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The Role of Germany in the Creation of the European Economic and Monetary Union, 1988-1992"

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Thomas Koegler

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diplomatische akademie wien
Vienna School of International Studies
École des Hautes Études Internationales de Vienne

Abstract

This thesis analyzes the role of Germany in the creation of the European Economic and Monetary Union between 1988 and 1992 and how the country's powerful ordo- and neoliberal establishment managed to create a hegemony of neoliberal economic thought in the European Union. The EMU was originally a French idea that was intended to weaken the strength of the deutschmark, thereby countering Germany's economic supremacy. With the fall of the Berlin Wall and the subsequent reunification of Germany, the overall balance of power in continental Europe shifted significantly toward Germany and undermined France's bargaining power at the Maastricht negotiations. Consequently, at Maastricht, France was ready to accept almost every German demand in exchange for binding reunified Germany irreversibly into the European framework. Germany was mainly represented at these negotiations by members of its strong and powerful ordoliberal establishment, which revolved around the Bundesbank and the Ministries of Finance and Economics. Having been followed and practiced ever since Ludwig Erhard had become Minister of Economics, ordo- and neoliberalism became hegemonic within the Federal Republic by not only having the support of government institutions and employer and banking federations, but also by top-tier media outlets. In addition, neoliberal ideology appealed to the German public and, thus, also won out in the marketplace of ideas, thereby creating hegemony in the Gramscian sense. This enabled the ordoliberal establishment to punch well above its weight within Germany and, consequently, at the Maastricht negotiations. As Chancellor Helmut Kohl, who, in the tradition of Konrad Adenauer, saw foreign and security policy as much more important than economic and monetary policy, was preoccupied with his eventually futile attempts to create a political union, the ordoliberals essentially had a free hand in designing the Maastricht Treaty. As a result, they succeeded in creating a hegemony of neoliberal economic thought in the European Union.

German Abstract

Diese Masterarbeit analysiert die Rolle Deutschlands in der Entstehung der europäischen Wirtschafts- und Währungsunion zwischen 1988 und 1992. Der Fokus liegt darauf, zu zeigen, wie es die ordo- und neoliberalen Kräfte Deutschlands schafften, ihre Positionen in den Verhandlungen zum Maastrichter Vertrag durchzusetzen und so eine neoliberale Hegemonie in Europa zu kreieren. Entscheidend dafür waren zwei Faktoren: einerseits verschob sich das Gleichgewicht der Kräfte zwischen Frankreich und Deutschland durch die deutsche Wiedervereinigung ganz klar in Richtung Deutschland und schwächte somit die französische Verhandlungsposition. Andererseits hatten die Neoliberalen deshalb eine so starke Position innerhalb des deutschen Verhandlungsteams, weil sie innerhalb Deutschlands eine hegemoniale Stellung im Sinne Gramscis innehatten und Kanzler Kohl, der in der Tradition Adenauers außen- und sicherheitspolitische Aspekte über wirtschaftliche Überlegungen stellte, sich primär mit der Politischen Union beschäftigte.

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Introduction

"But February made me shiver
With every paper I'd deliver
Bad news on the doorstep
I couldn't take one more step."

- Don McLean, American Pie

Normally, early October is a beautiful time to visit Athens. While the sun is unforgiving in the summer months, in October the Greek capital awaits its visitors with welcoming temperatures in the mid-twenties. At Syntagma square, which is marvelously located in front of the Greek parliament, pensioners play chess below the many trees that still carry verdant leaves while tourists and locals alike enjoy a cup of coffee on this rather peaceful place in the middle of Athens' busy city center. On October 8, 2012, however, everything was different. Angela Merkel, the powerful German Chancellor, visited Greece for the first time since the sovereign debt crisis had hit the country in late 2009. Since then, GDP had sunk by about a quarter[1] with unemployment standing at a staggering 24.4 percent.[2] For the Greek people, Merkel impersonated the austerity policies that had cut "deeply into the social fabric"[3] of the country by raising taxes and slashing government spending. Thus, thousands of Greeks had turned up at Syntagma square to protest against further austerity measures and Merkel's handling of the crisis. At the front of the demonstration, some protestors had dressed up in Nazi uniforms and smoke was rising from burning swastika flags. Despite the pleasant temperatures, the atmosphere was at a boiling point, with some demonstrators throwing stones and even petrol bombs, thereby prompting the riot police to intervene in order to guarantee the German Chancellor's safety.[4]

The anger of the Greek people at Merkel was understandable. However, is it plausible to assume that an economically uneducated Eastern German physicist came up with the idea of imposing painful measures of austerity on an ailing country? If one thinks about it, it seems much more realistic that the German Chancellor was, in fact,

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[1] Greece. No date. *The World Bank.* Accessed May 29, 2019. https://data.worldbank.org/country/greece.
[2] Greece. No date. *OECD Data.* Accessed May 29, 2019. https://data.oecd.org/greece.htm.
[3] Tooze, Adam. 2018. *Crashed: How a Decade of Financial Crisis Changed the World*. London: Allen Lane, 373.
[4] Nazi flags, furious protests greet Angela Merkel as German leader arrives in Greece. 2012. *National Post,* October 9, 2012. Accessed May 28, 2019. https://nationalpost.com/news/nazi-flags-furious-protests-greet-angela-merkel-as-german-leader-arrives-in-greece.

heavily influenced by her Minister of Finance Wolfgang Schäuble. A political dinosaur that had studied at the University of Freiburg, the birthplace of German ordoliberalism,[5] Schäuble was a strong advocate of strict fiscal rules and austerity. In fact, he believed that those "eurozone countries [that] lived perpetually beyond their means"[6] needed to be punished "aggressively."[7] This attitude can be traced back to the story of the stereotypical Swabian housewife, who, in apparent contrast to the Greeks, knows full well that one cannot spend more than one owns. As Winfried Kretschmann, the Prime Minister of Baden Württemberg pointed out, she represented "'the starting point' in German thinking on the euro and fiscal management."[8] In addition, Angela Merkel stood in awe of the rules established at Maastricht. She was convinced that "a good European is not necessarily the one who helps quickly and, thus, may only seem to solve the problem. A good European is rather the one who respects the European Treaties and the respective domestic law and, therefore, contributes to the stability of the eurozone."[9] Consequently, as Greece had violated the fiscal rules established at Maastricht, Merkel underlined that the country was only getting German help in exchange for "drastic measures."[10] The Maastricht Treaty's neoliberal principles were, indeed, strongly represented by the German Chancellor.

However, while it is true that Schäuble and Merkel were ultimately responsible for the mandated policies of austerity, it only represents a small piece of a much larger puzzle. In order to really understand why Germany acted the way it did during the sovereign debt crisis, one has to go back to the 1980s when the Socialist President of France, Francois Mitterrand, pertinaciously supported a common European currency in order to dismantle the supremacy of the deutschmark, which he referred to as "Germany's nuclear bomb."[11] At this point, Germany, and especially the powerful ordoliberal coalition that included the mighty Bundesbank as well as the Ministries of Economics and Finance, were heavily opposed to a European monetary union. If it

[5] Skidelsky, Robert. 2018. *Money and Government: A Challenge to Mainstream Economics.* London: Allen Lane, 140.
[6] Mody, Ashoka. 2018. *EuroTragedy: A Drama in Nine Acts.* New York: Oxford University Press, 244.
[7] Ibid.
[8] Hail, the Swabian housewife. 2014. *The Economist,* February 1, 2014. Accessed May 27, 2019. https://www.economist.com/europe/2014/02/01/hail-the-swabian-housewife.
[9] Regierungserklärung von Bundeskanzlerin Merkel zu den Hilfen für Griechenland. 2010. *Die Bundeskanzlerin,* May 5, 2010. Accessed June 2, 2019. https://www.bundeskanzlerin.de/bkin-de/aktuelles/regierungserklaerung-von-bundeskanzlerin-merkel-zu-den-hilfen-fuer-griechenland-1122362.
[10] Ibid.
[11] Schwarz, Hans-Peter. 2014. *Helmut Kohl: Eine politische Biographie.* München: Pantheon, 431.

were ever to happen, they argued, it would crown the European project after all member states had converged to the German macroeconomic standard.[12] Obviously, this was not to happen anytime soon. What I will show in this thesis is how the French still succeeded in getting the EMU on the agenda, but, in the end, effectively lost out by accepting the Maastricht Treaty, which was almost exclusively designed by Germany. Thus, while the German ordoliberals had to give up the deutschmark, they got a massive prize in return: a treaty that ensured the hegemony of ordo- and neoliberal economic thought in Europe. To be able to present the esteemed reader with the whole story behind the developments and processes that led to the Maastricht Treaty, the following questions will be answered throughout this thesis: How did the relationship between Francois Mitterrand and Helmut Kohl affect the creation of the EMU? What role did the fall of the Berlin Wall, the creation of the German monetary union and the subsequent reunification of Germany play in this process? Does the Maastricht Treaty reflect a European Germany or a German Europe? How did Germany succeed in establishing a hegemony of ordo- and neoliberal economic thought in the European Union?

My approach to this topic is mainly qualitative. However, while this thesis is primarily a historical analysis, the special nature of the topic places it at the intersection of the fields of history, economics and political science, which could also be described as international political economy. Consequently, due to the large role that economics play throughout this thesis, it would not be possible to present the whole story without making use of quantitative sources such as economic data. As the story told in this thesis has started in the 1980s, some basic knowledge about the international monetary system up to this point as well as Germany's role in it is advantageous. Thus, in order to make this thesis accessible to readers who do not have any knowledge of this subject, four briefing reports that shortly summarize the development of the international monetary system between 1945 and 1987 and present the Federal Republic's role in it were included in the Appendix.

[12] Cole, Alistair. 2001. *Franco-German Relations.* Harlow: Pearson Education, 94.

I. A New Hope?

"The creation of a unitary European currency area with a European Central Bank is an economically necessary addition to the European single market."[13]

- Hans-Dietrich Genscher, 1988

In the early 1980s, the world was still divided between the Capitalist West and the Communist East. While Margaret Thatcher and Ronald Reagan began their neoliberal projects in the Anglo-Saxon world, the Soviet Union invaded Afghanistan, which led to such a severe deterioration of US-Soviet relations that this phase became known as the "second Cold War."[14] This breakdown in East-West relations heavily affected Western Europe, which had not yet fully recovered from the economic turmoil of the 1970s. After a short-lived return to solid growth rates in the late 1970s, the Western European economies slowed down again[15] and inflation, which had already been at high levels, increased even further in the early 1980s.[16] In addition, the 'Snake', which was the first European attempt at monetary cooperation following the breakdown of the Bretton Woods system, had failed spectacularly.[17]

Consequently, the idea of creating a European monetary union, which, according to a resolution of the Council of Ministers from 1971 should have been already fully implemented by 1980,[18] was not a topic of discussion at the beginning of the decade. With the election of the Socialist Francois Mitterrand as President of France in 1981, the prospects of more European cooperation were initially further diminished for several reasons. Firstly, the election of Mitterrand meant the end of the well-functioning relationship between the West German Chancellor Helmut Schmidt and President Valéry Giscard d'Estaing. As Schmidt and Mitterrand had an embittered relationship that had its roots in previous meetings within the Socialist International and Schmidt's endorsement of the Gaullist Giscard over Mitterrand in the presidential elections, the Franco-German relationship, which had been the engine of deepening European integration and cooperation since the end of World War II, cooled down.

