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The Price of Unity

Was the Deutsche Mark Sacrificed for Reunification?

By Michael Sauga, Stefan Simons and Klaus Wiegrefe

AP

As the German people celebrated the fall of the Berlin Wall, the governments in Bonn and Paris were secretly haggling over European monetary union. According to internal government documents, the negotiations almost collapsed. Was West Germany's beloved currency, the deutsche mark, sacrificed at the altar of reunification to win France's support?

The architect of Germany's reunification is furious. Current Finance Minister Wolfgang Schäuble, the interior minister under the then-Chancellor Helmut Kohl, has deep furrows on his brow as he fires off a series of expressions of his immense dissatisfaction. They are harsh words, but ones the chief negotiator of his country's reunification treaty does not want to see in print.

Schäuble holds a thick book in his hand. On its cover, Schäuble's predecessor as finance minister -- Peer Steinbrück of the center-left Social Democratic Party (SPD) -- looks resolutely into the distance. Not that Schäuble, a member of the governing center-right Christian Democratic Union (CDU), has anything personally against Steinbrück. Schäuble recently listened to a speech Steinbrück gave about democracy and the media. Nor does Schäuble disagree much with Steinbrück's theories on the financial crisis.

What Schäuble is annoyed about is an unassuming sentence in the second chapter of Steinbrück's book, hidden in a long treatise about the "lame duck" that is Europe. "Abandoning the deutsche mark for the (equally) stable euro was one of the concessions that helped pave the way to German reunification," Steinbrück wrote.

There aren't very many political statements that can rile the long-serving Schäuble. But claiming German unity was achieved by way of a swap against the deutsche mark is clearly one of them. "No such trade-off ever occurred," Schäuble insists. The question of European monetary union had played "at best a minor role" in the decision-making on German reunification.

Steinbrück, however, is convinced he is right. He says that for anyone who meets with French government representatives, this theory will be backed up dozens of times.

Twenty years have passed since the collective euphoria of 1990, when the two halves of the divided Germany were brought back together again. For 20 years now, Germans have explored every aspect of what it was that led to the miracle of

to Decide
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+ May 4, 1990 -- The Soviets Ask for Help
+ May 30 - June 3, 1990 -- Gorbachev in Washington
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+ Oct. 9-12, 1990 -- Treaties with the Soviet Union
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reunification: The bravery of the East German civil rights movement, the collapse of the Soviet Union, the determination of West German Chancellor Helmut Kohl.

However, for most Germans the very notion that the relinquishment of their beloved deutsche mark may have had an influence on the reunification of the communist East with the capitalist West is a remote one -- not least because of the timeframe. The first euro notes and coins first came into circulation in early 2002, more than a decade after Germany's reunification.

A Debate That Runs Along the Franco-German Border

Nevertheless, the politicians of the time have for years been locked in a bitter dispute over the question of whether or not the two most important political and economic mergers of the last two decades were indeed linked. And it is no coincidence that the front line in the debate often runs along the Franco-German border.

Hubert Védrine, who served as an adviser to then-French President Francois Mitterrand, for example, is convinced that his boss would not have consented to any expansion of Germany without German concessions on monetary union. "Mitterrand did not want reunification without advances toward greater European integration," Védrine says. "And the currency was the only topic that was open to debate."

Védrine's German counterpart, Joachim Bitterlich, who was the liaison with Paris at Kohl's Chancellery in Bonn at the time, denies any suggestion that the two countries' heads of state struck a deal. "European monetary union would have taken place even without German reunification," Bitterlich says.

At issue is more than just a dispute between politicians and ministerial officials. It is about how history will judge the central governmental projects of the last few decades. After all, if the French are right, it would do more than cast a shadow over Germany's day of national celebration.

A 'Sickly Premature Baby'

It would also damage the euro, which had been taking a beating in Germany even before the European Union was forced to bail out Greece and other ailing euro-zone countries. Critics like former SPD Chancellor Gerhard Schröder have always suggested that the single European currency was a "sickly premature baby." Now they can even claim that Germany was basically forced into accepting the euro.

Historians like the British euro chronicler David Marsh have long known that important decisions on reunification and monetary union were interwoven in those fateful fall days of 1989.

