

Comment on Peter Temin, “The ‘Koreaboom’ in West Germany: Fact or Fiction?”

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Introduction

Commenting on this paper is oddly difficult. Peter Temin considers the strain of German post-World War II economic history that “sees the West German miracle... in some trouble, perhaps even foundering, in 1950” and being rescued by “a *deus ex machina*, an exogenous positive demand shock coming from the unexpected outbreak of hostilities in Korea.” As Temin sets the issue, the real stakes are whether those Present at the Creation of the post-World War II North Atlantic international order were skillful—did a good job of building institutions to create and guard freedom and prosperity—or simply lucky. Those who see the “Koreaboom” as a key event are making a point on the “luck” side.

Peter Temin’s paper documents that this talk of a “Koreaboom” is nonsense. West Germany did not see a stimulus at the outbreak of the Korean War but its opposite: the price of West Germany’s imports rose, and a brief balance-of-payments crisis developed, solved by the actions of the newly-born European Payments Union. Had the EPU not acted, perhaps Germany’s ongoing boom would have been damped as a result of the Korean War.

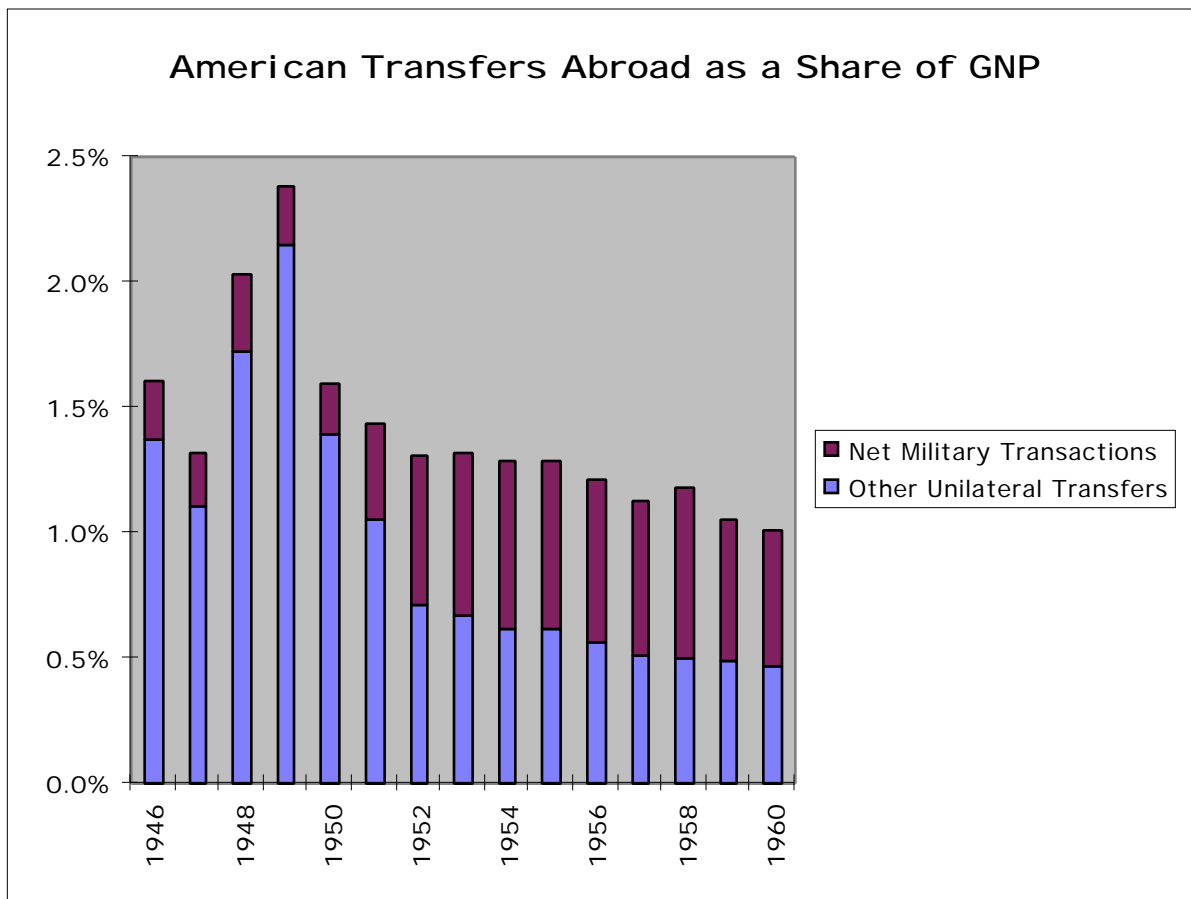
He is convincing. What then can I say?