[13] Genscher, Hans-Dietrich. 1988. "Memorandum für die Schaffung eines europäischen Währungsraumes und einer Europäischen Zentralbank". *Money in Greece.* Accessed March 14, 2019. http://moneyingreece.org/library/genscher-memorandum-1988, 1.
[14] Judt, Tony. 2010. *Postwar: A History of Europe Since 1945.* London: Vintage Books, 590.
[15] See Appendix f), Chart 3.
[16] See Appendix f), Chart 1.
[17] For more information, see Appendix e), Report 3.
[18] Kaelberer, Matthias. 2001. *Money and Power in Europe: The Political Economy of European Monetary Cooperation.* Albany: State University of New York Press, 105.

This development was further supported by the fact that Mitterrand initially "did not want a privileged relationship with the Federal Republic."[19] Secondly, the Keynesian spending program on which President Mitterrand embarked at the beginning of his presidency was not only at odds with German ordoliberalism, but also put the franc under heavy downward pressure and led to three devaluations of the franc within as many years.[20] Thus, in its beginnings, the European Monetary System, which had been initiated by Schmidt and Giscard in 1979 as a second attempt of European monetary cooperation after the failure of the Snake, was not a success story either.

Within a few years, however, circumstances changed significantly. In West Germany, Chancellor Helmut Schmidt was ousted in the first successful constructive vote of no-confidence in the history of Germany[21] as the coalition government of the social democrats and the liberals split over the rather poor economic situation and the NATO decision to deploy American missiles in West Germany.[22] Thus, in October 1982 Helmut Kohl of the CDU became Chancellor. He quickly developed an excellent personal relationship with Mitterrand and went on to be one of the driving forces behind the creation of a European monetary union. Only shortly thereafter, Jacques Delors, who had been Mitterrand's Minister of Finance from 1981 until 1984, became President of the European Commission. By agreeing to the appointment of such a high-profile and strongly pro-European politician as President of the Commission, Kohl and Mitterrand made it clear that they saw the European Union as "more than just a free trade area."[23] At the same time, in the Soviet Union "the generation of Party leaders with first-hand memories of the Soviet Union's Bolshevik origins, and whose lives and careers had been blighted by Stalin, was now disappearing."[24] This paved the way for the reform Communist Mikhail Gorbachev to become Secretary General of the Communist Party at the age of just 54 and should lead to a relaxation in East-West relations. In addition, while growth picked up again[25] and inflation was brought under control[26] in Western Europe in the second part of the 1980s, the Soviet Union, and with it the whole of Eastern Europe, was confronted with severe economic problems

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[19] Guérin-Sendelbach, Valerie. 1993. *Ein Tandem für Europa?: Die deutsch-französische Zusammenarbeit der achtziger Jahre.* Bonn: Europa-Union-Verlag, 22.
[20] Eichengreen, Barry. 2008. *Globalizing Capital: A History of the International Monetary System. Second Edition.* Princeton: Princeton University Press, 162f.
[21] Schwarz, *Helmut Kohl,* 272ff.
[22] Judt, *Postwar,* 591.
[23] Schwarz, *Helmut Kohl,* 410.
[24] Judt, *Postwar,* 594.
[25] See Appendix f), Chart 3.
[26] See Appendix f), Chart 1.

as the Soviet "economy, which had hardly grown through the course of the 1970s, was now actually shrinking."[27] This economic crisis would contribute significantly to the breakdown of the Communist regimes at the end of the decade.

In this rather favorable climate, the idea of a European monetary union gradually re-emerged. Already in his inauguration speech as president of the Commission in January 1985, Jacques Delors "advocated a single European currency."[28] However, the EMU was in the background for the time being as the European Commission focused on the completion of the single market, which was accomplished by the Single European Act that went into force in July 1987.[29] Subsequently, it only took a few months until the EMU took center-stage. In January 1988, Édouard Balladur, the French Minister of Finance, argued in his memorandum on 'European Monetary Construction' that the completion of the single market and the abolition of capital controls as mandated by the Single European Act would lead to serious problems in the EMS. Consequently, as the integration of Europe's financial markets was, in his view, in the member states' best interest, he stated that "the rapid pursuit of European monetary construction is the only possible solution."[30] Balladur was quickly backed up by the German Minister of Foreign Affairs Hans-Dietrich Genscher, who proposed in a personal memorandum in February 1988 the creation of a "unitary European currency area with a European Central Bank […] [as an] economically necessary addition to the European single market."[31] As Genscher "was deeply committed to neo-liberal economic ideas,"[32] it came as no surprise that his memorandum included a 'Magna Charta of a European *Stabilitätspolitik*', in which he suggested that both Germany's *Bundesbankgesetz* with its strong focus on price stability as well as the country's conservative fiscal policy were good role models for a possible European economic and monetary union.[33] As a result of these developments, it seems fair to say that 1988 marked the year when the idea of European monetary integration came back with a vengeance.

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[27] Judt, *Postwar,* 595.
[28] Kaelberer, *Money and Power in Europe*, 172.
[29] Judt, *Postwar,* 529f.
[30] Caton, Valerie. 2015. *France and the Politics of European Economic and Monetary Union.* New York: Palgrave Macmillan, 24.
[31] Genscher, "Memorandum für die Schaffung eines europäischen Währungsraumes und einer Europäischen Zentralbank", 1.
[32] Dyson, Kenneth and Kevin Featherstone. 1999. *The Road to Maastricht: Negotiating Economic and Monetary Union.* Oxford: Oxford University Press, 372.
[33] Genscher, "Memorandum für die Schaffung eines europäischen Währungsraumes und einer Europäischen Zentralbank", 1f.

A. A Special Relationship?

"There would be no Europe if this genuine reconciliation between France and Germany had not occurred. None of the European institutions which we have already created would be conceivable in the absence of cooperation between France and Germany."[34]

- Konrad Adenauer, 1963

Immediately after World War II had ended, enduring friendship and cooperation between France and Germany seemed like a distant dream. Indeed, the French government tried to block British and American plans to establish a West German state. Only "after having failed to dismember western Germany, French governments resorted to the Briand approach: reaching agreements with Germany in order to bind her to France."[35] This first phase of Franco-German cooperation led to the creation of the European Economic Community in 1957 and culminated in the "highly symbolic if utterly insubstantial"[36] Elysée Treaty, which called for regular consultations between the two countries and established a youth exchange program.[37] Apart from the technical details, the Franco-German rapprochement enabled West Germany "to recreate a sense of positive identity from a dark collective memory […] [and] empowered […] France by allowing it to pretend to the role of a great power."[38]

However, the rapid economic recovery of West Germany, the so-called *Wirtschaftswunder*, quickly shifted the balance of power with West Germany becoming "the undisputed economic locomotive of the European economy"[39] by the early 1970s. Thus, the military power of France, which was mainly centered on its nuclear weapons, was balanced by West Germany's economic might, which was embodied by its strong currency. In fact, the deutschmark was such a potent asset that President Mitterrand, in an analogy to the French *force de frappe*, referred to it as "Germany's nuclear bomb."[40] Consequently, just as France was unwilling to

[34] Address given by Konrad Adenauer (23 January 1963). 1963. *Centre Virtuel de la Connaissance sur l'Europe,* May 7, 2016. Accessed March 14, 2019. https://www.cvce.eu/content/publication/2001/10/25/98792bf0-9b72-4b60-b723-bcaa1e74606c/publishable_en.pdf, 2.
[35] Cole, *Franco-German Relations*, 6.
[36] Judt, *Postwar,* 292.
[37] Elysée Treaty – a sign of friendship. 2019. *Bundesregierung,* January 22, 2019. Accessed March 15, 2019. https://www.bundesregierung.de/breg-en/chancellor/elysée-treaty-a-sign-of-friendship-1571380.
[38] Cole, *Franco-German Relations,* 4.
[39] Ibid, 14.
[40] Schwarz, *Helmut Kohl,* 431.

participate in nuclear disarmament,[41] West Germany had little interest in giving up its currency, which had not only become a source of power, but also of national pride.[42] Thus, when the Werner Report stated, apart from goals such as irrevocably fixed exchange rates and the free movement of capital within the European Communities, a clear preference for "a common European currency,"[43] it evoked some deep reservations in West Germany.[44] However, Chancellor Willy Brandt still endorsed the report's goals as he had to persuade the French, who have feared that Germany could trade unification for neutrality with the Soviet Union in a resurrection of Rapallo,[45] that his *Ostpolitik*, under which he tried to improve relations with Eastern Europe in general and the GDR in particular, did not put the German commitment to Western Europe into question.[46]

Generally, the relationship between the Social Democrat Brandt and the French President Georges Pompidou, a Gaullist, was rather strained as "domestic political settings, personal political styles and rival party affiliations could produce routine misunderstandings."[47] Concerning monetary cooperation, the differences between the two statesman were based on different approaches to the issue. On the one hand, the Germans took an 'economist' position, which stipulated that a monetary union could only be realized after the participating economies had converged to the German macroeconomic standard to a significant degree. Moreover, West Germany wanted a strong monetary institution that was "able to enforce the rules of the game and preserve a low inflationary standard."[48] This approach had its roots in the hyperinflation and the catastrophic economic conditions in Germany in the interwar period and represented some of the main tenets of German ordoliberalism. On the other hand, the French 'monetarist' strategy wanted to introduce a monetary union right away before any convergence, which would have meant that "Germany would have had to finance the balance-of-payments difficulties of the deficit countries and accept a higher inflation rate."[49] On this issue, Brandt did not make any compromises and was

[41] Schwarz, *Helmut Kohl,* 425.
[42] Caton, *France and the Politics of European Economic and Monetary Union*, 23.
[43] Kaelberer, *Money and Power in Europe*, 100.
[44] For more information, see Appendix e), Report 3.
[45] Müller, Rolf-Dieter. 1992. "Rapallo – Karriere eines Reizworts." *Die Zeit,* April 10, 1992. Accessed March 15, 2019. https://www.zeit.de/1992/16/rapallo-karriere-eines-reizwortes/komplettansicht.
[46] Garton Ash, Timothy. 1994. *In Europe's Name: Germany and the Divided Continent.* New York: Random House, 81f.
[47] Cole, *Franco-German Relations,* 15.
[48] Kaelberer, *Money and Power in Europe*, 112.
[49] Ibid.

supported by the Bundesbank, which called the French plans "dangerous."[50] Thus, although it can be said that Adenauer and de Gaulle had a special relationship, this was not the case between Brandt and Pompidou. However, their respective successors, Helmut Schmidt and Valéry Giscard d'Estaing, once again developed a "close personal relationship."[51] After the failure of the Snake, they started a new attempt at monetary cooperation by establishing the European Monetary System. With the EMS, the French tried to overcome the dominant role of the deutschmark, which they saw as the main reason for the failure of the Snake, while Schmidt argued that the EMS would "help to insulate the German economy from the effects of a depreciating dollar."[52] In addition to the EMS, Schmidt and Giscard also made progress on political integration as they established the European Council and introduced direct elections to the European Parliament, thereby revealing "preferences for intergovernmental (France) versus supranational (Germany) visions of political union."[53] However, that good relationship between France and West Germany ended with the election of Francois Mitterrand as President of France in 1981 due to the longstanding personal antipathy between Schmidt and Mitterrand.[54] This cooling-off period did not, however, last very long as Helmut Kohl became chancellor after a successful constructive vote of no-confidence against Schmidt. Subsequently, Kohl and Mitterrand developed "the most successful Franco-German partnership possible."[55] The very close personal relationship between these two leaders proved to be one of the necessary preconditions for further European integration and, thus, the creation of a European monetary union.

