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German Unification and
European Security: The Influence
of Economic Developments and
German Domestic Politics

Jonathan Sperber

**German Unification and European Security:
The Influence of Economic Developments and German Domestic Politics**

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While it is clear to everyone that the unification of the two German states will have momentous consequences for every aspect of life throughout Europe, it has not proven easy to predict just what these consequences will be. Events have confounded the experts and prognosticators and continue to provide surprises on an almost daily basis. Prediction does tend to work by extrapolating the past into the future, only the basic framework for Germany within Europe between 1949 and 1989—the two states, the two alliance systems, the two Superpowers—has vanished and no longer provides a guide to current events. This is particularly true for considerations of security problems: events have not just rendered irrelevant the former concentration on potential military confrontations between NATO and the Warsaw Pact; they have thrown into doubt the further validity of a predominantly military and diplomatic view of security.

An additional difficulty for academics concerned with the topic can be seen in the organization of scholarly volumes devoted to the consequences of German unification. Typically, they are divided into a series of topical essays, with each expert holding forth in his or her area of expertise: economic growth, the labor market, German political parties, the EEC, German foreign policy, and the like. Such an organization tends to obscure the possibility of influences across areas separate in academic study but connected in life: the possibility that changes in the German labor market, for instance, might have an effect on Germany's relations with the EEC, that the conflicts and competition between the German

political parties might influence the country's foreign policy, or that decisions on exchange and interest rates might have an important bearing on security policy.¹

In this essay, I would like to consider some of these interconnections. My starting point will be the consequences of unification for the economy of the former East Germany, particularly in the context of the economic policies of first the West German and then the all-German government. From there, I will move on to the economic consequences of unification for the former West Germany, and then to the upshot of these economic developments for politics in the newly united Germany. These recent developments in German domestic affairs will form the basis for some concluding suggestions about the relationship between a united Germany and Europe and about the potential consequences of German unification for creating a framework of prosperity, stability and security in Europe.

1. The East German Economy Meets the Free Market

The German Democratic Republic approached German unification with an economy in dreadful shape. Years of under- and misinvestment, capped off in the 1980s by a desperate drive to gain western currency at any price, combined with heavy state subsidies for consumption in the ultimately unsuccessful hope of pacifying popular discontent, had

¹Two examples of this sort of work are Ulrike Liebert and Wolfgang Michel (ed.), *Die Politik zur deutschen Einheit: Probleme—Strategien—Kontroversen* (Opladen, 1991) and Paul B. Stares, (ed.), *The New Germany and the New Europe* (Washington, D.C., 1992).

produced an aging industrial plant and a crumbling infrastructure.² Any traveler in the GDR during the second half of the 1980s could not miss the signs of decay: trains three-quarters of an hour late for a trip scheduled to take fifteen minutes, phone booths with phones that did not work, or phone connections that vanished in the middle of a conversation; frighteningly potholed roads and rusting bridges; older housing stock that had never been maintained and left to fall into ruin, with modern replacements in little better shape; 1930s era factories whose polluting emissions could be immediately and strongly perceived without the slightest need for sensitive measuring instruments; and, omnipresent, a distinct odor in the air, combining the high-sulfur-content brown coal used for power and heat with the smoky exhaust from the Trabis, the little East German cars powered by outdated lawnmower engines. To rebuild this infrastructure, replace existing industrial plant with world class, environmentally more sustainable factories and provide adequate housing is a formidable task, and one that will cost a lot of money. The most recent estimates are 3.5 trillion DM, about \$2 trillion, at the current rate of exchange.³

If the precise costs of this enterprise were not entirely clear in the first half of 1990, when the crucial decisions concerning the shape of German unification were made, the

²My discussion of the East German economy, government economic policies and the economic consequences of unification relies heavily on three studies and any otherwise uncited assertions draws on them: Andreas Busch, "Die deutsch-deutsche Währungsunion: Politisches Votum trotz ökonomisches Bedenken," in Liebert and Michel ed., *Die Politik zur deutschen Einheit*, pp. 185-207; Horst Siebert, *Die Wagnis der Einheit*, (Stuttgart, 1992) and Irwin L. Collier, Jr., "Instant Integration and Gradual Convergence—Program Notes to the Macroeconomic Drama of German Unification," *German Studies Review* 16 (1993): 312-30.

