

Rethinking Reunification: German Monetary Union and European Integration

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On 6 February 1990, West German Chancellor Helmut Kohl surprised his closest advisors, the West German public, his East German friends and foes, as well as his western European partners and Soviet interlocutors by offering to extend the *Deutsche Mark* (DM) eastward to the German Democratic Republic (GDR).¹ The chancellor had only arrived at his decision that morning, too late for the discussion point to appear on the agenda of the cabinet meeting set for the next day.² Although they nevertheless approved his plan, Kohl's ministers were caught unprepared by a decision they had gone on record as opposing.³ Just a few weeks prior to Kohl's decision, for example, West German Finance Minister Theo Waigel had dismissed rapid monetary union with the GDR as "hair-raising," while Bundesbank President Karl Otto Pöhl had ruled it out as "fantastic and unrealistic."⁴ In fact, the very day of Kohl's announcement, Pöhl told journalists that introducing the DM into the GDR was "premature," while Economic Minister Helmut Haussmann presented a plan that foresaw monetary union by 1 January 1993.⁵

Kohl's surprising reversal was a stroke of political brilliance; his offer of the DM changed the dynamic of the revolution in a way that his "Ten-Point Plan for German Unity" of 28 November 1989 had not. Back then, it had taken Kohl three weeks to respond to the collapse of the Berlin Wall, and even then his "Ten-Point Plan" lagged well behind the revolution's dynamic. Kohl's plan promised East Germans a confederation capped by an eventual currency union in the distant future, even though unification was in the air just days after the Wall had been breached.⁶ At the Monday demonstrations in Leipzig and elsewhere,

the revolutionary chant “We are the people” quickly gave way to the unification slogan “We are one people.” By December, ordinary people were demanding unification and the DM, shouting “Germany united fatherland.” Kohl’s “Ten Point Plan” had also provoked the ire of his French and British allies and his Soviet counterparts, since he not only failed to apprise them of his intentions, but also suggested that the German-Polish border was open to negotiation.⁷

Not so by 6 February. With one gesture, this uninspiring backroom politician had put himself at the head of revolutionary developments, changed the terms of the debate over German-German unification, and completely outmaneuvered his political competitors at home and abroad.⁸ The offer to extend the DM eastward, styled as the culmination of the 1948 currency reform, effectively ended the East German revolution and set both the pace and the mode of German unification.

If Kohl’s bold instrumentalization of monetary policy for political purposes hastened the transfer of institutions from West to East Germany, it also deepened the economic and social divisions between the two regions. The economic reservations articulated at the time by his advisers and critics that eliminating the East German mark before substantial convergence of the two economies would slow the former GDR’s recovery from 40 years of mismanagement have been borne out. Twenty years after the collapse of the Berlin Wall, eastern Germany still suffers from lower living standards, higher unemployment, and more right-wing xenophobia than West Germany. Political unification, moreover, may have transformed the GDR from a sovereign state (East Germany) to a regional designation (eastern Germany), but the institutionalization of the gap in productivity between the two German states has fueled social and political divisions while contributing to what the

Bundesbank has called a “subsidy mentality.”⁹ Although Kohl’s strategy unified Germany in formal terms, it has failed to make the German East part of Europe’s West.

Kohl’s short-term solution to the “German question” set into motion a series of events that have also had serious repercussions on European unification. The premature introduction of the DM created inflationary conditions that forced the Bundesbank to adopt aggressive disinflationary policies, which in turn drove a wedge between its domestic responsibility to safeguard the German currency and its role as anchor of the European Monetary System (EMS). Not only did German monetary union damage the Bundesbank’s credibility with market participants and the German public, but it also destroyed the Exchange Rate Mechanism (ERM), which was designed to reduce exchange rate fluctuations and advance monetary stability in western Europe, at great cost to European monetary authorities.

Ironically, however, the institutional crises generated by Kohl’s decision ultimately led to the creation of a common European currency. Placing currency union at the beginning rather than the end of economic and political integration not only flew in the face of contemporary economic theory, but also reversed three decades of German policy toward European unification. Since the disruptions caused by an expansionary fiscal policy in the United States due to its prosecution of the Vietnam war and the subsequent collapse of the Bretton Woods system, the German central bank and successive West German governments had advocated what came to be called the “coronation theory,” or the idea that a common currency should not initiate, but rather finalize a process of political and economic convergence between two regions.¹⁰ Kohl’s decision to place the monetary cart before the political horse, however, removed the grounds for German objections to a rapid European

monetary union, as urged most forcefully by French President François Mitterand. Scholars continue to express skepticism about Europe's status as an "optimum currency area," which refer to the economic preconditions for a successful currency union, and the "institutional solitude" of the European Central Bank, which is the only pan-European institution empowered to make decisions independently of sovereign member states.¹¹ Yet the Euro continues to prosper, surviving popular criticism of its undemocratic charter and disinflationary preferences, and navigating the recent and grave economic downturn without serious controversy.

To understand the impact of German monetary unification on Germany and Europe, I begin by reconstructing the political calculations leading up to Kohl's decision, including the expectations of ordinary East Germans regarding money and German unification. I then analyze the institutional crisis provoked by Kohl's usurpation of the Bundesbank's right to determine monetary policy and its consequences for the economic growth of eastern Germany. Finally, I locate the acceleration of the timetable for EMU in the ERM crisis of 1992/3 – that is, in the European consequences of German monetary union rather than in German unification itself.

The Politics of German Monetary Union

Kohl's offer of a rapid monetary union was designed first to undercut the East German government, which still remained in the hands of the Socialist Unity Party (SED), and the civil rights movement, which had bravely opposed the SED while the threat of a violent crackdown was still an option, by exposing the gap between East German political representatives and popular opinion. To do so, Kohl capitalized on the popular perception

that the GDR was not economically viable. After the collapse of the Berlin Wall on 9 November 1989, the stream of revelations about the party's mismanagement of the economy intensified, dimming the prospect that the GDR might recover quickly without a serious decline in living standards. Macroeconomic data made public after SED strongman Erich Honecker was deposed on 17 October, for example, suggested that the GDR was hopelessly indebted to the West, even though this was not the case. The SED's new leadership, which wrongly thought it could distance itself from Honecker by drawing attention to his economic incompetence, published figures in early November that exaggerated the GDR's net liabilities to western creditors. In reality, the GDR owed 19.9 billion DM to the West, or just over half of the 38.5 billion DM mistakenly announced.¹² While nearly 20 billion DM was hardly a small sum and the GDR's ability to pay it down had been undermined by its ongoing loss of export markets during the chaos of the revolution, the GDR was hardly in danger of defaulting on its debts. As Doris Cornelsen, director of the German Institute for Economic Research's (DIW) eastern European section and one of the most astute observers of the East German economy, pointed out in February 1990, "the GDR's debts are in no way immense."¹³

Such rational assessments of the GDR's financial viability, however, were drowned out by the political chaos and economic disarray that reigned in the GDR after the Wall was breached. Confidence in the new East German Minister-President, Hans Modrow, was shaken by his contradictory approach to political and economic liberalization. Shortly after assuming power on 13 November, for example, Modrow insisted on using administrative measures to deny the fact that the two German states were no longer separated by a wall, augmenting border security, preventing foreigners from purchasing a variety of East

German goods, and placing customs duties on selected consumer imports.¹⁴ In the face of loud protests, Modrow quickly backtracked and agreed on the need to eliminate subsidies and open the country to foreign investment. As late as March 1990, however, he continued to advocate sharp restrictions on foreign direct investment in the GDR despite the urgent need to attract western capital.¹⁵ Similarly, Modrow agreed in December 1989 to participate in round table discussions with the various opposition parties in an effort to stabilize the country. In mid-January, however, he tried to reconstitute the Stasi, the hated espionage agency. Fearing that a reinvigorated security apparatus would reestablish a police state, an angry crowd sacked Stasi headquarters in Berlin on 15 January. By the end of January, Modrow had lost control over economic activity. Managers no longer listened to government officials the way they once had under the command economy.¹⁶ Likewise, strikes and walkouts brought factory production to a standstill. As the deputy president of the East German central bank admitted in January, “there is chaos in the factories right now.”¹⁷

To regain political momentum, Modrow made a speech to the East German parliament on 29 January 1990. Calling economic conditions “alarming,” Modrow noted that strikes and walkouts had led to significant shortfalls in production and that the East German state was burning through cash at a fast pace.¹⁸ In the hopes of stabilizing the economy, Modrow called for a government of “National Responsibility” that would include the SED as well as oppositional groups. He also proposed a political condominium with the Federal Republic that foresaw monetary convergence at the end of a two-year period, most likely at an exchange rate of 3:1.¹⁹ According to Kohl’s speechwriter Michael Mertes,

Modrow's proposal put Kohl on the defensive and directly contributed to the Chancellor's decision to proceed with a monetary union immediately rather than in the distant future.²⁰

If the communists under Modrow were staggering toward the market and German unification, the leaders of the civil rights movement found it equally difficult to accept what most East Germans wanted. Although civil rights leaders enjoyed widespread support in the revolution's early stages, even leading popular opinion regarding necessary reforms before 9 November, they were soon marginalized by their insistence on finding a "third way" between communism and capitalism.²¹ The leaders of New Forum, for example, expressed continued skepticism about the market, declaring in late November that "having liberated ourselves from the claws Stalinism, we will not consider defecting with fluttering flags to the socially unjust two-thirds society of a Herr Kohl." The proclamation continued with a pun that equated the West German chancellor's name with the slang for cash in German: "We want to seize what is probably our last and certainly a unique opportunity to construct a just social order in which money [*Kohle*] is not the measure of all things."²² Yet the substance of their proposals remained vague at a time when the majority of East Germans were wary of economic experimentation.

In fact, once the Wall had collapsed, East German opinion quickly focused on unification with West Germany. In part, this was because East German's newly won freedom to travel to West Germany invited unflattering comparisons with the enforced underconsumption that East Germans had endured. In the first weekend after 9 November, at least 4.5 million and perhaps as many as 10 million out of the total population of 17 million East Germans visited the Federal Republic.²³ The panoply of abundance presented by West German consumer society made a tremendous impression on East German tourists,

shifting sentiment away from reform of the GDR and toward participation in the social market economy via unification with West Germany.

