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Danger! Korean reunification in historical perspective

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ABSTRACT

This paper examines the possibilities for, and obstacles to, the reunification of North and South Korea based on the experiences of the reunifications of Italy, the United States and Germany in the 19th and 20th centuries. Common elements of these reunifications include a slow convergence of incomes and productivity of regions, important political barriers to the creation of a unified state and the need to neutralize as far as possible the power of the economic, political and social elites of the units being incorporated into the newly-created state. I find that these problems occur in all cases examined, and, based on these findings I offer policy recommendations for possible Korean unification.

Introduction

Despite swings in public opinion and changes in strategy, the reunification of the Korean peninsula has been a long sought-after goal of South Korea (Lee, 2020), and it is also the stated policy objective of North Korea even if North Korea's vision for a reunited Korea differs from that of the South. In addition to these differing visions for a reunified Korea, there are both geopolitical and practical obstacles to reunification. Geopolitical obstacles include the role of outside powers, particularly China and the United States, as well as North Korea's nuclear capability. There are also practical obstacles, namely the vast gap in living standards and productivity between the North and the South and the question of how the politics of a united Korea would be organized and made to function effectively. The many studies of the possible scenarios for the reunification of the Republic of Korea and the Democratic People's Republic of Korea assume that a large part of the economic costs of reunification would have to be borne by the South Korea due to its higher per capita GDP and more developed economy (Noland et al., 2000; Bradford and Kerk, 2005; Bradford et al., 2011; McKibbin et al., 2017). However, most estimates of these costs also assume that there would be a significant catching up of incomes and productivity in the territory of the Democratic People's Republic of Korea after unification and that citizens of the newly merged nation would share many cultural, social, and political characteristics, which would help promote social and economic convergence. To the extent that these studies also address how such a united Korea would be governed, their expectation of how politics and government would evolve depend to a great extent on how reunification would actually take place, for example, through

the mutual consent of the governments of the two countries, through social upheaval or collapse in the North, through the intermediation of outside powers, etc.

This paper explores these practical issues by examining three historical episodes of the reunification of countries that were separated for some time and that had rather different economic systems, levels of productivity in the regions being unified and also different forms of government or at least different objectives of their respective pre-unification ruling elites. The cases examined are the reunification of Italy in 1858–1870; of the United States following the end of the Civil War that lasted from 1861 to 1865, and of Germany from 1990 to the present. These cases are chosen because they provide differing starting conditions for reunification, different attitudes toward reunification in the unifying countries and different economic policies and political strategies for achieving unification. Nevertheless, these cases have commonalities, both among them and with possible scenarios of Korean reunification, in that there were important disparities in economic systems and living standards in the uniting regions and also important differences in governing elites' objectives. These differences provide a broad array of circumstances on which to base our conclusions regarding the possible paths for Korean reunification. The three case studies show that reunification equalizes the economic performance of the unifying countries only very slowly and that differences in levels of income and productivity between the unifying regions persist for a very long time. Often, these differences in regional incomes lead to large within-country movements of the population or emigration from the region with lower income levels. Moreover, the power of preunification elites in the uniting regions plays a key role that also needs to be

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addressed when assessing the chances for a successful reunification. Thus, Korean reunification is unlikely to eliminate regional disparities in productivity and income levels to any great extent in the foreseeable future, and planning for the social and economic consequences of such continuing disparities is necessary. Moreover, the three cases also suggest that merging political institutions is difficult and that limiting or even eliminating, to the extent possible, the access to political power of elites in the region being “acquired” through reunification is, if not indispensable, at least important to the success of the project. Finally, the paper identifies which reunification policies had positive effects in the three case studies and suggests both economic and political strategies for facilitating Korean reunification.

Italian reunification

The path to a unified Italy

The reunification of Italy presents the most complex process of the three cases studied in this paper, but it is valuable as an object lesson on the effects of the influence of foreign powers on the process of reunification. Until its collapse in AD 476, geographic Italy had been a unified polity, the center of the Roman Republic and of the Roman Empire, for nearly one thousand years. The Empire’s collapse fragmented Italy into political units of different size, economic performance and forms of government including kingdoms, duchies, and city-states like Venice and Florence whose fortunes fluctuated over the centuries following the collapse of the Roman Empire.¹ One consequence of this long span of time between the collapse of the unified Roman state and the onset of Italian reunification in the 19th century was that there was less of a sense of national unity and of the concept of a united Italy as a goal with broad popular appeal. Another consequence of fragmentation was the long-running involvement of foreign powers, principally France and Austria, in Italian affairs prior to and during the time of reunification. Thus, the drive for Italian reunification was fueled in large part by the ambitions of the rulers of some of the political units in Italy to expand their territories, to gain prestige and to throw off the yoke of foreigners, principally of the Austro-Hungarian Empire, rather than by a popular desire for national reunification.²

The Kingdom of Sardinia was ruled by King Victor Emmanuel II, who was capably served by his Minister, Count Cavour. The mainland part of the kingdom was prosperous, benefiting from a liberal economic policy and government support for industrial activities such as clockmaking radiating southward from Geneva and from the production of high-value-added and easily transportable agricultural products such as cheese and meat from the Alps and wine from more temperate parts of the kingdom. Cavour not only promoted the economic development of the Kingdom, but also supported his monarch’s territorial ambitions. Assured of French support, he instigated a war with Austria that forced Austria to cede Lombardy to Sardinia in 1859. This success also impelled the central Italian duchies, such as Modena, Parma and Tuscany to merge into the Sardinian kingdom. Lombardy was a highly productive region as were the central Italian duchies and thus the newly enlarged Sardinia was a state with the potential to continue to benefit from the fruits of the industrial revolution.³ Victor Emmanuel reigned as the King of this expanded realm, and Sardinian laws, institutions and officials were exported to the newly acquired regions.