³ Theo Sommer, "Der Riese schwankt," *Die Zeit*, 23 July 1993.

approximate dimensions of the task were apparent and the government of the Federal Republic of Germany quickly developed a strategy that it hoped would smooth the transition from a centrally planned to a market economy and facilitate the work of reconstruction. To understand this strategy, it is important to recall the pre-1989 history of the conservative governing coalition of Chancellor Helmut Kohl. It had come to power in 1982 as part of the world wide trend towards an economic policy emphasizing the importance of free markets, a reduced role for the state, lower taxes and lower social welfare expenditures. This intellectual vision remained strong at the end of the decade and would provide a guide to initial policy on the economic aspects of unification.⁴

The collapse of the GDR and the other states of the Eastern bloc was taken as the final proof of the superiority of the free market over state intervention in economic affairs. If state intervention was the problem, the solution was the quickest and most radical return possible to private property, competition and the free market. Even before the two German states were formally united, there would be a currency union and the introduction into East Germany of West German law regarding property, taxes and economic activity. Property confiscated by the communist regime would be returned to its original owners or their heirs. (The "two plus four" talks on German unification made an exception for property taken between 1945 and 1949 in the then Soviet zone of occupation.) The large, state run concerns

⁴ Most English-language commentary on the conservative intellectual climate in West Germany during the 1980s has focused on the nationalist reinterpretation of the Nazi era, the so-called *Historikerstreit*. However, the conservative trend in German politics—that Germans called *die Wende*, the turnabout—was broader and included a good deal of enthusiasm for laissez-faire economics, and the ideas of Friedrich Hayek or Milton Friedman. A good essay on how this trend affected the thinking of the *Sachverständigenrat*, the West German government's Council of Economic Advisers, is Rudolf Hickel, "Dreißig und kein bißchen weise," *Die Zeit*, 20 Aug. 1993.

would be administered by a "Trusteeship Agency" [*Treuhandanstalt*] that would sell them off to the highest bidder, or, if no one wanted them, close them down.

By liberating the forces of the free market from the constraints of the state, and exposing the formerly closed economy to the bracing effects of worldwide economic competition, Kohl's experts expected to unleash a burst of entrepreneurial dynamism that would quickly and painlessly put East Germany on the road to economic reconstruction. In taking these decisions, state officials and private commentators frequently referred to the precedent of 1948, when a currency reform and a dismantling of Nazi era and wartime economic controls in the future West Germany had paved the way for the celebrated "economic miracle" of the 1950s. Indeed, there were those in and out of the government who hoped that the former East Germany would become a sort of model capitalist country, and by example and pressure of the market help move the former West Germany further in a laissez-faire direction, curbing further the power of trade unions, cutting taxes on business and upper-income groups and slashing welfare expenditures—all objectives that up to 1989 Kohl had been noticeably less able to accomplish than his fellow conservative leaders Ronald Reagan and Margaret Thatcher.⁵

The contrast between the hopes of the government for post-unification economic developments—hopes, that to judge by the convincing victories of the CDU in the free elections in East Germany in the first half of 1990 and in the all-German elections in December of that year, were widely shared by the population—and the actual course of the

⁵ For one example of such plans, with regard to taxes on business, see Klaus-Peter Schmid, "Nicht mehr als eine Fata Morgana," *Die Zeit*, 28 September 1990.

economy is as striking as it was unexpected. Far from unleashing a wave of economic growth, the free market measures brought on an economic decline in the former East Germany that has not yet been reversed. Indeed, a major role in this decline was played by the very measure that was supposed to bring on the upswing, the currency union of July 1990.

While one DM had bought about six East German Marks on the semi-legal market in 1990, for the currency union savings were exchanged at the rate of 1:1 for the first 3,000 Marks and 2:1 thereafter; prices and salaries were converted at 1:1. This meant that with one stroke every product in East Germany increased in price six-fold, and every West German product, as well as those manufactured in other advanced capitalist countries, became six times cheaper. Since East German products were generally of a lower quality than those produced in the west, there was no reason for consumers to buy them.

As the domestic market for East German goods collapsed, the worldwide competition to which such goods were exposed with the currency union was bringing the export market for these goods to an end. Prior to 1990, seventy percent of East German exports had gone to the communist countries of Eastern Europe, who paid for these exports, not with convertible currency, but through the finance and clearing arrangements (the so-called "transfer ruble") of COMECON. The end of the communist regimes in Eastern Europe brought with it the end of COMECON; imports had to be paid for in hard currency, so overpriced and poor quality East German goods had to compete with better and cheaper products from, say, West Germany, Sweden, the United States, South Korea or Japan. With

the abolition of COMECON at the end of 1990, the exports of the former East Germany dropped by two-thirds, literally overnight, and have not yet recovered.⁶