Pressure for unification increased when East German mobility had a deleterious effect on the *Ostmark*. The East German mark was not a convertible currency. Despite the SED's public insistence since 1951 on parity with DM, the party estimated internally that the gap in productivity between the two states by 1989 made for a real exchange rate, based on its own index of trade with the West, averaging 4.4:1. After 9 November, however, the asymmetry between pent-up East German demand and West German supply led to a precipitous decline in the value of East German marks, at one point dropping as low as 20:1.²⁴ This sudden collapse in the purchasing power of the *Mark der DDR* provoked a crisis of confidence in the *Ostmark*, no doubt intensified by memories of the two previous currency collapses in recent German history.²⁵

To stabilize the East German mark and ensure that East Germans could exercise their newly won right to travel, Kohl came to an agreement with SED in late November that the Federal Republic would make 3.8 billion DM available to East German tourists. More importantly, the travel agreement established a fixed exchange rate of 3 *Ostmark* to 1 *D-Mark*.²⁶ The 3:1 rate was far better than black market rates, which reflected the sudden jump in demand and small sums traded, and more accurately measured the productivity gap between the two states.²⁷ Although the travel agreement has been largely overlooked by scholars, it was, in the words of Helmut Schlesinger, then Bundesbank Vice President, "the precursor of currency union," which would itself become the mechanism of German unification.²⁸ It was also the last time that Kohl would directly subsidize an SED-led

government and the first time that the Federal Republic attempted to create an official, market-based valuation between the two economies.

Anxiety that the *Ostmark* would continue to lose value, together with the fixed rate set by the travel agreement, only reinforced popular demands for replacing the *Ostmark* with the DM. To some extent, these demands derived from the culture of economic planning in East Germany, which had conditioned people to equate the DM with wealth. Honecker's 1974 dramatic expansion of the Intershop hard-currency stores, for example, taught people that the DM had the power to overcome the chronic scarcity, poor selection, and inferior quality of East German consumer goods. It is hardly surprising, then, that East Germans fetishized the DM, endowing it with precisely the sort of magical qualities against which Marx had warned in *Capital*.²⁹ In this manner, popular confusions of money with wealth, revelations of West German affluence, the continued erosion of the GDR's economy, and fears of the *Ostmark's* collapse fuelled East German demands for rapid monetary union.³⁰ As it often does, cultural perception trumped economic reality.

Between December and February, moreover, yet another consequence of the Wall's collapse helped overdetermine Kohl's decision to offer the DM. With the prospects for economic stabilization and democratic control receding, some East Germans began taking advantage of the "exit option" and leaving the GDR to resettle the Federal Republic.³¹ During the revolutionary months of 1989, some 343,854 people deserted the political uncertainty and economic disarray of the GDR for the safety and prosperity of the Federal Republic, or 2.5 percent of its workforce. By January, the number of people fleeing the GDR exceeded 2000 a day.³²

Those who stayed behind, moreover, made clear their willingness to use their newly won labor mobility as political leverage to acquire the DM. At demonstrations throughout the GDR, millions of East Germans expressed their desire for political stability and economic prosperity in terms of West German money, chanting “If the *D-Mark* comes to us, we’ll stay here/If not, we’ll go to it over there.” Even the Central Round Table placed money at the center of the crisis, declaring that “thousands continue to leave our country every day [because] they want to earn ‘real money’.”³³ In the chaotic aftermath of the Wall’s collapse, a fundamental misapprehension about the meaning of money – that acquiring the DM was the same as being wealthy – convinced East Germans that a currency union with the Federal Republic was the best solution to the challenges facing them.

By meeting East German demands for the DM, Kohl had effectively domesticated the revolution, placing it on an orderly path toward monetary union and unification. He had completely bypassed Modrow and his plan for convertibility of the East German mark by 1993. Kohl had also completely undercut the Round Table, whose leaders continued to reject “the hasty abdication of the GDR’s financial sovereignty.”³⁴ To step up the pressure, moreover, Kohl and his advisors did their best to underscore the GDR’s inability to solve its own problems. Once it was clear that the Federal Republic could undermine the Modrow government without further destabilizing the GDR, Kohl’s aides consistently painted the GDR’s economic position in the worst light. Kohl also withheld the financial assistance to the communist-led government he had promised in December.³⁵ Most importantly, however, Kohl’s offer dramatically improved the political fortunes of his East German allies. The East German CDU’s image, which had suffered because of its longtime

collaboration with the SED, its initial rejection of currency union, and its decision to join Modrow's government of "National Responsibility," was immediately burnished by its association with Kohl.

If Kohl had cut the ground out from under the SED and the civil rights groups, his offer also revived the fortunes of his own West German CDU. West German elections were imminent, yet through the summer of 1989, Kohl's Christian Democrats seemed to be losing electoral ground to the social democrats. Kohl's "Ten Point Plan" had fallen flat with West German voters; by January, criticisms were mounting that the chancellor was passive in the face of political chaos in the East.³⁶ His bold decision to bring the GDR under the DM's umbrella not only blunted criticism over the chancellor's inactivity, but threw the social democratic opposition into disarray by seizing upon an idea first articulated by the social democratic financial expert Ingrid Matthäus-Maier. On 19 January, Matthäus-Maier, who had left Hans-Dietrich Genscher's Free Democratic Party when he switched allegiances from the SPD to Kohl in 1982, suggested that a currency union would act as a "signal to stay" for East Germans; monetary policy could constrain labor mobility, she argued, because the underlying cause of the East German labor exodus was political.³⁷ The promise of a currency union would reassure East Germans about their political future, not least because it represented "a decisive step on the path toward German unity." Besides, she pointed out, the alternatives to replacing the *Ostmark* with the *D-Mark* were decidedly less attractive. Doing nothing about the loss of confidence in East German money would lead to a *de facto* currency union, as good money crowded out the bad – "the D-Mark will spread to the GDR and crowd out the DDR-Mark" – without stemming East German outmigration, which "is impeding reforms over there and aggravating problems on the residential housing

and labor markets as well as the social welfare system in the Federal Republic.” Giving East Germans a reason to remain would not only stabilize the GDR and provide a stepping stone to unification, but also relieve the substantial burden to the Federal Republic created by the need to provide food, lodging, and employment for emigrants during an economic contraction.

Anticipating economic objections to a premature currency union, Matthäus-Maier emphasized that time constraints had narrowed policy options. “The ten years that the Federal Republic required for the convertibility of the D-Mark in the 1950s,” she contended, “are not available today.” To preempt objections that currency unions are successful only where there is economic and political convergence, she even made an infelicitous analogy to the success of the EMS, where “monetary policy took on a leadership function in the integration of the European Community, which no one criticizes anymore because of its success.” Of course, German unification would destroy the EMS in 1992/93, only to ensure its successful resurrection in 1999 in the Euro. In any case, Matthäus-Maier laid out the political reasoning for deploying monetary policy to solve a problem of labor mobility, even providing Kohl with a blueprint for justifying a currency union that was clearly premature from the viewpoint of economic theory at the time.

By coopting Matthäus-Maier’s proposal and transforming it into a plan for unification, Kohl stole the opposition’s thunder in what was an election year for the FRG. By accelerating the timetable for German unification, moreover, Kohl forced the split in the West German left over the meaning of communism’s collapse and the end of the post-World War II era. As the elections of December 1990 were to reveal, the prospect of unification was deeply unsettling to those on the West German left who viewed the

division of Germany as a form of historical justice for crimes committed by Germans during World War II, were paralyzed by the intellectual vacuum left behind by the collapse of communism, and concerned that unification might revive an aggressive German nationalism.³⁸ During the spring and summer of 1990, the SPD's chancellor candidate, Oskar Lafontaine, responded to the rapid unfolding of events in the GDR by trying to slow down what Konrad Jarausch has aptly called "the rush to unity." As a result, the East German SPD was tarred with the hesitancy of its West German comrades over the question of rapid monetary union. Even though it was one of the first parties to come out in support of exchanging the East for the West German mark as soon as possible, the *Ost-SPD* would lose the East German parliamentary elections of 18 March to the conservative Alliance for Germany.³⁹

Kohl's offer to move West German monetary borders further to the East also provided Kohl with a valuable edge in the complex diplomatic negotiations over German unification. Although Kohl had once again failed to consult his partners on the diplomatic stage, he could now argue – with Moscow in particular – that he was powerless in the face of the massive tectonic shift in popular sentiment in the GDR toward monetary union. The alternative to replacing the East German mark was attractive to no one, since the accelerating pace of East German outmigration might destabilize the GDR and the rest of eastern Europe. In the estimation of the East German CDU leader and last Minister-President of the GDR, Lothar de Maizière, between 2.5 and 3 million East Germans were "sitting on packed bags," waiting to see what would happen.⁴⁰ In this manner, Kohl managed to make monetary union seem a matter of course and unification inevitable. United by a common currency, the transfer of economic and then political

institutions could begin, sealed by pan-German elections. In fact, East German parliamentary elections, which returned a clear mandate to secure the DM at the best possible conditions, were followed by the Bundesbank's takeover of East German monetary policy and institutions in late March. Without control over the money supply, the de Maizière government's ability to use fiscal or administrative measures to conduct economic policy was severely constrained. And while negotiations over the rate at which the two currencies would be converted forced West German leaders to make compromises, the negotiation of economic and political unification reflected the asymmetry in power between the Federal Republic and a government that had been elected to dissolve itself. After a remarkably orderly currency substitution on 1 July and formal union on 3 October, all-German elections on 2 December sealed the unification of the two countries under Kohl's leadership.

Economic Consequences of German Monetary Union

Accelerating the introduction of the DM was not uncontroversial, however. While some industry groups, such as the German Association of Industry, welcomed the opportunity to bring East Germany into the West German fold, prominent West German business leaders and professional economists rejected placing the monetary cart before the economic horse. Many business leaders objected that a currency union was premature, since the GDR had yet to make the transition from a planned to a market economy. On 15 January, Wolfgang Röllner, chairman of the Dresdner Bank and president of the powerful Association of German Banks, spoke out against abolishing the *Ostmark*. Warning that economic reform had to precede monetary union, he argued for eliminating

state intervention in the price formation process and ending state subsidies for manufactured goods before eliminating the East German mark.⁴¹ Even after Kohl's announcement, Röller continued his public opposition to the plan, declaring that currency union "should not yet be a matter of debate."⁴² In contrast, Detlev Karsten Rohwedder, the head of the Dortmund steel conglomerate Hoesch and the man who would oversee the privatization of East German industry before his assassination in 1991 by the Red Army Faction, argued that a rapid monetary union would make East German products uncompetitive on international markets. Like Röller, Rohwedder continued to oppose Kohl's offer on economic grounds well after it had changed the constellation of German-German politics, objecting that "the foreign exchange rate is the only protection that the sick economy of the GDR has for a gradual convalescence."⁴³

West German economic experts, most of whom regarded a monetary union with the GDR as unnecessary or impractical in the short-term, were taken aback by Kohl's decision. The DIW's Cornelsen pointed out that there was no compelling economic reason to discard the *Ostmark*. "The GDR-Mark is clearly not the best, but certainly not the worst currency," she commented.⁴⁴ The Council of Economic Experts, a group of economists tasked with advising the German government regarding economic developments, warned that a rapid monetary union would only nurse East German equations of money with wealth – that acquiring the DM would also make them prosperous. On the contrary, the so-called "Wise Men" predicted that the income gap between the two German regions would only stimulate East German demands for higher wages, which would widen the already yawning gap in productivity between the two German states.⁴⁵ Similarly, Lutz Hoffmann, the head of the DIW, argued that without an

adjustment mechanism such as the East German mark to cushion the sudden impact of exposure to international markets, East German manufacturers would become uncompetitive. He predicted that a rapid monetary union would lead to large-scale unemployment of between 2.5 and 3 million people.⁴⁶