What remained outside this relatively prosperous new Sardinia were the regions surrounding Venice, which remained in Austrian hands, the

Papal States, with Rome as their center, and the Kingdom of the Two Sicilies. The Popes had little interest in economic matters and did not actively foster economic development of the Papal States. They did, however, enjoy the protection of France, which made Victor Emmanuel reluctant to force the Papal States into his expanded realm. The Kingdom of the Two Sicilies, comprising the mainland south of the Papal States and the island of Sicily, was notorious for poor governance, corruption, and rural poverty, but its people accounted for about one-third of the population of the Italian peninsula, so its fate was of considerable importance for reunification.⁴ Uniting the Kingdom of the Two Sicilies with the newly expanded Sardinian Kingdom would be difficult due to the large size of the Kingdom of the Two Sicilies relative to the rest of Italy as well as its poverty and institutional weaknesses and because the Papal States lay between it and Sardinian territory making it impossible to extend Sardinian power southward by land. Given these obstacles, Cavour and Victor Emmanuel were not keen to spread reunification southward.

It thus fell to the revolutionary Giuseppe Garibaldi to invade southern Italy in 1860 with his so-called Red Shirts. The government of the Kingdom of the Two Sicilies collapsed quickly in the face of Garibaldi’s forces, but Cavour realized that Garibaldi’s vision of a secular republic emerging in such a large part of the Italian peninsula would endanger royalist Sardinia’s image as a “normal” European state and as the unifier of Italy. Consequently, Sardinian forces invaded the Papal States and moved into territory held by Garibaldi, who, in the name of Italian unity, handed control of the South to Victor Emmanuel in 1861.

The rest of Italian reunification was more or less a mopping-up operation. Cavour obtained Venice and its hinterlands from Austria in 1866 as part of the settlement of the war between Prussia and Austria. In 1870, French troops, which had continued to protect what remained of the Papal States, were withdrawn in the course of the Franco-Prussian War, and Rome was conquered and incorporated into a united Italy, thus completing reunification. Although the reunification moved the capital to Rome, Sardinian laws, administrative procedures, and civil servants we imposed in much of Italy, although less energetically and successfully in the South.

Italy after reunification

Reunification brought little economic benefit to the former Kingdom of the Two Sicilies, popularly referred to as the Mezzogiorno. Wages in the South were some 15–20% less than in the rest of Italy on the eve of reunification, due in part to the low level of education, in part to poor institutions and corruption, in part to unequal land distribution (Marrella, 2022) and in part to the smaller share of output provided by industry (Federici et al., 2017). The Mezzogiorno’s nascent industry, which had been protected by high pre-reunification tariffs, struggled to compete with products from the north of Italy as well as with foreign manufactures when the liberal Sardinian tariffs were applied to all of Italy. Cropping patterns also changed in the face of foreign competition, to the detriment of southern agriculture (Doer, 1968). Moreover, much of the state’s support for railroads and other infrastructure, for the industrial sector and for education and human capital development were directed toward the North, while the Mezzogiorno stagnated from the neglect of the authorities in Rome as well as from the ability of the old elites to control economic and political life in the South (Federico et al., 2022). The North-South gap in per capita incomes grew steadily in the 19th century, in part due to continued industrialization of the North. Although Italy’s industrialization surge was, overall, weak in comparison to the other European states (Gerschenkron, 1962), it had a much more beneficial effect on incomes in the North than in the South,

¹ See The map of pre-reunification Italy at <https://www.studentsofhistory.com/unification-italy-germany>.

² For early efforts to reunite Italy, see Smith (1960).

³ For the economic development of the new state, see Federico et al., 2017. Nevertheless, the newly formed state also had a number of economic liabilities, some of its own making (Gerschenkron, 1962, Chs. 4 & 5).

⁴ Di Lampedusa’s (1960) novel, *The Leopard*, as well as Luchino Visconti’s film based on the novel provide a good evocation of social and economic conditions in the Kingdom of the Two Sicilies around the time of unification.

exacerbating the per capita GDP gap between the two parts of Italy. This gap reached its peak in the late 1940s. In part, the continued divergence between the economic performance of North and the South was due to the same causes, such a poor infrastructure, lack of human capital and poor governance in the South that had dominated the post-unification years of the 19th century (Federico et al., 2022), but they were exacerbated by the effects of World War II because the heavy fighting between the Allies and German forces occurred in the South, resulting in extensive destruction of housing and infrastructure. In the 1950's, Italian governments sought to redress this North-South income imbalance due to their fears of the political strength of the Italian Communist party in the South. The efforts, which included land reform (Bonnano, 1988), a policy of locating large, and often heavily subsidized, industrial projects in the South (Hildebrand, 1955), and some strengthening of education, reduced but did not eliminate the large income gap between the two regions.

The Mezzogiorno also suffered disproportionately from emigration. Between 1870 and WWII, 29 million people emigrated from Italy. Many emigrants, most of them of prime working and childbearing age left Italy in large numbers for Argentina, Brazil, and the United States. Intra-Italian South-to-North migration flows were smaller. Initially, population outflows were from all regions of Italy, but, over time, they became a predominant aspect of life in the South (Dore, 1968) and, even in the most recent two decades, a million people have emigrated from the South. Because emigrants tend to be young and better educated, emigration has had negative effect on the economic fortunes of the South, leaving it with a disproportionate share of the elderly and less skilled.

Today, the Piedmont (the mainland part of the Kingdom of Sardinia and Lombardy) in the Turin-Genoa-Milan region is one of the highest per capita GDP areas in Europe. In contrast, the Mezzogiorno is the largest poverty-stricken region of the European Union, with as many as one in five inhabitants living in poverty. Table 1 shows the disparity between the highest income northern regions and the poorest southern regions with the former having incomes about double those of the latter.