Why should post-communist eastern Germany have had to be content with its communist era industrial plant? Advocates of the free market solution expected that the currency and economic union would bring with it a wave of investment, both from West German firms and from potential East German entrepreneurs, creating new businesses and modernizing existing ones. This investment, however, has largely failed to take place. Perhaps the major factor inhibiting investments has been the regulations concerning the restitution of nationalized property. Title to any property is not cleared until the claims of the original owners or their heirs have been satisfied—and there have been a lot of claims, but as yet little satisfaction, since the courts are far too understaffed to deal with them all. As of mid-1992, some 2.2 million claims for restitution have been filed, but only 8.4% of them resolved. While the proceedings grind on, investors are reluctant to act, since there is always the danger that their businesses or the land on which they are located (about three-fourths of restitution claims are for real estate) might turn out to belong to someone else.⁷

This situation has primarily affected small investors and potential East German entrepreneurs—who, admittedly, were expected to create the most jobs. Large West German firms, that could easily hire the legal talent to deal with such conflicting property claims, quickly discovered more interesting parts of the ex-communist world for investment

⁶ Siebert, *Wagnis der Einheit*, pp. 31-33.

⁷ Collier, "Instant Integration," p. 317.

purposes. Labor in the Czech Republic, Poland or Hungary, close in training and skill levels to that of the former East Germany, is available for a small fraction of the cost. Michael Fuchs, president of the Federal Association of the German Wholesale and Import-Export Trade, put it quite crudely when he noted that one German worker, "costs as much as "70 Russians, 38 Bulgarians, 18 Poles, 17 Czechs or 10 Hungarians."⁸

Since firms in the former East Germany have not been able to compete, either at home or abroad, and since the investments that might have enabled them to do so have not been made, they have just closed down. By the end of 1992, industrial output was only 35% of what it had been three years previously. Employment has declined just as drastically: of 3.5 million industrial jobs in 1989, just 700,000 remain by the summer of 1993. Officially, unemployment rates have not climbed above twenty percent—a high enough figure, but an enormous underestimation of the problem. People in government make-work programs and in state-sponsored job-training programs are not counted as unemployed in German statistics. Additionally, there are those working short-time, often zero hours a week, plus about two million people who have left the labor market altogether: workers in their fifties forced to take early retirement, women unable to work as firms, desperate to cut costs, closed the childcare facilities they had operated under the communist regime. Totaling all these

⁸ Arne Daniels, "Tiger im Hinterhof," *Die Zeit*, 11 June 1993.

together, we find that about one half the 1989 East German labor force is currently unemployed, a very discouraging result for the unleashing of dynamic market forces.⁹

Precisely this disappointing outcome has led to a good deal of criticism of the original decisions and a belated search by the government for some policy options. True believers in the free market insist that their ideas would have worked if they had only been carried out completely, particularly if the currency union had been at the market exchange rate rather than the distinctly non-market 1:1. In fact, the decision to unify the currencies at that rate came in for a good deal of criticism—albeit generally muted—from the *Bundesbank*, the German Central Bank, the *Sachverständigenrat*, the German Council of Economic Advisers, and a number of other sources. When the disastrous results of the currency union became apparent and were too late to change, previously quiet and reserved critics made their objections public and a whole host of new critics appeared.

Not to speak for what was clearly a bad decision, but the alternative of a currency union at the market exchange rate would have had its problems as well. In 1989, the average monthly wage in East Germany was about 1400 East German Marks; had these been converted at the market rate, than the typical wage-earner would have taken home some 235 DM monthly, while an unmarried West German welfare recipient received 650-700 DM each month, plus money for rent. In other words, had the currency union taken place at the 6:1 free market rate, most East Germans would have had incomes well below the subsistence

⁹ Siebert, *Wagnis der Einheit*, p. 37; Collier, "Instant Integration," p. 313; Sommer, "Der Riese schwankt." On the special difficulties of women in the labor market, as a result of the declining availability of childcare, see Peter Christ, "Das Land der zwei Geschwindigkeiten," *Die Zeit*, 11 Oct. 1991.

level, and would have required substantial and expensive government assistance to make ends meet—circumstances a government committed to the free market, and desiring to cut back on social welfare expenditures had no desire to bring about. In addition, such an exchange would have devalued the savings of most East Germans. (Because basic necessities were sold at subsidized low prices under the communist regime, and more expensive consumer goods were frequently unavailable, many East Germans had built up substantial cash balances in their savings accounts.) The government was hoping that these savings would be used to start small businesses, particularly in the service sector, and so provide jobs for people working in industries that would have to be closed down.