At the beginning of this chapter, I quoted a statement by Konrad Adenauer, which he made the day after the Elysée Treaty had been signed, to show the importance of the Franco-German relationship for the creation of a united Europe and, thus, monetary integration. Since then, the special relationship between France and Germany has held even among adverse circumstances, such as personal animosities between leaders or external events like the fall of the Berlin Wall, as there has always been a deep-seated "common will for successful cooperation on both sides."[56]

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[50] Burhop, Carsten, Julian Becker and Max Bank. 2013. "Deutschland im Weltwährungssystem von Bretton Woods." *Geschichte und Gesellschaft* 39(2), 232.
[51] Dyson and Featherstone, *The Road to Maastricht,* 113.
[52] Eichengreen, *Globalizing Capital,* 158.
[53] Cole, *Franco-German Relations,* 16.
[54] Ibid.
[55] Kühnhardt, Ludger. 2008. *European Union – The Second Founding: The Changing Rationale of European Integration.* Baden-Baden: Nomos Verlagsgesellschaft, 106.
[56] Guérin-Sendelbach, *Ein Tandem für Europa?,* 3.

a. 'The Last Pro-European Chancellor' and the French Socialist

"The Chancellor and I had the same views about the construction of Europe and considered this goal as the cornerstone of our actions."[57]

- Francois Mitterrand, 1996

When Francois Mitterrand was elected as President of France on May 10, 1981, he became the "first directly-elected Socialist head of state in Europe."[58] His stunning victory by more than one million votes[59] was made possible by an unlikely steadfast coalition of "Socialists, Communists, environmentalists and even the normally uncooperative Trotskyists"[60] and left the Socialists in "complete control of France."[61] The election of Mitterrand had huge significance for the relationship between France and Germany as the new President initially did not want a "privileged relationship with the Federal Republic"[62], but tried to treat all Western European partners equally. The downgrading of the Franco-German relationship was probably due to Mitterrand's longstanding antipathy against the Social Democratic Chancellor Helmut Schmidt. However, on October 1, 1982, Schmidt was ousted as chancellor and followed by Helmut Kohl of the CDU. Still, the chances for an improvement in Franco-German relations were slim. According to Kohl, during his time as leader of the opposition "the mighty Frenchman showed at every opportunity that he does not want to have anything to do with the German from the Pfalz."[63] The disregard that Mitterrand had for the Chancellor became apparent when Kohl visited Mitterrand only three days after becoming Chancellor as Mitterrand could not be briefed adequately about this "heavy and cloddish man"[64] due to a lack of information. Consequently, it is fair to say that at the time it seemed highly unlikely that the two statesmen would go on to develop a "bond of trust […] that I can only characterize as a godsend for our two peoples."[65]

Clearly, we now have to deal with the question how this remarkably close relationship could develop. In its beginnings, it was a mix of personal sympathy and

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57 Mitterrand, Francois. 1996. *Über Deutschland.* Frankfurt am Main: Insel Verlag, 124.
58 Judt, *Postwar,* 551.
59 Eder, Richard. 1981. "Mitterrand beats Giscard; Socialist Victory Reverses Trend of 23 Years in France." *The New York Times,* May 11, 1981. Accessed March 18, 2019. https://www.nytimes.com/1981/05/11/world/mitterrand-beats-giscard-socialist-victory-reverses-trend-of-23-years-in-france.html.
60 Judt, *Postwar,* 551.
61 Ibid.
62 Guérin-Sendelbach, *Ein Tandem für Europa?,* 22.
63 Kohl, Helmut. 2005. *Erinnerungen: 1982-1990*. München: Droemer, 102.
64 Schwarz, *Helmut Kohl*, 352.
65 Kohl, *Erinnerungen: 1982-1990,* 104.

symbolic gestures. In their first ever meeting as leaders of their respective countries on October 4, 1982, Kohl and Mitterrand connected over their experiences of loss and trauma during World War II and their subsequent passion for Europe. As Mitterrand put it, "the Chancellor and I had the same views about the construction of Europe and considered this goal as the cornerstone of our actions. This congruence may have been based on the experiences that we made in the war, he as a fifteen-year-old who had to watch his fatherland collapse, I as a participant that could gauge the enormous harm that Europeans suffered."[66] Kohl added a whiff of urgency by telling Mitterrand: "Make no mistake, I am the last pro-European Chancellor."[67] The French President quickly became fond of the well-educated and open-minded Chancellor. Indeed, the admiration was mutual as Kohl spontaneously decided to invite Mitterrand to speak in front of the Bundestag to celebrate the twentieth anniversary of the Elysée Treaty.[68]

It seems fair to say that 1983 was "the decisive year in the relationship between Kohl and President Mitterrand."[69] In his highly symbolic speech in front of the Bundestag on January 20, 1983, Mitterrand showed his sympathy for the new German Chancellor, who was far from certain to win the federal elections to be held in March, by declaring his support for the NATO decision to deploy American missiles in West Germany, thereby derailing the pacifist SPD that had hoped for the support of the powerful French President.[70] After Kohl had been confirmed as Chancellor in the federal elections, Mitterrand sent a personal message to the German Chancellor to ask for help in stabilizing the franc amidst economic chaos in France.[71] After Mitterrand's social reforms and Keynesian spending program, which stood in sharp contrast to the traditional German ordoliberal beliefs, had already led to two devaluations of the franc in 1981 and 1982, the French currency had gotten under such intense downward pressure that the French national bank lost billions in its effort to stabilize the franc. As a result, the "European Monetary System was on the verge of exploding."[72] However, Kohl had not forgotten the leap of trust shown by Mitterrand before the Bundestag. Consequently, after the EC finance ministers decided not to support the French in their fight against another hefty devaluation, Kohl told his Minister of

[66] Mitterrand, *Über Deutschland*, 124.
[67] Schwarz, *Helmut Kohl*, 352.
[68] Kohl, *Erinnerungen: 1982-1990,* 104.
[69] Schwarz, *Helmut Kohl*, 352.
[70] Ibid, 354.
[71] Kohl, *Erinnerungen: 1982-1990,* 108f.
[72] Schwarz, *Helmut Kohl*, 355.

Finance Gerhard Stoltenberg that "I do not share the opinion of the financial experts in Brussels and am prepared to act against the agglomerated expertise of the Chancellery."[73] As he saw it as his duty to "help our French neighbors and their President in a difficult situation, […] I overruled all worrywarts and gave Stoltenberg the order to advocate for a revaluation of the D-Mark."[74] In the end, the deutschmark was revalued by 5.5 percent, while the franc was devalued by a mere 2.5 percent. Mitterrand was able to keep face and went on to pursue more market-oriented policies, thereby breaking his Socialist campaign promises. According to Kohl, the compromise reached in Brussels was "one of the most important political agreements of the 1980s. […] Even for the relationship between Mitterrand and myself the March of 1983 may have been of crucial importance. The bond of trust between us experienced a heavy boost, which should soon prove to be beneficial for both countries."[75]

The events of March 1983 turned the "utopian Socialist"[76] Mitterrand into a primarily European politician. From that point onward, monthly meetings between Kohl and Mitterrand, where they discussed and decided on Franco-German initiatives, became the norm. As West Germany held the EC presidency in the first half of 1983 and France in the first six months of 1984, their common goal was to revive the European integration process within these eighteen months[77] since, as Kohl put it, "Mitterrand and I saw ourselves as the engine of the EC."[78] Indeed, their efforts were quite successful as they brought the accession negotiations with Portugal and Spain to a successful conclusion, with both countries joining the EC on January 1, 1986, and reached a compromise with Prime Minister Margaret Thatcher about the UK rebate at the Fontainebleau European Council in June 1984. In addition, Mitterrand and Kohl, who both knew about the significance of symbols, as could be seen by the famous Verdun handshake, agreed on the introduction of a European flag, anthem, passport and TV channel.[79] Most importantly, they decided that Jacques Delors, Mitterrand's former Minister of Finance, should become the next President of the European Commission. This decision should have enormous consequences for further European integration and especially the creation of a European monetary union.

[73] Kohl, *Erinnerungen: 1982-1990,* 110.
[74] Ibid.
[75] Ibid, 111.
[76] Schwarz, *Helmut Kohl*, 355.
[77] Ibid, 356ff.
[78] Kohl, *Erinnerungen: 1982-1990,* 286.
[79] Ibid, 281ff.

b. A Good Troika?

"The unification of Europe would be far behind the expectations and hopes of the people without Jacques Delors' hard work […]. This man was a godsend for Europe."[80]

- Helmut Kohl, 2005

With Jacques Delors, the European Commission got a high-profile and well-connected President. His appointment marked "the beginning of an exceptionally long period in integration progress guided by strong pro-European leadership."[81] Already in his inauguration speech, Delors mentioned a common European currency as a distinct goal,[82] thereby putting a European monetary union back on the agenda after times of economic upheaval in the 1970s and early 1980s. However, it took some time before the EMU really became an important issue again, as in 1985 the troika of Delors, Kohl and Mitterrand was focused on the accession of Spain and Portugal, which was to happen on January 1, 1986, as well as the completion of the single market. As no sufficient progress on the single market had been made in the 1970s and early 1980s, "the European Council called on the Commission to draw up a detailed programme with a specific timetable for achieving a single market by 1992."[83] Thus, Delors' Commission produced the famous White Paper, which stipulated that physical, technical and fiscal barriers had to be removed in order to complete the single market.[84] On this basis, the European Council adopted the Single European Act (SEA) at the Luxembourg summit in December 1985. With the SEA, Kohl and Mitterrand did not change the EC in a spectacular way, but achieved pragmatic reforms that represented the "lowest common denominator of the twelve [EC member states]."[85] Apart from the single market, the SEA enhanced the role of the European Parliament and recognized the European Council as an official EC institution. Moreover, it "covered cooperation in economic and monetary union, social policy, economic and social cohesion, research and technological development, and environmental policy."[86]

[80] Kohl, *Erinnerungen: 1982-1990,* 286.
[81] Kühnhardt, *European Union – The Second Founding*, 106.
[82] Kaelberer, *Money and Power in Europe*, 172.
[83] Craig, Paul and Gráinne de Búrca. 2015. *EU Law: Text, Cases and Materials. Sixth Edition.* Oxford: Oxford University Press, 609.
[84] Ibid, 609f.
[85] Guérin-Sendelbach, *Ein Tandem für Europa?,* 53.
[86] Craig and de Búrca, *EU Law,* 9.