In addition, economists of every political stripe presented a bewildering variety of proposals between January, when discussion regarding the GDR's economic tribulations began in earnest, and March 18, when East German parliamentary elections were held. All of these proposals advocated preserving the East German mark during the transition to a market economy to cushion the shock of sudden integration into international markets.⁴⁷ A few economists, such as Hans Willgerodt of the Institute for Economic Policy in Cologne, who wrote a report for Kohl advocating monetary union, did argue that introducing the DM would actually accelerate reform.⁴⁸ But most of those economists who advocated using monetary policy to shape labor mobility emphasized either the national goal of German unification or the lack of serious policy alternatives.⁴⁹

The debate over monetary union was informed by a longstanding scholarly consensus that viewed currency unions as possible only if preceded by sufficient economic and political integration. Spurred by balance-of-payments-crises in the Bretton Woods system, which had established a currency regime for the western powers by pegging European currencies to the dollar at fixed exchange rates, and the increasing economic integration of European states, which presented the different currencies as impediments to the growth of trade in a common market, economic theorists had argued with relative consistency that successful monetary unions required more economic convergence or an institutional framework that would compensate regions for the loss of an autonomous

monetary policy.⁵⁰ In his pathbreaking 1961 article, for example, Robert A. Mundell argued that successfully linking economically disparate regions through a single currency was contingent on the existence of three types of adjustment mechanisms: labor mobility, relative wage flexibility, and large transfers of wealth.⁵¹ Given that labor mobility across what was then the European Community was hindered by linguistic variation and legal obstacles, both of which significantly reduced wage flexibility,⁵² and that institutions required to make transfer payments at the EC level were underdeveloped,⁵³ most analysts (and especially American economists) argued that the EC did not qualify as an optimum currency area.⁵⁴

Perhaps more significantly, successive West German governments agreed that the European Community's unintegrated labor markets and the weakness of pan-European fiscal institutions constituted significant obstacles to a single European currency.⁵⁵ Whether in discussions regarding British accession to the European Community or public statements about the European Exchange Rate Mechanism, the Federal government argued that political institutions strong enough to ease the loss of monetary autonomy had to accompany, if not precede, the introduction of a single currency.⁵⁶ Even more vocal on this point was the West German central bank, whose leaders feared that a European monetary authority would endanger the preservation of currency stability at home and worried about institutional oblivion.⁵⁷ In other words, Kohl's prescription of monetary union before economic convergence contradicted not only the expectations of economic theory, but also the government's own policy prescriptions.

To distract from these associations, Kohl and his aides likened German monetary union to the 1948 introduction of the D-Mark, when the new currency and the institutions it

implied helped equilibrate supply and demand and allegedly unleashed the West German “economic miracle.”⁵⁸ The analogy was as historically false as it was politically helpful, but the chancellor’s “flourishing landscapes” have yet to materialize.⁵⁹ As economic they predicted, rapid monetary union created insurmountable burdens for East German industry and labor. The DM abruptly overvalued both East German manufactured goods and the labor that produced them, making East German firms uncompetitive overnight. In addition, the West German decision to translate the fictive debt carried by communist firms into real liabilities, even though that debt was mostly unrelated to the factory’s economic production, burdened East German firms with crushingly large debts, forcing many into bankruptcy.⁶⁰ As a result, the East German economy slumped; between 1989 and 1991, East German GDP fell by 42 percent.⁶¹ As anticipated, moreover, the unification of labor markets accomplished by unifying the currencies spurred higher wage demands in the East, which were supported by West German workers worried that lower East German wages might weaken their bargaining power. Unfortunately, these wage increases were not warranted by the firms’ labor productivity, making it even harder for East German firms to meet their monthly payroll.⁶² As a result, East German unemployment has persisted at stubbornly high rates.

Nor has the East German slump proven unresponsive to massive transfers of wealth from western to eastern Germany.⁶³ Net financial transfers totaled about 75 billion Euros annually between 1990 and 2000, or between 5 and 6 percent of West German GDP; between 1991 and 2003, West Germany had transferred some 1.25 trillion Euros to East Germany.⁶⁴ In the first decade after monetary union in fact, “every third deutschmark spent in East Germany came from the West.”⁶⁵ More than half of these transfers were used for welfare payments, which have spared East Germans the material privations of their eastern

European neighbors. But only 12 percent of the transfers were used to improve infrastructure. Most alarming, the transfers have acted to shield many firms from hard budget constraints, returning East German business to old habits: Vast government subsidies have made the cost of capital negative, which has encouraged firms to ignore labor productivity.⁶⁶

In fact, German monetary union appears to have confirmed that the two countries were not optimum currency areas, and that such areas require some combination of labor mobility, wage flexibility, and transfer mechanisms. Although the Federal government possessed an effective transfer mechanism for redistributing wealth on a regional basis, political rigidities in the face of productivity gaps restricted wage policy flexibility. As Mundell's theory predicted, the equilibrating effects of abdicating monetary flexibility now turned to labor mobility. Monetary union initially slowed the labor exodus, but as soon as the wage differential became apparent, the inability of monetary policy to constrain labor mobility caused East Germans to resume their migration to the West. From mid-1990 to the end of 1992, an estimated 1 million people left the GDR permanently, amounting to a rate of about 1,000 a day. Between 1992 and 2002, another 521,000 people left for West Germany.⁶⁷

Nor does the German mezzogiorno show any signs of converging. East German GDP has been growing at a slower rate than West Germany since 1996, and labor migration continues, albeit at a slower rate.⁶⁸ In addition, the pull of real income differentials together with push of depopulation have set off a vicious socio-economic circle: As younger people leave, they deplete the local workforce, leaving behind an older and more male population that is often unemployable and increasingly dependent on government subsidies. As the real

and perceived prospects for economic recovery shrink, more people decide to leave. As the continued economic chasm between the two German regions demonstrates, institutional uniformity in areas characterized by significant productivity gaps and wage rigidity is no guarantee of economic convergence. Nor has the historical legacy of state paternalism and a political culture that promoted the illusion that money is equivalent to wealth provided a social complement to political unification. As one group of economists comparing East German to southern Italy have observed, “in the end, history may matter just as much as the design of economic policies and the working of market forces.”⁶⁹

European Consequences of German Monetary Union

The most important European consequence of German currency union was the inflation it triggered. In the short run, the inflationary outcome of the currency union, triggered by the rate at which the two currencies were converted and the Federal government’s decision to fund the transfer payments by deficit spending, destabilized the EMS by damaging the Bundesbank’s institutional credibility and by transmitting its disinflationary policies to other European countries. Kohl’s decision to throw the coronation theory overboard thus had inverse consequences for EMU in the short term. In the long run, however, German monetary union accelerated the pace of European integration, although it did so not in the service of national but of antinational aspirations.

Three events in short succession made it seem at the time that the Federal government was undermining the central bank’s independence: Kohl’s offer of monetary union on 6 February, the dual role of Hans Tietmeyer, who was recalled by Kohl from his position on the Bundesbank Directorate to lead negotiations with the East German

government over economic and political union, and Kohl's rejection of the Bundesbank's recommendation regarding the conversion rate for monetary union. Most of the literature on German unification acknowledges in passing that Kohl's offer of monetary union encroached upon the Bundesbank's jurisdiction over monetary policy, but concludes either that Kohl acted within legal limits or that the political ends justified the monetary means.⁷⁰ Yet dismissing the institutional tension between the Federal government and the central bank is unnecessarily uncritical and historically problematic. After all, market participants perceived in each of these episodes a curtailment of the bank's autonomy; the yields on long bonds rose by more than one percent after 6 February, driven by concerns over inflation.⁷¹ As the currency expert George Soros remarked, "the government acted against the express advice of the Bundesbank. The injection of purchasing power by exchanging the East German mark at par created inflationary boom, and the fiscal deficit added fuel to fire."⁷²

The constitutionality of Kohl's announcement, moreover, was murkier than most observers allow.⁷³ In the first place, the central bank's charter was clear about making it independent of the democratic process. According to the Bundesbank statute of 1957, which endured no significant change until 1992, the central bank's primary obligation was to "safeguard the currency," although it was unclear whether this meant the domestic or foreign value of the DM.⁷⁴ However, neither was the Bundesbank's autonomy from the Federal government complete. Paragraph 12 stipulated that the bank was independent from the Federal government's instructions, but also stated that the bank was "obliged to support the economic policy of the government while guaranteeing its duty."⁷⁵

Before 1990, most observers viewed the central bank's vaguely defined obligation to support the government economic policy as less important than its anti-inflationary duty.⁷⁶ As one of the most popular economic handbooks from the time put it, "if there is no danger to the currency, the Bundesbank is on the other hand obliged to support the government in the realization of its goals – such as growth and full employment."⁷⁷ Historically, the central bank adopted a rather narrow interpretation of what constituted a "danger to the currency." The bank's conflicts with Chancellor Konrad Adenauer in the 1950s over its tight money policy established something of a precedent in which scholars and the media, animated by Germany's traumatic experiences with price instability in the wake of two World Wars, viewed the bank's periodic clashes with successive West German governments as evidence of an institutionalized guarantee against inflation.⁷⁸ Whether it was Adenauer in 1956, who alleged that the Bundesbank was "a guillotine for the little people," or officials in Helmut Schmidt government in 1981, who revived Adenauer's guillotine comment in the face of the Bundesbank's tight money policies, West German government officials certainly felt powerless to change the bank's hawkish approach to price stability.⁷⁹

Since 1990, however, a retrospective consensus appears to have emerged among German legal and financial scholars that the bank's independence is limited by its fealty to government policy.⁸⁰ Going forward, the question is moot, since the Bundesbank is no longer free to set domestic policy within the framework of EMU. In February 1990, however, Kohl's offer to extend the West German currency umbrella to the GDR appeared to most observers – and especially market participants – to usurp the authority of the Bundesbank. Prior to 6 February, the leaders of West Germany's fiercely

independent central bank had firmly rejected any talk of an immediate monetary union in line with its approach to EMU: that a monetary union should take place at the end of a process of economic and political convergence. In late January, Bundesbank Vice-President Helmut Schlesinger objected to monetary union on the grounds that it would not close the gap in productivity between the GDR and the Federal Republic, but widen it instead.⁸¹ As we have seen, Bundesbank President Pöhl also argued that extending the DM was premature. He did soften his position somewhat by the end of January, telling the Economic Club of New York that “a gradual linking of the East German mark to the Deutsche mark would be conceivable” if it were accompanied by West German business investment and “a strong improvement in the foreign exchange situation.”⁸² But Kohl did not bother to inform Pöhl of his decision, much less consult with him.⁸³ Instead, Kohl left him flapping in the wind. As Kohl was announcing his plan, Pöhl, who had just met with his East German counterpart, Staatsbank President Horst Kaminsky, and East German Economic Minister Christa Luft to discuss a more gradual plan to link the two currencies, was reiterating his opposition to rapid monetary union.⁸⁴ Kohl not only disregarded the central bank’s clear warnings against monetary union, he also delivered a institutional and personal snub to the central bank and its chief.

