

The German Land Policy Success and Failure

The landed aristocracy of Prussia was unable to borrow funds for reconstruction. Cooperative mortgage credit associations were created to deal with the crisis.

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Fred Foldvary, Ph.D.

Economist

#banks

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During the 1700s the German-speaking lands were ruled by independent kingdoms, the largest of which was Prussia. German agriculture suffered great destruction during the Seven Years' War of 1754-1763. Buildings were ruined, farms were idled, and cattle had perished. The landed aristocracy of Prussia was unable to borrow funds for reconstruction, as their credit was no longer trusted.

To deal with the financial crisis, in 1769 the Prussian king Frederick the Great by royal decree created cooperative mortgage credit associations called *Landschaften*. All the noble landowners of a province were required to be members. The *Landschaften* issued bonds, *Pfandbriefe*, jointly backed by the members' land in addition to the individual plots of the members. The bonds paid about four percent interest.

The idea came from a Berlin merchant, Diedrich Ernst Buehring. Having worked as a broker in Amsterdam, Buehring was familiar with the mortgage companies in the Netherlands, which provided credit to Dutch colonial landowners on the security of their plantations. In Prussia, he met with Frederick to propose a plan to issue bonds on the general security of the land of the country. This could be done with a credit union, a *Generallandschaftskasse*, which would issue mortgage-backed bearer bonds, the *Pfandbriefe*. The bonds could be redeemed for cash at any time at the credit union.

As a co-op, the credit union was administered by the members and served as an intermediary for loans by the members. Instead of an individual landowner obtaining a loan from a lender secured by his own property, the member borrowed from the credit union, whose collateral was both that member's land value and the lands of all the other members. The amount of the loan was based on half of the appraised land value or the profit of the estate. *Landschaften* were set up in several provinces, including Silesia, West Prussia, and East Prussia.

A *landschaft* sold *Pfandbriefe* to bankers and other investors. The joint collateral reduced the risk to the buyers of the bonds, and provided access to credit at fixed rates to the members. The *Pfandbriefe* took precedence over other loans.

The financial crisis of 2008 has resulted in some changes in financial regulations, and caused some economists and policy makers to examine alternatives to the prevailing real estate financing. Having studied the German *Pfandbriefe*, reformers have proposed the use of covered mortgage bonds, secured by a pool of mortgages. These bonds would have a dual recourse, secured by both the individual borrower's property and the pooled property. Such bonds could replace the current federal guarantees on real estate debt. Pooled mortgage bonds still exist in Germany and a few other countries in Europe, and partly explains why Germany did not suffer as much from the Crash of 2008 as the USA and the UK. The covered bonds remained stable throughout the crisis.

There is, however, a dark side to the financial success of the *Landschaften*. The credit unions connected the landed aristocracy (called "Junkers") with the German financial system, enabling them to increase their economic power. With German unification, the Junkers dominated the government of the Reich. In the 1938 booklet, *Why the German Republic Fell*, the Austrian journalist Bruno Heilig explained how the Nazis came to power.

After the disaster of hyperinflation that ended in 1923, the German economy recovered with the adoption of sound money. As few houses had been built during the previous ten years, and as there was also a great demand for commercial and industrial real estate, the reconstruction was supplied with prefabricated structures. But the demand also applied to land, whose prices soared to multiples of previous values. Landowners and speculators got rich.

Half the agricultural land in Germany was still held by the old aristocratic class, the Junkers. The German government granted subsidies to the estate owners to reduce their debts. Tariffs protected the farmers from foreign competition, and farmland values leapt up. Heilig explains what happened next:

"Land speculation had anticipated all the possible increase of production... Taxes were extraordinarily high because the state and the city had to redeem the costs of dearly bought land and generously built roads and railways... All [gains] had gone to the landowners..."

"Germany's masters, the owners of agricultural and industrial land, the Junkers and the Ruhr industrialists," controlled the government. As communists and socialists threatened the landed interests, the "landlords bought Nazidom with part of the money they obtained from the Republic both in cash subsidies and through the rise in land values. The State had provided its enemies with everything they needed for its destruction: with progress, with popular government, and with the material funds necessary to achieve the thorough organization of tyranny. The wall painter and corporal was of course not to the taste of the German landlords, but in the most important problem he has not betrayed his sponsors. He did not touch the land problem."

The German banks collapsed in 1931. "The industrialists and the merchants were unable to meet debts and interest and therefore the banks had to stop payment... Herr Brüning, then Chancellor, declared for the so-called deflation policy which involved a general reduction in rates of wages, and wages were reduced by 15 per cent."

Germany in the 1920s "provided a striking example supporting the theory that the private appropriation of the rent of land is the fundamental cause of industrial depression and of distress among those who labor in the production of wealth - the theory expounded by Henry George in his *Progress and Poverty*... For as unemployment grew, and with it poverty and the fear of poverty, so grew the influence of the Nazi Party, which was making its lavish promises to the frustrated and its violent appeal to the revenges of a populace aware of its wrongs but condemned to hear only a malignant and distorted explanation of them."

Heilig concludes: "Nazidom has grown organically out of a rotten democracy, and the rottenness of that democracy is the natural consequence of unequal economic conditions; and unequal economic conditions obtain all over the world owing to the instituted private appropriation of the rent of land. Therefore every country is potentially a Fascist country."

Whereas the *Landschaften* and covered mortgages offer a more stable financial system for mortgages, this does not touch the problem inherent in government subsidies to land values. When government taxes wages, profits, and trade to provide public works, instead of tapping the land rent, this pumps up land values, redistributing wealth from workers to landowners. The German Junkers' credit unions served their members well, but did not prevent the speculative rise in land values that ruined the German economy, and also brought on the financial crisis of 2008. But the world has yet to learn from the German boom and bust, just as the world has not learned from the Crash of 2008 how to prevent the next one.

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Fred Foldvary, Ph.D.

 Made in Webflow

Economist

FRED E. FOLDVARY, Ph.D., (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](#) since 1997. Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

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