Review:

Jumpstart: The Economic Unification of Germany.

By Gerlinde Sinn and Hans-Werner Sinn. Cambridge and London: The MIT Press, 1992. Pp. xix. 243.

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cessfully press their demands on city governments. They are usually part and parcel of the planning process, which helps them pass by the public so-called "studies" of planned stadiums and arenas that are usually no more than optimistic guesses about future bookings and attendance. These studies invariably "prove" that the impact of a sports team on local economic development and employment will be unprecedented. The public, unable to dissect such studies, rarely sees through the inflated multipliers, exaggerated benefits and overlooked opportunity costs that characterize these reports. Such studies seem to suggest that all of the inputs for construction and sports team operations will originate in the local area (enhancing the multiplier), and never mention the potential benefits that are sacrificed when the invested capital is unavailable for use in improving the city's housing stock, secondary education, or transportation corridors.

The limited hard evidence about the economic impact of new stadiums and sports teams on metropolitan areas summarized by Euchner provides virtually no support for the use of sports teams to develop a local economy. Rather than spurring industries that can develop strong export potential, investments in stadiums for professional sports franchises tend to simply rearrange what has already been produced. People who attend sporting events would have spent their entertainment dollars on other local services. The diffused general public, who are asked to foot the bill for a free stadium to attract or retain a franchise do not object because they do not have the individual incentive or organizational skills to resist these demands.

Playing the Field is an interesting book about local politics in America. It illustrates how the less-than-zero-sum game of inter-city competition for jobs can get out of hand when the benefits are concentrated among the relatively few elite and the costs are dispersed. It is also fun to read. The dust cover photo of a packed Baltimore Camden Yards stadium is a gem.

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Jumpstart: The Economic Reunification of Germany.
By Gerlinde Sinn and Hans-Werner Sinn. Cambridge and London: The MIT Press, 1992. *Pp. xix. 243. $24.95.*

This tightly argued, important book advances a proposal—"a social compact for the upswing"—whereby the standard of living in the former East Germany (GDR) can come to resemble more closely that of West Germany. The proposal derives from a high-level, first-rate theoretical analysis. Their proposal has shares in the firms the Treuhandanstalt (Trusteeship Corporation) wishes to privatize being distributed—the "participation model"—in return for a moratorium on wage increases. The ownership participation differs from the Czech model in that it provides reorganization incentives for owners of the newly-privatized firms.

The three principal difficulties impeding the upswing are (a) the legal quagmire involved with property restitution, the conundrums of which are meaningfully considered, though no suggestions for reform are made; (b) the inherent stringing-out of privatization because of Treuhand's policy of cash sales of firms and (c) the high and sharply increasing level of real wages in the East. The "social compact" is intended to solve the last two simultaneously.

In arriving at their proposal, the Sinns analyze in depth, at times brilliantly, the shortcomings of current proposals for sharply increasing the growth rate of East Germany, as well as the perversity of some of the actual practices being pursued. The principal concern is with East Germany and how to increase the rate of capital formation. West Germany is considered primarily as a basis of comparison. There is no attempt either to draw or deny analogies from the West German experience of 1948. For the most part, the book is complementary to Giersch, Paqué, and Schmieding [1].

There are three main chapters, these following the two necessary and interesting ones detailing the events leading to unification, presentation of data comparisons between East and West Germany, and discussion of reasons for the poor performance and collapse of the East. The overall discussion is nicely paced and insightful.

In addition, there is an extensive statistical comparison in an eight-page appendix. Data from the East are however notoriously suspect and so it is unsettling to read too much into such comparisons. For instance, the Sinns accept too readily the zero unemployment fiction of planned economies. In fact however, there was extensive unemployment, though it was disguised. Because of political considerations, there were many industries protected from international competition. The incentive to innovate, to advance technologically was inhibited, and this was made clear with the fall of the Wall. For instance, the workers at Robotron in

Dresden, the computer firm in the Comecon, were effectively unemployed for over a decade; no one would argue that the pace of innovation in that industry was the same as in the West. As a result of the Wall, there was the figment of full employment, though economically it was more the equivalent of digging and filling holes.

In the first substantively analytical chapter, that on "New Money," the Sinns present their most controversial, indeed contentious, result, namely that the widely-proclaimed 1:1 currency swap—actually 1.8:1 when all classes of monetary exchanges are taken into account—was in fact close to purchasing power parity, i.e., there was virtually no monetary overhang! Of the many observers, they alone hold this view. Others, including most prominently the Bundesbank and the market, where the rate was between 7 and 10 ostmarks per DM, had the actual exchange grossly overvaluing the ostmark. Given their 1:1 result, the authors had to reconcile this with the approximately 4:1 rate for goods produced in the East and sold in the West, a rate confirmed by Giersch, Paqué, and Schmieding [1, 266]. The 1964 Belassa reappraisal of purchasing power parity was the necessary vehicle.

Another seemingly serious consequence of the currency swap was that wages in the GDR were set too high relative to productivity, thus guaranteeing unemployment. Not for the Sinns. Though critical of dramatically rising wages—the policy promoted by West German unions to protect their members—the authors assert that converting at a rate closer to the market would not have had markedly different effects; though real wages initially would have been substantially lower, "the wage adjustment would have been faster and the wage situation today would most probably have been no different" [p. 64].

The chapter on Privatization is first and foremost a profound indictment of Treuhand's policy of privatizing by selling firms for cash. In addition, there is a short, interesting discussion of the legal and institutional considerations involved in the German decision to return property to former owners. The uncertainty it created and the implication for private property rights surely is one of the significant retardants to recovery.

The essential point, however, is that the pace of privatization has been much too slow because Treuhand sells only for cash, and that the increased stock of properties has driven the price below that which Treuhand is willing to accept. Hence the proposal for privatization by share-participation.

The German wage strategy was that of "high-wages, high technology," a policy which the authors effectively rebut on the basis of the virtually certain international uncompetitiveness it forebodes—"the wage bargains . . . come, in effect, close to a ban on employment" [p. 159]. Though there can be little disagreement with their analysis, the interesting question is why such a policy would ever have been pursued. Public choice considerations of politicians and labor unions are the explanation. A low-wage strategy is also rejected, primarily because it would lead to "excessive migration" to the West as well as preserving "all the old fossilized structures under which the GDR suffered" [p. 144]. Why the first effect is undesirable and the second a logical consequence is never discussed. Because of the clear disaster to which the high wage policy would lead and because of the authors' unwillingness to accept a low wage strategy, they advance their moratorium proposal, a kind-of "wages have gone up—good; more would truly devastate any upswing" position.

All in all, this is a first-rate book. Economists with an interest in privatization in general and in East Germany in particular will not want to put off reading this analysis.

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Reference

1. Giersch, Herbert, Karl-Heinz Paqué, and Holger Schmieding. *The Fading Miracle*. Cambridge: Cambridge University Press, 1992.

Costly Returns: The Burdens of the U.S. Tax System.

By James L. Payne. San Francisco: Institute for Contemporary Studies, 1993. *Pp. 264. $34.95 cloth, $14.95 paper.*

When I first agreed to review this book I expected it to be a fairly low level popularization. It is indeed a popularization, and people without economic training can easily read it, but it is not low level.

Basically, what Payne has done has been to calculate the actual cost of various taxes, primarily the