The second blow to the Bundesbank’s credibility occurred a few months later. Kohl realized that the Federal government could not avoid soliciting the monetary authorities’ advice on a question concerning their own jurisdiction. But to prevent a debate from being carried out publicly, which might constrict his room for maneuver, Kohl requested that the central bank submit its proposal confidentially.⁸⁵ For its part, the Bundesbank Council sought to determine a conversion rate based on economic principles,

but also took political realities into consideration. After all, if wages were converted in line with East German productivity, which most experts calculated at between 30 and 40 percent of the West German rate, East Germans would seek higher wages by moving to the West. But if wages were converted at too high a rate – the 1:1 rate favored by the population – East German firms would soon be forced to let workers go, which would also lead them to migrate to the West. On 29 March 1990, the Bundesbank submitted its confidential proposal to the government recommending the conversion of money flows (wages, salaries, and pensions) as well as stocks (financial assets and debts) at a rate of 2:1.⁸⁶

The recommendation, however, was leaked to the press by a member of the Council, which provides some sense of how controversial it was inside the bank. In response, Kohl recalled Tietmeyer, a close economic advisor who had been promoted to the Bundesbank's Directorate shortly before, to act as the Federal government's chief negotiator for economic questions with the GDR. Tietmeyer himself has argued that there was no conflict of interest because he recused himself from the relevant deliberations at the central bank.⁸⁷ But union of the two positions in Tietmeyer's person did not seem so innocent to outsiders, who perceived in the arrangement yet another attempt by Kohl to take charge of monetary policy. Pöhl himself appears to have been annoyed by the unusual situation of a subordinate at the central bank acting as his superior in negotiations over monetary union. Perhaps it was for this reason that Pöhl saddled Schlesinger, who had good ties to Waigel's Bavarian conservatives, with representing the Bundesbank's interests in a losing argument.⁸⁸

The third shock came on 23 April, when the Federal government announced that it advocated a rate of 1:1 (except for very large savings deposits), in line with what ordinary East Germans wanted. If the Bundesbank Council feared that too generous a rate would eventually lead to high unemployment and fail to correct the monetary overhang in the GDR, which stemmed from the considerable savings East Germans had acquired because there was so little they could buy, the conservative-liberal coalition wanted a conversion rate that would reduce the wage gap, enable East Germans to retain the better part of their savings, and help their East German political allies. If Kohl's announcement of monetary union without consulting the central bank was a snub and his recall of Tietmeyer aimed at containing the bank's influence, the chancellor's rejection of the conversion rate advocated by the central bank brought tensions to a head.

Some scholars have sought to downplay the institutional significance of Kohl's action by pointing out that the Bundesbank's conversion rate was not that far away from the average conversion rate that resulted from the government's treatment of large savings deposits.⁸⁹ The point, however, is not whether the two rates were close in structure or outcome, but that Kohl's rejection of the Bundesbank's plan was perceived as undermining the bank in its own field of expertise. Financial markets dropped in response to the government's announcement.⁹⁰ At a public event on 26 April, Finance Minister Waigel discussed how the Federal government would pay for the costs of unification, only to hear Bundesbank President Pöhl chastise the government for resorting to deficit spending rather than taxation.⁹¹ Pöhl's 1991 resignation was clearly triggered by the Federal government's institutional disregard for the central bank; he delayed stepping down only because it might otherwise complicate the unification process.⁹²

European Repercussions of German Inflation

The result of Kohl's decision was that the German central bank was no longer able to harmonize its domestic role as guardian of price stability with its international role as anchor of the ERM. At home, the Bundesbank was forced to raise interest rates (and particularly repo rates) to combat the inflationary effects of the monetary overhang in the GDR, price instability resulting a much too-generous exchange rate, and the government's attempt to close the productivity gap between the two regions through expenditures not covered by taxation. According to the central bank's calculations, monetary union led to an expansion of the German money stock of approximately 15 percent without the economic activity to justify it.⁹³ The need to underscore its independence in the face of three setbacks, moreover, led the central bank to act aggressively even as market participants sought to test its anti-inflationary resolve. The Bundesbank kept ratcheting up interest rates, which by 1991/92 were the highest since the Great Depression and the 1931 Banking Crisis.

Its role as the anchor of the ERM, however, meant that the Bundesbank was exporting disinflationary policies to the rest of Europe, which was enduring its worst recession since 1945. This policy asymmetry generated a series of disruptions to European currencies not seen since the collapse of Bretton Woods. In Soros's words, the Bundesbank "acted as the transmission mechanism for turning the internal disequilibrium of the German economy into a force for the disintegration of the EMS."⁹⁴ During 1992, the rise in German rates forced the British pound and the Italian lire out its trading ranges with the mark; the French franc came under concerted attack in early 1993, with France

eventually losing “the Battle of the Franc.” Even coordinated action among European central banks, including interventions on currency markets amounting to more than \$250 billion, failed to stabilize the ERM.⁹⁵ The asymmetrical effects of German monetary union destroyed the ERM, dealing European monetary integration a serious setback. Italy left the ERM for four years; Britain has yet to rejoin.

Of course, the lack of policy synchronization, which produced currency disequilibria and ended this phase of European monetary integration, were not entirely the fault of the German monetary authorities or the inflation they were desperate to keep under control. As David Marsh has pointed out, Thatcher’s decision to enter the EMS could not have been more poorly timed, and the obstinacy with which Britain sought to defend the pound was misplaced.⁹⁶ Nevertheless, the circumstances of German monetary union were the primary reason that prospects for a common European currency had receded by 1993.

For European integration, however, the debacle produced by putting the West German monetary cart before the East German economic horse contained a silver lining. First, George Soros, the Hungarian-American financier and philanthropist, correctly diagnosed the “dynamic disequilibrium” created by German monetary union and became fabulously wealthy by betting against the pound.⁹⁷ In contrast to other “speculators,” however, Soros recycled much of his profits into projects aimed at overcoming the democratic deficit that continues to divide countries like Romania and Hungary from western Europe. To give but one example, Soros founded the Central European University (CEU) in Budapest in 1992, an institution that has by now trained a generation of scholars across eastern Europe in western social science theory. In the process, the

CEU has not merely helped close a methodological gap created by forty years of Marxism-Leninism, but also helped lay the foundation for civil societies robust enough to be critical of themselves.

While it might be easy to dismiss the Popperian liberalism to which Soros adheres as naively liberal, Soros has in fact funded progressive endeavors that are not so easily reconciled with economic critiques of his philanthropy. As Maria Bucur, Associate Professor of History at Indiana University, writes,

“gender studies itself was founded as an academic discipline in 1994, in a pioneering gesture by the unorthodox philanthropist George Soros.... The creation of the gender studies program at CEU was contentious at the time, as few established academics in Hungary could fathom the notion of gender studies as an actual academic discipline. ... But Soros embraced the notion that gender studies was important for fostering a more democratic academia and civil society in post-communist Eastern Europe.”⁹⁸

While western Europe was preoccupied with consolidating what it had built before 1989, thereby deepening European divisions, Soros was facilitating the transfer of liberal institutions and accelerating the circulation of people and ideas in the East.

The second unexpected consequence was that German monetary union provided the rationale for proceeding with EMU. Two arguments are commonly put forth to explain the German government’s decision to surrender the mark for greater European integration. The first and most widespread argument asserts that the Euro was essentially a *quid pro quo* for German unification. Phillip Zelikow and Condoleeza Rice, who were both involved in Secretary of State James Baker’s attempt to facilitate German unification while keeping the new Germany committed to NATO, cite as evidence Kohl aide Horst Teltschik visit to Paris on March 15 – just days before the East German elections that would result in a landslide for the parties advocating a rapid German

monetary union – where he announced German support for rapid European monetary union.⁹⁹ That is, Kohl assented to reversing three decades of official West German policy, which had demanded political and economic before monetary union, and instead pledged to accelerate the pace of European monetary union in return for Mitterand’s acceptance of German unification. This *quid pro quo* led to the 1991 Maastricht Treaty, in which Germany agreed to a single currency before greater economic convergence or political unification.

David Marsh, the longtime German correspondent for the *Financial Times* newspaper and one of the most knowledgeable observers of the Bundesbank, also views the Maastricht accord as deriving from the relationship between Germany and France. But he regards the Euro as owing its birth to the more personal relationship between Kohl and Mitterand, which he argues was forged much earlier than 1989. Marsh traces the *quid pro quo* back to 1983, just after the first “Wende,” or turning point, when a vote of constructive no-confidence felled Helmut Schmidt’s social-liberal coalition and installed a conservative-liberal coalition under Kohl. The no-confidence vote derived from a variety of challenges that the Schmidt government had failed to master, from the inability of Keynesian counter-cyclical economic policy to reduce the so-called stagflation of the 1970s and the Bundesbank’s adoption of a extremely hawkish disinflationary stance to the debate over the deployment of US Pershing short-range nuclear missiles and the Reagan administration’s aggressive anticommunism. Kohl too feared that his support for deploying the missiles would cost him power, as it had Schmidt. Oddly enough, it was a French socialist who came to the aid of the German Christian Democrat and saved the day. In a speech to the Bundestag on 20 January 1983, Mitterand argued forcefully that

failure to deploy the U.S. missiles would endanger the fragile European peace, and with it, Germany's security and prosperity. According to Marsh, Mitterand's clear support for Kohl "granted Mitterand an abundance of political credit in Bonn that was translated into the monetary sphere, with crucial effect, over the next decade."¹⁰⁰

If the balance of political debt between the two partners was the result of Mitterand's early and open support of Kohl, Marsh does not argue that there was a straight line between Mitterand's 1983 speech and the 1991 Maastricht Treaty. On the contrary, he points out that there were serious "strains over German and European unity between Kohl and Mitterand [that] neared breaking-point in autumn 1989."¹⁰¹ What salvaged EMU, Marsh believes, was German unification: "If unification had not happened, it is highly unlikely that French would have been able to persuade Kohl to agree the EMU timetable to replace the D-Mark by the Euro."¹⁰²

Although some observers argue that both explanations overestimate the significance of the *quid pro quo*, there appears to be a consensus that German unification made EMU inevitable. Matthias Kaelberer, for example, argues that German unification did not cause Maastricht, but instead accelerated the German government's tilt toward EMU. He correctly points out that the *quid pro quo* argument assigns too much importance to Mitterand's role; German unification was inevitable by spring 1990, and the French government might have postponed, but not prevented it.¹⁰³ More importantly, Kaelberer contends that German unification exposed the paradox at the heart of its monetary leadership in Europe: that the benefits of acting as monetary hegemon were undermined by the inflationary consequences of German monetary union. That is, the

German government saw the utility of surrendering the DM and its role as hegemon provided that it could act as the architect of a new monetary system.