Previously classified documents from the archive of the German Foreign Ministry, which SPIEGEL has obtained, now show that the connection was far closer than previously known. The papers reveal that a broad Western European alliance threatened to oppose reunification, and that the long-standing Franco-German relationship was at breaking point. At the time, Mitterrand bluntly warned the German government that it could find itself as isolated in Europe "as in 1913," in other words, the period leading up to the World War I, when imperial Germany found itself up against an alliance between England, France and Russia.

The documents also show that history might have taken a very different course had Bonn and Paris not settled their differences in those dramatic days with regard both to the international negotiations about German reunification and those relating to monetary union.

After all, up until the precipitous events of late 1989, the debate over a single European currency had progressed at the usual tempo for any undertaking of what was then the European Economic Community (EEC); that is, slowly and ploddingly, as matters had so often been since the end of World War II. European statesman had repeatedly tried to promote the idea of a common currency ever since the days of Konrad Adenauer and Charles de Gaulle, West Germany's first chancellor and France's first postwar president respectively. Never had these ideas got off the ground. Time and again such attempts faltered because of the clash of interests between the high-inflation southern member states -- Spain, Portugal, Greece and Italy -- on the one hand, and the so-called hard-currency belt centered on Germany and the Netherlands on the other.

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Part 2: 'An Insidious Two-Class Model' Between the Mark and Franc

Expectations were therefore suitably muted when German Chancellor Helmut Kohl and French President François Mitterrand made another attempt to get the ball rolling in the mid-1980s. At the time, the French were particularly unhappy about the existing currency system, which they saw as an insidious two-class model that effectively penalized them.

By contrast, Germany's export-based industry thrived under this system because European exchange rates could fluctuate only within preset limits. That same European stricture was a disadvantage for Parisian financial and monetary policymakers, who found themselves helplessly at the mercy of the humiliating dictates of Germany's central bank, the Bundesbank. Every time the Bundesbank raised its interest rates, the French were obliged to follow suit. And every time prices in Germany rose a little faster than those of its neighbor west of the Rhine River, Paris had no choice but to devalue the franc. The system was thus a globally recognized symbol of economic inferiority. "We may have the nuclear bomb, but the Germans have the deutsche mark," officials at Elysée Palace, the office of the French president, apparently said.

In an attempt to defuse the conflict, the European Council -- the combined EEC heads of state and government -- assigned European Commission President Jacques Delors in the summer of 1988 to draw up a plan for European economic and monetary union. Just under a year later, Delors presented his plan for the phased introduction of a common currency. The concept was met with widespread approval across Europe, and even the major political parties in Germany agreed to it. However, one important factor was overlooked amid the general jubilation: The "Delors Plan" failed to resolve key areas of the dispute between Paris and Bonn.

'I Was Convinced We'd Have to Wait At Least 100 Years for That'

For instance, it said nothing about whether the future European financial regulator should be answerable to European governments (as the French had demanded) or be independent, like the Bundesbank in Germany. Nor did it clarify whether a common currency should be preceded by greater political union, which Bonn was keen to see, or whether the future European currency would be viable even without further European integration. And last but by no means least given the Franco-German wrangling over economic supremacy, the Delors Plan did not state whether the headquarters of the new pan-European central bank should be placed in Paris or

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Frankfurt.

So great were the differences that the then-Bundesbank president, Karl Otto Pöhl, saw absolutely no cause for German concern, believing he would never live to see the introduction of the planned European currency. "I was convinced we'd have to wait at least 100 years for that," Pöhl says.

Paris wasn't prepared to wait that long, and in the second half of 1989, France capitalized on the fact that it held the rotating presidency of the European Council. This six-month elevation to Europe's *primus inter pares* is always a useful opportunity to promote domestic agendas, and the German chancellery office in Bonn duly received increasingly urgent calls from Mitterand's staff at the Elysée Palace to speed up the pace of European monetary union. Indeed the French went so far as to insist the date of an appropriate intergovernmental conference for the following year be set by no later than the EEC summit scheduled to take place in Strasbourg on December 8 and 9.

'Public Opinion Not Ready to Give Up Deutsche Mark'

In Germany, all eyes were focused on a very different political date: that of the next general election, which was due to take place at the end of 1990. Chancellor Kohl was well aware that the abandonment of the deutsche mark would not only be resisted by the Bundesbank, the Finance Ministry and large parts of the conservative Christian Social Union (the CDU's Bavarian sister party), but also by the German people themselves. "The deutsche mark is part of our national pride," Kohl confided to US President George H.W. Bush. Giving up the German currency would have been tantamount to campaigning for the far-right Republicans party, which was busy gaining its first parliamentary seats in the European Parliament and regional governments on the back of brash anti-European rhetoric. That summer Kohl told Mitterrand, "Public opinion is not yet ready to give up the deutsche mark."