However, the cooperation between Kohl and Mitterrand on European issues became more complicated by the 1986 elections to the French National Assembly, in which Mitterrand's Socialist Party lost the majority. Subsequently, the Gaullist Jacques Chirac became Prime Minister, thereby heralding the start of two years of *cohabitation*. Chirac, who shared a deep skepticism of the United States with Mitterrand, was a convinced neoliberal in the tradition of Reagan and Thatcher, which is one of the reasons why "the EC so visibly opened up to economic-liberal ideas in the second half of the 1980s."[87] The new Prime Minister shared his neoliberal mindset with Édouard Balladur, his Minister of Finance. Today, Balladur is mainly remembered for his famous memorandum on 'European Monetary Construction' of January 1988, in which he firmly put the issue of monetary integration back on the agenda. He argued that the completion of the single market and the abolishment of capital controls would have disastrous effects on the EMS and saw the "rapid pursuit of European monetary construction […] [as] the only possible solution."[88] To put Balladur's statement into context, it is important to note that the issue of the single market had been hotly debated in France ever since the adoption of the Single European Act and was, consequently, among the main themes in the build-up to the 1988 presidential elections. Therefore, "France's mainstream parties began to focus on how to demonstrate a wary French public that their candidate could best lead France into the brave new Europe of barrier-free markets."[89] On Chirac's and Balladur's conservative side of the aisle, the former President Giscard had been active on this issue since 1986 when he formed the 'Committee for the Monetary Union of Europe' together with Helmut Schmidt.[90] Thus, Balladur's memorandum was hardly innovative, but rather a consequence of an ongoing domestic debate.

Mitterrand, on the other hand, left the French people in the dark on whether he would run for re-election and only announced his presidential bid at the end of March,[91] mere weeks before the first round of elections was to be held. In making his decision, one of his main concerns was "whether, if he was to run for a second term, he stood a realistic chance of persuading Kohl to make bold joint moves on European policy,"[92] particularly the creation of the economic and monetary union. Throughout

[87] Schwarz, *Helmut Kohl*, 421.
[88] Caton, *France and the Politics of European Economic and Monetary Union*, 24.
[89] Ibid, 21.
[90] Ibid, 21f.
[91] Schwarz, *Helmut Kohl*, 422.
[92] Caton, *France and the Politics of European Economic and Monetary Union*, 22.

1987, Mitterrand, who saw the EMU as a way to make economic liberalization and the single market palatable to the French people, was highly skeptical that "Kohl would endorse any move which might threaten the existence of the deutschmark."[93] However, the initially skeptical West German Chancellor slowly warmed up to the idea. This could be seen by him agreeing to set up a Franco-German council for economic and monetary issues. However, while this council was "a useful tool for coordinating economic and fiscal policies,"[94] it could not influence the Bundesbank's monetary policy. Thus, Kohl managed to retain the Bundesbank's sacred independence.

The first half of 1988, during which West Germany once again held the EC presidency, proved to be crucial for the creation of the EMU. In these six months, Kohl and Delors worked together very closely and emerged as the two key figures that "embodied European progress."[95] Most importantly, the Chancellor increasingly shared Delors' strong belief that a European currency could make European integration irreversible. In addition, leading politicians of both CDU and CSU, including the powerful Prime Minister of Bavaria, Franz Josef Strauß, expressed their support for a monetary union. Furthermore, Hans-Dietrich Genscher published a personal memorandum, in which he called for the creation of a common European currency and a European Central Bank, in February 1988.[96] However, all these statements have to be treated with caution as ordoliberalism and its coronation theory, which basically states that "monetary union would crown a gradual process of political union"[97] and be the result of strong economic convergence, were strong forces within West Germany and the dominant doctrine in the Finance and Economics Ministries as well as the Bundesbank. Thus, with Genscher also being a staunch neoliberal, it was rather unrealistic that a common European currency would come any time soon as it could not be expected that an agreement between Germany and the member states with weaker currencies such as France could be found.

On May 8, 1988, the French people re-elected Francois Mitterrand to another seven-year term as President and ended the "hardly successful cohabitation."[98] Only a few weeks later, on June 2, Kohl and Mitterrand met in Evian to prepare for the Hanover summit, which would conclude the German EC presidency. In a quid-pro-

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[93] Caton, *France and the Politics of European Economic and Monetary Union*, 23.
[94] Schwarz, *Helmut Kohl*, 433.
[95] Ibid.
[96] Ibid, 433f.
[97] Cole, *Franco-German Relations,* 94.
[98] Kohl, *Erinnerungen: 1982-1990,* 701.

quo deal, Kohl agreed to set up "an expert commission to propose concrete stages towards economic and monetary union,"[99] while Mitterrand promised to lift all capital controls. The liberalization of financial markets was a big step for the Socialist President, but was, in his view, justifiable by the "prospect of breaking the D-Mark's dominance."[100] Initially, Mitterrand had set a higher price for lifting French capital controls as he wanted Kohl to agree to European tax harmonization, an issue that was very dear to Pierre Bérégovoy, the French Minister of Finance, but, "with his eye on the prize of securing German agreement to a European currency, the President stopped short of making it a precondition."[101] In retrospect, Mitterrand paid a very high price for the simple prospect of getting a monetary union. However, if he had decided otherwise, Kohl's decision not to support tax harmonization in spring 1989 could have critically endangered the project of monetary integration.

In accordance with the agreement they had reached in Evian, Kohl and Mitterrand pushed through the installation of an expert commission at the Hanover summit. The task of this committee was to "consider the concrete steps toward economic and monetary union and develop corresponding suggestions"[102] until the meeting of the European Council in June 1989. The significance that both the West German Chancellor and the French President accorded the committee became clear when they chose Delors as its chairperson. However, while Mitterrand, Delors and the Spanish Prime Minister Felipe González were "fascinated by the idea of a European currency,"[103] the British, Dutch, and Danes, among others, were still highly skeptical. In fact, Thatcher only agreed to the setting up of the Delors Committee on the condition that the term 'European Central Bank' may not be used. Furthermore, the 'Iron Lady' was placated by the fact that all EC central bank governors would participate in the committee as this meant that the ordoliberal Bundesbank, which was traditionally skeptical of a common currency, could put the brakes on any rash developments.[104] Consequently, while the installation of the Delors Committee, for which the French paid the high price of removing all capital controls in order to get West Germany on board, was an important step toward the creation of a monetary union, nothing was set in stone yet.

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[99] Caton, *France and the Politics of European Economic and Monetary Union*, 29.
[100] Schwarz, *Helmut Kohl*, 436.
[101] Caton, *France and the Politics of European Economic and Monetary Union*, 29.
[102] Kohl, *Erinnerungen: 1982-1990,* 735.
[103] Schwarz, *Helmut Kohl*, 437.
[104] Ibid, 436f.

B. Back To The Future?

"The Sixties ended badly everywhere."[105]
- Tony Judt, 2005

The Delors Committee was not the first expert commission to be charged with the preparation of a report about the feasibility of a European monetary union. In fact, at The Hague summit in December 1969, the Prime Minister of Luxembourg Pierre Werner was given a very similar task. The resultant Werner Report proposed to "fix exchange rates irrevocably, to eliminate fluctuation margins, and to establish complete freedom of capital movements within the EU. While the report did not necessarily rule out the maintenance of national currencies […], the Werner group clearly preferred a common European currency."[106] In 1971, the Council of Ministers went on to approve the Werner Report and "adopted a resolution calling for the realization in stages of a complete EMU by 1980."[107] Still, it was never really put into practice. This leads us to question why the Werner Report had failed, while the Delors Committee's report became a success story about 20 years later.

First of all, we have to look at the monetary environment. In 1969, the Bretton Woods system was already unraveling.[108] However, it was not only the international monetary system as such that was in crisis, but, much nearer to home, also the French economy and the franc. The crisis of the franc had begun in May 1968, when large-scale student protests led to massive amounts of capital fleeing from France, while the deutschmark came under upward pressure due to West Germany's record current account surpluses. By November, France was urging West Germany to either "vigorously object to any rumors about revaluation or immediately undertake a limited revaluation of the D-Mark in order to stop the continuous outflow of francs."[109] However, the West German government refused to revalue the deutschmark, deciding only to raise taxes on exports while simultaneously lowering taxes on imports. Quite obviously, this did not calm down the markets and by the end of November foreign speculators, who still anticipated a revaluation of the deutschmark, had sent more than

[105] Judt, *Postwar,* 447.
[106] Kaelberer, *Money and Power in Europe*, 100.
[107] Ibid, 105.
[108] For more information, see Appendix e), Reports 1 and 2.
[109] Kaiser, Bruno. 1991. "Nachteile einer starken Währung: Der Streit um die Aufwertung der D-Mark." In *Die vergessene Regierung: Die große Koalition 1966 bis 1969 und ihre langfristigen Wirkungen*, edited by Reinhard Schmoeckel and Bruno Kaiser, 329-349. Bonn: Bouvier Verlag, 332.

eight billion dollars to West Germany. This wave of speculation only started to abate after the Bundestag passed the *Absicherungsgesetz*, which stipulated clearly that West Germany would not revalue.[110] However, after President de Gaulle resigned in May 1969, the deutschmark came, once again, under intense upward pressure. Chancellor Kiesinger, who had made the unfortunate statement that "as long as I am Chancellor, there will be no revaluation of the D-Mark,"[111] refused to undertake any revaluation. Consequently, France had no choice but to unilaterally devalue the franc by 12.5 percent in August 1969. With the German federal elections, which were to be held in September, already looming, the SPD with Vice-Chancellor Willy Brandt at the helm chose to take a firm position in favor of a revaluation, thereby making a rather technical monetary issue one of the main themes of the election. As the Social Democrats managed to win the election and, subsequently, successfully built a new government, they finally revalued the deutschmark on October 24, 1969.[112]

Consequently, the chaotic situation in the monetary system was one of the reasons why the EC member states started considering European monetary integration. However, as the storm was not yet over with the Bretton Woods system collapsing in August 1971, the uncertainties regarding the monetary order did not enhance the Werner Report's chances of success. By contrast, the Delors Committee issued its report in a stable monetary time since, after having encountered initial problems, the EMS had stabilized with realignments becoming both less frequent and less substantial after 1983. Thus, with the EMS appearing "to be gaining resilience,"[113] the Delors Report was prepared and published in a much more favorable monetary environment.

Second, the economic situation in Western Europe as such did not provide a fertile ground for monetary integration. From an economic perspective, "the Sixties ended badly everywhere [with] the closing of the long-post war cycle of growth and prosperity"[114] creating uncertainty and ending illusions of a necessarily better future for the next generation. As Tony Judt put it, "Western Europe's 'thirty glorious years' gave way to an age of monetary inflation and declining growth rates, accompanied by widespread unemployment and social discontent."[115] Two external shocks, namely the breakdown of Bretton Woods in 1971 and the 1973 oil crisis, aggravated the economic

[110] Kaiser, "Nachteile einer starken Währung", 333ff.
[111] Ibid, 336.
[112] Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods.", 222.
[113] Eichengreen, *Globalizing Capital*, 164.
[114] Judt, *Postwar,* 447.
[115] Ibid*,* 453.

slowdown in Western Europe. Moreover, they led to a severe divergence of European economies, with inflation hitting double-digits in most EC countries, while staying at a rather low level in West Germany.[116] With West German decision-makers firmly believing that convergence of the other EC countries to West German standards, especially concerning inflation, was a necessary precondition for monetary integration,[117] it was, thus, utterly impossible to create a European monetary union in the 1970s. On the other hand, when Jacques Delors' report was published in the late 1980s, the EC countries enjoyed stable and relatively high growth rates,[118] while inflation, one of the core economic problems in the 1970s, had also been brought under control.[119] Moreover, at that time the Mitterrand government, with Pierre Bérégovoy, the Minister of Finance, at the helm, started to follow the *franc fort* policy, which led to a gradual convergence of the French economy to the German one.[120] Consequently, this increased the chances of West Germany agreeing to enter into a monetary union.