One area where policy did turn around was with regard to the disposition of formerly state-owned enterprises by the Trusteeship Agency. Expected buyers for these firms, most of which were thoroughly uncompetitive on the world market, did not emerge, and through early 1991 the managers of the agency followed the course of shutting down the unsalable enterprises and dismissing the people employed in them. Indeed, at a meeting of the executive committee of the agency's governing body in January 1991, a high official of the Ministry of Finance pounded on the table and announced "There must be dieing!" in reference to the need to close down unprofitable enterprises. Two weeks later, when Chancellor Kohl visited Eisenach, where the Trusteeship Agency had just closed down the Wartburg auto works, he was met by egg-throwing demonstrators. After that, policy quickly changed, and the Trusteeship Agency began putting money into the firms it was managing, and offering increasingly favorable terms to investors, in effect paying them to take over the businesses. This has meant a substantial expenditure of public funds, but the Agency has

succeeded in selling most of the formerly state-owned firms in its possession. It remains to be seen, though, just how successful they will be in private ownership.¹⁰

The one decision universally recognized as a disaster was making restitution of nationalized property the main priority, instead of offering expropriated owners compensation. This decision was a good example of neglecting the lessons of history, since the West German government's compensation program for property losses incurred during the Nazi regime and the Second World War—the "equalization of burdens" [*Lastenausgleich*—has proven quite successful. Blame for the decision to give restitution priority has been offered quite widely—commitment to private property, fear that the German Supreme Court would overturn any compensation scheme and insist on restitution, a desire to avoid expenditures for compensation, pressure from the real estate lobby—but, in any event, once the decision was made and the judicial machinery for it cranked up, it cannot be rescinded. There have been several small modifications to the original commitment to restitution, but the basic decision remains in place and continues to exert a paralyzing or at least delaying effect on investment.¹¹

¹⁰ Peter Christ, "Zum Sündenbock gestempelt," *Die Zeit*, 12 Apr. 1991; Ralf Neubauer, "Quantensprung im Osten," *Die Zeit*, 29 May 1992, and the interview with Birgit Breuel, current head of the Trusteeship Agency, *Die Zeit*, 6 August 1993.

¹¹ On changes in the restitution rules, and the small effect they have had, see Wilfried Herz, "Vom Traum zum Trauma," *Die Zeit*, 18 Sept. 1992.

2. From East to West

Nothing has yet stemmed the output in decline and employment in the former East Germany, but it has not been accompanied, as such declines usually are, by a decline in consumption. Quite the opposite, East Germans' purchasing power was protected by generous unemployment and early retirement benefits, as well as by the upward revaluation of their savings as a result of the currency union at the 1:1 exchange rate. They vigorously purchased all sorts of western made consumer durables and semi-durables, from color TVs and VCRs to couches and wall units. Above all, they bought automobiles. My own personal impression during a brief visit to the former East Germany in the summer of 1991—only slightly exaggerated for effect—was that no one seemed to have a job, but everyone had a new car. 1991 was in fact a record year for auto purchases, some 4.16 million new cars registered in Germany that year.¹²

What was happening was the German government was pumping money into the former East Germany. Some of that money was being used to improve the industrial infrastructure—and substantial work has been done on modernizing telecommunications and the rail network. Most of it, though, about sixty percent in 1991, for instance, was being used to subsidize personal consumption of West German goods, whose purchase was helping to put many East Germans out of work, requiring the government to put still more money into East Germany, that could be used to purchase still more West German goods. If unification led to an economic crisis in the east, it created boom conditions in the west.

¹² "Autoseller," *Die Zeit*, 19 Feb. 1993. 1992, at about four percent fewer new cars registered, was only slightly behind 1991's record.

While economic output was declining sharply in the former East Germany during 1990 and 1991, the GNP was increasing by 4.9% and 3.6% respectively in the former West Germany, the best showing in more than ten years.

An obvious question emerges here, namely where was all the money coming from that was being transferred from the western to the eastern parts of Germany and then being spent back in the west? The answer is that the government has spent it without having it. The most recent figures show an increase in the national debt from 475 billion DM in 1989 to an expected 1.35 trillion DM by 1996. Finance Minister Theo Waigel, who has presided over this substantial increase in government indebtedness, has strongly resisted substantial tax increases or cutting other expenses to cover the expenditures of unification. At first, he asserted, rather in the manner of American supply side economists of the early 1980s, that the economic growth to be achieved by unleashing the free market in the ex-East Germany would pay for any additional costs. As this proved not to be the case, he devoted his efforts to improving the official balance sheet by putting as much of these costs as he could manage in special, off budget areas, such as the "German unity funds," or the "Upswing East."¹³

In effect, the government had unintentionally launched a very large Keynesian deficit-spending economic stimulus program, although one that seems to have stimulated the economy of the former West Germany, that did not need the stimulus, rather than that of the former East Germany, that badly needed it. This was quite a break with former policy, all

¹³ Wolfgang Hoffmann, "Kredit ohne Linie," *Die Zeit*, 7 May 1993. Siebert, *Wagnis der Einheit*, chap. 9, is devoted to an extensive discussion of transfers from west to east in Germany and the means of financing them.

governments of West Germany—whether on the right or the left—having steadfastly refused since the mid-1970s to implement such a stimulus package, in spite of frequent urgings from Germany's major trading partners. It was, however, not a well timed break, since the stimulus came as the economy of West Germany was culminating its long, slow, recovery from the 1982 recession and reaching a peak at the end of the decade of the 1980s—precisely when Keynesian theory says that such a stimulus should not be applied.