A few weeks later, he confirmed his statement in writing. In a letter to Mitterand, Kohl repeated Germany's assertion that currency union should be coupled with greater political union within Europe. The German chancellor demanded more rights for the European Parliament and suggested holding a second intergovernmental conference on institutional reform, whose deliberations would be completed in 1992 to coincide with the conclusion of the currency negotiations.

Mitterrand's advisers were aghast: They suspected the Germans were playing for time.

But while government officials in Paris and Bonn were playing a high-stakes game of poker behind closed doors, the German public knew little or nothing of the machinations of its elected representatives. At the time, the average citizen was gripped by the events unfolding on the far side of the Iron Curtain. In the summer of 1989, Hungary opened its borders with neighboring Austria. In October, hundreds of thousands of East Germans took part in the regular Monday night demonstrations in Leipzig. In November, the Berlin Wall came down.

From one day to the next, a topic that most people had previously considered far more utopian than the idea of a common European currency thrust itself into hearts and minds around the globe: Germany reunification. In late November, Kohl presented a 10-Point Plan to the German parliament to set up a German-German confederation so that "the German people can regain their unity by their own volition."

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Germany's Western allies, who hadn't been consulted on the issue, were therefore all the more critical of Kohl's plans. Was the German chancellor plotting behind their backs to take Germany off on a course of its own? Did he intend to set up a new German behemoth at the heart of Europe?

When Mitterrand heard about Kohl's declaration, he "threw a small temper tantrum lasting several hours," as his advisers smugly noted. The French president imagined a new superpower rising up on the eastern border of his country, a force whose currency would dominate the entire continent, and whose political might would shatter postwar harmony in Europe.

It soon became clear to what extent France's head of state felt he had been betrayed. German Foreign Minister Hans-Dietrich Genscher rushed to Paris to explain Bonn's new domestic policy.

It would be a memorable meeting. For three-quarters of an hour, from 5:45 p.m. to 6:30 p.m., Mitterrand beseeched his guest to such an extent that the man whose job it was to take notes of the encounter, German Ambassador Franz Pfeffer, chose to adopt an unusual stance. "On account of the significance of the discussion," Pfeffer wrote in the introduction to his minutes, he had "not summarized the topics addressed." Instead, "an account of the insistent repetition will highlight the main thrusts of the argument particularly clearly."

That is certainly no exaggeration. Pfeffer's protocol, classified "strictly confidential," shows more clearly than almost any other historical document how closely Mitterrand's approval of Germany's reunification was linked to German concessions on monetary union.

'Germany Is Currently Dragging Its Heels'

"Germany can only hope for reunification if it is part of a strong community," Mitterand declared. However, Mitterrand complained, Germany did not seem to be especially community-minded at that time. "You don't have to be a psychologist to recognize that Germany is currently dragging its heels on economic and monetary union," he lamented. In Mitterand's eyes, all Germany's arguments on the issue clearly suggested its attitude was "We're in no hurry."

In view of the forthcoming European summit, Mitterrand insisted Bonn make

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concessions. And he followed up his demand with a thinly veiled threat: "If, having swallowed up the communist eastern half of the country, Germany begins flexing its muscles within the overall European project, it will find that fellow member states in the (EEC) will be less friends than partners with their own reflexes," Mitterrand said. For this reason, he said, Germany faced a "very important choice" at the summit in Strasbourg.

German Foreign Minister Hans-Dietrich Genscher immediately understood what the dire insinuations meant: Mitterrand was threatening to veto Germany's reunification. If push came to shove, Bonn would find itself opposed not only by British Prime Minister Margaret Thatcher, who made no bones about her dislike for a greater Germany, but also by Mitterrand.

Preparing for Economic and Monetary Union

Genscher was therefore at pains to appear reasonable. He flatteringly said he had had the honor of having had "a series of talks with the French president" in the past. But, he added, he considered this one to be "the most important." He then made Mitterand a not insignificant promise: "What we need to do in Strasbourg," Genscher said, "is to decide on the intergovernmental conference to prepare for economic and monetary union."