I am not qualified to discuss the twists and turns of German historiography that created the “Koreaboom” *mythos*. So let me, instead, try to indicate what in the logic of the situation might make a German historian prone to find a positive impact where none existed.

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The first is that the Korean War had important long-run consequences for U.S. relations with Europe. By the middle of the 1950s, there was a full U.S. army—corps, divisions, airwings, and the

standard enormous logistical tail—sitting in West Germany waiting for Stalin’s successors to attempt in Germany what Stalin, Mao, and Kim Il Sung had attempted in Korea: the reunification by force of a country that had been divided in the armistice that ended World War II. Stalin’s successors were largely unknown: the only solid thing about them was that they had flourished under Stalin and shot a couple of their own number in the power struggle that followed Stalin’s death.



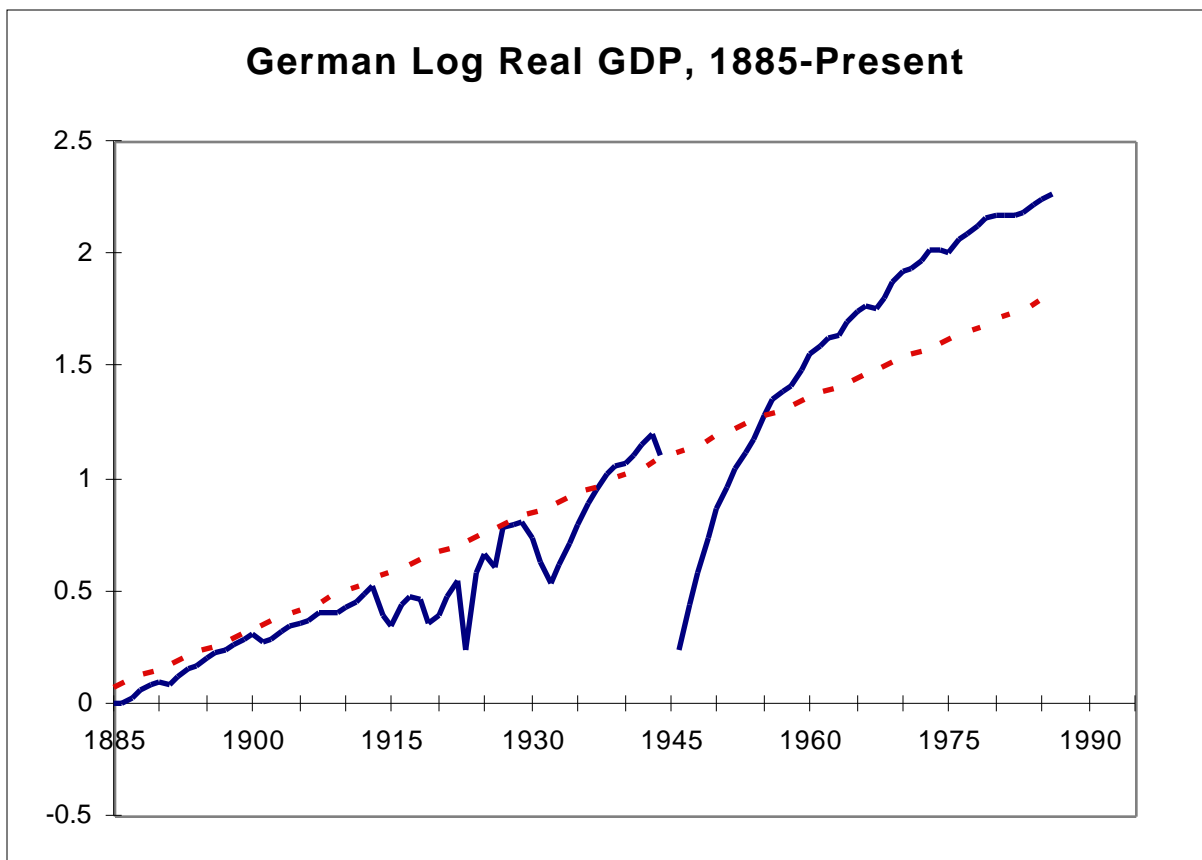
Stalin had exhibited a taste for snatching up territory when he thought it could be taken cheaply—starting with the suppression of the Mensheviks in Georgia, including the annexation of Moldova, Latvia, Lithuania, and Estonia. That Western Germany could probably not be snatched up cheaply was not wholly reassuring, because Stalin had also exhibited a certain degree of bad judgment: in addition to allowing Kim Il Sung to launch the Korean War, there was the unsuccessful attack on Finland in 1939 and the mother of all miscalculations, the belief that the way to deal with Hitler was to