As has been pointed out by many authors, the Kohl government extracted quite a few concessions from its European partners. The European Central Bank (ECB) is in many ways even more like the Bundesbank than the Bundesbank itself. The ECB sits in the anti-inflationary environment of Frankfurt, rather than the presumably more tolerant climates of Paris or Rome, and its primary responsibility is price stability, which is more explicitly anti-inflationary than the Bundesbank's mission of "safeguarding the currency." More significantly, the ECB is more isolated from entanglements with national governments. It is not permitted to lend to governments, as the Bundesbank can, and any changes to its statutes requires renegotiation and ratification of a treaty by EU member states, in contrast to the simple parliamentary majority required to alter the Bundesbank's charter.¹⁰⁴ Before the introduction of the Euro in 1999, German monetary authorities might still place economic convergence ahead of monetary union. As Reimut Jochimsen, the head of the state bank of North Rhine-Westphalia from 1990 to 1997, declared in 1993, "a stable currency takes place over a common one."¹⁰⁵ But it was the German government that gave up its thirty year commitment to the coronation theory and helped created the ECB and the Euro.

To these explanations I would add a third: that the impeccable economic logic deployed by the German government and monetary authorities before 1990 had been completely undone by German monetary union. After 6 February 1990, the German government could hardly argue with its partners that a monetary union should "crown" economic and political union. On the contrary, Kohl's mechanism for unifying Germany

removed the intellectual justification for a gradual approach to integrating disparate economic regions. The Federal government was left with little argument against the pressure of its allies to build a supranational Europe by harnessing monetary policy, a pressure that was reinforced by the currency chaos of 1992/93.

Seen this way, German monetary union illustrates not the collision of economic expertise with political exigency or even the trumping of immediate over long-term interests. EMU was an unintended consequence of German monetary union. Perhaps using the circulation of money to control the circulation of people, especially during the transition from an illiberal regime that sought to restrict the free circulation of people, goods, and ideas, was doomed to inflationary failure. But surely the greatest irony of German monetary union is that harnessing monetary policy for national aspirations ultimately served the cause of antinationalism.

¹ The few who knew of the chancellor's intentions include the group of advisors in the Office of the Chancellery and Horst Teltschik. Finance Minister Theo Waigel does not seem to have known that Kohl would make the announcement, although he was well informed about the direction of Kohl's thinking. See Horst Teltschik, *329 Tage* (Goldmann Verlag, 1993), 129; Manfred Schell, „Zusammenbruch mit Perspektive,“ in: Theo Waigel and Manfred Schnell (eds.), *Tage, die Deutschland und die Welt veränderten. Vom Mauerfall zum Kaukasus – die deutsche Währungsunion* (Munich, 1994), 18; Dieter Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion. Politische Zwänge im Konflikt mit ökonomischen Regeln* (Stuttgart: DVA, 1998), 174, 181.

² Bundesarchiv Berlin (BArch), 136/20170, 221 – Ka 1 , Bd. 1, “Nr. 161 Tischvorlage des Chefs des Bundeskanzleramtes für die Kabinettsitzung vom 7. Februar 1990; TOP 2, Aussprache zu deutschlandpolitischen Fragen,“ reproduced in: Hanns Jürgen Küsters and Daniel Hofmann (eds.), *Deutsche Einheit: Sonderedition aus den Akten des Bundeskanzleramtes 1989/90* (Munich: Oldenburg Verlag, 1998), 759; Pressemitteilung 60/90, 7. Februar 1990; “7. Februar 1990, Beratungen des Bundeskabinetts zur Deutschlandpolitik,“ reproduced in: Bundesministerium für innerdeutsche Beziehungen (ed.), *Texte zur Deutschlandpolitik, Reihe III, vol. 8* (Bonn: Deutscher Bundes-Verlag, 1990), 53-68; Grosser, *Das Wagnis*, 174-86; David Marsh, *The Euro: The Politics of the New Global Currency* (New Haven: Yale University Press, 2009), 300, fn. 37. According to Horst Teltschik, Kohl declared his intention to the CDU/CSU parliamentary fraction on 6 February in part to forestall Swabian Minister-President Lothar Späth's attempt to make a similar statement (Teltschik, *329 Tage*, 129). See also Kohl's version of events in

Helmut Kohl, Kai Diekmann, and Ralf Georg Reuth, *Helmut Kohl: Ich wollte Deutschlands Einheit* (Berlin: Propyläen, 1996), 259-260.

³ If we are to believe him, the sole cabinet-level exception was Wolfgang Schäuble, who claims to have argued in favor of rapid monetary union before Kohl's visit to Dresden on 19 December 1989 (Wolfgang Schäuble, *Der Vertrag. Wie ich über die deutsche Einheit verhandelte* (Munich, Januar 1993), 21. In addition to the advisors in the Chancellery, the Department of Intra-German Relations in the Finance Ministry, led by Theo Sarrazin, a social democrat who would later be involved with the Treuhand, become Interior Senator in Berlin, and now sits on the Bundesbank Directorate, was working on a plan for rapid monetary union. In contrast, the intergovernmental working group "Leistungsgesetze," which had been created on 23 January 1990 under the direction of Horst Seehofer, Parliamentary State Secretary in the Ministry for Work and Social Affairs, to discuss ways of reducing the financial cost of East German migration to West Germany, was rendered immediately moribund by Kohl's announcement (Grosser, *Das Wagnis*, 174-81; Gerhard A. Ritter, *Der Preis der deutschen Einheit: die Wiedervereinigung und die Krise des Sozialstaats* (Munich: C.H. Beck, 2007), 194).

⁴ Waigel statement, 19.1.1990, cited in: Marsh, *The Euro*, 139; *Leipziger Volkszeitung*, 25.1.90; Phillip J Bryson and Manfred Melzer, *The End of the East German Economy: From Honecker to Reunification* (New York: St. Martin's Press, 1991), 128-9.

⁵ *Frankfurter Allgemeine Zeitung*, 7.1.90; Grosser, *Das Wagnis*, 184.

⁶ Grosser, *Das Wagnis*, 136-37; Stephen F. Szabo, *The Diplomacy of German Unification* (New York: St. Martin's Press, 1992), 38-40; Phillip Zelikow and Condoleeza Rice. *Germany Unified and Europe Transformed: A Study in Statecraft* (Cambridge, Mass.: Harvard University Press, 1995), 118-25.

⁷ The Americans were cautiously positive about his initiative, though they too had not been consulted. In fairness to Kohl, tensions surrounding German unification, which were connected both to lingering resentment over World War II and a tremendous shift in power toward Germany, led both British Prime Minister Margaret Thatcher and French President François Mitterand to make objectionable statements. Nor did Mitterand consult with Kohl over his visit to the GDR in early December. On the other hand, Mitterand had lost patience with Kohl earlier that year during negotiations over European integration. See Elisabeth Guigou, *Une femme au coeur de l'état* (Paris: Fayard, 2000); Marsh, *The Euro*, 132-3; Elizabeth Pond, *Beyond the Wall: Germany's Road to Unification* (Washington, D.C.: Brookings Institution, 1993), 155-64; Szabo, *The Diplomacy of German Unification*, 39, 41-51; Zelikow and Rice. *Germany Unified and Europe Transformed*. For the Soviet critique, see *The New York Times*, 6.12.89. For a defense of Kohl, see Henrik Bering, *Helmut Kohl* (Washington, D.C.: Regnery Publishing, 1999).

⁸ Kohl's political acumen when it came to sidelining potential rivals was essential to his longevity as CDU leader and Chancellor, but his tendency to embarrass himself on the diplomatic stage had made him the object of widespread amusement and anger by 1989. To give but a few examples of Kohl's penchant for diplomatic debacles, see his ill-advised invitation to US President Ronald Reagan in May 1985 to visit a military cemetery, which appeared to equate the 49 Waffen-SS men who were buried there with the victims of the Holocaust, his 1986 comparison of Soviet leader Mikhail Gorbachev to

Nazi Propaganda Minister Josef Goebbels, or his obstinate attempt to leave open the question of Germany's border with Poland in 1989 and 1990 (*New York Times*, 6.5.85; *Newsweek*, 27.10.86, 29; David H. Shumaker, *Gorbachev and the German Question: Soviet-West German Relations, 1985-1990* (Westport, Ct.: Praeger Publishers, 1995), 35-6; Angela Stent, *Russia and Germany Reborn: Unification, the Soviet Collapse, and the New Europe* (Princeton: Princeton University Press, 1999), 65-6; Szabo, *The Diplomacy of German Unification*, 34. For an overly sympathetic discussion of Kohl's blunders, see Bering, *Helmut Kohl*, 84-6).

⁹ Deutsche Bundesbank (ed.), *Monatsbericht Juli 1995* (Frankfurt-am-Main: Deutsche Bundesbank, 1995).

¹⁰ Barry Eichengreen and Charles Wyplosz, "The Unstable EMS," *Brookings Papers on Economic Activity* (1:1993), 51-143; Peter H. Loedel, *Deutsche Mark Politics: Germany in the European Monetary System* (London and Boulder, Co., 1999), 164.

¹¹ The phrase was coined by the Italian economist, politician, and central banker (for a discussion, see Hans-Helmut Kotz, "EMU after Two Years — Have Critics Been Confirmed?" *Intereconomics* 36:2 (March, 2001): 68.

¹² The debt figures had been completely exaggerated due to internal power struggles in the SED. For the debt, see Günter Ehrensperger, chair, Department of Planning and Finance at the ZK, tenth Plenum of the ZK, 8-10 November, 1989, reproduced in: Hans-Hermann Hertle and Gerd-Rüdiger Stephan (eds.), *Das Ende der SED: Die letzten Tage des Zentralkomitees* (Berlin: Christoph-Links-Verlag, 1997), 365; Stiftung Archiv der Parteien und Massenorganisationen der DDR im Bundesarchiv (SAPMO-BA), DY30, IV 2/1/711. In his otherwise alarmist report, State Planning Commissioner Gerhard Schürer accurately estimated the GDR's gross debt to the West at 49 billion Valutamarks (SAPMO-BA, DY30, JIV 2/2A/3252, Schürer, "Analyse der ökonomischen Lage," 30.10.89, 6; Deutsche Bundesbank (ed.), *Zahlungsbilanz der ehemaligen DDR* (Frankfurt/Main: Bundesbank, 1999), 59). For more on the impact of misreported economic statistics on the revolution, see Zatlin, *The Currency of Socialism*, chapter 3 and epilogue.

