Chapter 12

Shifting Economic Assessments: Germany in a Changing World, 1987–1993

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For the political economy of the Federal Republic of Germany, the unravelling of state socialism in Central and Eastern Europe, and especially the German Democratic Republic (GDR), posed major opportunities but also huge challenges. Today we know that the German political economy proved sufficiently robust to cope with the breakdown of East German industry as well as agriculture and to stem the enormous cost of reunification. At the time, however, it was open for debate if and how German unity was to be realized and how a reunified Germany would fare economically. Chancellor Helmut Kohl, a Christian Conservative, pronounced his vision in a TV speech on July 1, 1990—the day the Monetary, Economic and Social Union between the GDR and the Federal Republic of Germany was implemented. He announced that the new *Länder* (states) in East Germany would soon turn into "blossoming landscapes."[1] The phrase backfired when euphoria about German unity faded in 1991 and the scale of the economic crisis in East Germany became apparent. The chancellor's words since have become one of the most notorious political statements in the German language, a sarcastic slogan targeting unfulfilled promises of prosperity in East Germany. Taken literally, it pointed to the fact that nature flourished on abandoned industrial sites. East Germans countered Kohl's promise of "blossoming landscapes" with an ironic slogan of their own: "illuminated meadows." It alluded to light installations put in place on empty real estate sites where no production facility ever materialized.[2]

This chapter is about the economic stakes involved for the Federal Republic of Germany during the crucial years before, during, and after reunification when the old national, European, and international order suddenly crumbled.[3] It sets out to convey the economic opportunities, challenges, and risks for the Federal Republic as seen through the lenses of the Kohl government, a coalition of Christian and Social Conservatives and Free Democrats, particularly the Ministry of Economic

Affairs, and the Council of Economic Advisors, an official, independent advisory board to the government.[4] The political decision-making process that led to German reunification and which is often at the forefront of historical research on Germany serves as an important background against which contemporaries' economic expectations and concerns are weighed.[5] There was an obvious dissonance between the government's political rationale for a speedy reunification process and strong reservations by leading economists against it.[6] In a letter to the chancellor in February 1990, the Council of Economic Advisors, the leading national voice in economic matters, fervently warned against the risks for the economy, employment, and state finances.[7] The controversy was—and still is—insolvable because any claim that reunification could have been realized in an economically more prudent fashion remains counterfactual.[8]

"We did not have a masterplan for German unity," Kohl stated in his memoirs.[9] Indeed, the process of German reunification did not follow a political playbook. It was born out of improvisation and crisis management in a complex, volatile historical situation.[10] During the first half of 1990, the chancellor took his chances when a rare window of opportunity for German reunification opened in the domestic and the international political realm. With the exception of British Prime Minister Margaret Thatcher, who fiercely opposed German reunification, and U.S. President George H. Bush, who was Kohl's closest ally in the quest for German unity, international leaders had to be persuaded and nudged in exchange for concessions. Kohl's summit diplomacy succeeded in winning over General Secretary of the Soviet Union Mikhail Gorbachev and French President François Mitterrand. Eventually each of them assented to the prospect of German reunification, including NATO membership of a reunified Germany. Kohl accommodated Mitterrand by consenting to go forward with the implementation of the Economic and Monetary Union in Europe. The German government would have preferred a closer political union, but Kohl saw his bargaining chips confined as his top priority was German reunification. Again and again the German chancellor assured worried leaders that a reunified Germany would be no drag on the future European Union.[11] Gorbachev's acquiescence came at a price.[12] But the bank loan of five billion Deutschmark granted in June 1990 as well as the total sum of German financial support for economic reform in the Soviet Union between

1989 and 1991 proved to be a relatively small price tag, roughly DM 57 billion, when compared to the total cost of reunification, estimated at DM 1.4 trillion until 2006.[13]

Domestically, the Kohl government in 1990 was confronted with acute state failure and rising unemployment in the GDR and a persistent influx of East German resettlers. In February, the German chancellor, supported by his Minister of Finance Theo Waigel, forged ahead and offered a monetary and economic union to the GDR. Signed in May and implemented on July 1, the Monetary, Economic and Social Union between the Federal Republic and the GDR was a major step towards German unity, the internal dimension of which was agreed at the end of August 1990. Kohl's offer prompted an electoral win for the conservative Alliance in the first free general elections in the GDR in March 1990. The offer to the GDR however constituted a major breach against the government's own economic preaching. Previously it had insisted on substantial market-oriented economic reforms in the GDR prior to any kind of federation, let alone a union between the two Germanys. The same was true for the government's position on European integration: it held the view that market-oriented reforms in other member states and institutional reforms of the European Community were a prerequisite for a closer economic union. A monetary union would be the high point of European integration, but nothing to begin with.

In order to explore contemporaries' economic assessments and how they shifted over time, I focus on the perspective offered in annual reports on the German economy published between 1987 and 1993—surveys published each November by the Council of Economic Advisors as well as annual economic reports published by the German government in response each January. Those were compiled by the Ministry of Economic Affairs.[14] I also draw on published documents about German reunification, on Kohl's memoirs, and on formerly undisclosed files from that Ministry that have been released on my request.[15] How did economic assessments shift over time when the division of Germany, Europe, and the world dissolved? To what extent did they move away from the growth optimism of the late 1980s to disillusionment about German unification's economic outcome? What was the government's and economists' respective take on the state of the East German economy before and after unification? Did they see it as an economic opportunity or a liability for the Federal Republic? And how did they evaluate reunified Germany's prospects in the European common market and the emerging global economy?

Section 1 briefly sketches economic assessments of the Federal Republic and the world economy from the late 1980s as they shaped contemporaries' experience and expectations. Against this backdrop Section 2 analyzes reports and forecasts from the crucial months between the fall of the Berlin Wall and the first general election in reunified Germany in December 1990, when the political dynamics of reunification were at full display. Section 3 sheds light on how assessments of reunified Germany's economic prospects in a radically altered national, European, and international framework evolved until 1993.

A Position of Strength: The Economy of the Federal Republic Seen from the Late 1980s

Economic reports from the late 1980s demonstrate a strong belief in the strength of the Federal Republic as a leading industrial and global trading nation.[16] While the Kohl government's annual economic reports reflect self-assurance and growth optimism, the Council of Economic Advisors took a slightly more critical stance, even though in principle the body fully agreed with the government's supply-side oriented approach to economic policy.

The Council of Economic Advisors was founded in 1963 as an official advisory board to the government. Its members, also commonly called the "five economic sages" (*fünf Wirtschaftsweisen*), were renowned German professors of economics. They were nominated by the government and appointed by the German President. According to custom, one candidate was usually chosen by the labor unions and another by the Board of German Employers of Manufacturing (*Gemeinschaftsausschuß der Deutschen Gewerblichen Wirtschaft*). During the 1960s and early 1970s, all members were Keynesians by conviction until the council turned to supply-side economics and monetarism between 1972 and 1976.[17] The Law for the Promotion of Stability and Growth of the Economy from 1967 prescribed that the government responded to the council's survey in its annual economic report, but it was not obliged to follow through on any of the council's policy recommendations—which were actually prohibited by law, but given anyway. Because of the council's function, independence, and reputation, its voice was widely heard in German public and political debate. Usually there was a broad consensus in market-oriented economic policy between the council and the Kohl government, a coalition of Christian Democrats (conservatives) and Free Democrats (economic liberals), but the handling of German reunification produced a rift between them.