The results were also what Keynesian theory predicted, an outbreak of inflation, prices in the former West Germany rising at about 4-5% a year since 1990. While this may not seem like much to Americans, Germans are extremely sensitive to price increases, having had two notoriously bad experiences with inflation in this century. The officials of the *Bundesbank*, the German central bank, who had been skeptical both about the 1:1 currency union and the government's financial policy, now took the opportunity provided by these figures to give force to their own views. Following the classic monetary anti-inflation strategy, they started raising short term interest rates in 1990 and pushed them to a peak of about 10% in 1992, the highest they had been in Germany since the Great Depression of the 1930s. Making borrowed money so expensive dampened domestic economic activity; it also brought foreign investors into the country, helping to finance the German federal government's growing budget deficit, but also raising sharply the value of the D-Mark on world money markets and thus making German exports more expensive and less competitive. All these measures spelled recession: GNP growth in the former West Germany (economic statistics are still kept separately on the two formerly separate states) declined continuously

from its peak in 1990 and fell below zero in 1993. Latest expectations are for the GNP to fall about two percent this year; the sharpest drop since the end of the Second World War.¹⁴

This severe recession, with its lowered tax receipts and greater social welfare expenditures (unemployment compensation, for instance), puts a still greater strain on overburdened government finances, and threatens to lead to cutbacks in spending for infrastructure improvement and income maintenance in the former East Germany. Having provided a Keynesian stimulus at the wrong time, the government now seems ready to attempt to introduce substantial budget cuts in the midst of a recession, another perverse move from the demand management point of view.¹⁵ However, the recession has revealed deeper, structural problems in the economy of the former West Germany that were hidden from view in the boom years of the late 1980s and early '90s.

One problem is that of overstaffing. During the boom, firms could be profitable with more workers than they might really have needed but the recession has created a harsher environment. Restoring long-term profitability in a number of automobile firms, including Volkswagen, will mean the loss of 2-300,000 jobs by the middle of the 1990s. For the same reason, large job losses are likely in the steel industry, and for Lufthansa. A depressing estimate from the chief of the industrial consulting firm McKinsey-Germany is that the

¹⁴ Some recent estimates for 1993 in Wilfried Herz, "Sieben ohne Kurs," *Die Zeit*, 14 May 1993.

¹⁵ Thomas Hanke, "Wer zu spät spart," *Die Zeit*, 4 June 1993.

recession will lead to the permanent loss of 2 million to 2.5 million jobs in the former West Germany.¹⁶

Closely connected with job loss is the problem of competitiveness on the world market. In a number of "older" industrial areas, such as steel, basic chemicals, or non-luxury automobile production, German firms are facing a growing challenge from low-wage competitors: the newly industrialized countries of East Asia, and, increasingly, some of the former communist nations of Eastern Europe. During the unification boom, when everyone in the ex-GDR had to have a car, and flush West Germans were willing to buy new ones as well, there was room for domestic and foreign firms alike. (To judge by what I saw in the summer of 1991, Nissans seemed to be a particular favorite in the former East Germany, but there were also plenty of the cheaper VWs and Opels being driven around.) In a less favorable environment, these older industries are faced with a serious competitive threat, that, at best, can only be stemmed by large-scale layoffs to produce more cheaply.

At the same time, West German businesses have been finding it difficult to establish themselves in the high-tech growth sectors of the world economy. German firms do have very strong positions in computerized machine tools, complex medical appliances, telecommunications and specialty chemicals, although the recession has taken a toll in these areas. However, in what are usually regarded as the three areas with the most growth potential—aerospace, microelectronics, and genetic engineering—German manufacturers are at best

¹⁶ Bernd Loppow, "Im freien fall," *Die Zeit*, 4 Sept. 1992; "Tausend Feuer, Ofen aus," *Die Zeit*, 5 Mar. 1993; Nikolaus Piper, "Zu dick, zu schwer, zu teuer," *Die Zeit*, 26 Mar. 1993;

lagging behind their counterparts in Japan and the United States or are totally out of the running.¹⁷

These difficult prospects for business in the former West Germany cast a shadow over developments in the former East Germany. Only a prosperous, growing western Germany can provide the large sums that will have to be transferred to and invested in eastern Germany for years to come in order to create the bases for prosperity there. Should the current recession lead to a serious, permanent decline in economic activity in western Germany, or businesses there fall behind in competition for important growth sectors, these funds will no longer be available.