Third, on the political level, the relationship between Chancellor Willy Brandt and President Georges Pompidou was rather chilly. One of the main reasons for this was that the French President was "more than a little disturbed"[121] by Brandt's *Ostpolitik*. Thus, while Brandt and Pompidou still managed to launch the ill-fated Snake as a first attempt of monetary cooperation,[122] the lack of trust between them reduced its chances to become successful. At the time of the Delors Committee taking up the work on its report, by contrast, Franco-German relations were at a high point with Kohl and Mitterrand having developed a strong and close relationship.

As we have seen, the circumstances under which the Delors Report was prepared were much more favorable on the monetary, economic and political level than almost twenty years earlier. In addition, politicians and experts had already gained experience by the failure of the Snake and the stabilization of the EMS after 1983. However, this did not mean that the Delors Report was sure to become a success as, among other reasons, the ordoliberal German opposition against monetary cooperation was still both numerous and powerful.

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[116] See Appendix f), Chart 1.
[117] Kaelberer, *Money and Power in Europe*, 117.
[118] See Appendix f), Chart 3.
[119] See Appendix f), Chart 2.
[120] Cohen, Roger. 1992. "The 'Franc Fort' Comes Under Siege." *The New York Times,* December 21, 1992. Accessed March 20, 2019. https://www.nytimes.com/1992/12/21/business/the-franc-fort-comes-under-siege.html.
[121] Judt, *Postwar,* 526.
[122] Ibid, 529.

a. Ordoliberalism or How They Learned To Love Their Bomb

"The spectre of ordoliberalism is haunting Europe."[123]
- Josef Hien and Christian Joerges, 2017

For European monetary integration to become a success, it was, quite obviously, critical to have West Germany, the strongest European economy, on board. However, while West Germany and its deutschmark, which had become the 'European dollar' over the years,[124] were clearly indispensable in the formation of a European monetary union, the experience of the Snake in the 1970s had shown in no uncertain terms that monetary cooperation could not work with an unrestrained West Germany.[125] Subsequently, Chancellor Schmidt and President Giscard tried to address the Snake's most fundamental deficiencies in the EMS and were successful insofar as the West German dominance within the system was more broadly accepted among the other members. Still, President Mitterrand, who disliked the fact that West Germany was "able to control the macroeconomic performance of her partners without allowing them an influence in policy formulation,"[126] saw it as one of his main goals to dismantle the German "economic nuclear bomb."[127] He was lucky insofar as both Chancellor Kohl and Vice-Chancellor Genscher were "Europeans at heart"[128] and wanted to create a European Union that would be "absolutely irrevocable."[129]

However, there was still a numerous and powerful opposition against any rash steps toward monetary integration that was headed by the Bundesbank and the Ministries of Finance and Economics, who represented the ordoliberal school of economic thought. German ordoliberalism "accepted the original liberal belief in a competitive market system, but thought that the gaps in classical thought needed to be filled not by the state budget, but by a constitutional framework."[130] Thus, for ordoliberals, as the name already posits, clear rules that create order are essential. Furthermore, having been molded by the experience of the devastating effects of hyperinflation in the 1920s, the "postwar ordo-liberal economic tradition […] stressed

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[123] Hien, Josef and Christian Joerges. 2017. "Introduction." In *Ordoliberalism, Law and the Rule of Economics,* edited by Josef Hien and Christian Joerges, 1-10. Portland: Hart Publishing, 1.
[124] Eichengreen, *Globalizing Capital,* 157.
[125] For more information, see Appendix e), Report 3.
[126] Cole, *Franco-German Relations,* 93.
[127] Schwarz, *Helmut Kohl*, 431.
[128] Ibid, 434.
[129] Ibid, 435.
[130] Skidelsky, *Money and Government,* 140.

price stability as the key economic public good that the state must guarantee."[131] Consequently, the Bundesbank became an independent central bank that got the mandate to "safeguard the currency,"[132] which basically meant to keep inflation down.

Thus, based on its mandate to protect the German "nuclear bomb,"[133] the Bundesbank, which represented the ordoliberal "monetary pillar of the new German constitution,"[134] developed an 'economist' view on European monetary integration. This position basically stated that before a monetary union and a common currency could be introduced, the other potential member states had to converge to the West German macroeconomic standards, particularly regarding inflation, thereby ensuring that the new currency would not be less stable than the deutschmark.[135] Moreover, according to the ordoliberal 'coronation theory', the monetary union would be the final step in the process of creating a political union and, thus, crown the unification of Europe.[136] Throughout the 1970s, this view, which stood in sharp contrast to the 'monetarist' approach by France and other weak-currency countries, was widely shared among decision-makers in West Germany, which is why the West German government with Chancellor Brandt at the helm "was not willing to compromise its own domestic macroeconomic standard to facilitate closer monetary cooperation. Instead, German policymakers made clear that Germany's own priorities would have to set the standard for the other members in the system."[137]

However, with Helmut Kohl in the Chancellery, the united ordoliberal front in West Germany appeared to witness some cracks. As the new Chancellor saw himself in the tradition of Konrad Adenauer, he "stood intellectually for the primacy of foreign and security policy considerations in designing strategy for the EMU."[138] Thus, Kohl saw *Europapolitik* from a political perspective rather than an entirely economic one. He perceived the EMU as a "historic and political issue of making European unification irreversible and securing a viable long-term framework for Germany's peace and prosperity."[139] Consequently, he recognized that "we come considerably closer to reaching our goal of Europe's political unification, if, in addition, the

[131] Dyson and Featherstone, *The Road to Maastricht,* 20.
[132] § 3 Gesetz über die Deutsche Bundesbank (Bundesbankgesetz) v. 26.7.1957, BGBl. I 1957, p. 745.
[133] Schwarz, *Helmut Kohl*, 431.
[134] Skidelsky, *Money and Government,* 140.
[135] Kaelberer, *Money and Power in Europe*, 112ff.
[136] Cole, *Franco-German Relations,* 94.
[137] Kaelberer, *Money and Power in Europe*, 117.
[138] Dyson and Featherstone, *The Road to Maastricht,* 260.
[139] Ibid, 261.

European Economic and Monetary Union takes shape."[140] In this statement, which he had made in a speech before the European Parliament in March 1988, Kohl made it clear that he saw the political union and the monetary union as parallel developments, thereby unambiguously rejecting the 'coronation theory' and shocking the ordoliberal coalition, which at that point "gravitated around the Bundesbank, the Economics and Finance Ministries, and academic economists."[141]

However, the "domestic reach and grip of the ordoliberal coalition on EMU was impressive."[142] One of its most important members was Hans Tietmeyer, who had already experienced the failed monetary experiments during the 1970s before eventually becoming State Secretary in the Ministry of Finance in 1982. In fact, Tietmeyer, who would go on to become the President of the Bundesbank in 1993, was "a 'founding father' of the ordo-liberal coalition on EMU, [and] the high priest of 'coronation' theory. He embodied his own historical legitimacy."[143] Other influential members of the ordoliberal coalition were Gerhard Stoltenberg, the Minister of Finance,[144] as well as Karl Otto Pöhl and Helmut Schlesinger, the President and Vice-President of the Bundesbank, respectively. Apart from being the dominant ideology in the Ministries of Finance and Economics as well as in the Bundesbank, the ordoliberal establishment had the support of employer and banking federations as well as of certain quality newspapers, like the *Frankfurter Allgemeine Zeitung* and *Die Welt,* who "could be counted on to back the Bundesbank in any contest with the federal government about stability policy and EMU."[145]

Consequently, when Karl Otto Pöhl became a member of the Delors Committee, the Eurosceptic Margaret Thatcher was sure to have an ally in the expert commission.[146] However, Pöhl did not share the strict ordoliberal beliefs of his deputy Schlesinger, but preferred to "manoeuvre between contending ideas on EMU."[147] Thus, when the Delors Report was published on April 17, 1989, the 'Iron Lady' had to recognize that her "hopes of stopping far-reaching decision based on the Delors Report with open or secret assistance from the German camp were built on sand."[148]

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[140] Schwarz, *Helmut Kohl*, 435.
[141] Dyson and Featherstone, *The Road to Maastricht,* 262.
[142] Ibid, 278.
[143] Ibid, 263.
[144] Schwarz, *Helmut Kohl*, 435.
[145] Dyson and Featherstone, *The Road to Maastricht,* 279.
[146] Schwarz, *Helmut Kohl*, 436.
[147] Dyson and Featherstone, *The Road to Maastricht,* 264.
[148] Schwarz, *Helmut Kohl*, 519.

b. The Franc Fort and Fears of Frankfurt

"France was viewed with no particular indulgence by the Bundesbank."[149]
- Alistair Cole, 2001

For France, the EMU had become a primary objective in the second half of the 1980s. They had grown dissatisfied with the "asymmetrical functioning of the EMS,"[150] particularly since the *franc fort* policies had led to a significant convergence of the French economy to the German one. Thus, France's main goal was pointedly articulated by Finance Minister Balladur, who stated that Germany had to be prevented from "determining the objectives of economic and monetary policy for the group as a whole."[151] However, the French knew that, in order to successfully create the EMU, they had to disperse the fears of the ordoliberal coalition and, thus, give them reason to join the pro-EMU camp around Chancellor Kohl and Vice-Chancellor Genscher.