After the international deflation crises of the 1970s and early 1980s, the Kohl government's main concerns had been sluggish growth, high unemployment, and rising public debt. The coalition had come into power in late 1982 at the height of the global recession. Since then, the German economy was on a path of recovery. In its reports from 1987, 1988 and 1989, the Ministry of Economic Affairs showed much satisfaction with the economy's trajectory and the seventh year of consecutive growth, rising total employment and shrinking unemployment numbers. It attributed them to the government's market orientation and fiscal consolidation.[18]

The "course is set correctly for the future," the Ministry stated with confidence in its 1987 report.[19] The world economic outlook was also very promising. Remaining risks concerned uncertainty about volatile foreign exchange rates, developing countries' ongoing debt problems, and significant trade imbalances by some industrial countries, which had fueled protectionist demands around the globe.[20] As a global trading nation the Federal Republic relied on smooth international trade and open markets. The Kohl government acknowledged that this role entailed a special responsibility for the world economy, but it argued decidedly against demands by other countries that the German government adopt expansionist fiscal policies. Instead, it stuck to its supply-side credo of "decidedly market-oriented politics," "dynamic competition," and "necessary adjustment."[21] This was in accordance with the Council of Economic Advisors' recommendations. On a European level, the government hoped for a "truly European internal market" as a major opportunity "for more market economy, more internal and external competition, and intensive deregulation."[22] In order to promote open markets, the Kohl government was determined to take action against protectionist inclinations in Europe, Japan, and the United States, and to cooperate with the European Community and the Uruguay Round within the framework of the General Agreement on Tariffs and Trade (GATT).[23] Socialist countries were at the margins in the government's economic reports, with a single reference to the GDR in the very last paragraph.[24]

When the Council of Economic Advisors released its survey in November 1987, the German economy had not fared as well as hoped.[25] The lowest growth estimate of 1.5% had become reality, demand and production were weak, and exports could not make up for these shortcomings. The Council estimated that the German national product would grow by a mere 1.5% in 1988—by international and even by European standards (2%), this was "weak growth" indeed.[26] In order to remedy Germany's slow growth, the Council urged to prioritize a "Politics of Growth."[27] The sages hoped that international cooperation would prevail and help reduce imbalances in the world economy, but they also warned that protectionism was on the rise in almost all countries, including the European Community.[28] The Advisors doubted that the Uruguay Round would be able to pass a new comprehensive system of rules for international trade. Similarly, they thought there was still a long way to go for the European Community to agree upon common economic policies and put into place a single market by 1992. In contrast to the Kohl government's self-congratulatory stance, the Council criticized that neither economic policies nor German businesses had properly adapted to structural change, which explained why growth in Germany was particularly weak.[29]

In its response to the Council's report, the government highlighted two external factors: the stock market crash on "Black Monday" in October 1987 and the depreciation of the U.S. dollar since 1985 (which had caused a currency appreciation of the Deutschmark of 90% within only two years and continued to impede German exports to the U.S.).[30] Despite these developments, the government pointed out, growth in Germany had continued for a sixth year in a row—a result, no doubt, of its market-oriented policies. And in 1990, additional components of its tax reform would take effect. It took the Council's "admonishment very seriously" that growth depended on structural change and that struggling regions and branches such as coal, iron, steel, and shipping would need to adapt to changing conditions on international and domestic markets.[31] Such assessments related to public debates at the time, which focused on how much the government should intervene and subsidize jobs in those branches and regions unable to meet international competition.

The Council delivered a clear answer to this problem in its next report from November 1988: "Jobs in a Competitive Marketplace."[32] In accordance with its supply-side orientation, the Advisors argued that jobs unable to stand up to competition in globalized markets should not be preserved through state intervention. Economic policy was all about making Germany more attractive as a "location for business," so that investment would rise and create profitable jobs. State programs like those in the Ruhr region—a region of struggling steel and coal industries—simply could not provide solutions for structural problems, the sages argued. Regional economic policy had to face market realities.[33] The Advisors' key argument was that investment caused growth, and they took the recent 4% rise in gross domestic product in Western industrialized countries as a case in point.[34] In a world dominated by "international competition between business locations,"[35] Germany had to strengthen its international competitiveness, especially in light of the upcoming European common market: the Federal Republic had fallen behind on emerging markets, it was losing ground in growth, and it was lagging far behind in getting people into jobs. In order to attract business investment, the sages pointed out, countries were forced to constantly review their institutional frameworks. European competition would penetrate the entire European single market.[36]

The government for its part felt fully vindicated in its optimism.[37] Growth had reached 3.4% in 1988, the highest rate since the beginning of the decade. The German political economy was in much better shape than in the early 1980s. Citing the OECD's most recent Economic Outlook, the government report stated that the boost in all industrialized countries was more dynamic than it had been since the early 1970s.[38] The Ministry of Economic Affairs agreed with the Council's view of a perpetual increase in competition between business locations in Europe and around the globe, but it rejected the Advisors' critical assessment of Germany's international competitiveness. The government took a very positive outlook on the approaching European internal market, which promised "significant impulses for economic growth" and could turn Europe into a "growth engine for the world economy"—if the European market was based on competition instead of bureaucratic regulation.[39]

On the whole, the Council of Economic Advisors' economic surveys and the government's annual reports in the late 1980s displayed a strong confidence that the economies of the Federal Republic, the European Community, and the world would continue to grow. For market-oriented minds, the task for economic policy on a national, European, and international level seemed clear: to improve supply-side conditions, open up markets, and strengthen a rules-based multilateral international economic order so that foreign direct investment would drive growth, employment, and prosperity for all. This was the recipe for economic success of advanced economies when suddenly demand economies and socialist regimes in Europe faltered.

1989/90: Economic Caveats versus Political Stakes

When the Council of Economic Advisors issued its next survey on November 20, 1989, the Berlin Wall had fallen. The economists could not guess (and the German chancellor at that time either) that only a few months later, on February 7, Chancellor Kohl would offer a monetary and economic union to the GDR.[40] The sages assumed that the Kohl government would stick to its own preaching about the rules and functioning of market economies, just as it did on a European level. According to those principles, a closer monetary or political union between highly disparate political economies—be it the two German economies or the ones within the European Community—seemed unconceivable unless political and economic reforms preceded such a union and lifted the performance of the weaker candidate(s). In the case of the failing GDR economy, this seemed a question of years, not months. It turned out differently. The year 1990 bestowed a political triumph on Chancellor Kohl—and a lot to worry about on economists.