3. Economics and Politics in a United Germany

If Chancellor Kohl's coalition received a powerful vote of confidence from the electorate in December 1990, at the highpoint of the unification boom, the economic difficulties stemming from his government's unification policies soon made their appearance and threatened his political position. After promising repeatedly in their re-election campaign that unification would require no new taxes, no sooner were the coalition politicians returned to office than they began announcing tax and fee increases. The Chancellor's CDU received the voters' response when it was disastrously defeated in the elections to the state parliament of Rheinland-Pfalz in April 1991, losing control of the government in that generally conservative and clerically minded part of Germany, for the

¹⁷ On these points, see Konrad Seitz, "Fortschritt fängt im Kopf an," *Die Zeit*, 21 May 1993.

first time in decades. Politicians, journalists and public opinion pollsters alike attributed this remarkable outcome to voter anger about the federal government's "tax lie." The CDU suffered further defeats in the state elections in Baden-Württemberg and Schleswig-Holstein the following year. Public confidence in the government declined at a rate never before seen, since the introduction of public opinion polling to Germany after the Second World War.¹⁸

The response of the government to these setbacks was to launch a campaign to divert public attention from the difficulties of reunification and towards another consequence of the end of the communist regimes in Europe, the growing numbers of foreigners seeking political asylum in Germany. Article 16 of the 1949 West German constitution had guaranteed asylum to victims of political persecution, but this had been one of that constitution's many gestures of repudiation of the Nazi past, with little in the way of political consequences for decades. There were some 10,000 applications for political asylum filed in 1980; by 1988, the figure had reached 103,000. There was a growing, and probably justified, suspicion that many of those seeking asylum in West Germany were not actually victims of political persecution, but citizens of poor countries, seeking to live in a wealthier one.

In the second half of the decade, such asylum seekers were joined by a growing number of ethnic Germans from Eastern Europe (many of whom did not speak the language and were "Germans" only by courtesy of a distant ancestor) who received permission to

¹⁸ *Die Zeit* issues of 3 May 1991 and 17 April 1992 have excellent coverage on the state elections, including polling results by the "Forschungsgruppe Wahlen" at the University of Mannheim, to my mind the best political pollsters in Germany. On public opinion more generally, see the article by the group's director, Dieter K. Roth, "Wandel der politischen Einstellungen seit der Bundestagswahl 1990," *German Studies Review* 16 (1993): 265-98.

emigrate from the liberalized communist regimes. There were 377,000 of them in 1989. Even before the fall of the Berlin Wall, some one half million immigrants were reaching West Germany yearly, crowding onto the job and housing markets, and for that reason provoking an increasing amount of hostility. The events of 1989-90 opened borders to the east and increased the flow of immigration still further. 1992 marked a highpoint, with 450,000 asylum seekers and 220,000 ethnic Germans entering the country.¹⁹

Following the major electoral defeat of the CDU in the state elections in Rhineland-Pfalz, Chancellor Kohl's government decided to place the issue of foreigners in Germany at the center of political debate. Prominent CDU politicians demanded a constitutional amendment, strictly limiting the guarantees of political asylum offered by Paragraph 16 and denouncing the opposition SPD's refusal to support such an amendment (requiring a two-thirds majority in parliament) as responsible for the current state of affairs. The CDU's General Secretary went so far as to speak of "SPD asylum seekers." The General Secretary of the CSU, the CDU's Bavarian wing, added fuel to the fire, announcing that if the SPD did not support a change in the constitution, Bavaria would deport all the asylum seekers on its territory to federal states with SPD governments.²⁰

¹⁹Jürgen Fijalkowski, *Aggressive Nationalism, Immigration Pressure, and Asylum Policy Disputes in Contemporary Germany*. German Historical Institute, Washington, D.C. Occasional Paper No. 9 (Washington, DC, 1993), pp. 15-16. This little brochure contains an excellent English-language account of immigration and the debates over it in Germany today.

²⁰ Robert Leicht, "Hoyerswerda in den Köpfen," *Die Zeit*, 4 Oct. 1991 and "Vereint im Fremdenhaß," *Die Zeit*, 18 Oct. 1991.