The main tool of convincing the ordoliberals that France was a genuine and trustworthy partner in a monetary union were the *franc fort* policies, whose "measures were designed to promote international competitiveness in a socialist framework of solidarity focused on the firm."[152] One of their main tenets was the rejection of competitive devaluations, which were, in accordance with German ordoliberalism, seen as artificial boosters of inflation. The *franc fort* policies were first pursued by Jacques Delors, who was well aware that "convergence towards the German model was a *sine qua non* for EMU."[153] After Delors had become President of the European Commission, Pierre Bérégovoy continued the goal of a stable franc as he knew that the only way to "overcome German mistrust […] and reassure their German counterparts about the French commitment to monetary stability [was] by securing a *franc stable*."[154] Indeed, the *franc fort* policies were successful in stabilizing the franc and converging the French economy to the German one: by 1986, the French inflation rate had sunk to a meager 2.5 percent from a high of 13.6 percent in 1980.[155] In addition, in the same year, France had overtaken West Germany in terms of GDP growth and continued to boast higher growth rates than West Germany for four

[149] Cole, *Franco-German Relations,* 85.
[150] Kaelberer, *Money and Power in Europe*, 169.
[151] Ibid.
[152] Dyson and Featherstone, *The Road to Maastricht,* 149.
[153] Ibid.
[154] Ibid, 153.
[155] See Appendix f), Chart 1.

consecutive years.[156] By 1989, the French self-confidence about its economic achievements had grown to such a high level that Bérégovoy decided to pronounce "as a signal of French intentions and a symbol of French pedigree for EMU that if the D-Mark was revalued, the French franc would accompany it."[157]

Even before Bérégovoy's statement, the Delors Committee had published its report on April 17, 1989. It proposed the creation of an economic and monetary union via "a limited number of clearly defined stages."[158] However, as "the conditions for moving from stage to stage cannot be defined precisely in advance,"[159] the committee only recommended a starting date for the first stage, but not for the two later ones. The first stage, which would mainly be concerned with preparatory work, should start on July 1, 1990 at the latest, thereby coinciding with the removal of all remaining obstacles on capital mobility.[160] In stage two, which "could begin only when the new Treaty had come into force,"[161] the European System of Central Banks (ESCB) would be set up and "gradually take over operational functions."[162] Finally, in the third stage the exchange rates of the participating countries would be irrevocably fixed and the ESCB would get full monetary authority. Moreover, "the change-over to the single currency would take place during this stage."[163]

The centralization of monetary authority in the ESCB was the most striking feature of the Delors Report and stood in sharp contrast to the Werner Report, which "had described a system of national central banks joined together in a monetary federation."[164] However, in line with the concession made to Thatcher at the Hanover summit,[165] the term 'European Central Bank' was not mentioned in the report. In addition to the ESCB, the Delors Report contained some more crucial points. Firstly, while not proposing the centralization of fiscal authority at the Community level, it still advocated for the "parallel advancement in economic and monetary integration [...] in order to avoid imbalances which could cause economic strains and loss of

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[156] See Appendix f), Chart 3.
[157] Dyson and Featherstone, *The Road to Maastricht,* 192.
[158] Committee for the Study of Economic and Monetary Union. 1989. "Report on economic and monetary union in the European Community." Chaired by Jacques Delors. University of Pittsburgh, February 25, 2004. Accessed March 24, 2019. http://aei.pitt.edu/1007/1/monetary_delors.pdf, 27.
[159] Ibid, 28.
[160] Schwarz, *Helmut Kohl*, 517.
[161] Committee for the Study of Economic and Monetary Union, "Report on economic and monetary union in the European Community", 33.
[162] Ibid.
[163] Ibid, 36.
[164] Eichengreen, *Globalizing Capital,* 167.
[165] Schwarz, *Helmut Kohl*, 436.

political support."[166] Secondly, although the Report stressed that the participation of all EC members would be desirable, the committee agreed that there should be "a degree of flexibility concerning the date and conditions on which some member countries would join certain arrangements."[167] Finally, the Bundesbank succeeded in having many of its major ordoliberal tenets included in the report: the need for "greater convergence of economic performance,"[168] an independent ESCB[169] that would be "committed to the objective of price stability,"[170] and the avoidance of a fixed timetable. The last point was particularly important to Pöhl, who "was telling Tietmeyer that the Delors Report was not to be taken too seriously. In particular, there would be no fixed dates attached to stages 2 and 3, ensuring that the process would take a very long time."[171] In addition, Pöhl projected that while Kohl would endorse the report at the up-coming Madrid summit, the Chancellor would subsequently "be content to bury it in the face of the horrendous political difficulties that it created."[172] Consequently, Pöhl agreed to the report's final version.[173]

However, not every German opponent of the EMU was happy with the report. Stoltenberg and Tietmeyer complained that the political union, which was, according to 'coronation theory', "crucial to making EMU viable,"[174] was not dealt with in sufficient detail. Moreover, in their view, the concessions that Pöhl won were too weak as they were satisfied neither by the provisions on the parallel development of economic and monetary union nor by the rules concerning fiscal discipline. As a result, they saw the Delors Report as "cognitively flawed."[175] However, Stoltenberg was not working on the EMU for much longer since a major government reshuffle made him Minister of Defense, while the pro-European Theo Waigel, the leader of the CSU, took over as Finance Minister only days after the Delors Report had been published.[176] Consequently, Waigel's appointment weakened the ordoliberal establishment.

However, Waigel immediately raised fears in France by abolishing the withholding tax that had just been introduced on January 1, 1989. Thus, "there was a

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166 Committee for the Study of Economic and Monetary Union, "Report on economic and monetary union in the European Community", 28.
167 Ibid.
168 Ibid, 11.
169 Ibid, 22.
170 Ibid, 21.
171 Dyson and Featherstone, *The Road to Maastricht,* 350.
172 Ibid.
173 Schwarz, *Helmut Kohl*, 517.
174 Ibid.
175 Ibid.
176 Ibid*,* 350f.

sense in the [French] Finance Ministry, and indeed within the Elysée, that the Germans had reneged on a commitment entered into at Evian."[177] Waigel's decision, though, was solely based on domestic reasons since the withholding tax had "negative effects on the German capital market as savings fled Germany."[178] Moreover, at Evian, Mitterrand had refrained from making tax harmonization a precondition for EMU.[179] Still, going into the Madrid summit in late June, the mood within the French camp was rather frosty, which was also due to a speech that Pöhl had held a few weeks prior to the summit, in which he had insisted that "'it would be a serious mistake' to begin intergovernmental negotiations on treaty change at an early stage."[180] This was a dramatic statement as the creation of the EMU "would call for new arrangements which could only be established on the basis of a *Treaty change*."[181]

Thus, as France feared that Germany might not be serious about the creation of the EMU after all, but rather aimed "to spin out the process, extracting French concessions on market liberalization and economic reform without delivering their end of the deal,"[182] France's main objective was to set a speedy date for the start of the intergovernmental conference (IGC) on the EMU. However, at the summit, the French fears seemed to have been justified as Kohl "resisted all attempts by Mitterrand […] to press for the immediate calling of an IGC,"[183] thereby further strengthening French suspicions that West Germany could pull out of the EMU. The French, however, were not the only ones who were mistrustful about German ambitions. Indeed, Margaret Thatcher, who had, surprisingly, in principle agreed to the United Kingdom joining the EMS, stated that "obsessive preoccupation with a European Germany bears the risk of generating a German Europe."[184] As we will see, Thatcher's statement proved to be prophetic as the French idea of binding Germany irrevocably into the European framework by creating a common European currency increasingly backfired. In the end, it did not restrain Germany but, by contrast, bound the other member states that joined the EMU "Ulysses-like to the euro-mast"[185] designed by the Germans.

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177 Dyson and Featherstone, *The Road to Maastricht*, 187.
178 Ibid, 352.
179 Caton, *France and the Politics of European Economic and Monetary Union*, 29.
180 Ibid, 36.
181 Committee for the Study of Economic and Monetary Union, "Report on economic and monetary union in the European Community", 14.
182 Caton, *France and the Politics of European Economic and Monetary Union*, 36.
183 Ibid.
184 Schwarz, *Helmut Kohl*, 517.
185 Judt, *Postwar*, 715.

II. The End of History or a New Beginning?

"Everything seemed to suggest that only liberal capitalist democracy allowed people to thrive in an increasingly globalized world [...]. Today, it's hard to imagine Fukuyama being more wrong. History isn't over and neither liberalism nor democracy is ascendant."[186]

- Timothy Stanley and Alexander Lee, 2014

Over the summer of 1989, Francis Fukuyama published his famous essay 'The End of History?', in which he proposed that history, in the Marxist-Hegelian understanding of the term, might have reached its final stage as "liberal democracy may constitute the 'end point of mankind's ideological evolution' and the 'final form of human government'."[187] Remarkably, with the fall of the Berlin Wall only months after the essay's publication and the subsequent collapse of the Communist bloc, he appeared as a prophet that foresaw the end of the East-West antagonism that had haunted Europe since the end of World War II. However, there were still exceptions to the proposed universal thrive toward liberal democracy, most notably China, that, together with the rise of illiberal democracies in the second half of the 2010s, led Fukuyama to concede that his views on that subject have indeed changed over time.[188]

Still, it remains interesting to see whether Fukuyama's assessment had merit at the time it was written. Over the course of the 1980s, the Communist bloc had suffered from severe economic problems.[189] Indeed, as Kohl pointed out in June 1989 "the situation in the GDR is becoming increasingly difficult."[190] Nevertheless, "to outside observers, the German Democratic Republic appeared among the least vulnerable of the Communist regimes, and not only because it was universally assumed that no Soviet leader would ever allow it to fall. [...] The East German economy was widely believed to be in better shape than that of its socialist neighbors."[191] However, with the East German people protesting against massive electoral fraud in May 1989 and Hungary loosening its iron grip on movement and expression, the citizens of the GDR were emboldened to take action. Many of them travelled to Hungary, and more than

186 Stanley, Timothy and Alexander Lee. 2014. "It's Still Not the End of History." *The Atlantic,* September 1, 2014. Accessed April 8, 2019. https://www.theatlantic.com/politics/archive/2014/09/its-still-not-the-end-of-history-francis-fukuyama/379394/.
187 Fukuyama, Francis. 2006. *The End of History and the Last Man.* New York: Free Press, xi.
188 Fukuyama, Francis. 2018. *Identity: The Demand for Dignity and the Politics of Resentment.* New York: Farrar, Straus and Giroux, xii.
189 Judt, *Postwar,* 595.
190 Kohl, *Erinnerungen: 1982-1990*, 887.
191 Judt, *Postwar,* 610f.

20,000 could cross the Austro-Hungarian border after the Hungarian Foreign Minister Gyula Horn had decided to open it for East German refugees. Subsequently, the pressure on the GDR's regime increasingly grew as demonstrations throughout the country reached turnouts of several hundred thousand people. Even the ousting of the much-maligned Erich Honecker did not help the Socialist Unity Party, which "truly panicked"[192] by the beginning of November, as the new leadership's rather desperate decision to relax the travel laws led to fall of the Berlin Wall on November 9, 1989.[193]

Although Winston Churchill's metaphor of the "iron curtain [that] has descended across the Continent"[194] was a very powerful one, the Berlin Wall was the place where the division of Europe "was set in concrete"[195] and could be seen and felt most harshly. It divided not only a continent, but also a country and, indeed, a city. Families had been torn apart by an ideological conflict or, as Fukuyama would put it, history, and more than 130 people had been killed at this wall in their attempt to overcome history.[196] On a cold night in early November 1989, the Berlin Wall was finally torn down by the people it had held captive for more than 28 years, leading people to think that the wind of change was indeed blowing strongly. Thus, Fukuyama's thesis of the end of history fell on fertile ground. However, the proclamation of the end of "mankind's ideological evolution"[197] was short-sighted. In my view, it stands in the tradition of the American Patent Commissioner Charles Duell, who had supposedly said in the late 19th century that "everything that can be invented has been invented."[198] It shows a lack of imagination of what the next ideological conflict, and, to put it in Marxian terms, the next cycle of history, might be. With Communism on its knees, it was rather easy to declare the victory of liberal democracy, especially since it was a message that resonated with both the people in the East and the West. However, with this chapter of history ending, the beginning of the next one was just around the corner. The fall of the Berlin Wall promptly opened