In their preface from November 1990, the sages admitted that during the previous weeks they had focused on the economic consequences of an influx of people from the GDR (over 200,000 East Germans had crossed the border by mid-November), but that in the preceding days, "the rushing events in the interior of the GDR" had further changed the situation. Hopes ran high both inside and outside the GDR. "It is difficult to imagine the tasks that may arise for the Federal Republic's economy."[41] Accordingly, they refused to speculate what might happen next and what challenges might arise for economic policy. Unless the political leadership in the GDR had decided about a new economic order and unless one could conceive how GDR citizens viewed it, the Advisors abstained from any hypothetic assumptions. Only one thing seemed certain: the inadequacies and shortcomings of the economic and political system of the GDR could not be solved by providing capital or by transferring technology. "What is needed is a change in the system. However, it is not up to us to give concrete advice."[42] Feeling unable to predict how many East Germans would decide to abandon the GDR, or how many of those who had left would later return, they assumed for their 1990 report that there were no resettlers at all. And here they moved on to business as usual as if nothing extraordinary had happened and to lay out their ideas on 400 pages.

Their goals remained unaltered: further growth for the Federal Republic and the completion of the European internal market. After a seventh year of growth, the Advisors argued, more economic expansion and employment were to be expected for the Federal Republic if economic policy was pursued in the right way. Once again they beat the drum for improving supply-side conditions. "Setting the Course for the 1990s" was the title of the survey, aiming both at the Federal Republic's economic policy and the European Community's plan to realize an economic and monetary union. Following the "Report on the Creation of an Economic and Monetary Union in the European Community,"[43] the European Council in Madrid in June 1989 had decided to start the first step of implementation—all restrictions on capital and dividend transfers would be abolished—on July 1, 1990. This was the exact date when the future Monetary, Economic and Social Union with the GDR would go into effect, which no one yet foresaw. Uneasy about the speed of the European decision-making process and some member states' monetary instability, the Advisors warned "against hasty steps" which they felt might endanger a smooth completion of the European internal market.[44] Apart from that, they felt confident about the economic development of the Federal Republic, the European Community, and the world.

Responding to the political upheaval in the GDR, the Council in January 1990 published a special survey (*Sondergutachten*) on economic conditions and possibilities to support economic reform in the GDR.[45] It continued to believe firmly that there was only one successful concept for economic reform, "the open border of the market economy with social protections."[46] They went on by laying out how to realize it: the Federal Republic's support for the GDR should be part of broad economic and political cooperation of all European countries.

The government's optimism and confidence were on full display in its report, issued only two days after the Council's special survey. The document is a telling source of West German triumphalism, euphoria, and the government's self-congratulatory stance in view of the demise of command economies and socialist regimes in the GDR and Central and Eastern Europe. The Ministry of Economic Affairs praised supply-side politics, the social market economy, and the "brilliant shape" of the Federal Republic's economy. It branded the economic success mainly as its own achievement, and attributed it only partly to favorable international circumstances.[47] 4% growth in 1989 was the highest real economic growth rate of the 1980s, employment was at a record level with 28 million people employed, unemployment was down, exports were up, and the Federal Republic had become the world's second-largest importer. The chapter ended with a blunt statement:

> The competition among political systems has once again resulted in an impressive display of the Social Market Economy's advantages. It comes as no surprise that this economic and social order receives increased attention from states in Central and Eastern Europe in their search for a more humane order.[48]

In sync with the European Community's commitment, the German government was committed to integrating Central and Eastern Europe with the international division of labor, and to support market-oriented structural reforms in those countries. The same applied to the GDR. "Socialism is dead and does not have a future," the Ministry of Economic Affairs asserted as a firm response to all those who sought to reform socialism.[49] But they recognized the Federal Republic's special responsibility to support the reform process in the GDR. Here the Ministry of Economic Affairs briefly referred to Chancellor Kohl's "10 point program to overcome the division of Germany and Europe" (10-*Punkte-Programm zur Überwindung der Teilung Deutschlands und Europas*) from late November 1989.

With this program Kohl had gone on the offensive in the domestic debate on the future of Germany and laid out the government's strategy for German reunification, albeit stopping short of calling it such.

The program only spoke of a "federation" as goal. Kohl had been careful not to mention German reunification publicly, out of caution not to provoke other state leaders' opposition. Gorbachev especially could have vetoed it. Instead Kohl referred to the right of self-determination for all Germans, which was more difficult for other state leaders to reject. The announcement of the program in the German Parliament was a bombshell and propelled the domestic as well as the international debate on German reunification.[50]

Instead of discussing the 10-point program, however, the report issued by the Ministry of Economic Affairs turned to the Council's special survey on economic reform in the GDR, agreeing with the Advisors' key premise that "there is no convincing alternative to the market-oriented order." Once more the Ministry sent a clear message to the GDR's opposition movement seeking to reform the socialist system: "The federal government considers futile all attempts to reform socialism. The social market economy *is* the 'third way' between capitalism and socialism."[51] Though the full effects of the political and economic upheavals in Central and Eastern Europe could not yet be foreseen, the Ministry of Economic Affairs took an optimistic stance, expecting positive impulses through migrants from the East and through economic cooperation between West and East. At the same time, however, it prioritized establishing the European single market by endorsing a "Europe defined by competition."[52] Given the differing economic conditions in member states and competing aims associated with the prospect of European integration, the German government tried to slow-walk the second step of the Economic and Monetary Union—the harmonization of fiscal and monetary policies of member states in a system of fixed currencies. The French government, in contrast, pressed for a speedy implementation.[53]

The contrast between the German slow-walking at the European level and its simultaneous push for a monetary and economic union with the GDR is striking. Chancellor Kohl had changed his strategy for Germany since the release of his 10-point program in November 1989. Unemployment figures were rising dramatically in the GDR while an increasing number of East Germans were leaving for the West German labor market. Political and economic stakes were high in early 1990, and time was crucial. Kohl gave up any plan by stages which would have taken several years to implement and instead favored a monetary and economic union with the GDR in the near future. Intensive preparations for such a union were under way in the Ministry of Finance under Minister Waigel. In a letter from February 7, Waigel substantiated the government's decision to members of the Christian Democratic Union and the Christian Social Union in the German Bundestag:

> The daily increasing loss of confidence of our compatriots in economic reform in the GDR makes it necessary to present perspectives for the period after the election. For this reason, the federal government has agreed to negotiate with the GDR over a monetary union.[54]

Chancellor Kohl pursued several goals with his offer to the GDR: end the exodus of East Germans from the failing economic and political system by addressing their hopes and expectations, have his party's ally, the Alliance for Germany, win the first free general election in the GDR in March, and secure German reunification. It was one of the riskiest decisions Kohl ever took.[55] "I was well aware that a quick introduction of the Deutschmark in the GDR would entail economic risks," Kohl wrote in his memoirs. "Above all, it was politically imperative." The offer of the Deutschmark was meant as a "persuasive signal" for East Germans that living standards would improve soon and that there was no need to resettle.[56] Chancellor Kohl, Finance Minister Waigel and their economic advisors in the Ministry of Finance and the Ministry of Economic Affairs overestimated the East German economy's potential to evolve into a functioning market economy within only two or three years, and they overestimated business investment from West Germany. They were not the only ones. The German Institute for Economic Research also grossly overrated East German productivity, which was in large part due to unreliable and misleading data from the socialist regime.[57] Kohl particularly was under the misapprehension that another economic miracle was possible, like the one the Federal Republic had experienced after the currency reform of 1948, and he kept musing aloud about "blossoming landscapes" in East Germany.[58]