This campaign produced a number of important results, although not entirely those that its initiators had hoped for. By demonstrating that government leaders and prominent politicians wanted to get rid of the growing number of foreigners coming into Germany, it legitimized and encouraged the outbreak of violent hostility towards them. A whole series of violent attacks on foreigners, attracting world-wide attention, followed in 1991 and 1992, in both eastern and western Germany. The pattern of violence differed in the two halves of the country. The east saw mobs storming the temporary housing for asylum seekers, while bystanders looked on sympathetically and the police were nowhere to be found. In the west, attacks were more likely to be the work of individuals or small groups, involving throwing rocks or setting fires (in two instances with fatal results).²¹

Common to both parts of the country, was the identity of the active assailants. They were typically young men, most under twenty years of age, unemployed or working in low wage, low skill jobs, generally from lower class backgrounds. They and their families had not done well in the 1980s and saw discouraging future prospects, for which they were only too happy to blame foreigners (particularly dark-skinned ones), especially after neo-Nazi

²¹ Kuno Kruse and Micheal Schweden, "Brandstifter und Biedermänner," *Die Zeit*, 11 Sept. 1992, is on the anti-foreign riots in Rostock, in eastern Germany; Thomas Kleine Brockhoff, Kuno Kruse and Ulrich Stock, "Mölln, Deutschland," *Die Zeit*, 18 Dec. 1992, describes the perpetrators of a sensational case of arson against foreigners in western Germany.

agitators had stirred them up to it and much more respectable politicians had tacitly encouraged their grievances.²²

The political fallout of this campaign was also not entirely what the government had hoped for. One of its goals was achieved, weakening the opposition SPD. Vacillating, split and unsure on the question of whether to support a constitutional amendment changing the rules on the granting of political asylum, unable as well to offer a convincing alternative to the government's unsuccessful policies for encouraging economic development in the former East Germany, the SPD was unable to take advantage of the government's declining popularity. In a quite unusual situation, the popularity of both the government and the opposition declined.²³

The prime beneficiaries of the campaign were the parties of the extreme right. Before 1989, they had increasingly focused their political agitation on stirring up hostility to foreigners and had scored some successes in state and local elections with this theme. The events of 1989-90 had taken them by surprise and they were completely overwhelmed in the elections of 1990. The return of the asylum issue to the center of political debate gave them a renewed opportunity and they exploited it to the fullest, scoring some major victories:

12.3% of the vote in the state elections in Baden-Württemberg in April 1992, 8.3% in the

²² Frank Drieschner, "Gestiefelte Schwäche," *Die Zeit*, 13 Aug. 1993, is a report on several recent sociological studies of perpetrators of violence against foreigners. Jane Kramer, "Neo-Nazis: A Chaos in the Head," *New Yorker*, 14 June 1993, is an English language account on the topic, that is good for the atmosphere but weak on analysis.

²³ Roth, "Wandel der politischen Einstellungen," pp. 277, 285-90; Thomas Henke, "Wo bleibt die Kompetenz?" *Die Zeit*, 12 Mar. 1993. More generally, on the difficulties of the SPD, see the 14 May 1993 issue of *Die Zeit*, with a number of articles on the theme.

local government elections in Hessen in March 1993. Along with these results, public opinion polls began to reveal that a growing number of Germans, in both east and west, were becoming ever more discontent with the existing democratic institutions that seemed unable to deal with the country's economic problems, or resolve the issues surrounding immigration.²⁴

These same polls show that an overwhelming majority of Germans condemn violence against foreigners and those who practice it; they also show that most voters for the extreme right-wing parties are not firm supporters but protest voters, expressing their discontent about the inability of either the federal government or the opposition to come up with convincing remedies for the country's problems. Alarmist comments about a new wave of Nazism in Germany therefore seem unjustified and exaggerated, especially when considering the considerable popularity of xenophobic, right wing groups in other European countries, such as the *Front National* in France, or the Lombard Leagues in Italy (to say nothing of Poland, Rumania, or the former Yugoslavia). However, unless Germans' skeptical attitudes about the major political parties and about the competence of their government change by 1994, when elections are scheduled for the federal government and the government of a number of the German states, the results of these elections are likely to resemble the ones in the recent state elections: losses of the major parties, gains for the extreme right. The upshot may well be that it will be difficult to form a strong federal government with a convincing

²⁴ Roth, "Wandel der Politischen Einstellungen," pp. 292-96; Wanfried Dettling, "Warum die Großen immer kleiner werden," *Die Zeit*, 15 Jan. 1993. The 17 Apr. 1992 and 19 Mar. 1993 issues of *Die Zeit* that contain analyses of the losses of the major parties and the gains of the extreme right in state and local elections.

majority behind it in the German parliament. This would be unfortunate, because Germany clearly needs a government capable of taking strong and decisive action to deal with the unexpected economic and social consequences of unification.