There are also important qualitative differences between the North and the South. One is in the resiliency of their economies to external shocks. One example is found in the response to the global financial and credit crises. Between 2009 and 2014, incomes and employment in the North remained steady, but income and employment in the South fell by 9–10%. A similar North-South difference is evident in the economic response to the COVID epidemic. Among workers in the 15–34 age group, employment fell by 4% in the North and 7% in the South where unemployment for this age group was already markedly higher. Such a development is particularly problematic for young workers who have recently joined the labor force because interrupted employment results in so-called scarring, meaning that young workers who undergo a spell of unemployment will encounter lower wages and the likelihood of more unemployment over their lifetimes. This difference in resiliency is in large part due to the differences in the economies of the North and the South. The latter region is dependent on activities such as tourism and retail trade that involve face-to-face contact, which public health measures to deal with COVID impacted severely. In the North, many more people could work from home, relying on the Internet to maintain their employed status. This structural difference in jobs reflects differences in the levels of education between the two regions (Federico et al., 2022). In the North, for example, PISA scores, which are an international measure of academic achievement by secondary school students, averaged 502 in 2018, comparable, for example, to PISA scores of German and French students (OECD, 2018). However, they were only 459 in the South, a level more comparable to the scores in less-advanced countries such as Croatia, Greece and Ukraine and well below the OECD average.

North-South differences are evident not only in the economic sphere but also in politics. Traditionally, competition between Center-Left and Center-Right parties has been regionally polarized, with the North tending toward the Right and the South to the Left. Although this pattern

may be changing (Vampa, 2021), this polarization has exacerbated the instability of the national government, making it difficult to address important economic and social issues.

The United States: civil war and reconstruction

One nation, two economies and two societies

In the middle of the 19th century, the United States consisted of two societies, the industrializing and food-producing North and the South, whose economy was based on the production and export of cotton, the cultivation of which was carried out by slaves whose masters owned large plantations in those areas of the South suitable to cotton production.⁵ Both regions were prosperous. Northern industry was developing quickly, in part due to strong tariff protection against European manufactures and to abundant arable land that made crop production and animal husbandry attractive. The South, too, was prosperous, and some historians believe that, had the South been a separate country, then, on the eve of the American Civil War, it would have been one the five richest nations in the world, much wealthier than the North on a per capita basis, even though this wealth consisted largely of the value of the slaves owned by plantation owners.⁶ Slaves and poor whites in the South suffered from very low incomes (Cawthon, 2017). Ironically, the South's wealth was in large part the result of the industrial revolution then in full progress in Europe. The early stages of the industrial revolution led to the mechanization and expansion of the textile industry, which created a voracious appetite for cotton in Europe, and the South, which produced about two-thirds of the world's cotton, often referred to as "white gold", was ideally equipped to meet this demand.

There were two main issues that divided the North and the South, tariff policy and the future of slavery. Conflicts over tariffs and trade policy were a prominent feature of American politics in the 19th century. They pitted owners of capital, industrial workers who were to be found in the northeast part of the country, and midwestern farmers engaged in the production of cereals and, increasingly, of meat against Southern plantation owners. The former sought a development strategy that would promote continued industrialization in the North by protecting industry from European competition and protecting Northern farmers from competition from potential slave-based production of crops other than cotton.⁷ Southerners, in contrast, preferred low or no tariffs because they mainly exported their cotton to Europe and obtained their manufactures from European suppliers whose products were cheaper than manufactures produced by Northern industries and perhaps more suited to the tastes of wealthy plantation owners. The political coalition of Northern and Western states led to high, and often increasing, tariffs that were deeply resented in the South, and the South's refusal to accept them sparked the start of the Civil War in 1861.

A more fundamental cause of the Civil War was disagreement over the future of slavery. The United States had a bicameral legislature. The Senate allocated two seats to each state. In the House of Representatives, seats were apportioned on the basis of population, with slaves, who were not able to vote, counted as three-fifths of a person. As the map at

⁵ Cotton was cultivated in the coastal areas of the South, and this production accounted for about two-thirds of world cotton production. Areas farther inland were more mountainous and thus unsuited by both climate and topography for large cotton plantations. These areas were inhabited by what were often referred to as "poor whites", small farmers who tilled their land using their own labor.

⁶ In the states that seceded from the Union to form the Confederate States of America, slaves made up nearly 40% of the population, and those states where cotton cultivation was widespread, such as Mississippi, they were a majority of the population.

⁷ The confluence of farmers' and industrialists' interests is analyzed by Moore (1967, Ch. 3) and Rogowski (1989, Ch. 6).

<https://education.nationalgeographic.org/resource/union-confederacy> shows, a large part of the country consisted of territories, less densely populated than the states that formed the United States but growing rapidly due to immigration from Europe. These territories would eventually enter the Union as states and thus gain representation in Congress. Thus, whether they entered as states that prohibited slavery or as states that permitted slavery, as did the Southern states, would have a decisive impact on national policy on both slavery and tariffs. This reality was understood by both sides. In the North, there was as strong abolitionist movement that sought to eliminate slavery throughout the country. This was in keeping with international trends. Early in the 19th century many European countries and the United States intervened to end the slave trade that brought slaves from Africa to the New World. Moreover, in Europe serfdom had been largely abolished, lending strong precedent to calls for the abolition of slavery in the United States.⁸ Thus, which side gained the political advantage in Congress would, in the end, dictate the future of slavery in the United States.⁹

The American civil war

On the eve of the Civil War, the two sides differed in their strengths, weaknesses, and strategies. In a new type of war that would see huge conscript armies moved rapidly for long distances via railroads, that would see radical innovations such as the ironclad warship, the breech loading cannon, communications by telegraph, etc., the North had important advantages beyond its larger population. The North accounted for 90% of the manufacturing capacity of the country prior to the war, and thus it could produce weapons and warships far beyond the South's ability to do so. For example, the South had no means of producing cannons or the thick armor plate required for ironclad ships. The North's railroad mileage was much greater than that of the South and the railroad network was better adapted to war needs because it linked major population centers. The South's railroad lines were designed in large part to transport cotton from agricultural areas to seaports for export, an arrangement ill-suited to moving troops to strategic points farther inland. Nevertheless, the South also had advantages. One was a population that, unlike the urban factory workers of the North, was used to life in forests and fields, to hunting and foraging and to living off the land, experiences that could make them more effective soldiers. The South also expected sympathy at least, and military support at best, from European elites, especially those of England, whose lifestyles Southern plantation owners imitated.¹⁰

There were also differences in strategy that were dictated by war aims and geography. The South sought to follow a defensive strategy, believing that, if it could hold off Northern armies, a stalemate would lead the North to tire of the war and accept a settlement that would give

⁸ Russia, one of the last European powers to abolish serfdom, did so shortly before the outbreak of the Civil War in the United States.