On February 7, 1990 the Cabinet decided to propose to the GDR that it enter into a monetary and economic union with the Federal Republic. The offer was fiercely opposed by economics departments, economic research institutes, and the Council of Economic Advisors, and their concerns were broadly disseminated by the press.[59] On February 9, the Chairman of the Council took the extraordinary step of sending a letter to Chancellor Kohl, urging him to insist on economic reform in the GDR and to postpone monetary union. The letter has become famous for its precise prognosis of the damaging economic effects of the subsequent union:

> We believe that the swift implementation of monetary union is the wrong way to stop the flow of resettlers. ... The single currency will suddenly make clear the difference in income, demands for a correction will not be long in coming and will be difficult to dismiss. Nominal wages will then increase beyond the increase in productivity. This is to the detriment of the GDR as a location for production, and the urgently needed influx of capital from the West will not be available. ... The pressure on the Federal Republic would increase to reduce the income gap (wages and pensions) by a 'financial compensation' in favor of the GDR. Public budgets would face huge burdens. ... It cannot be denied that the hopes that are attached to the monetary union—and which are deliberately reinforced by it—will be disappointed. However, if the disillusionment goes on, the flow of resettlers will increase even more. ... Emigration from the GDR can only be prevented by giving people a credible perspective for a speedy and sustainable improvement in their living standards. The basic prerequisite for this is the fundamental transformation of the economic system of the GDR into a market-based order.

Kohl had hoped for more support from economists, business, and labor unions, he admitted, but at least the "storm of protest" abated during the following weeks.[60]

On October 3, 1990 German unity was celebrated. When the Council of Economic Advisors finally had an opportunity to address urgent economic issues in detail, it did not hold back on its criticism. In their November survey "On the path toward Germany's economic unity" the Advisors pointed to the economic problems in the former GDR and emphasized that difficult tasks lay ahead for the state, business, employees, social partners, state bureaucracy, and the new state trust (*Treuhandanstalt*). The state trust had been founded to manage the market transition of the formerly state-owned East German businesses by privatizing, reorganizing, or dissolving them.[61] "The transformation of the socialist command economy of the GDR into a liberal market economy is going to be one of the major challenges of the century. It will be unique, without precedent,"[62] the Council rightly stated. Citizens and businesses were to expect great difficulties during the transition period. It did not depend on public funding how quickly living standards in the East would approach those in the West, the Council insisted, but on private investment. Out of concern that the completion of the European internal market might be drowned into the shadows, the economists stressed how primordially important the single market was for the future of the German economy, arguing that the European Community's internal market initiative was a major cause for Europe's economic revival after a period of "eurosclerosis" in the early 1980s.[63] Many European industrial countries had expanded their production levels, whereas growth in the United States, the UK and Canada had nearly stagnated. People in Eastern Europe put high hopes in their countries' integration with world trade. "For the global economy as a whole, a market-oriented readjustment in these countries, and their integration in the international division of labor, will ultimately bring greater wealth," the Council stated.[64] But it issued a warning that those hopes were far from being fulfilled.

Again and again the Advisors argued that the economic transformations would take time and were extremely difficult to implement, while unprofitable production would be closed down very quickly under market conditions. This basic dilemma was especially true for East Germany. With a critical undertone on how German unity had been put into practice, the survey emphasized the huge wealth gap between East and West Germany. The Economic and Monetary Union, implemented without a transition period, had laid open a nearly total lack of competitiveness of the East German economy. Since the introduction of the Deutschmark, production in East Germany had shrunk by a third, privatizations and new businesses had merely started, and Western investors turned to East Germany with hesitation. Those who profited most from the Monetary and Economic Union were West German companies, because they thrived on East German demand.[65]

Given these huge differences between East and West Germany and the lack of reliable data on the East German economy, the Council decided against taking an overall view of the German economy and instead dealt with two separate, highly unequal, but increasingly connected economies.[66] The sages painted a gloomy picture of the ruinous state of the East German economy, which was even worse than anticipated. This negative assessment stood in sharp contrast to their praise of the West German economy, which had grown by 4% in 1990. The economists lashed out at the government's presumably irresponsible fiscal policies, especially the accelerating budget deficit. For 1991, they predicted an ever more divided path for the two German economies: one would continue to rise, while the other had yet to reach its low point, presumably by the middle of the following year.[67]

The Kohl government's endeavor to make a socialist command economy adopt the Deutschmark and the regulative system of the Federal Republic without a longer transition period was a daunting, unprecedented, and large-scale experiment. Politically, it paved the way for electoral wins for the Conservatives and for German unity. Economically, the sudden introduction of the Deutschmark and the exchange rate of 1:1 for wages and salaries exposed uncompetitive East German industry to West German and international competition at a time when their former trade with Central and Eastern Europe literally collapsed. The Monetary Union had the effect of a shock therapy for East German industry, while giving a temporary boost to companies from West Germany, thus widening the economic gap between the two parts of the country.[68]

German Economies Drifting Apart: "Reunification Crisis"

The hopes and expectations underpinning the Kohl government's optimistic stance on East Germany and its economy were dampened in 1991. With ever more companies shutting down and unemployment numbers on a steep rise, it became evident that the productivity level in the GDR had been much lower than estimated, private investment from West Germany was far more difficult to attract than anticipated, in spite of a wide range of government incentives, and the state trust's task to privatize, reorganize or dissolve formerly state-owned companies cost a fortune instead of making profits. East Germany fell into a weary state of what soon became a veritable "reunification crisis." To make matters worse, Western industrialized countries, especially the United States and the UK, slipped into recession.[69]

In its first annual economic report after German reunification, the Kohl government in March 1991 stated as his highest priority to procure equal living standards in Germany. In order to achieve this goal, "a rapid catching-up process" in East Germany was needed. "There is no historical model for this task; never before has a country tried to turn a socialist command economy into a social market economy."[70] Moreover, the Federal Republic faced increasing international challenges: to complete the European internal market, simultaneously realize the Monetary and the Political Union in Europe and make it "a real stability Community,"[71] successfully finish the Uruguay Round within the GATT, contribute to the Gulf War and reconstruction in the Gulf region, and give economic aid to countries in Central and Eastern Europe. These challenges, the report went on, could only be met if the performance of the German economy was further enhanced. In early 1991 there was good reason for optimism in this regard. Gross domestic product in West Germany had risen by 4.6% in 1990—the strongest growth rate next to Japan's during the Federal Republic's ninth year of consecutive growth—and employment numbers were reminiscent of the miraculous 1950s.

In East Germany, however, things looked bleak. Key for economic recovery was private and public investment, which the government tried to stimulate by a wide range of measures. But unsettled property rights, a non-existent modern bureaucracy and an outdated infrastructure constituted major obstacles.[72] The government also issued a warning against wage increases that outpaced productivity levels in East Germany—in vain.[73] One thing was certain: it would take time for investment to become effective. In order to bridge the intervening period, the government set up a *Gemeinschaftswerk Aufschwung Ost*, a solidarity package of 24 billion Deutschmark for East Germany in 1991/92 to stimulate investment and secure employment. It came in addition to the "Fund 'German Unity'" established in 1990. The Fund initially foresaw 115 billion Deutschmark until 1994, but in 1991 alone it had to provide more than 100 billion for the new *Länder* and communities.[74] "German unity also means financial solidarity," the government report appealed to West Germans, just as it appealed to "Western solidarity" for reform efforts in Central and Eastern Europe.[75] As the crisis in East Germany was unfolding, the political pressure on the government rose dramatically to change course in economic policy and intensify state intervention in the East German economy.