4. Germans and other Europeans

The changed domestic circumstances of the last three years have had a profound effect on relations between the Federal Republic of Germany and the nations of the EEC, and, more broadly, all European countries. In this final section, I will look at three areas where domestic politics has had a substantial impact on Germany's position in Europe: the civil war in the former Yugoslavia, the collapse of the European monetary system, and the severe weakening of the Maastricht accord provisions for moving towards a European monetary union, and the issue of population movements between European countries.

Clearly one of the decisive turning points for the situation in the former Yugoslavia was the November 1991 decision of the German government, in a sharp turnabout from its previous position, to recognize the secessionist republics of Croatia and Slovenia, and to pressure, successfully the other EEC countries to do the same. This international recognition was the signal for an all-out civil war. A major reason for this turnabout was found in German domestic affairs: a campaign organized by the CDU and the mass media sympathetic to its point of view. Behind this were clerical sympathies for the Catholic republics Croatia and Slovenia and hopes of avoiding a new wave of refugee foreigners coming to

Germany by stabilizing the situation in the Balkans. This last hope was misguided, to say the least.²⁵

The disruption of the Maastricht process has very largely been a result of the economic consequences of German unification. Here, the causal link has gone from the large German government deficits, much of which was used for consumption and not for productive investment in the former East Germany, leading to inflation, that in turn led the *Bundesbank* to raise interest rates. High German interest rates meant substantial capital flows to Germany, putting severe pressure on currencies linked to the DM in the European monetary system. Ministries of finance and central banks faced a unpleasant choice: they could raise interest rates, thus getting some of this capital back and maintaining the value of their currency vis-à-vis the DM. Such higher interest rates would mean weakening economic activity and making it difficult to recover from the recession of the early 1990s. An alternative would have been to end the fixed exchange rates, allowing their currencies to float downwards against the Mark. Such a devaluation would have increased the chances for inflation and also brought to an end the system of fixed exchange rates, that had sustained and encouraged trade with the EEC for almost twenty years. The third possible choice, just doing nothing, would have meant that countries sooner or later would have lost all their foreign currency reserves and would have had to make one choice or the other.

After some painful experiences defending their currencies, Great Britain and Italy opted for devaluation and leaving the exchange rate mechanism. The French government

²⁵ Werner A. Perger, "Warum Bonn am Pranger steht," *Die Zeit*, 2 July 1993.

kept interest rates up, defending the franc, and exacerbating that country's severe recession. Ultimately, this past summer, the whole exchange rate mechanism was dismantled, allowing the Common Market currencies to fluctuate against each other. This was a decisive step against the economic integration proposed in the Maastricht process, in turn a direct result of German unification.

Finally, there is the question of immigration into Germany, but more broadly, into the more prosperous countries of western and northern Europe, from the poorer lands to the east and south. This is a particularly difficult issue for Germany, since its short term and long term interests are so sharply in contrast. At the moment, with the unresolved difficulties of the economic transition in the east, and the severe recession leading to high unemployment, the last thing that Germany needs is more people in the labor market. The country's birthrate is extremely low, though, and the population aging, so over the next several decades additional labor, on the order of 3-500,000 immigrants per year, will be necessary to keep the economy running.²⁶

There is no simple way out of this dilemma. Amending the constitution to restrict political asylum, as was finally decided this summer, might help at first, although it will probably just tend to drive immigrants and immigration into illegality. Probably the most plausible step in a positive direction, although a very difficult one to take, would be official recognition that Germany has become a country of immigration. The current circumstances under which actual immigration is hidden behind the policies of ethnic reunification

²⁶ Fijalkowski, *Aggressive Nationalism*, p. 18.

(Germans in eastern Europe returning to Germany) and claims of political asylum could give way to an ordered immigration policy, with yearly quotas and liberalized rules on immigrants obtaining German citizenship.²⁷ Such administrative revisions would work best in a more favorable economic climate, one in which self-sustaining economic growth in the former East Germany has been obtained, where unemployment across the country is declining and the current housing shortage is resolved by the construction of more affordable housing. Then immigrants would be easier to accept, since they would not be seen as competitors for scarce jobs and housing.

In many ways, both the domestic problems within Germany and the difficulties in the relationship between Germany and other European countries boil down to problems of economic development. These in turn reflect the lack of success in reconstructing the economy of the ex-GDR and integrating it into the world market. In a post-Cold War Europe, where a potential east-west military confrontation is no longer a prospect, and where conflicts between rich and poor—both between and within different countries—and over economic development have been a major source of tension, German economic policy has increasingly come to have a broader relevance for European security. The idea that the process of reconstruction and integration of the former East Germany would be painless and brought about by the self-activating forces of the market has proved to be an illusion. More realistic policies are needed to meet the needs of the moment.

²⁷ For suggestions along these lines see Ingo von Münch, "Gegen 'Blut' und 'Boden,'" *Die Zeit*, 10 Jan. 1992.