⁹ This reality, the logic of which was generally accepted in both the North and the South, was ably summed up in Abraham Lincoln's "House Divided" speech, delivered well before he ran for the Presidency. Lincoln said "A house divided against itself cannot stand. I believe this government cannot endure, permanently, half slave and half free. I do not expect the Union to be dissolved; I do not expect the house to fall; but I do expect it will cease to be divided. It will become all one thing, or all the other."

¹⁰ Fischer (1989) argues that the cotton-growing sections of the South were settled by Englishmen of the so-called Cavalier culture, stemming from English nobility, accepting of social hierarchies such as slavery or serfdom, and inclined to military leadership roles. Indeed, the United States officer corps prior to the Civil War had many Southerners, and many of these resigned their commissions and fought for the Confederacy. Fischer also argues that the mountainous regions of the South were settled by Englishmen of a different character, the so-called Scotch-Irish, people who tended toward insularity, violence, hostility toward outsiders, and religious fundamentalism, characteristics thought to make for good soldiers.

Table 1

Per capita Incomes in Italian Regions in 2019 in 1000 Euro.

Highest Income Northern Regions	
Bozen	48.1
Lombardy	39.7
Aosta	38.8
Lowest Income Southern Regions	
Campania	18.9
Sicily	17.9
Calabria	17.3

Source: Eurostat.

the Confederate States of America, as the Southern states that seceded from the Union styled themselves, their independence. Moreover, the longer the South could maintain control of the bulk of its territory, the more likely seemed the possibility that European powers, desperate for Southern cotton, would intervene on behalf of the Confederacy. The North, on the other hand, faced the more difficult task of conquering the South, deposing the Confederate government, and reintegrating the South back into the Union. To do this, the North adopted the so-called Anaconda Strategy, in which its forces would envelop and choke off both the Confederate armies and the economy that supported them from the outside world.¹¹

European intervention, in which the Confederacy placed so much hope, materialized only to a minor extent. In part this was because European textile producers had stockpiled large amounts of cotton prior to the outbreak of hostilities thanks to a series of bountiful harvests preceding the war, so the loss of the South's cotton exports had smaller impact on European textile production than initially expected. Also, while European elites may have sympathized with Southern plantation owners, European workers were much more sympathetic to the abolition of slavery, and the growing political power of the European proletariat and bourgeoisie placed a limit on what Europe could do for the Confederacy. While historians of the Civil War tend to focus on military activity in Northern Virginia, where the Southern armies stubbornly kept Union forces at bay, in other places the Anaconda Strategy was successfully implemented. The Union navy established a blockade of the Confederacy's Atlantic and Gulf coasts. This was supplemented by the seizure of major Confederate ports on the Atlantic and Gulf coasts. As a result, the South was unable to export cotton or to import European manufactures, including war materials. Pressure on the South was tightened when Northern forces gained control of the Mississippi River and captured the city of New Orleans at the mouth of the Mississippi, effectively splitting the Confederacy in two. Subsequently, despite stubborn resistance by Confederate armies around Richmond, Virginia, the capital of the Confederacy, in other parts of the South the Union armies carried out wide-ranging and destructive scorched earth warfare that brought the Confederate economy to its knees, thus ending the war in 1865.

Reconstruction and after

After Confederate forces surrendered, the United States had to address two issues. One was how to reintegrate the Confederate states back into the Union. The second was what to do about the status of the slaves. Although the slaves had been freed during the Civil War by Lincoln's Emancipation Proclamation, their right to vote and what role they would play in the post-war economy and in politics remained unclear.

There were two views on reintegrating the former Confederate states into the Union. One was so-called reconciliation, favored by Democrats

¹¹ Ransom (2001) presents a good analysis of the literature on the economic aspects of the pre-war economies of the two antagonists as well as of the economic consequences of the conflict.

and by Andrew Johnson, who assumed the Presidency after Lincoln's assassination. This view proposed that, aside from the highest officials of the Confederacy, Southern whites could swear allegiance to the United States and thus regain their civil rights, including the right to political office, and, once enough of them had done so, their state would be readmitted to the Union with full rights, including the right to create its own state constitution and determine the rights of the former slaves. This was opposed by Northerners, especially by abolitionists, by Civil War veterans (Weaver, 2022) and by many members of the Republican Party who wanted a more radical reconstruction of southern society, one that would provide Blacks the right to vote and to fully participate in society.

Initially, because freed slaves had no political rights, the former southern elites hoped to reestablish their pre-war society and economy through their control of state legislatures. This was a daunting task in part because the southern economy had been devastated by the war, which had been waged almost exclusively on southern territory (Goldin and Lewis, 1975). Farms and plantations alike had been neglected, nearly one-half of the draft animals in the South had perished, transportation was disrupted and the toll of the war on the able-bodied population was high. An even bigger obstacle to the reconciliation project was that the slaves had been freed. Because the wealth of the South consisted in large part of the value of its slave population, emancipation destroyed a large portion of the wealth of the region. Moreover, since freed slaves could no longer be forced to work, plantation owners had to "hire" them in some way, and, to do this, they offered sharecropping agreements to their former slaves, an arrangement that stipulated that the crops produced on a plot of land provided by the landowner to the tenant be shared according to a contract. Since the former slaves had no other means of earning a living, many were forced to accept these contracts, however onerous they may have been. However, sharecropping had serious economic drawbacks. One was that, unlike slaves on a plantation who could to some extent share risks among themselves and with the plantation owner, sharecroppers faced the risk of poor harvests solely with their own resources. Thus, sharecroppers tended to gravitate to less risky subsistence farming and away from cash crops like cotton, hoping to produce enough food to sustain themselves through bad harvests. Moreover, sharecropping stifled innovation and investment. If either landlord or tenant invested in improvements in land, equipment, or crops, the return on this investment went only partially to the party making the investment and the remainder went to the party that had made no investment, which reduced the expected return on investments. Furthermore, the low wage implicit in sharecropping contracts meant that there was little incentive to invest in labor-saving technology. In an age where there were revolutionary developments in agricultural equipment and machinery, such as improvements in the steel plow, this meant that agricultural productivity in the South increasingly lagged behind that of the North, exacerbating regional income differentials (Hornbeck and Naidu, 2014).