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192 Judt, *Postwar,* 614.
193 Ibid, 610ff.
194 The Sinews of Peace (‚Iron Curtain Speech'). No date. *International Churchill Society.* Accessed March 28, 2019. https://winstonchurchill.org/resources/speeches/1946-1963-elder-statesman/the-sinews-of-peace/.
195 Garton Ash, *In Europe's Name*, 1.
196 327 Todesfälle an innerdeutscher Grenze. 2017. *Die Zeit,* June 8, 2018. Accessed March 28, 2019. https://www.zeit.de/wissen/geschichte/2017-06/ddr-mauertote-studie-deutschland.
197 Fukuyama, *The End of History and the Last Man*, xi.
198 Katz, David J.. 2015. "Everything That Can Be Invented Has Been Invented." *The Medium,* July 4, 2015. Accessed April 7, 2019. https://medium.com/swlh/everything-that-can-be-invented-has-been-invented-49c4376f548b.

the German question[199] and pressured West Germany, which was faced with a massive influx of immigrants from the GDR, to act both quickly and decisively.[200] As building another barrier at the place of the former Wall was not an option, Kohl decided that an economic, monetary and social union with the GDR was the right way forward.[201]

This decision had massive implications not just for Germany, for which it proved as a catalyst for the political unification of the two Germanies,[202] but also for Europe. As Zatlin put it, "the biggest irony of German monetary union is that harnessing monetary policy to national goals ultimately served anti-nationalist ends,"[203] since it accelerated the development toward European monetary integration. However, it also paved the way to the German design of the EMU enshrined in the Maastricht Treaty as the reunification of the two Germanies caused "an urgent need to secure a European deal as quickly as possible"[204] among the French leadership, thereby handing Germany all the leverage in the Maastricht negotiations. Thus, Europe's neoliberal manifesto has at least some of its roots in the unification of Germany. In the medium term, however, the absorption of the GDR in the Federal Republic also threatened to demolish the EMU as the disinflationary policies that the Bundesbank had to adopt in order to ensure price stability within reunified Germany severely destabilized the European Exchange Rate Mechanism (ERM).[205] Thus, while the German monetary union initially accelerated the project of European monetary integration and ensured that it came on German terms, it threatened to derail the whole project in the medium term, thereby reflecting the conflict that was born after history had supposedly ended: the conflict of nationalism versus supranationalism and globalization, which has expanded to the likely even more fundamental antagonism between liberalism and illiberalism today. Consequently, history did not end with the fall of the Berlin Wall. Rather, it marked the beginning of a new antagonism.

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[199] Kohl, *Erinnerungen: 1982-1990*, 988.
[200] Sarrazin, Thilo. 1994. "Die Entstehung und Umsetzung des Konzepts der deutschen Wirtschafts- und Währungsunion." In *Tage, die Deutschland und die Welt veränderten: Vom Mauerfall zum Kaukasus. Die Deutsche Währungsunion,* edited by Theo Waigel and Manfred Schell, 160-225. München: edition ferenczy bei Bruckmann, 165.
[201] Grosser, Dieter. 1998. *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion: Politische Zwänge im Konflikt mit ökonomischen Regeln.* Stuttgart: Deutsche Verlags-Anstalt, 174ff.
[202] Waigel, Theo. 1994. "Zu diesem Buch." In *Tage, die Deutschland und die Welt veränderten: Vom Mauerfall zum Kaukasus. Die Deutsche Währungsunion,* edited by Theo Waigel and Manfred Schell, 7-11. München: edition ferenczy bei Bruckmann, 7.
[203] Zatlin, Jonathan R.. 2011. "Rethinking Reunification: German Monetary Union and European Integration." In *German Unification: Expectations and Outcomes,* edited by Peter C. Caldwell and Robert R. Shandley, 61-98. New York: Palgrave Macmillan, 84.
[204] Caton, *France and the Politics of European Economic and Monetary Union*, 49.
[205] Zatlin, "Rethinking Reunification", 80.

A. No Country for Qualified Men

"That comes into effect, according to my information, immediately, without delay."[206]

- Günter Schabwoski, 1989

At the time the Berlin Wall came down, both Germanies appeared to be economic leaders within their respective blocs. Indeed, not only did the Federal Republic's economy "shine in new splendor,"[207] but also the "East German economy was widely believed to be in better shape than that of its socialist neighbors."[208] However, both popular beliefs were not based on facts. Although West Germany had boasted solid growth rates[209] and low inflation[210] throughout the second half of the 1980s, it still had to deal with more than two million unemployed people despite the strongest job growth since the 1950s. This apparent contradiction can, at least partly, be explained by the rise in both the female labor force participation rate and by migration to West Germany.[211] In addition, the Federal Republic was experiencing the transition from an industrial to a post-industrial society, but was ill-equipped to deal with the ensuing structural change. By the 1980s, the political system in Germany had become very rigid and was most accurately described "with the formula 'stability and immobility'"[212] by the British political scientist Peter Pulzer. Consequently, due to its resistance to change, the decline of the industrial sector had profound implications on the job market as "the low-qualified were in many instances chanceless and descended into long-term unemployment"[213] since their skillsets did not match the requirements that employers were looking for in the rapidly expanding service sector. As a result, inequality in West Germany was on the rise and the Federal Government had to find ways to deal with the new economic and social realities. However, as Kohl admitted in his memoirs, with the unification of the two Germanies having been the top priority, "the necessary reforms at that time had been missed."[214]

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[206] Günter Schabowksi's Press Conference in the GDR International Press Center 6:53 – 7:01 p.m.. 1989. *Wilson Center*. Accessed April 10, 2019. https://digitalarchive.wilsoncenter.org/document/113049.
[207] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 69.
[208] Judt, *Postwar,* 610.
[209] See Appendix f), Chart 3.
[210] See Appendix f), Charts 1 and 2.
[211] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 75.
[212] Ibid, 91.
[213] Ibid, 78.
[214] Kohl, Helmut. 2007. *Erinnerungen: 1990-1994.* München: Droemer, 126.

On the other side of the Wall, the East German economy was in a severe crisis as "economic collapse was looming since 1988."[215] Erich Honecker's expansive economic policies had led to a massive increase in the GDR's external debts, which is why in 1981 western banks had downgraded East Germany's creditworthiness. In addition, since the borrowed money was mainly spent on consumption, there was not sufficient investment in the economy, infrastructure and protection of the environment. Consequently, the East German government had "ruined the production factors capital and land, and, thus, the basis of present and future production."[216] Still, according to Zatlin, "the GDR was in no danger of defaulting on its debts."[217] Indeed, in 1989, the GDR had outstanding external debts of 20.6 billion dollars, resulting in an external-debt-ratio of 12.9 percent,[218] which was way below the 40 percent which the IMF suggests as a "useful benchmark."[219] However, the GDR had been compromised in its ability to pay back its external debts "by its ongoing loss of export markets during the chaos of the revolution."[220] Thus, the main problem of the GDR was not, as is often suggested, its level of debt, but rather the loss of export markets in both the East and the West, which affected the country's ability to self-finance its debts, and the simultaneous lack of access to debt markets since a "moratorium and new Western loans would have been tied to terms that the Honecker-regime could not have accepted without putting itself at risk".[221] Moreover, support from the struggling Soviet Union could not be expected anymore.[222] Consequently, when the Berlin Wall fell, East Germany stood at the brink of bankruptcy, while West Germany was going through a painful structural change that had not yet been addressed with sufficient reforms.

However, the GDR did not only experience severe economic problems, but was also in the midst of the "most dangerous political crisis since its foundation."[223] Already before the concrete wall dividing Berlin was turned into dust, many GDR citizens had fled to the West via Hungary and the Federal Republic's embassies in Prague and Warsaw. Moreover, regular demonstrations with more than 100,000

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[215] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 11.
[216] Ibid, 44.
[217] Zatlin, "Rethinking Reunification", 65.
[218] Central Intelligence Agency. 1990. "The 1990 CIA World Factbook." *Project Gutenberg,* February 21, 2010. Accessed April 9, 2019. http://www.gutenberg.org/cache/epub/14/pg14-images.html.
[219] International Monetary Fund. 2002. "Assessing Sustainability." *IMF,* May 28, 2002. Accessed April 9, 2019. https://www.imf.org/external/np/pdr/sus/2002/eng/052802.pdf, 25.
[220] Zatlin, "Rethinking Reunification", 64f.
[221] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 51.
[222] Ibid, 35.
[223] Ibid, 37.

attendants put pressure on the regime and effectuated the ousting of Erich Honecker on October 18, 1989.[224] In the subsequent chaos, the new leadership under Egon Krenz "proposed yet another travel law to head off the stampede"[225] on November 9, 1989. The new provisions were announced at a press conference by Günter Schabowksi, who stated that they "authorized foreign travel without advance notice and permitted transit through the border crossings into West Germany."[226] Within a few hours the Berlin Wall lay in tatters. As GDR citizens could subsequently travel freely to the Federal Republic, many of them saw, for the first time, the enormous difference in the standard of living between the two countries.[227] Consequently, a massive number of people left East Germany for good. In November 1989 alone, about 133,000 people had turned their backs on the GDR, with another 43,000 moving to West Germany in December.[228] Thus, the fall of the Berlin Wall had quickly turned into a severe migration crisis that affected both the GDR and the Federal Republic. While East Germany lost its most qualified people[229] and was, to put it dramatically, bleeding out, the West German economy, already faced with a worryingly high unemployment rate, could not absorb such a high number of immigrants.

The stakes for the Federal Government were high. The fall of the Berlin Wall had opened a historic window of opportunity to bring about the unification of Germany. However, the path toward this goal was treacherous as there was both domestic and international opposition to it. Domestically, the opposition was led by Oskar Lafontaine, the designated *Kanzlerkandidat* of the SPD, whose main priority was to halt the massive influx of East German migrants into the Federal Republic.[230] On the international level, one should keep in mind that West Germany was still not a fully sovereign country in 1989. Thus, unification could not happen without the consent of the victorious powers of the Second World War, i.e. the United States, the Soviet Union, the United Kingdom and France.[231] Consequently, Chancellor Kohl was facing a dual challenge: in order to effectuate unification, he, on the one hand, needed to get the support of the four powers, while, on the other hand, he could not risk alienating the West German voters.