become his ally and then watch Nazi Germany and the western democracies exhaust themselves in trench warfare. Perhaps Stalin's successors would exhibit a similar appetite for conquest on the cheap, and a similar weak grasp of geopolitical realities.

So by the mid-1950s a full U.S. army was sitting in Western Germany as a deterrent. And the U.S. was spending on a relatively large scale to project its Cold War military power beyond its borders. Roughly three-quarters of a percent of U.S. national product in the mid 1950s was “net military transactions”—expenditures abroad by the U.S. army which generated no dollar inflow.

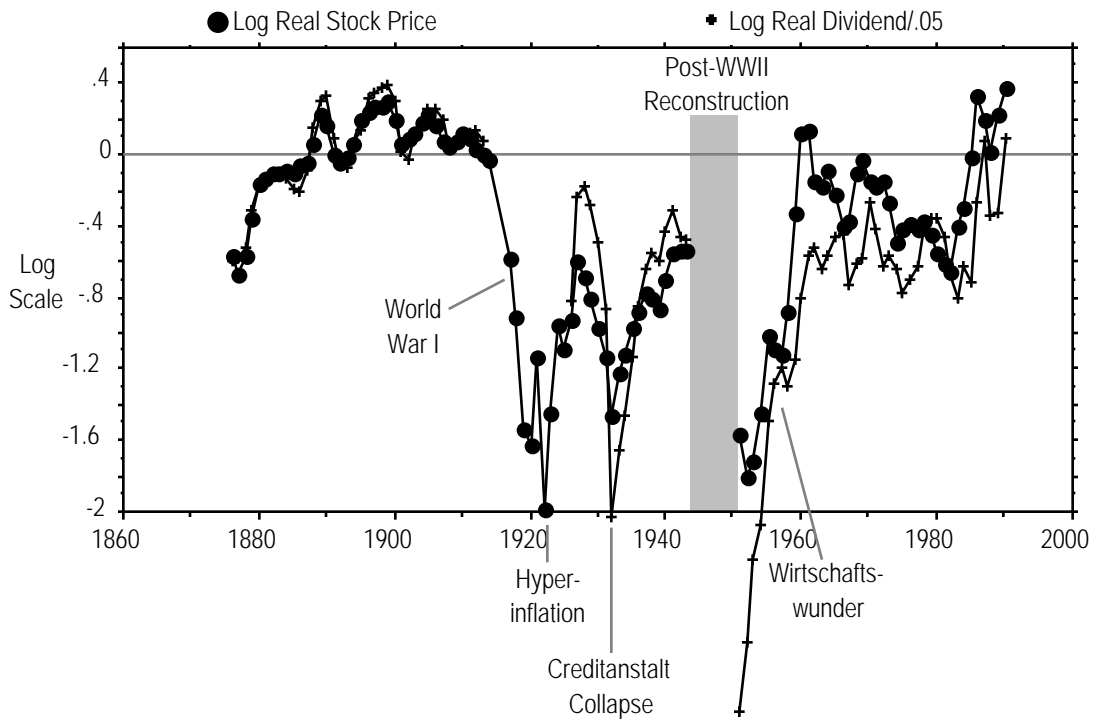
German Exceptionalism

As the figure above shows, the increase in net U.S. military transactions partially offset the winding-down of the Marshall Plan. Thus the forces of the Supreme Allied Commander, Europe, provided one secure source of demand for German production during Germany's boom in the 1950s.