This period of relative political autonomy for the South ended with the elections of 1866. Congress passed amendments to the Constitution giving Blacks civil rights, including the right to vote, and implemented measures to improve the economic condition of freed slaves (Rogowski, 2018). Perhaps most important was the decision to have the United States Army occupy the South and to administer the reconstruction measures passed by Congress. The result was an almost total reversal of political power in the South, with many legislatures passing from the control of the old pre-war elites associated with the Democratic Party to control by coalitions of Black and poor White voters affiliated with the Republican Party. There was bitter resistance to these developments in the South, evidenced by race riots and massacres and by the rise of white supremacist organizations of which the best-known, the Ku Klux Klan, was only one of many.

However, as part of a political deal in 1877 between Democrats and Republicans to resolve the contested Presidential election of 1876, the last Federal troops were withdrawn from the South. Continued violence

Table 2

Per capita Incomes and Educational Attainment in Former Union and Confederate States in 2022.

Former Union States	Per Capita Income	% College Educated
Connecticut	\$45,668	40.00
Massachusetts	\$45,555	44.50
New Jersey	\$44,153	40.70
Maryland	\$43,532	40.90
New York	\$40,898	37.50
Former Confederate States		
Virginia	\$41,255	39.50
Louisiana	\$29,522	24.40
Alabama	\$28,934	26.20
Arkansas	\$27,742	23.80
Mississippi	\$25,444	22.80

Source: <https://worldpopulationreview.com/state-rankings/per-capita-income-by-state>.

against Blacks and political disputes among Southern Republicans enabled Democrats, representing the interests of the pre-Civil War elites, to come to power and to craft state constitutions that *de facto*, if not *de jure*, stripped Blacks of the right to vote and consigned them to second-class status through racial repression and segregation. This effort to recreate pre-Civil War society created a drag on the economy and on the social and political development of the South. In the words of one historian:

"By the end of the (19th) century, Southern per capita income had fallen to roughly two-thirds the national level, and the South was locked in a cycle of poverty that lasted well into the twentieth century." (Ransom, 2001)

As Barro and Sala-i Martin (1990) and Higgins et al. (2006) show, convergence between the South and the North in terms of per capita income has been slow, around 2% per year. As a result, as Table 2 shows, there continues to be large income gap between the former Confederate and Union states, and, as in the case of Italy, the gap in educational attainment plays an important role in this income gap. The failure of the income gap to close is surprising because the mobility of people, capital and businesses is high in the United States. The effect that such mobility should have on income convergence is most evident in the case of Virginia, a former Confederate state. Virginia has benefited from a large inflow of highly educated and well-paid residents who live in the Virginia suburbs around Washington D.C. and work for the US Government, for various legal and lobbying organizations located in the nation's capital and for international agencies such as the World Bank, the IMF, etc. that are headquartered in Washington. As a result, as Table 2 shows Virginia is, in terms of incomes and educational attainment much like a northern state. Other southern states, however, do not have a similar locational advantage and thus have not converged much toward national averages of income and educational attainment.

Moreover, the South continues to suffer in other ways. In 2020 the seven states with the highest per capita homicides were southern states that had been part of the Confederacy.¹² Health outcomes in the South were also worse than the national average. The South has remained socially conservative, fundamentalist in religious outlook, and resistant to providing equal rights for minorities.¹³

As in the case of Italy, the poor economic performance of the South led to out-migration. Unlike the case of Italy, American migration involved large population movements within the country rather than emigration abroad. Scholars have long been interested in the so-called Great Migration in which some 6–8 million Black people migrated in

¹² https://www.cdc.gov/nchs/pressroom/sosmap/homicide_mortality/homicide.htm

¹³ https://assets.americashealthrankings.org/app/uploads/2021_ahr_health-disparities-comprehensive-report_final.pdf

the first half of the 20th century from the South, where they mainly lived and worked in rural areas, to industrial cities in the northern and western parts of the United States.¹⁴ There were both push and pull elements in this migration (Grant, 2020). Push elements included poverty and lack of opportunity in the South as well as oppressive social and political policies directed toward Black people. The pull element was the need for workers in northern industries, especially during the two World Wars, when conscription reduced the available labor force and immigration both from Europe and from Asia waned, in part due to war, in part due to US immigration restrictions. The movement from the rural South to the urban North had important social and political implications by creating blocs of Black voters in major urban areas.

A less well understood but larger out-migration from the South involved some 20 million whites who moved from the South in about the same time and later for many of the same reasons. These migrants, however, tended to settle in the western and rural parts of the United States, and they had an outsize effect on the cultural and political values of this region of the country (Gregory, 2005; Lowndes, 2009; Bazzi et al., 2022). Thus, in much of the central and western United States, electorates became more conservative and “southern” in their social, political, and religious views.¹⁵ This in turn, according to many scholars, had a major impact in turning the United States into a more politically conservative country. For example, Bazzi et al. (2022) conclude that this migration of white people from the South put

“... racial, religious, and economic conservatives into a powerful coalition that mobilized behind the Republican Party after the 1960s. We link this political upheaval to a mass migration of whites out of Southern states..... We show that this other Great Migration played a critical role in building a strong conservative movement with enduring national influence. The Southern white diaspora helped catalyze and shape the New Right. These migrants brought with them a set of preferences and beliefs, characterized by, on average, more conservative attitudes on race and religion than whites living outside the South. As Southern white migrants put down roots across America, they transmitted cultural values to their non-Southern neighbors and, in turn, influenced politics in their new communities.”

This unexpected consequence of out-migration from the South has important lessons for Korean reunification. Given the large income differences that are likely to persist after Korea’s reunification, it is likely that there would be considerable North to South migration in Korea, especially because migration to other countries is not going to be possible. After so much time spent under a repressive communist regime, the political and social attitudes of North Koreans have come to differ very much from those of Southern residents (Kim and Kim, 2019; Kim et al., 2017). Thus, it is quite possible that a reunited Korea would emerge as country where political attitudes across the entire country, and not just in the North, could be much different from those now prevailing in the South. Given the similarity in numbers of the North and South Korean populations, the type of long-run shift in political and social values that occurred in the United States should be considered as a strong possibility in a reunited Korea.