Alarmed that the government might depart any further from a market-oriented approach, the Council of Economic Advisors in April issued another Special Survey on economic policy for East Germany. "The crisis of adaptation of the East German economy has brought a total change of mood and expectations. The euphoria tied to the Economic, Monetary and Social Union has vanished; in their place are uncertainty, anxiety and bitterness." While most people were shocked in face of the sudden breakdown of production and employment, the sages felt vindicated in their dire predictions. They still had not digested Kohl's decision for a monetary and economic union with the GDR and the backlash it had conjured not only in East Germany, but to their great dismay also in West Germany. Targeting Kohl's promise of "blossoming landscapes," they insisted that it was "absolutely impossible to convert a socialist economy into a flourishing market economy within only a couple of months." In reference to their own letter to the chancellor from February 1990, they argued that the economic downturn came by no means as a surprise, "there could be differing assessments only about the extent and the duration of the downturn."[76] Four decades of socialist mismanagement were to blame, not the newly introduced market economy which needed "much time" to develop, they told an impatient German public.[77] As far as medium-term growth prospects in East Germany were concerned, though, the Advisors considered them to be "good" and were convinced that the breakdown of the East German economy would not lead to a lasting structural crisis, as some public voices suggested. Therefore, the Advisors saw no need for hasty steps in economic policy. There were "no alternatives to a market-oriented solution," which meant either successfully privatizing companies or closing them down. Affected people were worthy of state protection, not unprofitable jobs and companies. Any policy of conserving them, either by the state or by the state trust, was a horror to the Council.[78]

Though the economy in Western industrialized countries cooled down markedly in 1991, the Council of Economic Advisors did not suspect a recession. The recent slowdown of the West German economy did not cause them much trouble either. Rather, the sages and the Kohl government expected a 2.5% growth rate in OECD countries, headed by the United States, Canada, and the UK.[79] In order to get a better picture of the situation in East Germany, the Advisors under-took an information tour in the summer of 1991. They saw economic development in the new *Länder* "still characterized by the collapse of existing economic structures," and the same was true for Eastern Europe as a whole. Poland, Hungary and Czechoslovakia had made some progress in their reform efforts and fared better than the rest of Central and Eastern Europe, but even in those three countries economic expectations were disappointed. Within a year, employment in East Germany had shrunk by 1.4 million and by almost 3 million since 1989, further boosting the West German labor force. Production levels had sunk to mere 6.7% of West German production, and productivity was less than a third from productivity in West Germany.[80] At the same time, per-capita public spending had already reached 91.5% of West German states' and communities' spending. For the first time since 1983, Germany had recorded a negative balance of current account and had turned into a capital importer. The sages, however, did not ring the alarm bell as they expected the huge gap in economic performance between East and West Germany to shrink, due to heavy investment by the state and West German businesses.[81] Again they were proven wrong.

Any prognosis of how reunited Germany would fare economically was highly speculative at that point. The Ministry of Economic Affairs in early 1992 clearly struggled to come up with rough growth estimates, projecting a growth rate of 1–2% for West Germany and of 5–15% for East Germany. The risk of all growth projections, the report stated, was that they were based on several assumptions: world trade would boost West German exports—the "linchpin" of the German economy, as the Council of Economic Advisors put it; the West German economy would regain former growth rates, and growth in other Western industrialized countries would also rebound.[82] Those optimistic assumptions—and the corresponding growth projections—were disappointed. Western industrialized countries continued to suffer from sluggish growth, and once the reunification boom had evaporated, negative effects started closing in on the West German economy. Labor costs and nonwage labor costs had gone up because of excessive wage settlements and higher social security contributions that were used to co-finance German unity, demand from other European countries shrank, and the ongoing appreciation of the Deutschmark put an additional price tag on German exports. All of a sudden, the West German economy stagnated, and then, "against almost all prognoses" as the Council of Economic Advisors wearily stated, even contracted.[83]

In 1992 and 1993, German economic policy faced a serious dilemma: on the one hand, huge public and private financial transfers were necessary to spur growth in East Germany and to pay for active employment policy in order to keep East German unemployment numbers in check (employment shrunk by 3.5 million [35%] between 1989 and 1993); on the other, the struggling West German economy also needed more investment. The underlying problem in each economy was very different: the West German economy was considered sound, but it suffered from a cyclical lack of demand from other countries, above all from the European Community, where 75% of German exports went. In contrast, the East German economy was utterly uncompetitive (unit labor costs in 1993 were 62.5% higher than in West Germany), and it suffered from a severe structural problem of supply. To make things worse, a heated public debate erupted on the costs of German unity and how to distribute burdens, as taxes, social insurance contributions and public debt were on the rise. Germans began to wonder if economic policy was not up to the task of simultaneously consolidating state finances and securing Germany's economic integration. Uncertainty further fueled a pessimistic economic climate. The Council of Economic Advisors held the view that the state had to lead the way and consolidate its finances. Once again the economists tied national economic policy to European policy, arguing that if Germany wanted the European Community to be based on financial stability and economic competition, the Federal Republic had to prove "that it was able to fix its own house."[84] This seemed less and less the case.

German proponents of a market-oriented economic policy were fighting a two-front battle: they tried to make sure that the Kohl government neither yielded to demands for state intervention and subsidies for failing industries in East Germany, nor to any economic *dirigisme* in the European Community. In the run-up to the Maastricht Treaty, signed in February 1992, a controversy over industrial policy took place, with the French and the German governments on opposing sites: French *dirigisme* in industrial policy clashed with a supply-side approach favored by the Germans. As internal records from the Ministry of Economic Affairs show, the specter of a state-led, active industrial policy "à la française" becoming part of the Maastricht Treaty was haunting German officials and economists alike. The dispute was solved by a compromise which alarmed German advocates of supply-side politics.[85]

Germany was not alone in grappling with contradictory requirements in economic policy. Some Western European countries, facing difficulties to meet the convergence criteria (fiscal and monetary stability) for entering the European Economic and Monetary Union, raised taxes and cut expenditure instead of stimulating their economies. Thus the economic downturn got even worse. One of the main problems, according to the Council of Economic Advisors, was uncertainty: uncertainty about economic policy in Germany and in Europe, about European integration, and the GATT deliberations which had been dragging on for six years already. The economic reform process in Central and Eastern Europe posed major problems, but the transformation crisis of the Commonwealth of Independent States and particularly Russia was even worse. The collapse of the Russian market again exacerbated the breakdown of East German industry.[86]

"For the German economy, 1993 was not a good year," the Council conceded in November 1993. It was a year of disillusionment. The unexpected had become reality: the West German economy had slid into a deep recession, similarly to the one during the early 1980s. Unemployment rose, production and exports shrank, and business investment plummeted. Germany's dependence on exports to Western Europe had turned into a liability as those economies had not yet recovered. All prognoses, including those from international organizations, about Germany and Western Europe had erred again. At hindsight it became clear to the Council that West German growth since 1990 had not been a sign of competitiveness. Rather, the economy had been overheated and fueled by state-induced demand from German unity. The reunification boom had obscured structural weaknesses in the West German economy, which the recession then laid open. This constituted a major reassessment of the German economy. It dawned on economists, politicians, and the broader public that Germany as a whole might be losing its competitive edge, both within the recently established European single market and around the globe.[87]

Conclusion

The aim of this chapter was to dissect how leading German economists and the federal government under Chancellor Helmut Kohl, particularly the Ministry of Economic Affairs, assessed Germany's economic prospects against the backdrop of a radically shifting national, European, and global framework in the late 1980s and early 1990s.