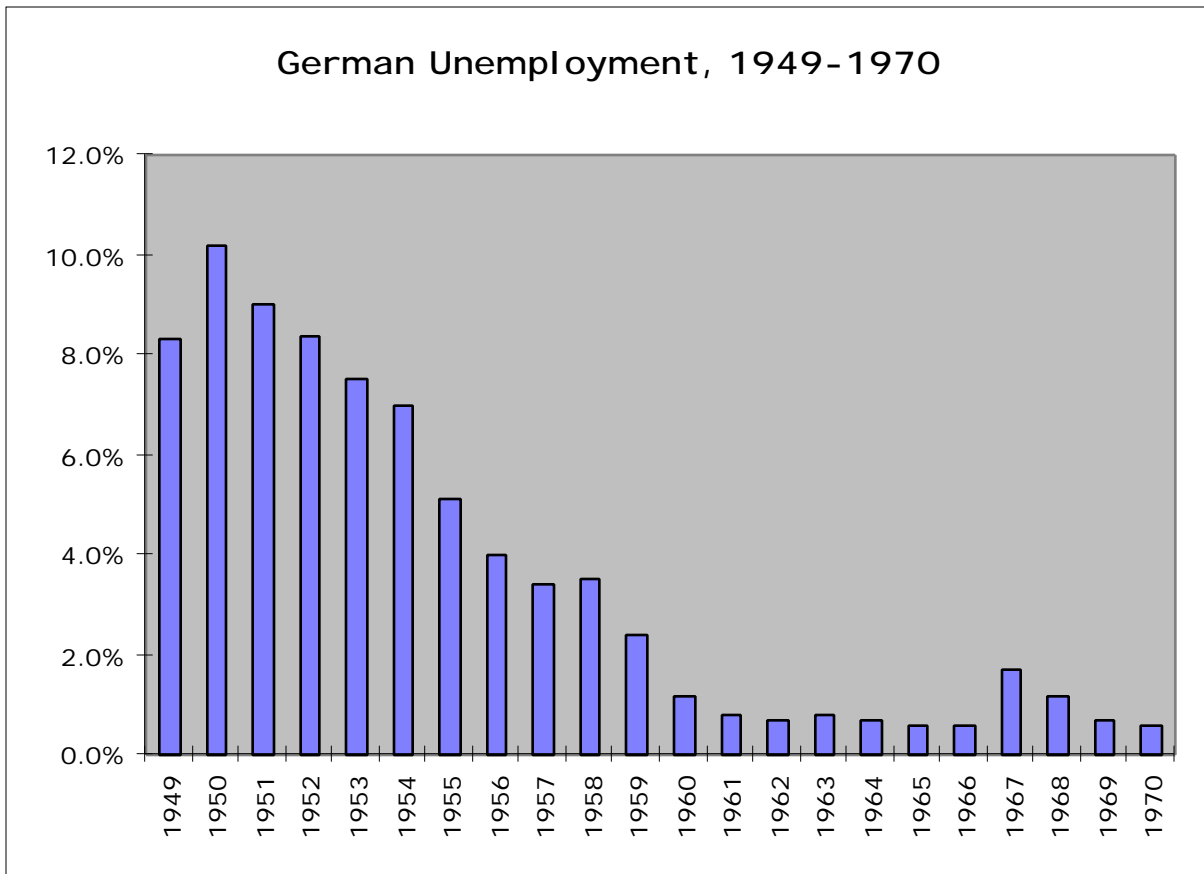


And boom in the 1950s the German economy certainly did. German recovery in the 1940s can be understood as recovering the productive capacity that had existed before the war, with the added benefit of an extra decade and a half's worth of technology. But as the figure above shows, the German economy in the 1950s crashed through the output-per-capita levels that would have been projected by someone connecting pre-World War II peaks, and has come to rest since 1973 at about its pre-1913 growth rate, but at a level of output-per-capita some forty percent higher than anyone would have dared to project on the basis of the pre-World War II experience.

German Log Stock Prices and Dividends



The magnitude of the boom came as a surprise to the Germans. The real value of a basket of German equities multiplied eightfold during the 1950s—without any reinvestment of dividends—for