German reunification: did the lessons of the past enable Germany to avoid them?

The last reunification we discuss is that of the Federal Republic of German (FRG), often referred to as West Germany, and the German Democratic Republic (DDR) or East Germany. German reunification has frequently been used as a model for possible Korean reunification

Table 3

Per capita incomes in German Regions in 2019.

Highest Incomes in Former West German Regions	
Hamburg	66,879
Bremen	49,215
Bavaria	48,323
Lowest Incomes in Former East German Regions	
Brandenburg	29,541
Mecklenburg-Vorpommern	28,940
Sachsen-Anhalt	28,800

Source: https://www.wikiwand.com/en/List_of_German_states_by_GRP_per_capita.

scenarios because, like any potential reunification of Korea, it involved the merger of a Communist society and a planned economy with a democratic society based on a successful form of capitalism, one based on close integration with the global economy and strong success in exporting manufactures (Cho and De Moor, 2021). Nevertheless, as this section argues, there are important differences in the two cases that should be noted.

German reunification began in 1990, so the lessons of the two reunifications we have discussed before, as well as of other reunifications that we have not discussed, were to some extent known to, and addressed by, policy makers. A key question then is whether knowing the pitfalls encountered during previous reunifications and addressing them led to results that were markedly better. A difficulty in using German reunification as a model for Korean reunification is the fact that there is considerable disagreement among scholars on whether German reunification can be seen as a success. Some experts (Burda and Weber, 2017) argue that, based on economic indicators such as life expectancy and per capita incomes, reunification has been a successful and largely, by now, completed project. Others such as Headley and Headley (2003) Henke (2014) and Wagner (2015) argue that, despite the fact that quantitative improvements in economic indicators in the former East Germany since 1990 are not to be dismissed, they have come at the cost of social anomie and a sense of dissatisfaction with reunification outcomes among the residents of the East, suggesting that, in more subjective terms, reunification was not an unqualified success.¹⁶

Prior to 1990, the German Democratic Republic (East German) and the Federal Republic of German (West Germany) were both seen as exemplars of their respective economic systems. East Germany was the most productive and efficient of the Soviet satellite states of Eastern Europe. Moreover, East Germany hewed closely to Marxist ideology, and the classical system of central planning saw little of the economic reforms implemented in other East European countries. In politics too, East Germany was much less open to the West than other Soviet satellite states, and social control by the Communist party and by the security apparatus was extremely strict and dogmatic. The Federal Republic of Germany, in the meantime, had become the most successful economy in Europe. As a result of the post-WWII “German Miracle” per capita incomes were high, and the country ran a trade surplus based on booming exports of manufactures. It is true that, by the 1990s, rising labor costs, high taxes and an onerous regulatory system were eating away at the sources of German prosperity, but, nevertheless, West Germany had the highest per capita income in Europe. Thus, many observers expected that the East German economy would be able to approach West German productivity and income levels more easily than other East European transition economies once the trappings of the Communist economic system were removed and that a prosperous West German economy could provide the financial support and business expertise to make that happen. Nevertheless, the per capita GDP of East Germany was variously estimated as one fourth to one half of that of the West, presenting German reunification with a gap not dissimilar to that seen in Italian and

¹⁴ For context, the population of the United States was 123 million in 1930.

¹⁵ Most of these migrants were poor agriculturalists whose social and political views mirrored those described in Footnote 9 above.

¹⁶ Also see, Berghoff and Balbier (2013) and Wiesenthal (1995).

United States reunifications.¹⁷

The German reunification process was based on three key policies. The first of these was a monetary union wherein the currency of West Germany, the Deutschmark or simply mark, replaced the currency of East Germany, the so-called Ostmark.¹⁸ At the same time, Ostmark prices, wages, pensions, social security payments, etc. in the former East Germany remained at the same level, but they were now expressed in Deutschmarks. The motivation for this was to unify the two countries' economies so that there would be less of an incentive for workers from the East to migrate to the West where Deutschmark wages and social benefits would exceed those in the East if the two currencies were not valued at a one-to-one ratio (Akerlof et al., 1991). The second pillar was a government-run privatization of state property in the East. A state agency, the *Treuhandanstalt*, commonly referred to as the Treuhand, was created to privatize state assets in the former East Germany. These state assets included agricultural and other land and over 10,000 firms (Brada, 1996). The Treuhand expected to sell these firms to German or foreign buyers at prices that would cover its operations so that the privatization process would impose no great fiscal burden on the newly unified state. Some firms were deemed unviable and were wound down by the Treuhand. In other cases, the Treuhand sought to bolster the economic condition of the firms on offer by improving management or by means of improvements in efficiency, technology or products. In many cases, buyers of firms had to make commitments to the Treuhand to ensure the viability of their acquisitions in the East. The objective of this strategy was to raise the productivity of the East closer to that of the West and to raise employment and incomes in the East to levels that would be more commensurate to those in the West. In part, this, again, was intended to address the risks of excessive out-migration from the East and also to lead to an economically prosperous and dynamic economy in the newly unified state so as to cover the costs of unification. The third pillar of the reunification strategy was to eliminate the power of the Communist Party and its political apparatus. Thus, in addition to the reform of government structures, Communist Party members and collaborators with the Communist regime were purged from their government functions, in part replaced by many officials and specialists from West Germany and in part by East Germans often newly recruited to the public service (Wollman, 2021). The much-hated state security apparatus, the "Stasi", was disbanded and its archives opened to the public, and most military officers, especially in the higher ranks, were also dismissed. Finally, West German political parties set up offices, moved party officials to the East and recruited members from the local population in an effort to integrate Easterners not only into the newly unified Germany's economy but also into its political life.