¹³ *Leipziger Volkszeitung*, 21.2.90; Bryson and Melzer, *The End of the East German Economy*, 89-90. Through 1990, moreover, East German exporting industries, which were essential to the GDR's ability to pay down the debt, performed well. East Germany registered a trade surplus of \$150 million with the West for January 1990 and a trade surplus with the Soviet Union and eastern Europe worth 11.9 billion DM in 1990, even though this surplus fell in 1991 to 6.4 billion as a result of German currency union and eastern European economic liberalization (Hoover Institution Archives, German Subject Collection, Protokolle der Beratungen des Runden Tisch, Staatliche Zentralverwaltung für Statistik, "Mitteilung zur wirtschaftlichen und sozialen Entwicklung der DDR im Januar 1990," 13.2.90, 1; Deutsche Bundesbank, *Statistische Reihe für 1990* (Frankfurt-am-Main: Deutsche Bundesbank, 1990), 56, 60; Deutsche Bundesbank, *Statistische Reihe für 1991* (Frankfurt-am-Main: Deutsche Bundesbank, 1991), 56, 60.

¹⁴ *The New York Times*, 14.11.89; SAPMO-BA, DY30, JIV 2/2A/3262, Modrow, "Maßnahmen zur Abwehr von negativen Auswirkungen des Reiseverkehrs," 21.11.89, 1-4, 6.

¹⁵ One of the more important sticking points was Economic Minister Christa Luft's insistence on limiting western participation in joint-venture projects to a minority stake, which only scared investors away (*Frankfurter Allgemeine Zeitung*, 7.11.89; BArchB, DE1, 56350, Grünheid to Romberg, 9.3.90, 2, 4-5; interview, Hans Modrow, Dresden District Party Leader (1973-1989), Central Committee member (1967-1989), Chairman, Council of Ministers (November 1989-March 1990): Berlin, 6.4.96; interview, Christa Luft, Chancellor, Hochschule für Ökonomie "Bruno Leuschner" (1988-1989), Economics Minister (December 1989-March 1990): Berlin, 18.3.96; Grosser, *Das Wagnis*, 117-27; Charles S Maier, *Dissolution: The Crisis of Communism and the End of East Germany* (Princeton: Princeton University Press, 1997), 228-9).

¹⁶ On 24 January, for example, the directors of the powerful IFA automobile combine failed to show up for a meeting in Berlin - an astonishing snub unthinkable only a few months earlier (BArchB, DE1, 56413, Abteilung Materiell-Technische Sicherung der Produktion, Sektor Maschinenbau/Metallurgie, "Information über die Ergebnisse der Beratung über den Stand der Werkzeugversorgung 1990," 16.3.90, 29). Similarly, East German retailers began refusing to accept mediocre goods from wholesalers, even though it meant violating the plan (*Handelsblatt*, 4.1.90).

¹⁶ SAPMO-BA, DY16, Vorläufige 484, "Information über eine Beratung des stellvertretenden Präsidenten der Staatsbank der DDR, Kollegen Krause, mit Vertretern der NDPD, CDU, LDPD und DBD," no date.

¹⁷ SAPMO-BA, DY16, Vorläufige 484, "Information über eine Beratung des stellvertretenden Präsidenten der Staatsbank der DDR, Kollegen Krause, mit Vertretern der NDPD, CDU, LDPD und DBD," no date.

¹⁸ By the end of January 1990, Modrow claimed, there was a budget gap of 17 billion East German marks (GDR Minister-President Hans Modrow, speech to Volkskammer, 29.1.90, reproduced in: Bundesministerium für innerdeutsche Beziehungen (ed.), *Texte zur Deutschlandpolitik*, Reihe III, Band 8 (Bonn: Deutscher Bundes-Verlag, 1990), 45-48).

¹⁹ *Neues Deutschland*, 2.2.90; *Süddeutsche Zeitung*, 2.2.90. The same day, the Working Group on Economic Reform, an East German committee tasked by the Council of Ministers with introducing market reforms, spelled out more specific steps that would lead to "full convertibility" with the DM by 1992 (Hoover Institution Archives, German Subject Collection, Protokolle der Beratungen des Runden Tisch, Arbeitsgruppe Wirtschaftsreform beim Ministerrat der DDR, "Zielstellung, Grundrichtungen, Etappen und unmittelbare Massnahmen der Wirtschaftsreform in weiterer Verwirklichung der Regierungserklärung vom 17.11.1989," 4).

²⁰ Michael Mertes, "The Role of the Federal Chancellor [sic] during the Process of German Unification," lecture delivered at the German Historical Institute, Washington, D.C., 3.10.2001, (<http://www.ghi-dc.org/publications/ghipubs/web/mertes.pdf>, last accessed on 9.10.2009), 16-18.

²¹ Christiane Olivo, "The Practical Problems of Bridging Civil Society and the State: A Study of Roundtables in Eastern Germany," *Polity* 31: 2 (1998), 245-68. Lothar Kettenacker is unduly harsh on civil rights leaders and the gap between them and rank-and-file members (Lothar Kettenacker, *Germany 1989: In the Aftermath of the Cold War* (Harlow, UK: Pearson Education Limited, 2009), 110-20).

²² “Zum Wiedervereinigungsplan der pluralistischen Rechten,” 28.11.89, in: Julia Michaels (ed.), *Die ersten Texte des Neuen Forum* (East Berlin, 1990), 24. See also Konrad Jarausch, *The Rush to German Unity* (New York: Oxford University Press, 1994), 77-94.

²³ Kettenacker, *Germany 1989*, 110.

²⁴ SAPMO, DY30, 3702, “Die Entwicklung des Wechselstubengeschäfts und des Wechselstubenkurses,” 233-4; BStU, HA XVIII, 6166, 7; BStU, Arbeitsbereich Mittag, Nr. 58, “Zu den ausgewählten Problemen bei der Durchführung der Beschlüsse des XI. Parteitages der SED zur ökonomischen Entwicklung der DDR,” 21, 24; BArchB, DE1 56756, Alexander Schalck-Golodkowsky and Herta König, “Zur Entwicklung des Kurses der Mark der DDR zu kapitalistische Währungen seit 1989,” no date, 172-3, and Anhang 3; BArchB, DE1 56318, “Zur Frage, was erforderlich ist, damit eine Mark der DDR auch eine Valutamark wert ist,” 8.9.88, 3; BArchB, DN1 VS 13/90, Nr. 6, Ute Nickel, Minister of Finance and Prices, and Horst Kaminsky, President of the Staatsbank, “Einschätzung zur Stabilität der Währung der DDR,” 26.10.89, 15; *Leipziger Volkszeitung*, 23.11.89.

²⁵ Typical of other complaints, an open letter from 326 residents in the town Berka vor dem Hainich emphasized “the population’s fear of losing its hard-earned money” (BArchB, DA5, 12391, “Offener Brief der Bürger von Berka vor dem Hainich,” 23.11.89, 2).

²⁶ Although the GDR initially proposed the Valutamark rate of 4.4:1, the final regulation guaranteed adults 200 DM and children 100 DM a year at a rate of 3:1 (SAPMO-BA, DY30, IV 2/2.039/328, “Konzeption für ein Gespräch zwischen dem Generalsekretär des ZK der SED und Vorsitzenden des Staatsrates der DDR, Genossen Egon Krenz, und dem Bundeskanzler der BRD, Helmut Kohl,” no date, 40-6; BArchB, DN10, 2285, Staatsbank der DDR, “Information über die Entwicklung des Erwerbs von DM durch Bürger der DDR,” 8.1.90, 2).

²⁷ At the time, most western analysts believed East German productivity and living standards were about half of West German levels (Deutsche Bundesbank (ed.), “Die Wirtschaftslage in der Bundesrepublik Deutschland im Herbst 1989,” in: Deutsche Bundesbank (ed.), *Monatsbericht der Deutschen Bundesbank* (Frankfurt/Main: Bundesbank, December 1989), 15; “Reform der Wirtschaftsordnung in der DDR und die Aufgaben der Bundesrepublik,” *Wochenbericht der DIW* (6:1990); *Handelsblatt*, 8.2.90; Helmut Schlesinger, *Das Handelsblatt*, 14.1.90; interview, Thilo Sarrazin, Director, National Currency Affairs (Referat VII A1), Department for Intra-German Relations, West German Finance Ministry (1989-90), Berlin Senator for Finance (2002-present), Mainz, 13.6.96; Bryson and Melzer, *The End of the East German Economy*, 99). Later calculations put East German productivity at some 30 percent (George Akerlof, Andrew K. Rose, Janet L. Yellen, Helga Hessenius, Rudiger Dornbusch, and Manuel Guitian, “East Germany in from the Cold: The Economic Aftermath of Currency Union,” in: *Brookings Papers on Economic Activity* (1:1991), 5-6; Rudiger Dornbusch, Holger Wolf, and Lewis Alexander, “Economic Transition in Eastern Germany,” in: *Brookings Papers on Economic Activity* (1:1992), 245; A. J. Hughes Hallett and Yue Ma, “East Germany, West Germany, and Their Mezzogiorno Problem: A Parable for European Economic Integration,” *The Economic Journal* 103 (March 1993), 417; Joachim Ragnitz, “Lagging Productivity in the East German Economy: Obstacles to Fast Convergence,” in: Michael

Dauderstädt and Lothar Witte (eds.), *Cohesive Growth in the Enlarging Euroland* (Bonn, 2001), 94).

²⁸ Interview, Helmut Schlesinger, Bundesbank Vice-President (1980-91), President (1991-93), Berlin, 23.1.96. This was also the perception of the Central Round Table (Hoover Institution Archives, German Subject Collection, Protokolle der Beratungen des Runden Tisch, session 11, 5.2.90, Vorlage 11/22).

²⁹ Capital reference ???

³⁰ For more on Marxist-Leninist economic theory and practice, as well as popular equations of money with wealth, see Zatin, *The Currency of Socialism*.

³¹ In a sense, the collapse of the Wall had returned the GDR “to circumstances before [its construction in] 1961,” as Egon Krenz told an aide to Kohl.³¹ Between 1949 and 1961, some 3.5 million East Germans had “voted with their feet” against communism, fleeing the political repression and economic mismanagement of communist rule for the relative safety and prosperity of the FRG until construction of the Wall put an end to the political embarrassment and labor outflux. See Corey Ross, “Before the Wall: East Germans, Communist Authority, and the Mass Exodus to the West,” *The Historical Journal* 45:2 (2002), 459-60; Christoph Kleßmann, *Zwei Staaten, eine Nation: deutsche Geschichte 1955-1970* (Bonn: Bundeszentrale für politische Bildung, 1988), 558.

³² A total of 72,729 left the GDR in January 1990 (Hartmut Wendt, „Die deutsch-deutschen Wanderungen. Bilanz einer 40jährigen Geschichte von Flucht und Ausreise,” *Deutschland Archiv* 34:4 (1991), 393).

³³ Hoover Institution Archives, German Subject Collection, *Protokolle der Beratungen des Runden Tisch*, Ergebnisse des Runden Tisch, session 11, 5.2.90, and SPD Vorlage 11/20.

³⁴ Hoover Institution Archives, German Subject Collection, Protokolle der Beratungen des Runden Tisch, “Ergebnisse der 12. Sitzung des Runden Tisch, February 12, 1990,” 2.