an average real return of twenty-five percent per year. The German economy showed itself able to absorb a very large population displaced from the east in a relatively small number of years.



This reduction of unemployment from double-digit levels to zero-digit levels took place with no sign of inflation or excess demand pressure at all: the average inflation rate from 1949 to 1970 was 1.7 percent per year. And this reduction of unemployment did not trigger anything like the degree of labor strife that had characterized pre-World War II (and pre-World War I) Germany.

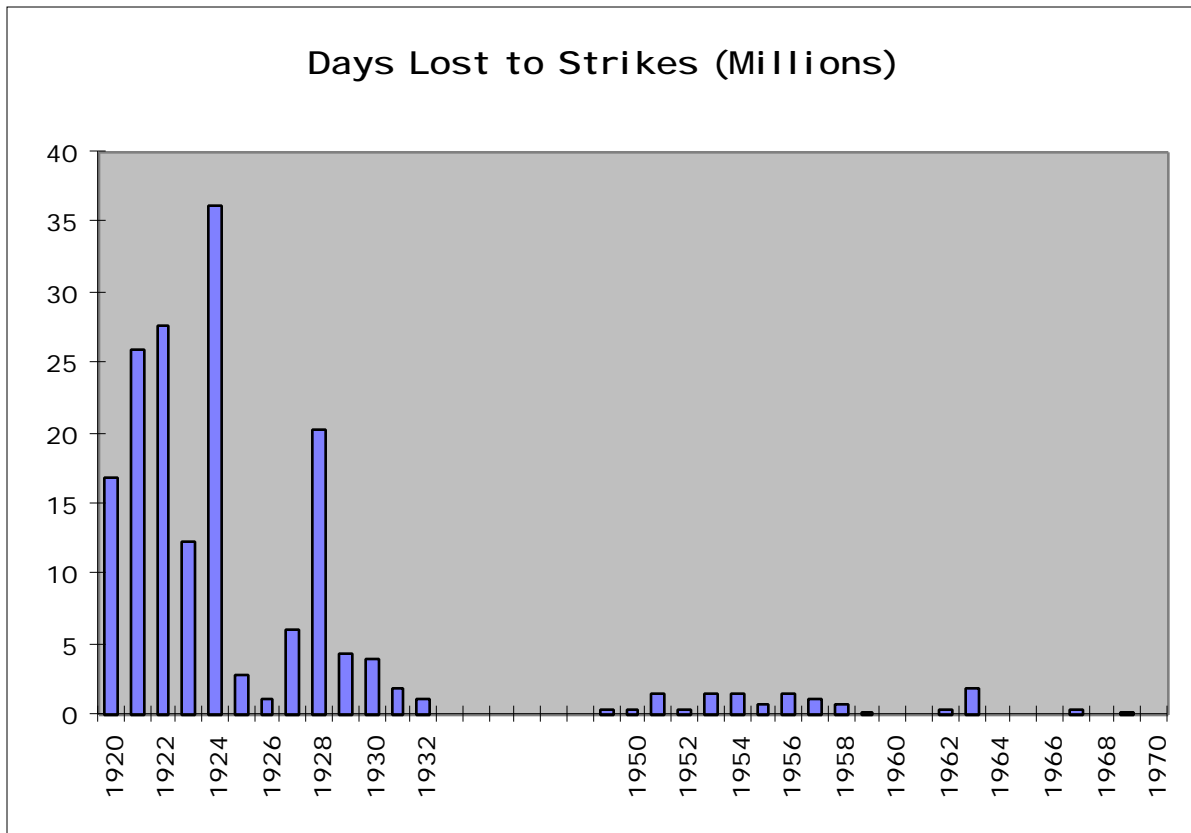
It is as if at the end of World War II the *entire* German economy was secretly replaced. American soldiers in the 1950s could never find anyone who had admired Hitler, and there are fewer continuities and similarities between the pre-Nazi and the post-World War II German economies than there should be.