This strategy very much reflected the lessons of the other two reunifications we have examined. There was a concerted effort to prevent massive East-to-West migration by subsidizing residents of the East through the currency unification, through the money expended on the privatization process and on Eastern infrastructure and through the implicit subsidies resulting from the conversion of Easterners' pensions and other social payments at the one-to-one conversion rate. Nevertheless, there has been considerable East-to-West migration and a brain drain from the East over the entire period after reunification (Glorius,

2010; Uhlig, 2006). Migrants from the East have been mainly young and working age individuals, many with above average educational attainment or work skills, motivated by better work prospects in the West, better opportunities for training or education, and the more attractive physical and social infrastructure of the West, etc.¹⁹ Overall, the West has gained in population, the East has lost.

The efforts of the Treuhand were also disappointing both in terms of the privatization of firms and in the financial results, which, rather than paying for the privatization effort through revenues from the sale of firms, created net losses for the Treuhand, thus putting a further strain on the German budget.²⁰ With Eastern wages and prices converted at the one-to-one rate in Deutschmarks, much of the output of former East German firms proved uncompetitive, both due lower East German productivity and to the quality and design of East German products.²¹ As a result, too many East German firms could not be made profitable and thus the Treuhand was unable to find Western investors to purchase them and had to shut them down, leading to high rates of unemployment in the East and to a decline in output in the former East Germany.

Out-migration from the East, combined with the failure of privatization prevented the Eastern part of unified Germany from catching up with the West in terms of incomes as Table 3 shows. In orders of magnitude, these differences are comparable to those that exist in Italian and United States reunifications, suggesting that regional income differences in Germany will persist for years to come.

Finally, while the dismantling of the Communist party and the East German government effectively eliminated the ability of East German elites to regain political power, there has been mixed success in integrating East Germany into the politics of a united Germany. Certainly, the mainstream political parties that existed in West Germany prior to reunification have succeeded in establishing support from the electorate in the former East Germany. Moreover, the rise of Angela Merkel, an East German, to the post of Chancellor of Germany would suggest a successful political unification of the country. Nevertheless, the former East German region has been marked by political extremism and violence against immigrants (Berdahl, 2005), and, in recent years, strong support has emerged for the hard-right *Alternativ für Deutschland* Party. Moreover, there are troubling signs, including surveys that show negative social tendencies such as a loss of trust and anomie among East Germans (Henke, 2014; Wagner, 2015), especially those who experienced unemployment as the result of the Treuhand privatization.²² Easterners and Westerners have rather negative perceptions of each other, and "Ostalgie", nostalgia for some aspects of East German life, such as greater social solidarity, have also been noted.

Finally, there have been effects of reunification, both positive and

¹⁷ Comparisons of East and West German GDPs is complicated by the fact that the GDR used socialist national income accounting methods that ignored non-productive services, used arbitrary pricing, and that were based on an inconvertible currency, all of which made inter-county comparisons difficult.

¹⁸ The process also involved the exchange of Ostmarks for Deutschmarks at a 1:1 ratio. To reflect the reality of the low value of the Ostmark (the black market exchange rates were between 10:1 to 5:1 in favor of the Deutschmark prior to unification), exchanges in excess of 4,000 Ostmarks were made at less favorable rates of 2:1 and 3:1. It is estimated that 100 billion Ostmarks were converted to Deutschmarks. In effect, this was a subsidy to the residents of the East.

¹⁹ West Germany was seen as a more attractive place to live because it had devoted more of its higher GDP to consumption, including investments in housing, entertainment facilities, etc., while East Germany had devoted a larger share of its lower GDP to investment in industry. This gap was exacerbated by the ideologically driven investment decisions in the East evident in the construction of massive apartment buildings, utilitarian and unattractive recreational facilities etc.

²⁰ About one-third of all firms in the Treuhand's portfolio proved unsellable and were liquidated. Others were wound up or greatly reduced in their scope of activity by their new owners.

²¹ The poor quality of East European, including East German, products due to the excess demand for both consumer and producer goods that resulted from central planning was well known, as was poor product design. The passenger car of East Germany, the Trabant, was often used as an example of the unsuitableness of East German products for Western markets. The integration of East German industry into the industry-wide wage bargaining system in existence in West Germany at the start of unification prevented nominal wages in the East from falling to reflect lower East German labor productivity.

²² Kim and Kim (2019) report similarly low levels of trust among North Korean refugees in South Korea, suggesting that this is not merely a German phenomenon.

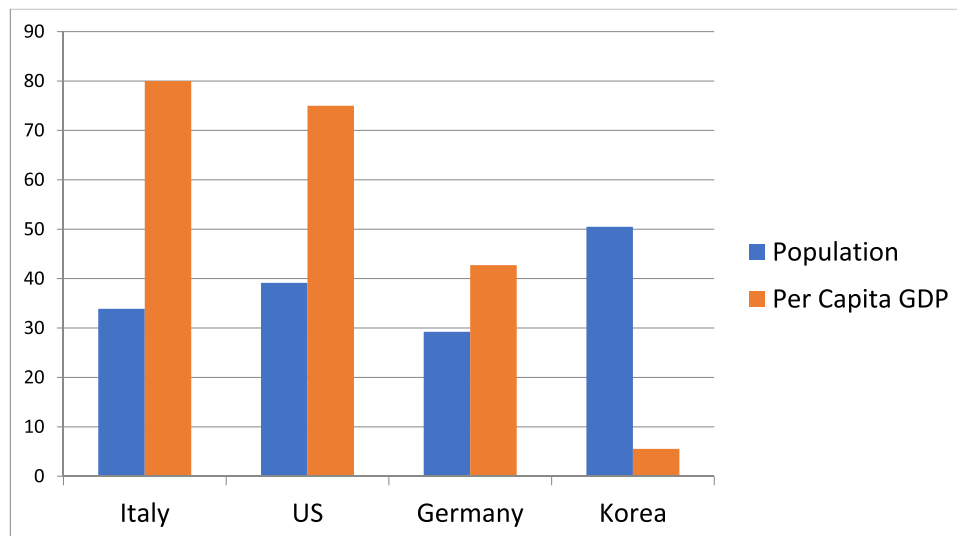


Fig. 1. Acquired Region's Population and Per Capita Income as% of the Acquiring Region's Population and Income. Source: author's calculation.