A consideration of the historical development confirmed my initial hypothesis that the costs of German unification replaced the growth optimism of the 1980s with disillusionment. During the 1980s, West Germany's steady economic growth and strong export were nearly being taken for granted. Assessments by economic advisors and the federal government were similar to one another, except that the advisors demanded stricter supply-side politics and warned of subsidies for failing industries while the government claimed economic successes for itself. The global economic situation further fueled a positive economic outlook.

Against this backdrop, Chancellor Helmut Kohl's belief, in 1990, that West Germany could afford to pay for German unification is hardly surprising. In fact, that year became the political and economic apotheosis of the German government. Kohl's offer in February that the GDR could enter into an economic and monetary union with West Germany (which would lay the foundation for German unification) was met with stiff resistance from the Council of Economic Advisors. Their urgent warnings of the economic risks involved in this decision would be proven correct. Unification produced the effects they had predicted. Unification was a shock therapy for East Germany, similar to neoliberal reforms in other formerly socialist states in Central and Eastern Europe.[88] The sages were also correct in emphasizing the government's contradictory stance on economic policy in Germany and in the European Community: while the Kohl government insisted that EC member countries or those applying for membership meet financial stability criteria, it did not insist that economic reform precede German monetary union. The two perspectives that fed the controversy over German unification, an economic supply-side rationale vs. the political goal of national unity, proved to be incompatible. In the end, Kohl's political vision of reunified Germany prevailed over economic concerns. But the two different perspectives have continued to shape the debate since then.

Post-reunification reports and forecasts by the Council as well as the Ministry of Economic Affairs did not conceive of *one* German economy, but of two separated ones, with a massive performance gap between them. While the government's goal was to close that gap as fast as possible, it actually widened before it began to close. The economic advisors struggled to conceptualize the East German economy as a genuine part of the new, reunified Germany, and to develop a positive attitude towards it. The Council considered East German industry a West German liability for years to come. They also feared that massive state subsidies and transfer payments to East Germany could become a model and that the federal government would budge from its supply-side approach, which they considered to be the key formula for self-sustaining growth.

The tides began to shift in 1991 when East Germany underwent a severe transformation crisis. The near total collapse of East German industry and its trade relationships with Eastern Europe and the (former) Soviet Union as well as the rapid rise of unemployment figures did not come as a surprise for the sages. But these developments were a shock for East Germans. They trigged a severe "unification crisis" and put a reality check on West Germany's initial enthusiasm for unification. Many economists and the federal government had underestimated difficulties in transforming the East German economy, on the one hand, and overestimated the strength of the West German economy, on the other.

The years 1992/93 resembled an earthquake in economic reckoning. Unexpectedly, the international recession, particularly in EC member states, lasted longer than anticipated. Massive federal support of East Germany had fueled West German growth, but then international developments caught up with the German economy. Again and again, economic advisors, the federal government, and international organizations were forced to downgrade Germany's economic outlook, abandoning their earlier optimism, which had envisioned an international, and also West German, economic recovery. For Germany, the coincidence was unfortunate indeed. The Federal Republic's economic fortunes worsened at the very moment the federal state, the individual

German *Länder*, and municipalities continued to struggle with the costs of reunification while companies faced stiff competition from abroad and from within the new European common market.

Against this backdrop—a perfect storm of German reunification, national and European recession, and stiff global competition—public and political debates increasingly focused on what came to be identified as Germany's lack of "international competitiveness," the country's inability to attract business investment. With the collapse of command economies and communist rule in Central and Eastern Europe and with the end of the Cold War, a fundamental shift took place from competition between alliance systems to global competition *within* capitalism. It appears that the Council of Economic Advisors was slow in grasping this new reality. Possible negative effects from this shift dawned on them only when the West German economy went into recession and, so it seemed, was in danger of losing its competitive edge. For them, the end of the Cold War had not caused a cognitive dissonance between their pre-1989 experience and their post-1991 expectations. Instead, the sages insisted even more firmly on the need for supply-side politics.

Once the cost of German unity became a contentious issue in public debate, and once the West German economy began to struggle, the Kohl government became concerned that West Germany would consider East Germany a drag. The fierce controversy over the costs of reunification and the state trust showed that German unity was not a given.[89] For the chancellor, it would have been risky to attribute the economic crisis to the costs of propping up East Germany. The debate about Germany's eroding competitiveness and insufficient preparation for the challenges of "globalization" shifted the conversation away from East Germany and unification towards a common, national problem. Boosted by Chancellor Kohl, parts of his government (particularly the Ministry of Economic Affairs), economists, policy consultants, business executives, and national and international media, this paradigm dominated the debate for over a decade. No longer the "poster child," the Federal Republic had become a "problem child" as national and international commentators considered the former "wonderland" the new "sick man of Europe."[90]

Notes

1. TV Speech of German Chancellor Helmut Kohl on July 1, 1990, *Bulletin des Presse- und Informationsamts der Bundesregierung* no. 86, July 3, 1990, https://www.bundesregierung.de/breg-de/service/bulletin/der-entscheidende-schritt-auf-dem-weg-in-die-gemeinsame-zukunft-der-deutschen-fernsehansprache-des-bundeskanzlers-zum-inkrafttreten-der-waehrungsunion-am-1-juli-1990-788446.

2. Claas Beckord and Peter Jurczek, "'Beleuchtete Wiesen' oder 'Blühende Landschaften?' Zum Stand der Gewerbeflächenentwicklung und -vermarktung in der Region Südwestsachsen" in *Standort – Zeitschrift für Angewandte Geographie* (2004), pp. 28-58, https://doi.org/10.1007/s00548-004-0181-5.

3. On Germany during the 1980s and 1990s see Andreas Wirsching, *Abschied vom Provisorium. Geschichte der Bundesrepublik Deutschland 1982-1990* (Munich: Deutsche Verlags-Anstalt, 2006); Klaus Schröder, *Die veränderte Republik. Deutschland nach der Wiedervereinigun*g (Munich: Bayerische Landeszentrale für politische Bildung, 2006); Jeremy Leaman, *The Political Economy of Germany under Chancellors Kohl and Schröder: Decline of the German Model?* (New York: Berghahn Books, 2009); in a longer historical perspective: Ulrich Herbert, *Geschichte Deutschlands im 20. Jahrhundert* (Munich: C.H. Beck Verlag, 2014); Eckart Conze, *Die Suche nach Sicherheit. Eine Geschichte der Bundesrepublik Deutschland von 1949 bis in die Gegenwart*, (Munich: Siedler Verlag, 2009); for a European perspective, Ivan T. Berend, *Europe since 1980* (Cambridge: Cambridge University Press, 2010); Barry Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007); Andreas Wirsching, *Der Preis der Freiheit. Geschichte Europas in unserer Zeit* (Munich: C.H. Beck Verlag, 2012).