³⁵ Although Kohl had promised 15 billion DM in aid as a goodwill gesture at a meeting in Dresden on 19 December 1989, the SED and most opposition groups argued that the FRG owed a moral and material debt to the GDR, which had borne the brunt of Soviet reparations after 1945, that ran to hundreds of billions. For more on the so-called “solidarity contribution” (*Solidarbeitrag*), see Jarausch, *The Rush to Unity*, 108-10; Otto Singer, “Constructing the Economic Spectacle: The Role of Currency Union in the German Unification Process,” *Journal of Economic Issues* 4 (1992): 1105-6; Zatin, “Hard Marks and Soft Revolutionaries,” 71-3.

³⁶ Szabo, Grosser, Kettenacker

³⁷ Ingrid Matthäus-Maier, “Signal zum Bleiben,” in: *Die Zeit*, 19.1.90. The plan for monetary union that Kohl would eventually adopt, however, was developed by Thilo Sarrazin, a social democrat working in the Finance Ministry (interview, Sarrazin, Mainz, 13.6.96; Thilo Sarrazin, “Die Entstehung und Umsetzung des Konzepts der deutschen Wirtschafts- und Währungsunion,” in: Waigel and Schell, *Tage*, 160-225; Grosser, *Das Wagnis*, 151-73).

³⁸ Perhaps the most important and sophisticated reservations about a resurgent German nationalism were articulated by Jürgen Habermas. See, for example, the collection of essays in Jürgen Habermas, *The Past as Future*, trans. Max Pensky (Lincoln, Nebraska, 1994).

³⁹ See for example the SPD's declaration on 5 February at the Central Round Table that "a currency association or a currency union with the FRG would be a quick acting possibility that deserves investigation." The CDU also argued that the GDR should "accelerate negotiations with the FRG to arrive a currency association on the fastest track" (Hoover Institution Archives, German Subject Collection, Protokolle der Beratungen des Runden Tisch, session 11, 5.2.90, Vorlage 11/20 (SPD) and Vorlage 11/24 (CDU), 2). See also Zatlín, "Hard Marks and Soft Revolutionaries."

⁴⁰ Zelikow and Rice. *Germany Unified and Europe Transformed*, 199. According to the *Märkische Allgemeine* newspaper, there were some 780,000 applications to leave the GDR that were never processed when the GDR ceased to exist, which means "that up to 2 million people were sitting on packed bags" (*Märkische Allgemeine*, 11.06.2009).

⁴¹ *Leipziger Volkszeitung*, 15.1.90. The fact that he was involved in economic discussions with the East German government lent his admonitions further weight (Christa Luft, *Zwischen Wende und Ende. Eindrücke, Erlebnisse, Erfahrungen eines Mitglieds der Modrow-Regierung* (Berlin: Aufbau-Taschenbuch-Verlag, 1991), p???)

⁴² *Das Handelsblatt*, 9.2.90.

⁴³ *Frankfurter Allgemeine Zeitung*, 23.2.90. Rohwedder, who was State Secretary in the Economic Ministry from 1969 to 1978, was no doubt motivated in part by his opposition to Kohl as a social democrat.

⁴⁴ *Das Handelsblatt*, February 9, 1990; *Leipziger Volkszeitung*, February 21, 1990.

⁴⁵ Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, "Zur Frage einer Währungsunion zwischen der Bundesrepublik Deutschland und der DDR. Brief des Sachverständigenrates vom 9. Februar 1990 an den Bundeskanzler," 9.2.90.

⁴⁶ *Frankfurt Allgemeine Zeitung*, 10.2.90.

⁴⁷ For the so-called Kronberger Kreis proposal, see *Süddeutsche Zeitung*, 31.1.90; for Hans D. Barbier's plan, see *Frankfurt Allgemeine Zeitung*, 2.2.90; for an East German plan, see Erwin Rohde, *Börsen-Zeitung*, 2.2.90; for Christa Luft's alternative, see *Handelsblatt*, 6.2.90; for Wolf Schäfer's plan, see *Die Zeit*, 8.2.90; for Klaus Wieners' plan, see *Börsen-Zeitung*, 9.2.90; for Lutz Hoffmann's plan, see *Frankfurt Allgemeine Zeitung*, 10.2.90; for the plan put forward by Steve H. Hanke and Alan A. Walters, see *Neue Zürcher Zeitung*, 19.2.90.

⁴⁸ Hans Willgerodt, *Vorteile der Wirtschaftlichen Einheit Deutschlands. Gutachten* (Cologne: Institut für Wirtschaftspolitik 1990). Horst Siebert of the Institute for the World Economy in Kiel believed the benefits of shock therapy would be beneficial.

⁴⁹ See, for example, Hans-Jürgen Krupp, Hoffmann's predecessor at the DIW, *Der Spiegel*, 7/1990, 12.02.1990, 24-30, who pointed out that propping up the East German mark would be costly and damage the Bundesbank's credibility. In my opinion, Michael Kreile's survey overweight's the quantity and quality of support for monetary union (Michael Kreile, "The Political Economy of the New Germany," in: Paul B. Stares (ed.), *The New Germany and the new Europe* (Washington, D.C.: Brookings Institution, 1992).

⁵⁰ For more on the breakdown of the gold standard and the run-up to Bretton Woods, see Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford: Oxford University Press, 1992).

⁵¹ Robert A. Mundell, "A Theory of Optimum Currency Areas," in *American Economic Review* 51 (November 1961): 509-17. See also Ronald McKinnon, "Optimum Currency

Areas," *American Economic Review* 53 (1964): 717-725, and Peter Kenen, "The Theory of Optimum Currency Areas: An Eclectic View," in Robert A. Mundell and Alexander K. Swoboda (eds), *Monetary Problems of the International Economy* (Chicago: University of Chicago Press, 1969), 41-60.

⁵² Artis, Michael J. and Paul Omerod (1991), "Is There an 'EMS' Effect in European Labour Markets?" CEPR Discussion Paper no. 598 (December).

⁵³ Olivier Blanchard and Pierre-Alain Muet (1993), "Competitiveness Through Disinflation: An Assessment of the French Macroeconomic Strategy," *Economic Policy* 8: 12-56.

⁵⁴ Paul Krugman, "Lessons of Massachusetts for EMU," in: Francisco Torres and Francesco Giavazzi (eds), *Adjustment and Growth in the European Monetary Union* (Cambridge: Cambridge University Press, 1994), 241-260. Despite the analytic power of Mundell's theory, some economists have lamented that it has stimulated little empirical research and yielded few clear policy recommendations. In the estimate of two monetary specialists, "the theory has advanced only minimally" since the 1960s (Barry Eichengreen and Tamim Bayoumi, "Ever Closer to Heaven? An Optimum-Currency Area Index for European Countries," CIDER WP C96-078, August 1996, 1).

⁵⁵ This was still the case before 1999. See Eichengreen, Barry (1993), "Labor Markets and European Monetary Unification," in Paul R. Masson and Mark P. Taylor (eds), *Policy Issues in the Operation of Currency Unions*, Cambridge: Cambridge University Press, pp.111-129; Frankel, Jeffrey A. and Andrew Rose, "The Endogeneity of the Optimum Currency Area Criteria," August 1996 NBER Working Paper No. W5700; Bayoumi, Tamim and Barry Eichengreen, "Optimum Currency Areas and Exchange Rate Variability: Theory and Evidence Compared," in: Benjamin Cohen (ed.), *International Trade and Finance: Essays in Honor of Peter Kenen* (Cambridge: Cambridge University Press, 1997), 216-246.

⁵⁶ The exception was a paper put together by Foreign Minister Hans-Dietrich Genscher on 26 February 1988, which advocated establishing a European monetary authority without demanding that economic convergence precede a common currency (*FAZ*, 28.5.88, *Hessischer Rundfunk*, 5.6.88, *Financial Times*, 1.7.89; Marsh, *The Euro*, 116-9).

⁵⁷ Kalthenthaler and Kaelberer.

⁵⁸ The DM's relation to the "economic miracle" was indirect, since the currency's strength merely mirrored a very real story of economic success. More importantly, the GDR's starting point in 1989 was worse than the FRG's in 1948. Its labor was not as well adapted to market requirements, its plant in much worse shape, its production facilities often polluted beyond redemption, and many of its most enterprising citizens gone (Geoff Pugh, "Economic Reform in Germany: The 1948 Currency and Economic Reforms in Comparison with the 1990 Economic and Monetary Union," in: Thomas Lange and J.R. Shackleton, *The Political Economy of German Unification* (Providence, RI: Berghahn Books, 1998), 120-38; Manfred E. Streit, "German Monetary Union," in: Deutsche Bundesbank (ed.), *Fifty Years of the Deutsche Mark*, 640-3).

⁵⁹ Kohl first used the phrase on February 20 (Görtemaker, *Unifying Germany 1989-1990* (New York: St. Martin's, 1994), 124). See also the comments of West German Economics Minister Helmut Haussmann (*ibid.*, 140).

⁶⁰ The debt carried by socialist enterprises was inflated by the social responsibilities mandated by economic planning, such as building and maintaining social halls, and by centralized bookkeeping, which imposed debt on factories for the sake of quantitative symmetry. See Zatin, *The Currency of Socialism*, epilogue.

⁶¹ Rudiger Dornbush and H. Wolf, "Economic Transition in Eastern Germany," *Brookings Papers on Economic Activity* I (1992), 239.

⁶² Akerlof et al., "East Germany in from the Cold," 60-3; Sinn, "Germany's Economic Unification," 20.

⁶³ Registered unemployment in eastern Germany amounted to 18.8 percent in 2000, more than twice the western rate. If we add to this figure hidden unemployment resulting from forced early retirements, involuntary part-time work, makework programs, and training schemes, the rate jumps to some 30 percent (Michael C. Burda and Jennifer Hunt, "From Reunification to Economic Integration: Productivity and the Labor Market in Eastern Germany," in: *Brookings Papers on Economic Activity* (2:2001), p. 2).

⁶⁴ Burda and Hunt, "From Reunification to Economic Integration," 11; Hans-Werner Sinn, "Germany's Economic Unification. An Assessment after Ten Years," *National Bureau of Economic Research, Working Paper 7586*, (Cambridge, Mass., 2000): 9-10; *Berliner Zeitung*, 07.04.04; *Der Spiegel* 15 (2004), 25.

⁶⁵ Sinn, "Germany's Economic Unification," p. 6.

⁶⁶ As Sinn puts it, "capital changed from being a factor of production to being an economic good" (Sinn, "Germany's Economic Unification," pp. 14--16).

⁶⁷ *Der Spiegel* 3 (1993), 52; Jan Priewe, "Zwischen Abkoppelung und Aufholen - das schwache ostdeutsche Wachstumspotential," in: *WSI Mitteilungen* 12 (2002), 706.

⁶⁸ Sinn, "Germany's Economic Unification," 9-10; Kettenacker, ???

⁶⁹ Andrea Boltho, Wendy Carlin, and Pasquale Scaramozzino, "Will East Germany Become a New Mezzogiorno?" *Journal of Comparative Economics* 24 (1997): 241-264. See also Zatin, *The Currency of Socialism*, which makes precisely this point.