Over the next few days, frantic negotiations were conducted between the Chancellery in Bonn and the French government in Paris. Letters were exchanged, calls were made, timetables were amended and possible wordings were discussed. In the end, the Germans agreed to hold the planned conference at the end of 1990, as France desired. At the same time they scaled back their demands for political union. Two days before the summit in Strasbourg, the chancellery told the French government, "It is OK."

That may have been what their staff believed, but it was certainly not the case. When Kohl and Genscher entered the conference room in Strasbourg on Dec. 8, 1989, the atmosphere was more than icy. One head of state after another rejected Germany's appeal for speedier unity.

The Germans had a hard time convincing their EEC partners to bless German reunification, and when it came the lukewarm approval was riddled with reservations and conditions. By contrast, the French timetable for monetary union was given the nod in principle. There was no discussion of the issue of political union.

But Kohl was still not sure whether he had the French president's endorsement of German reunification. In early January, the two statesman met at Mitterrand's country retreat of Latché in southwestern France. The two men spent several hours wandering along the Atlantic coast. Afterward, it was clear that they had reached an agreement about the principles of the two forthcoming unification projects. "Mitterand stopped opposing Germany's reunification after Latché," says Joachim Bitterlich, Kohl's advisor at the time.

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Part 4: A Moment of Great Pride

From then on things moved very quickly. In the summer of 1990, representatives of East and West Germany signed the unification treaty, and on Oct. 3, the eastern states that had previously made up the communist German Democratic Republic joined those of the Federal Republic of Germany. In December, EEC heads of state and government met in Rome for the start of the intergovernmental conference on European monetary union. When, in February 1992, they signed the Maastricht Treaty on the introduction of the euro, it was a moment of great pride for Hans-Dietrich Genscher. "For me this act symbolized the fulfillment of the promises I had made during the reunification process that a united Germany would continue to pursue the politics of European integration in a determined and no less dedicated manner," Genscher wrote in his memoirs.

So was relinquishing the deutsche mark the price of reunification?

This question is not easy to answer definitively, not least because important decisions about the euro were only taken at a later date -- for instance in 1992, when only a wafer-thin majority of the French electorate approved the Maastricht Treaty in a referendum.

Nevertheless it is hard to deny that the collapse of the communist regime in East Germany represented a decisive step toward the adoption of the common European currency. Before the fall of the wall, European monetary union had been an ambitious EEC project like so many others. Afterward it was the central political tool with which to bind the expanded Germany to the European community.

"European monetary union may not have come about had it not been for Germany's reunification," says former Bundesbank President Karl Otto Pöhl. "Kohl knew that he had to promote European interests in order to make reunification acceptable," says former Mitterand advisor Hubert Védrine. Bernd Pfaffenbach, then a high-ranking Chancellery official under Kohl, adds, "The German position had previously been that European political union must precede monetary union. But the German government sacrificed that position in the course of the negotiations."

In the end it was a concession that primarily benefited the two leaders. By permitting Germany to expand eastwards, Mitterand helped Kohl become the "Chancellor of Unity," as he would later be dubbed. This in turn put Kohl in a position to relieve Germany of its dearly held currency, one of the greatest triumphs of the

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Mitterand presidency.

'There's Nothing to Support This Theory'

Although there is much evidence to back this theory up, the members of the German government at the time still insist this was not the case.

Theodor Waigel walks through the wood-paneled foyer of the International Club in Berlin. In his hand he carries a black briefcase. Waigel was Germany's finance minister when the wall came down and when the euro was conceived. Both were big decisions, and he is convinced that they were the correct ones.

Waigel is about to give a speech to a group of Berlin businessmen. He doesn't have much time. And yet he can't resist the temptation to comment on what he sees as the muddled theory that Germany relinquished the mark in exchange for being permitted to reunify. He says former German President Richard von Weizsäcker asked him about it when the two men met on a TV talk show a few years earlier. Waigel had therefore explained what had really happened.

"There's nothing to support this theory," Waigel says. "The euro was introduced exactly according to the timetable envisaged." But hadn't reunification considerably contributed to the launch of the euro? Alluding to concerns by Britain, France, the United States and Russia that the Germany they had defeated in World War II could one day be a threat again, Waigel says, "Perhaps monetary union helped allay some of the Allies' fears."

Translated from the German by Jan Libelt

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