Chapter Three
Rethinking Reunification:
German Monetary Union and European Integration

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On February 6, 1990, West German chancellor Helmut Kohl surprised his closest advisers, the West German public, his East German friends and foes, as well as his Western European partners and Soviet interlocutors by offering to extend the deutsche mark (DM) eastward to the German Democratic Republic (GDR). The chancellor had only arrived at his decision that morning, too late for the discussion point to appear on the agenda of the cabinet meeting set for the next day. Although they nevertheless approved his plan, Kohl’s ministers were caught unprepared by a decision they had gone on record as opposing. Just a few weeks prior to Kohl’s decision, for example, West German finance minister Theo Waigel had dismissed rapid monetary union with the GDR as “hair-raising,” while Bundesbank president Karl Otto Pöhl had ruled it out as “fantastic and unrealistic.” In fact, the very day of Kohl’s announcement, Pöhl told journalists that introducing the DM into the GDR was “premature,” whereas Economic Minister Helmut Haussmann presented a plan that foresaw monetary union by January 1, 1993, at the earliest.

Kohl’s surprising reversal was a stroke of political brilliance; his offer of the DM changed the dynamic of the revolution in a way that his “Ten-Point Plan for German Unity” of November 28, 1989, had not. Back then, it had taken Kohl three weeks to respond to the collapse of the Berlin Wall, and even then his “Ten-Point Plan” managed to be at once tentative and tactless. Most important, the plan lagged well behind the revolutionary events, holding out only vague promises of a confederation capped by an eventual currency union in the distant future. Within days of the Berlin Wall’s collapse, however, unification was already in the air. At the Monday
demonstrations in Leipzig and elsewhere, the revolutionary chant “We are the people” had quickly given way to the unification slogan “We are one people.” By December, ordinary East Germans were demanding unification and the DM, shouting “Germany united fatherland.” If Kohl’s “Ten-Point Plan” seemed tame to East Germans, however, it provoked the ire of his Western allies and Soviet counterparts. The West German chancellor had not only failed to apprise them of his intentions but also fueled suspicions of German irredentism by suggesting that the German-Polish border was open to negotiation.8

Not so by February 6. With one sweeping gesture, this uninspiring backroom politician put himself at the head of revolutionary developments, changed the terms of the debate over German-German unification, and completely outmaneuvered his political competitors at home and abroad.9 The offer to extend the DM eastward, styled as the culmination of the 1948 currency reform, effectively ended the East German revolution and determined both the pace and the mode of German unification.

If Kohl’s bold instrumentalization of monetary policy for political purposes hastened the transfer of institutions from West to East Germany, however, it also deepened the economic and social divisions between the two regions. The reservations articulated at the time by his advisers as well as his critics that eliminating the East German mark before substantial convergence of the two economies would slow the former GDR’s recovery from forty years of mismanagement have been largely borne out. Twenty years after the collapse of the Berlin Wall, eastern Germany still suffers from lower living standards, higher unemployment, and more xenophobia than West Germany. Political unification, moreover, may have transformed the GDR from a sovereign state (East Germany) into a regional designation (eastern Germany), but the institutionalization of the gap in productivity between the two German states has fueled social and political divisions while contributing to what the Bundesbank has called a “subsidy mentality.”10 Although Kohl’s strategy unified Germany in formal terms, it has failed to make the German East part of Europe’s West.

Similarly, Kohl’s political daring had at home fostered the institutional unity and divergent development of Europe. German unification had profound consequences for Europe, promising to deepen Western European cooperation and overcome divisions with Eastern Europe. Ironically, the particularist aim of German national unity directly served the antinationalist project of European unity by forcing the creation of a common European currency. As many observers have pointed out, members of the European Economic Community (EEC) seized upon this historic opportunity to move a step closer to a united Europe, demanding that Germany support the European monetary union (EMU) in return for their support for