⁷⁰ Grosser, *Das Wagnis*, ???; Ritter, ???; Kettenacker, ???.

⁷¹ According to Matthias Morys, concern over the Bundesbank's autonomy is best measured by tracking yields in the long bond market, which rose after these events because of inflationary worries (Matthias Morys, "Was the Bundesbank's Credibility Undermined during the Process of German Reunification?" London School of Economics, Working Paper No. 74/03 (May 2003), 32-57).

⁷² George Soros, "Prospect for European Disintegration," in: George Soros, *The Alchemy of Finance* (New York: John Wiley & Sons, 1994), 385.

⁷³ Grosser, Kettenacker, Kreile.

⁷⁴ Paragraph 3 states that the bank "regelt mit Hilfe der waehrungspolitischen Befuegnisse, die ihr nach diesem Gesetz zustehen, den Geldumlauf und die Kreditversorgung der Wirtschaft mit dem Ziel, die Waehrung zu sichern und für die bankmäßige Abwicklung des Zahlungsverkehrs im Inland und mit dem Ausland zu sorgen" ("Gesetz über die Deutsche Bundesbank vom 26.7.1957," *BGBI. I*, 745). The statutory shift on 22 October 1992 subordinated the German bank to the European bank (*GBl. 5. 2. 2009, BGBI. I*, 160). See also Robert L. Hetzel, "German Monetary History in the Second Half of the Twentieth Century: From the Deutsche Mark to the Euro," *Federal Reserve Bank of Richmond Economic Quarterly* 88:2 (Spring 2002): 29-62.

⁷⁵ According to §12, „Sie ist in der Ausübung dieser Befugnisse, die ihr nach diesem Gesetz zustehen, von Weisungen der Bundesregierung unabhaengig.“ BUT also para 12 "verpflichtet, unter Wahrung ihrer Aufgabe die allgemeine Wirtschaftspolitik der Bundesregierung zu unterstützen" ("Gesetz über die Deutsche Bundesbank vom 26.7.1957," *BGBI. I*, 745).

⁷⁶ Even much of the literature published in the immediate aftermath of unification still emphasized the Bundesbank's anti-inflationary mission over its relationship to the government. See, for example, Karl Kaltenthaler, *Germany and the Politics of Europe's Money* (Durham and London: Duke University Press, 1998), 24-5; W. R. Smyser, *The German Economy. Colossus at the Crossroads* (New York: St. Martin's Press, 1993), 47-9.

⁷⁷ Artur Woll, *Allgemeine Wirtschaftslehre*, 9th edition (Munich: Verlag Franz Vahlen, 1987), 463.

⁷⁸ Peter A. Johnson argues for understanding the original intent of the Bundesbank's statutory obligation to safeguard the currency not as a domestic but rather as an international responsibility. That is, the bank's mission as framed by lawmakers in 1957 was less anti-inflationary in origin than it was directed at the Bretton Woods system, not least because maintaining stable exchange rates assisted German exports. He further argues that the central bank not initially enjoy the autonomy later ascribed to it. Johnson argues that the central bank's legal position clearly subordinates it to the German government because its institutional mission was defined by a statute, and a statute "can in principle be altered by a simple parliamentary majority." More importantly, the Bundesbank is subject to whatever foreign treaties might be concluded by the Federal government regarding the German monetary system (Peter A. Johnson, *The Government of Money* (Ithaca and London: Cornell University Press, 1998), 40-1, 60-3). While Johnson's historical reconstructions are subtle and his legal argumentation brilliant, they nevertheless fly in the face of quite a bit of empirical evidence – from the tussles with Adenauer in 1951, 1955, and 1956, to the failure of the Erhard and Schmidt governments and the resignation of Karl Schiller as Finance Minister in 1972 – suggesting that the bank was from its inception understood as a barrier against inflationary chaos at home and celebrated for its independence from government interference. As a corrective to Johnson, see Uwe Wagschal, "Monetary Institutions: Maintaining Independence in Times of Fiscal Stress," in: Ludger Helms, *Institutions and Institutional Change in the Federal Republic of Germany* (New York: St. Martin's Press, 2000), 143-65.

⁷⁹ On Adenauer's May 1956 speech in Gürzenich, see Helge Berger, *Konjunkturpolitik im Wirtschaftswunder: Handlungsspielräume und Verhaltensmuster von Bundesbank und Regierung in den 1950er Jahren* (Tübingen: Mohr Siebeck, 1997), 55-58; Jörg Bibow, "Investigating the Intellectual Origins of Euroland's Macroeconomic Policy Regime: Central Banking Institutions in West Germany After the War," Levy Economics Institute Working Paper No. 406 (May 2004), 1-39; Volker Hentschel, "Die Entstehung des Bundesbankgesetzes 1949-1957. Politische Kontroversen und Konflikte, Teil I," *Bankhistorisches Archiv* 14:1988, 3-31; Volker Hentschel, "Die Entstehung des Bundesbankgesetzes 1949-1957. Politische Kontroversen und Konflikte, Teil II," *Bankhistorisches Archiv* 14:1988, 79-115; Wagschal, "Monetary Institutions," 161;

David Marsh, *The Bundesbank: The Bank That Rules Europe* (London: Mandarin, 1992), 221; DBA/CF/Pöhl. Lahnstein letter to Pöhl, 11.2.81, cited in: Marsh, *The Euro*, 90. For the Bundesbank's own sense of these conflicts, see the Bundesbank's current president Axel Weber's speech lauding Directory member Ottmar Issing's work for the bank (Axel A. Weber, "Unabhängige Geldpolitik in Europa - Die ersten sieben Jahre" 28.4.06, <http://www.bundesbank.de/download/presse/reden/2006/20060428.weber.pdf>, last accessed on 8.10.09).

⁸⁰ See, for example, Peter Betge, *Bankbetriebslehre* (Berlin, Heidelberg, and New York: Springer Verlag, 1996), 69-71.

⁸¹ *Leipziger Volkszeitung*, 25.1.90; Bryson and Melzer, *The End of the East German Economy*, 128-9.

⁸² *Leipziger Volkszeitung*, 25.1.90; *The New York Times*, 31.1.90. Like Waigel, Pöhl came to regard monetary union as possible in the near term, but unlike Waigel, made such a step dependent on substantial improvements to the GDR's financial position stemming from an influx of western capital and the stabilization of the GDR's current account. Although Pöhl did not explicitly say so, such an improvement could only occur if the Modrow government surrendered the planned economy, introduced market-oriented prices, and opened the GDR to western investors -- which East German officials continued to resist through February.

⁸³ Despite the attempts of Kohl's advisors and scholars sympathetic to the chancellor to downplay it, the lack of consultation is striking. In a meeting on 5 February with Pöhl, Finance Minister Waigel appears to have touched on the possibility that a monetary union might come sooner than expected, though in uncertain and vague terms. In response to Pöhl's query about whether he should bother to meet with Kaminsky and Luft, moreover, Waigel provided no guidance (interview, Pöhl, Frankfurt-am-Main, 17.6.96; Schlesinger, Berlin, 23.1.96; Manfred Schell, "Zusammenbruch mit Perspektive," 17???.; Waigel, ???).

⁸⁴ *Frankfurter Allgemeine Zeitung*, 7.1.90.

⁸⁵ The Bundesbank proposal apparently represented a tenuous internal compromise between those who took a hawkish line against the inflationary consequences, such as Helmut Hesse, who bucked the bank's tradition of secrecy and went public with his concerns, and those who believed that the government had acted responsibly given the political context, such as Norbert Kloten. To prevent the incident from undermining the bank and support the government, the Bundesbank Council took the unusual step of forcing Hesse to remove the speech from the public domain (Kreile, 70; Morys, "Was the Bundesbank's Credibility Undermined," 19-22).

⁸⁶ See the excellent discussion in Morys, "Was the Bundesbank's Credibility Undermined," 11-17.

⁸⁷ Interview, Hans Tietmeyer, chief, Economics Section, West German Economic Ministry (1962-1982), State Secretary, West German Finance Ministry (1982-1989), economic advisor to Chancellor Kohl on German unification (1989-1990), Bundesbank Director (1990-91), Bundesbank Vice-President (1991-1993), Bundesbank President (1993-99), Frankfurt-am-Main, 4.4.96.

⁸⁸ Interview, Pöhl, Frankfurt-am-Main, 17.6.96; Schlesinger, Berlin, 23.1.96.

⁸⁹ Kreile

⁹⁰ *New York Times*, 24.4.90.

⁹¹ Citation?

⁹² Interview, Pöhl, Frankfurt-am-Main, 17.6.96.

⁹³ Deutsche Bundesbank (ed.), *Die Geldpolitik der Bundesbank* (Frankfurt-am-Main: Deutsche Bundesbank, 1995), 86.

⁹⁴ Soros, "Prospect for European Disintegration," 385.

⁹⁵ Marsh, *The Euro*, 133.

⁹⁶ *Ibid.*

⁹⁷ It is of course possible to argue, as at least one U.S. congressman has, that Soros's profits resulted indirectly from central bank interventions, which represent British tax revenue and hence the money of individual British taxpayers. But as Soros himself pointed out, "international investors did play a role in the breakdown of the Exchange Rate Mechanism, but it is impossible to have a common market without international capital movements. To blame speculators is like shooting the messenger" (Soros, "Prospect for European Disintegration," 383).

⁹⁸ Maria Bucur, "An Archipelago of Stories: Gender History in Eastern Europe," *The American Historical Review* 113 (December 2008): 1384.

⁹⁹ See, for example, Michael J. Baun, "The Maastricht Treaty as High Politics: Germany, France, and European Integration," *Political Science Quarterly* 110:4 (Winter, 1995-1996): 605-624; Zelikow and Rice, 234. The German-French summit on 19 April 1990 and the European Council meeting on 28 April in Dublin codified this agreement.

¹⁰⁰ Marsh, *The Euro*, 99.

¹⁰¹ *Ibid.*, 132.

¹⁰² *Ibid.*, 133.

¹⁰³ Matthias Kaelberer, *Money and Power in Europe. The Political Economy of European Monetary Cooperation* (Albany, NY: State University of New York Press, 2001), 174-8. In addition, Kaelberer argues that the Kohl government had accepted EMU well before the GDR collapsed. To bolster his argument, he downplays German resistance during summer 1989.

¹⁰⁴ *Ibid.*, 190.

¹⁰⁵ Reimut Jochimsen, "Economic and Monetary Union: a German Central Banker's Perspective," in: Klaus Gretschmann (ed.), *Economic and Monetary Union: Implications for National Policy-Makers* (Dordrecht, Boston, and Norwell, Mass: M. Nijhoff Publishers, 1993), 198, cited in: Kaelberer, *Money and Power in Europe*, 169. Of course, one could also interpret the 1992/93 debacle as the Bundesbank's attempt to sink Maastricht.