The brutal fact is that we have models capable of explaining a ten percent rise in national product over two generations as a result of a shift in the savings rate, a three percent increase in productivity as a result of a reduction in trade barriers and specialization in industries of comparative

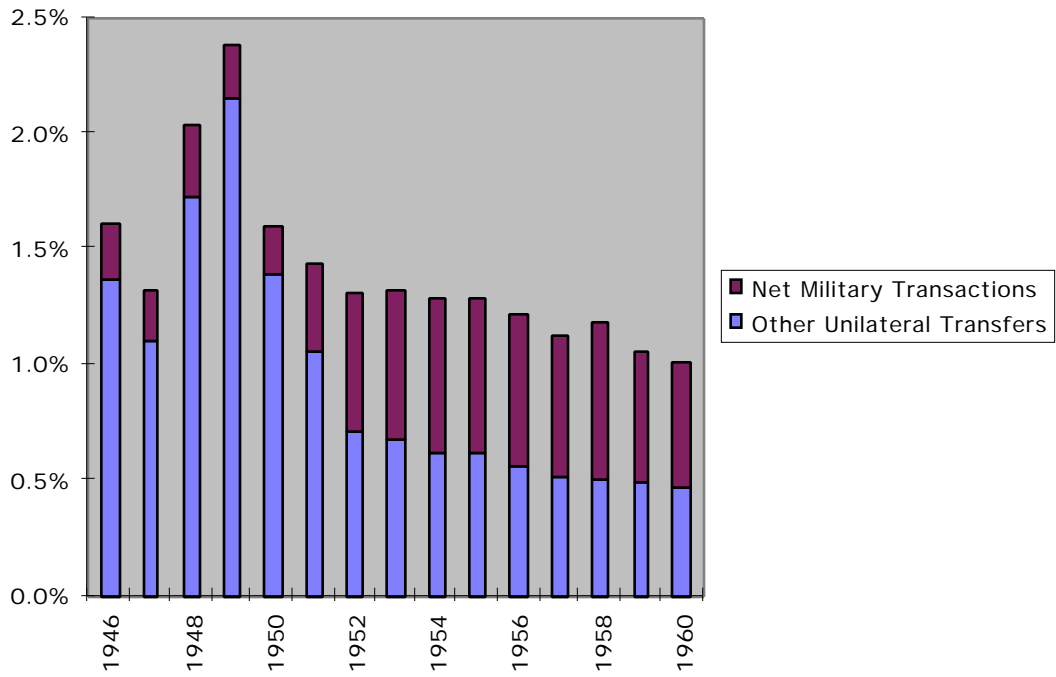
advantage, and—maybe—a one-fifth reduction in output variance at business-cycle frequencies as a result of successful monetary policy.