4. Tim Schanetzky, *Die große Ernüchterung. Wirtschaftspolitik, Expertise und Gesellschaft in der Bundesrepublik 1966–1982* (Berlin: Akademie Verlag, 2007); Tim Schanetzky, "Aporien der Verwissenschaftlichung. Sachverständigenrat und wirtschaftlicher Strukturwandel in der Bundesrepublik 1974–1988," in *Archiv für Sozialgeschichte* 50 (2010), pp. 153-67.

5. For a detailed view on the decision-making process see Hanns Jürgen Küsters, "Entscheidung für die deutsche Einheit. Einführung in die Edition," in Hanns Jürgen Küsters and Daniel Hofmann (eds.), *Deutsche Einheit. Sonderedition aus den Akten des Bundeskanzleramtes 1989/90* (Dokumente zur Deutschlandpolitik (Munich: Oldenbourg Verlag, 1998), pp. 21-236. From the vast historical literature on German reunification: Andreas Rödder, *Deutschland einig Vaterland. Die Geschichte der Wiedervereinigung* (Munich: C.H. Beck Verlag, 2009); Dieter Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion. Politische Zwänge im Konflikt mit ökonomischen Regeln* [Geschichte der deutschen

Einheit] (Stuttgart: Deutsche Verlags-Anstalt, 1998); Gerhard A. Ritter, *Der Preis der deutschen Einheit. Die Wiedervereinigung und die Krise des Sozialstaates* (Munich: C.H. Beck Verlag, 2nd edition, 2007); Gerhard A. Ritter, "Die deutsche Wiedervereinigung," in *Historische Zeitschrift* 286 (2008), vol. 2, pp. 289-339; Conze, *Suche*, op. cit., pp. 689-746.

6. Grosser, *Wagnis*, op. cit., pp. 149-226.

7. Letter to the Chancellor, February 9, 1990, in Annual Survey of the Council of Economic Advisors (*Jahresgutachten des Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Lage*), AS 1990/91 "'Towards Economic Unity in Germany,' enclosed Special Survey January 20, 1990 'Enhancing Economic Reform in the GDR: Prerequisites and Possibilities,'" November 13, 1990, appendix V. Also published in Küsters and Hofmann, *Deutsche Einheit*, no. 168, op. cit., pp. 778-81.

8. See the discussion of counterfactual alternatives in Grosser, *Wagnis*, op. cit., pp. 485-504.

9. Helmut Kohl, *Erinnerungen 1990-1994* (Munich: Droemer Verlag, 2007), 125.

10. Ritter, *Preis*, op. cit., p. 12.

11. Rödder, *Deutschland*, op. cit., pp. 226-78; Herbert, *Geschichte*, op. cit., pp. 1121-7. On Thatcher's opposition see Liviu Horowitz's article in this volume. Among the biographies on German Chancellor Helmut Kohl and his political actions since the fall of the Berlin wall see Hans-Peter Schwarz, *Helmut Kohl. Eine politische Biographie* (Munich: Deutsche Verlags-Anstalt, 2012), pp. 489-618; Henning Köhler, *Helmut Kohl. Ein Leben für die Politik* (Cologne: Bastei Lübbe, 2014), pp. 626-740; Heribert Schwan and Rolf Steininger, *Helmut Kohl. Virtuose der Macht* (Mannheim: Patmos Verlag and Artemis & Winkler Verlag, 2014), pp. 163-270.

12. On "money for Moscow" see Stephan Kieninger's article in the present volume; Küsters, *Entscheidung*, op. cit., pp. 165-73; Herbert, *Deutschland*, op. cit., p. 263.

13. Total sum of net transfers from West to East Germany—or 4-5% of the German gross domestic product every year, Grosser, *Wagnis*, op. cit., pp. 482-3; Ritter, *Preis*, op. cit., pp. 127-9.

14. Council, AS; Annual Economic Reports by the Federal Government (Gvt, AER) (*Jahreswirtschaftsberichte der Bundesregierung*), available online. On the Ministry of Economic Affairs see Werner Abelshauser (ed.), *Das Bundeswirtschaftsministerium in der Ära der Sozialen Marktwirtschaft. Der deutsche Weg der Wirtschaftspolitik* (Berlin: De Gruyter Oldenbourg, 2016).

15. German National Archives, Ministry of Economic Affairs, Dep. IV, General Matters of Industrial Policy 1991-1992, B 102/378614, 400225-30; Competitiveness of German Companies. Hearing of the Christian Democratic Union and the Christian Social Union, German Parliament, on "Germany as a Business Location" 1992, B 102/397005-7. Published documents Küsters and Hofmann, *Deutsche Einheit*, op. cit.; Helmut Kohl, *Erinnerungen* 1982-1990 (Munich: Droemer Verlag, 2005); Kohl, *Erinnerungen* 1990-1994, op. cit.

16. On the German economy and economic policy during the Kohl years see Leaman, *Economy*, op. cit., pp. 43-136; Wirsching, *Abschied*, op. cit., pp. 223-288; Werner Abelshauser, *Deutsche Wirtschaftsgeschichte. Von 1945 bis zur Gegenwart* (Bonn: BpB, 2011); Werner Abelshauser et al. (eds.), *Wirtschaftspolitik in Deutschland 1917-1990*, (Berlin: De Gruyter Oldenbourg, 2016).

17. Schanetzky, *Ernüchterung*, op. cit.; Schanetzky, "Aporien,“ op. cit.

18. Gvt, AER 1987, January 15, 1987, Printed matter 10/6796; Gvt, AER 1988, January 29, 1988, Printed matter 11/1733; Gvt, AER 1989, January 25, 1989, Printed matter 11/3917.

19. Gvt, AER 1987, no. 1.

20. Gvt, AER 1987, no. 10.

21. Gvt, AER 1987, no. 44 and 46.

22. Gvt, AER 1987, no. 38.

23. Gvt, AER 1987, no. 38-41.

24. Gvt, AER 1987, no. 40 and 63.

25. Council, AS 1987/88, "Priority for Politics of Growth," November 23, 1987, Printed matter 11/1317.

26. Council, AS 1987/88, preface, 2.

27. Council, AS 1987/88, no. 41*-48* and 249-66.

28. Council, AS 1987/88, no. 3*.

29. Council, AS 1987/88, no. 40*-45*.

30. Gvt, AER 1988.

31. Gvt, AER 1988, no. 18.

32. Council, AS 1988/89, "Jobs in Competition," November 18, 1988, Printed matter 11/3478.

33. Council, AS 1988/89, II.

34. Council, AS 1988/89, no. 1*.

35. Council, AS 1988/89, no. 40*. On this notion see Wencke Meteling, "Nationale Standortsemantiken seit den 1970er-Jahren" in Wencke Meteling and Ariane Leendertz (eds.), *Die neue Wirklichkeit. Semantische Neuvermessungen und Politik seit den 1970er Jahren* (Frankfurt/New York: Campus, 2016), pp. 203-37.

