the delay was caused by unsuccessful attempts of the government to get a bill approved that would have created a far less independent central bank.

Among the many other contributions in this book that cover everything from the juridical aspects of Bundesbank independence to the policies of monetary unification in 1990, one that this reviewer liked in particular is a thoughtful essay by Juergen von Hagen on the Bundesbank after the collapse of Bretton Woods. Writing as a monetary economist who has worked on Bundesbank target functions, decision-making coalitions in the board of directors and the like, von Hagen sets out in this paper to find supporting evidence from the minutes of the board meetings of the 1970s. This is really an interesting experiment, and the result is actually a very nice piece in monetary history. Contrary to his original intention, von Hagen dismantles one myth after another, ranging from money-base targeting to whatever way of consistent decision making altogether. In two of the more impressive graphs of this richly documented book, he shows how in mid-1973, M1 growth collapsed from an annualized 15% to zero and how short-term interest rates exploded from 2% to 16% (pp. 406, 410). That is indeed the kind of evidence that Friedman and Schwartz would have liked to find for the Great Depression of the 1930s. As if this were not enough, the essay by Ernst Baltensperger on mone-

tary policies from 1979 on has a chart showing another spectacular rise in interest rates (from 3% to 12%) during 1979-81 (p. 447). Any oil shock out there?

The picture that emerges of the Bundesbank in the critical 1970s is that of a battered institution, trying to recover from the Bretton Woods disaster and to overcome its internal divisions by creating a new public image of itself. It was only in this era that the Bundesbank established its reputation as a committed inflation fighter. In retrospect, it is noteworthy that large parts of Germany's monetary history since around 1980 consisted in the Bundesbank's attempts to punish finance ministers for their budget laxity by tightening its monetary stance. Given that German national debt has tripled or so since 1980, the ultimate success of these policies in the wake of the Euro amounts to closing the barn door after the horses have escaped, but that is another matter.

Actually, a notable part of the contributions to the volume come from monetary economists and academic policy advisors. As thus, they often reflect primarily their different views on present-day issues in German monetary policy. As the chapters were originally contributed to a German edition directed to the domestic market, some of the material will be less interesting to the outside reader. Beginners will find large parts of the book to be excessive on institutional details, and more than one reader will be puzzled by the results of trying to translate those typical, lengthy clauses of written German style into halfway readable English (yes, these lines are also an example of that :-)). But clearly, the volume is a must for any student of German monetary policies, and it will probably become a standard reference for all work related to the field.

Notes

[1]. Deutsche Bundesbank (ed.) (1976a), *Wahrung und Wirtschaft in Deutschland 1876-1975*, Frankfurt: Knapp.

[2]. Deutsche Bundesbank (ed.) (1976b), *Deutsches Geld- und Bankwesen in Zahlen*, Frankfurt: Knapp.

[3]. Deutsche Bundesbank (ed.) (1988), *40 Jahre Deutsche Mark. Monetare Statistiken 1948 bis 1987*, Frankfurt: Knapp.

[4]. Berger, Helge (1997), *Konjunkturpolitik im Wirtschaftswunder. Handlungsspielraume und Verhaltensmuster von Bundesbank und Regierung in den 1950er Jahren*, Tuebingen: Mohr.

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