We have no models to explain a transformation as large as that between the pre-Nazi and post-World War II German economies—and neither does anyone else.

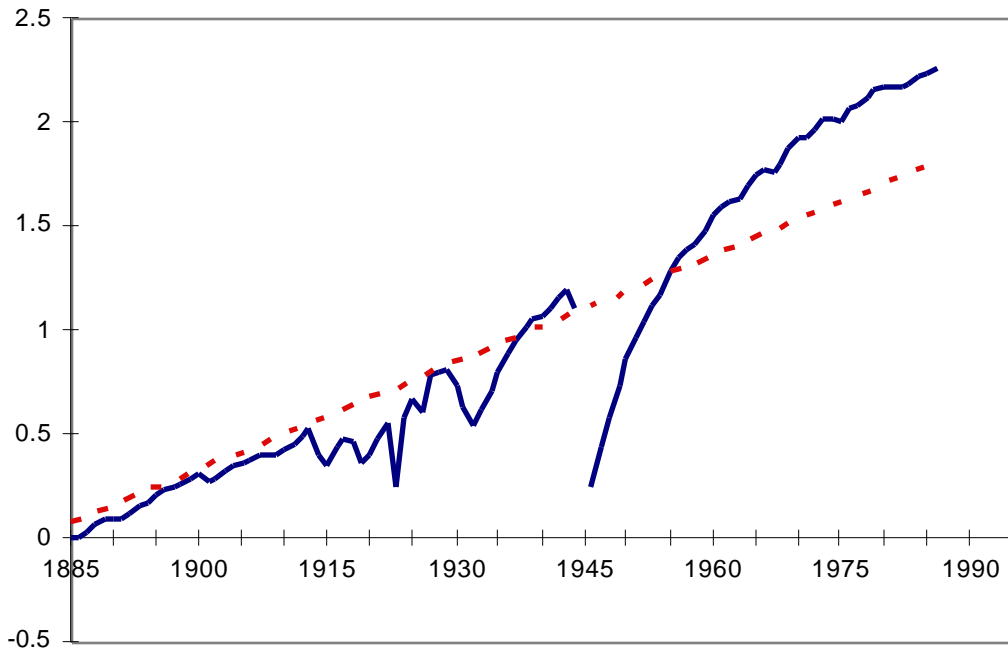
So we grasp at straws. We are all grasping at straws. So should we be surprised when we catch German historians doing it too?



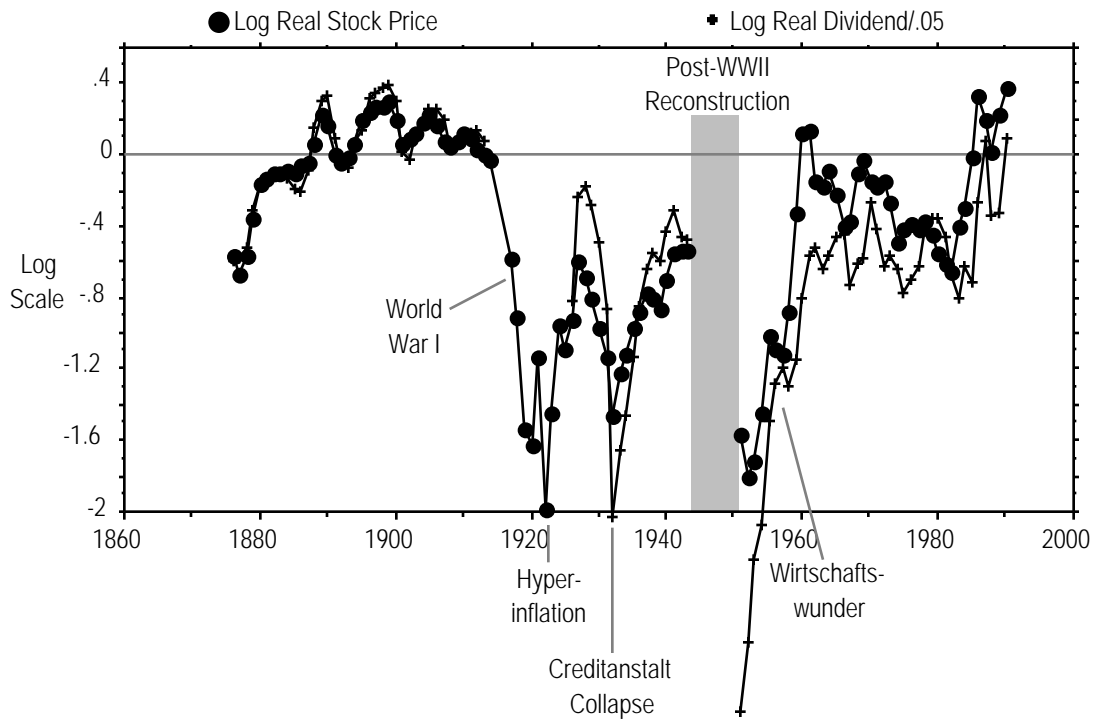
American Transfers Abroad as a Share of GNP