36. Council, AS 1988/89, no. 35-8.

37. Gvt, AER 1989.

38. Gvt, AER 1989, no. 1-3.

39. Gvt, AER 1989, no. 15.

40. See Chancellor Kohl's retrospective on the months between the fall of the Berlin wall and his offer of a monetary and economic union to the GDR in Kohl, *Erinnerungen 1982-1990*, op. cit., pp. 964-1059. The most profound study on the Union is Grosser, *Wagnis*, op. cit.

41. Council, AS 1989/90, "Setting the Course for the 1990s," November 20, 1989, Printed matter 11/5786.

42. Council, AS 1989/90, preface, no. I-II.

43. The so-called Delors Report (1988/89) was named after the President of the European Commission Jacques Delors. The Report became the foundation of the Maastricht Treaty of February 1992.

44. Council, AS 1989/90, no. 394-5.

45. Council, AS 1990/91.

46. Council, AS 1990/91, preface and no. 276.

47. Gvt, AER 1990, no. 1. The report contained a special chapter on the Kohl government's economic policy since its inception in 1982.

48. Gvt, AER 1990, no. 8.

49. Gvt, AER 1990, no. 11.

50. On the program see Küsters, "Entscheidung," op. cit., pp. 59-70; Rödder, *Deutschland*, op. cit., pp. 137-42; Kohl, *Erinnerungen 1982-1990*, op. cit., pp. 988-1000. On reactions in capitals see Draft by Ministerial Director Teltschik to Chancellor Kohl, Bonn, November 30, 1989, in Küsters and Hofmann, *Deutsche Einheit*, op. cit., no. 102, 574-7.

51. Gvt, AER 1990, no. 14.

52. Gvt, AER 1990, no. 10 and 70.

53. Gvt, AER 1990, no. 79. On the German-Franco dissent see Draft by *Legationsrat* I Bitterlich to Chancellor Kohl, Bonn, December 2-3, 1989, in Küsters and Hofmann, *Deutsche Einheit*, op. cit., no. 108, pp. 596-8; Letter by Chancellor Kohl to President Mitterrand, Bonn, December 5, 1989, no. 111, pp. 614-15, ibid.; Rödder, *Vaterland*, op. cit., pp. 264-70.

54. Schreiben des Bundesministers Waigel an die Mitglieder der Fraktion der CDU/CSU im Deutschen Bundestag, Bonn, February 7, 1990, in Küsters and Hofmann, *Deutsche Einheit*, op. cit., no. 165, pp. 766-7.

55. See Grosser, *Wagnis*, op. cit., pp. 174-207, 177 (decision).

56. Kohl, *Erinnerungen 1982-1990*, op. cit., p. 1057.

57. Grosser, *Wagnis*, op. cit., p. 264 and pp. 499-500; Kohl, *Erinnerungen 1990-1994*, op. cit., pp. 88-9.

58. Köhler, *Kohl*, op. cit., pp. 773-4.

59. Grosser, *Wagnis*, op. cit., pp. 192-97.

60. Kohl, *Erinnerungen* 1990-1994, op. cit., pp. 80-1.

61. On the state trust see Marcus Boïck, *Die Treuhand. Idee – Praxis – Erfahrung 1990-1994* (Goettingen: Wallstein Verlag, 2018).

62. Council, AS 1990/91, preface, no. 3.

63. Council, AS 1990/91, preface, no. 4 and no. 5*.

64. Council, AS 1990/91, no. 7*.

65. Council, AS 1990/91, no. 11*.

66. Council, AS 1990/91, no. 9*-12*.

67. Council, AS 1990/91, no. 29*.

68. On the economic effects of the shock therapy and of reunification see Ritter, *Preis*, op. cit., pp. 98-140.

69. See Gerhard A. Ritter, "Eine Vereinigungskrise? Die Grundzüge der deutschen Sozialpolitik in der Wiedervereinigung," in *Archiv für Sozialgeschichte* 47 (2007), pp. 527–42.

70. Gvt, AER 1991, March 11, 1991, Printed matter 12/223, no. 1 and 13.

71. Gvt, AER 1991, no. 84.

72. Gvt, AER 1991, no. 21-3.

73. Gvt, AER 1991, no. 34.

74. Gvt, AER 1992, January 30, 1992, Printed matter 12/2018, no. 5.

75. Gvt, AER 1991, no. 14-5 and 87.

76. Council, AS 1991/92, "'The Economic Integration in Germany. Perspectives – Approaches – Risks,' enclosed Special Survey 13 April 1991 'Keeping a Market-Oriented Approach. Economic Policy for the New Länder,'" November 12, 1991, no. 1 and 8.

77. Council, AS 1991/92, Special Survey, no. 1.

78. Council, AS 1991/92, Special Survey, no. 3 (quotes), part III and IV, no. 20.

79. Council, AS 1991/92, no. 1* and 19*; Gvt, AER 1992.

80. Gvt, AER 1992, January 30, 1992, no. 9. East German productivity in 1991 corresponded to the level of West German productivity in 1952/53.

81. Council, AS 1991/92, no. 3*-15*.

82. Gvt, AER 1992, no. 10 and 11; Council, AS 1991/92, no. 234 (quote).

83. Council, AS 1992/93, "For Growth Orientation – Against Crippling Disputes on Distribution," November 16, 1992, no. 213 and 214 (quote); Gvt, AER 1993, February 11, 1993, Printed matter 12/4330, no. 1-3.

84. Council, AS 1992/93, preface, no. 5*, 8*, 42* and 208; Gvt, AER 1993, no. 7 and 9 (employment numbers and unit labor costs for East Germany).

85. Letters by Professor of Economics Joachim Starbatty to the Minister of Economic Affairs Jürgen Möllemann and to Chancellor Helmut Kohl, February 21, 1992, fol. 337-8, German National Archives, Ministry of Economic Affairs, General Questions of Industrial Policy, B 102/400226 vol. 19, February 1-April 30, 1992, fol. 337-8. Starbatty was Chairman of the free-market leaning Action Group Social Market Economy. See also B 102/400225 vol. 18, December 6-January 30, 1992.

86. Council, AS 1992/93, no. 5*.

87. Council, AS 1993/94, "Time to Act –Strengthening the Driving Forces," November 15, 1993, preface and no. 1*-40*.

88. Philip Ther, *Europe since 1989: A History* (Princeton: Princeton University Press, 2016).

89. Marcus Böick, "'Im Säurebad der Einheit.' Die Treuhandanstalt in den medien-öffentlichen Debatten der frühen 1990er Jahre," in *Deutschland Archiv* 43 (2010), pp. 425-32.

90. Roland Czada, "Vereinigungskrise und Standortdebatte. Der Beitrag der Wiedervereinigung zur Krise des westdeutschen Modells," in *Leviathan* 26 (1998), pp. 24-59; Wencke Meteling, "Miraculous Germany: Changing Per-

ceptions of German Economic Performance, in *Renewal: A Journal of Social Democracy* 22 (2014), pp. 60-73; Wencke Meteling, "Internationale Konkurrenz als nationale Bedrohung – Zur politischen Maxime der 'Standortsicherung' in den neunziger Jahren," in Ralph Jessen (ed.), *Konkurrenz in der Geschichte. Praktiken – Werte – Institutionalisierungen* (Frankfurt/New York: Campus, 2015), pp. 289-315.