negative on reunited Germany. To cover the costs of reunification, the Government imposed a so-called solidarity surtax tax (Solidaritätszuschlag) on incomes, capital gains and profits. The tax has varied over time, but generally the surcharge was at a rate of 5.5%. This tax had obvious macroeconomic effects, lowering growth and competitiveness of German industry. The tax only partly helped finance the approximately €2 trillion expended on reunification by the government. Of this amount, over 60% was spent on higher social benefits in the East, about €300 million on infrastructure improvements in the East. The so-called welcome money, a payment of 100 Deutschmarks to all East German citizens, and other miscellaneous expenditures account for the rest. Over time, the solidarity tax has increasingly become resented in the West and a source of political controversy, showing the practical limits on such one-off efforts at solidarity. [Prantl and Spitz-Oene \(2020\)](#) also show that East-to-West migration has served to lower wages in the former West Germany..

Somewhat paradoxically, the fiscal problems and the non-competitiveness of the former East Germany's economy also had positive influence on the long-term performance of the German economy. Prior to reunification, West German had a corporatist system where labor contracts were negotiated by unions and leading firms in each sector, and these wage settlements were then imposed on all firms in the sector. This led to labor peace and a high degree of equality. The stains caused by reunification "...contributed to the transformation of the economy and politics of Germany by making latent problems worse and delaying reforms which were already underway" ([Bastasin, 2013](#), p.7). However the negative effects of the German economic model, exacerbated by the strains of reunification resulted in the emergence of anew economic model, so that, "... the major consequence of German reunification was, paradoxically, the disintegration of Modell Deutschland ([Bastasin, 2013](#), p.10). The upshot of the reforms was the liberalization of the labor market ([Ehrich et al., 2018](#)), the loosening of interlocking relationships among German firms and improved German competitiveness, albeit at the cost of greater income and asset inequality.²³

Thus, it is evident that while Germany had learned the lessons of past reunifications and had sought to prevent large population movements, to equalize incomes between the acquired and acquiring region and to change the political and social structure of the acquired region, it was not entirely successful in doing this, and the effort proved very

expensive. It was possible to subsidize the former East Germany so that it had an improved level of income, something that was not attempted to the same degree in Italy and the United States. However. As in Italy and the United States, income convergence between the reuniting regions is slow and difficult to achieve. There is a fundamental conflict between a currency union or the use of the same currency in the reunified space and creating a competitive economy. Moreover, although Germany made the most coherent and most sustained effort to create a political system in the acquired region that was consistent with national politics, social and political differences between East and West have continued. in the acquired region.

Lessons for Korean reunification

Our examination of the three reunifications shows that, despite significant differences in the process of reunification, in the size and nature of the regions being reunified, and in social and economic structures, some important commonalities exist. Whether and how they apply to Korean reunification then depends on the economic, political, and social characteristics of North and South Korea. Germany seems to have achieved some positive results, but at the cost of €2 trillion. Whether Korea can bear such a cost depends on the relative sizes of the two countries and their relative incomes. [Fig. 1](#) shows that the Korean case is something of an outlier in that the population of North Korea is a greater proportion of South Korea's than is the case in the other reunifications. This means that the kind of subsidies seen in, for example, the German case would represent a much higher burden for South Korea. Moreover, North to South migration would be a much greater issue in Korea's reunification, both because the number of migrants and because of the unpredictable effect of the North Korean population on national politics. We have seen that regional attitudes and values differ, and those of the acquired region may have important effects on national politics post-reunification. Moreover, the gap in per capita incomes between South and North Korea is also much larger than it was in the other reunifications ([Noland, 2022](#)). As our three cases show, income convergence will be very slow and the gap in incomes will persist for a long time. The cases also show the risks of a currency union, but we note that in none of the cases was there any effort to create separate economic entities in the acquiring and acquired regions, nor were barriers to migration imposed.

A positive lesson learned from the three cases is that it is critical to shift political, economic and social power away from the elites of the region being acquired. This was attempted in the United States, but it was not pursued for a sufficiently long period of time and thus former

²³ It is worth noting the similarity of the German economic system to that of South Korea with its Chaebols and strong labor unions.

slaveholders and Confederate officials were able to regain political power. Germany is thus a much better model, because it made a firm commitment to this task and has pursued it consistently. A question in the Korean case is whether the conditions surrounding reunification will allow for such a policy to be put into effect. A voluntary union between the North and the South would obviously make this policy impossible to enact. A “hostile takeover” of the North by the South brought about by the collapse of the North Korean regime would make it feasible, but the large number of cadres that would have to be driven from their positions would make it costly.

A third, and rather surprising, lesson is that external factors do not seem to have had an important influence on reunification. In the case of Italy, the support of France and the weakness of Austria contributed to the pace of reunification, but they did not play an important role in shaping the final territory of Italy. Similarly, the role of European powers in the U.S. Civil War and its aftermath were minor. German reunification hinged in large part on the attitude of the USSR, which was surprisingly benign, and on the attitude of the Western Powers. France and Britain were at best lukewarm and at worst hostile to German reunification, but the United States was strongly supportive. Korean reunification would likely face a mix of foreign reactions from its neighbors, China, Russia and Japan as well as from its ally, the United States. The fact that a united Korea would, at least at first, be a nuclear power is likely to raise serious concerns among these powers. Conceivably some preannouncement about how a reunited Korean state would deal with the North Korean nuclear and missile programs could reduce foreign concern about Korean reunification.²⁴

The final, and perhaps most important, lesson from our cases is that government intervention is necessary, can be economically and politically costly, but must be carried out consistently and resolutely for a long period of time. This is a daunting task for any democracy, but failure to do so comes at a high cost.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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²⁴ It might be too easy to say that a reunified Korea should categorically renounce nuclear weapons in order to appease the concerns of its neighbors. Its leaders might learn a lesson from the experience of Ukraine, which gave up its nuclear arsenal in return for independence from the USSR, but, after the Russian invasion, now probably regrets not having a nuclear deterrent.

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