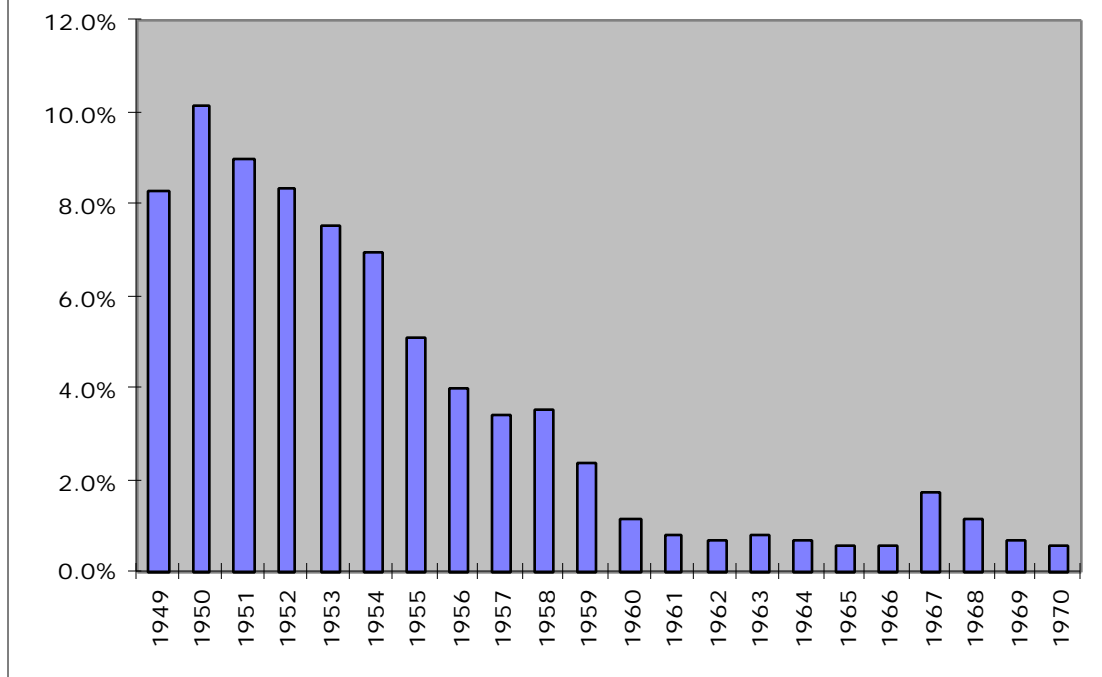
German Log Real GDP, 1885-Present



German Log Stock Prices and Dividends



German Unemployment, 1949-1970



Days Lost to Strikes (Millions)