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224 Judt, *Postwar,* 610ff.
225 Ibid, 614.
226 Ibid.
227 Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 95f.
228 Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 165.
229 Ibid, 171.
230 Schwarz, *Helmut Kohl,* 547.
231 Garton Ash, *In Europe's Name,* 347f.

a. An Offer They Could Not Avoid

"The impeding collapse of state authority and the imminent crisis of the economy in the GDR have persuaded the Federal Government to give the people in the GDR a considerable signal of hope."[232]

- Theo Waigel, 1990

Chancellor Kohl was initially hesitant to act. However, the pressure to act grew with every passing day, especially after the GDR's new Prime Minister Hans Modrow had proposed the creation of an association between East and West Germany on November 17. Thus, Kohl's close advisor Helmut Teltschik and his staff urged the Chancellor to "resume opinion leadership on the matter of reunification."[233] Unrelated to Teltschik's attempts, Kohl's former Minister of Defense Rupert Scholz told the Chancellor in a meeting that "the Federal Republic of Germany 'has the historic duty' to proclaim a program for unification,"[234] leaving Kohl "flabbergasted."[235] Still, Scholz succeeded in convincing Kohl of a gradual program toward unification and persuaded the Chancellor not to inform Genscher about his plans by telling him that "if you do that, *Herr Bundeskanzler*, it will be in the press within the hour, and then it blows out, goes bust."[236] Over the course of a few days, Teltschik and his staff, together with the Chancellor, developed the famous 'Ten Point Plan', which Kohl presented to the Bundestag on November 28. This plan proposed a gradual process to reach unification and involved three main stages: while, firstly, an association consisting of an "increasingly tighter net of agreements"[237] would be created and, subsequently, followed by a confederation once the GDR had a democratically legitimate government, the whole process would be crowned by a federation, by which the Chancellor meant "the retrieval of the national unity of Germany."[238]

However, although "the historical significance of the 'Ten Point Plan' can hardly be overestimated,"[239] Kohl's gradual scheme had to be recognized as unattainable once the extent of the migration crisis became apparent, especially since

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[232] Schell, Manfred. 1994. "Zusammenbruch mit Perspektive." In *Tage, die Deutschland und die Welt veränderten: Vom Mauerfall zum Kaukasus. Die Deutsche Währungsunion,* edited by Theo Waigel and Manfred Schell, 12-25. München: edition ferenczy bei Bruckmann, 19.
[233] Schwarz, *Helmut Kohl,* 532.
[234] Ibid, 533.
[235] Ibid.
[236] Ibid.
[237] Kohl, *Erinnerungen: 1982-1990,* 992.
[238] Ibid, 995.
[239] Schwarz, *Helmut Kohl,* 534.

the plan had not even contained a timeline for when the individual steps and, above all, unification should be achieved.[240] Luckily for the Chancellor, the "dramatic transformations in the GDR have, without a doubt, caught the West German Social Democrats on the wrong foot,"[241] as there were massive disagreements between the party's leaders as to how to deal with the situation in East Germany. While, on the one hand, Oskar Lafontaine, vice-chairman of the party and Prime Minister of the Saarland, wanted to contain the waves of migrants pouring into the Federal Republic, the majority of the party agreed with its chairman Hans-Jochen Vogel that the SPD, which had been following a progressive *Ostpolitik* since the chancellorship of Willy Brandt, could not appear to fear unification. Thus, this conflict, which was fought out publicly and culminated in Vogel telling Lafontaine that "they tear down walls, and you try to rebuild them,"[242] gave the Chancellor, at least domestically, a lifeline.

While the SPD was tied up in its internal battles and Kohl's 'Ten Point Plan' became increasingly out-of-touch with reality, the West German Finance Ministry under Theo Waigel took a leading role. On December 21, Thilo Sarrazin, head of the unit for national currency issues, distributed a paper in which he soberly analyzed the economic and political situation in the GDR. According to him, the government's authority had decreased so severely that the central planning of labor, one of the administration's key economic functions in a planned economy, no longer worked. In the absence of any market-based alternatives, this meant that the East German economy was about to collapse: with people leaving the GDR in massive numbers, the production and subsequent supply of goods were under increasing pressure, which, in turn, could lead to a further loss of trust in the Ost-Mark, the GDR's currency. According to Sarrazin, this "left no realistic prospect of a gradual, orderly and in its consequences for the citizens of the GDR tolerable and time-wise acceptable transition to a market economy."[243] Based on this rather gloomy conclusion, which completely invalidated Kohl's 'Ten Point Plan', Sarrazin proposed two possible solutions: either West Germany could establish administrative barriers at the inner-German border, thereby following Lafontaine's proposal, or, if one wanted to keep the borders open, the reform process in the GDR would have to be accelerated. Thought through

240 Kohl, *Erinnerungen: 1982-1990,* 995.
241 Eisige Atmosphäre. 1989. *Der Spiegel,* December 18, 1989. Accessed April 10, 2019. https://www.spiegel.de/spiegel/print/d-13498010.html.
242 Ibid.
243 Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 173.

stringently, this second option would lead "to the creation of an economic and monetary union at the earliest possible point in time."[244] Consequently, Sarrazin had put the idea of an economic and monetary union on the agenda.

Meanwhile, the character of the still ongoing demonstrations within the GDR had changed. While, before the fall of the Wall, the demonstrators' main slogan had been 'we are the people', they were chanting 'we are one people' by January 1990, thereby demanding the rapid unification of the two Germanies.[245] In addition, the East German people made it clear that they, indeed, had leverage by proclaiming that "if the D-Mark comes, we stay, if not, we go to her."[246] Considering that the number of immigrants pouring into West Germany had once again increased in January, prompting Finance Minister Waigel to deem "the problem of emigration from the GDR 'no longer controllable',"[247] Sarrazin's proposal of an economic and monetary union was gaining momentum. As a matter of fact, Sarrazin had continuously updated his positions and presented yet another paper, which "drafted a model for the currency changeover on a specific due date and outlined the whole package of necessary accompanying reforms,"[248] at a conference of the Finance Ministry's heads of department on January 30. In this paper, he argued that the introduction of an economic and monetary union was "the only viable way to end the constant depletion of the GDR given the open inner-German borders and full civil rights for GDR citizens in the Federal Republic"[249] and proposed an exchange rate of 1:1. Obviously, such a bold step was only feasible if the GDR "irrevocably and comprehensively"[250] became a market economy. Although Sarrazin pointed out the risks of a sudden introduction of the deutschmark in the GDR, which would in all likelihood negatively affect the competitiveness of the East German industry and, subsequently, lead to a potential surge in unemployment, his proposal won the approval of Waigel, who gave his "consent to the preparation of an economic and monetary union with the GDR."[251]

At the time of the conference, Kohl had come under intense domestic political pressure. On January 28, Oskar Lafontaine had been reelected as Prime Minister of the

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[244] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 174.
[245] Judt, *Postwar,* 615.
[246] Schmidt, Thilo. 2014. "'Kommt die D-Mark, bleiben wir ...'." *Deutschlandfunk Kultur,* August 18, 2014. Accessed March 30, 2019. https://www.deutschlandfunkkultur.de/deutsche-rufe-7-8-kommt-die-d-mark-bleiben-wir.1001.de.html?dram:article_id=294872.
[247] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 165.
[248] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 182.
[249] Ibid, 189.
[250] Ibid, 182.
[251] Ibid, 190.

Saarland with an absolute majority, which made him the SPD's designated *Kanzlerkandidat.*[252] Moreover, the first free and democratic elections to the Volkskammer, the East German parliament, had been pushed up to March 18 and the East German Prime Minister Modrow was scheduled to visit the Federal Republic in mid-February, where he was expected to ask Kohl for a multi-billion dollar loan. Consequently, the Chancellor was forced to retake initiative, which is why Johann Ludewig, head of unit within the Federal Chancellery, and his staff urged Kohl to "place himself again 'at the forefront of the movement',"[253] just as he had done in late November when he had announced his by then severely outdated 'Ten Point Plan'. In accordance with the proposals from the Ministry of Finance, Ludewig made three suggestions to the Chancellor: "firstly, 'the prompt introduction of the D-Mark as the common currency in Germany', whereby the Bundesbank would have to take responsibility for price stability in the GDR, secondly, a short-term relief program for the GDR costing in the tens of billions, and, thirdly, the speedy transition to a social market economy in the GDR."[254] However, Kohl was still cautious and it was only after Modrow had "portrayed the situation in the GDR in gloomy colors"[255] at the World Economic Forum in Davos and the Chancellor had gotten the news that his inner-party rival Lothar Späth, who was Prime Minister of Baden-Württemberg at the time, intended to speak out in favor of a monetary union between the two Germanies[256] that Kohl took, as he put it in his memoirs, one of his "most risky and personally most difficult decisions."[257] Still, Kohl knew that he still had to convince Otto Graf Lambsdorff, leader of his coalition partner FDP, that an economic and monetary union with the GDR was the only way forward. Consequently, he met with him and Theo Waigel, leader of the CSU, on February 6, and managed to persuade Lambsdorff, who, in the end, "saw no alternative for political reasons."[258] Subsequently, Kohl informed the CDU/CSU faction of his decision and announced to the public that "the Federal Government is ready to immediately enter into negotiations about a monetary union accompanied by economic reforms with the GDR."[259]

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[252] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 189.
[253] Schwarz, *Helmut Kohl,* 547.
[254] Ibid.
[255] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 180.
[256] Ibid.
[257] Kohl, *Erinnerungen: 1990-1994,* 75.
[258] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion,* 181.
[259] Ibid, 183f.

b. Facing the Storm

"We've beaten the Germans twice. Now they're back!"[260]
- Margaret Thatcher, 1989

Since the foundation of the two German states in 1949, Germany represented the division of Europe like no other country with "the line between East and West running through its middle. Germany was the divided centre of a divided Europe."[261] Consequently, both the Federal Republic and the GDR were of great importance to their respective blocs. As West Germany's *Grundgesetz,* its constitution, called in its preamble on "the entire German people […] to achieve in free self-determination the unity and freedom of Germany,"[262] the Western alliance had supported the goal of reunification ever since. However, although the heads of state and government of the NATO countries had reaffirmed their commitment to a unified Germany at their summit in May 1989, where they stated in their final communiqué that "we seek a state of peace in Europe in which the German people regains its unity through free self-determination,"[263] most of their initial reactions to the prospect of reunification after the fall of the Berlin Wall were rather restrained, if not outright hostile. Actual support came, according to Kohl's memoirs, initially only from the Spanish Prime Minister Felipe González, who reassured the Chancellor that he could "count on his help at any time,"[264] and from US President George H.W. Bush, who told Kohl that the "United States support the Germans' desire for self-determination and unity."[265]

While the positive reaction from Spain was surely appreciated by the Chancellor, Kohl knew that Bush's support for reunification was far more important. While, of course, approval by the other EC members was essential insofar as "arrangements for the European Community's incorporation of the former East Germany"[266] were concerned, the Federal Republic could only move ahead with its plans for reunification with the consent of the four former occupying powers, "the

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[260] Harding, Luke. 2005. "Kohl tells of being battered by Iron Lady." *The Guardian,* November 3, 2005. Accessed January 24, 2019. https://www.theguardian.com/world/2005/nov/03/germany.past.
[261] Garton Ash, *In Europe's Name*, 14.
[262] Präambel, Grundgesetz für die Bundesrepublik Deutschland v. 23.5.1949, BGBl. I 1949, p. 1.
[263] North Atlantic Treaty Organization. 1989. "Declaration of the Heads of State and Government participating in the Meeting of the North Atlantic Council." *North Atlantic Treaty Organization,* August 6, 2010. Accessed March 29, 2019. https://www.nato.int/cps/en/natohq/official_texts_23554.htm?selectedLocale=en.
[264] Kohl, *Erinnerungen: 1982-1990,* 978.
[265] Ibid, 989.
[266] Garton Ash, *In Europe's Name*, 347.

Soviet Union, the United States, France and Britain, with the first being obviously the most important, the second very important, the last two somewhat less so."[267] Thus, despite Washington's backing, which provided Kohl with the ability to "risk his improvised unification policies,"[268] the Chancellor still had a treacherous mountain to climb. While, obviously, support from the Soviet Union could not be expected, neither Great Britain nor France "were in any particular hurry to see Germany reunited"[269] either. In fact, as Kohl put it in his memoirs, "Margaret Thatcher was trying to build a coalition against me and my *Deutschlandpolitik*. She still banked on Gorbachev, who seemed to follow the same hard line."[270] Even Kohl's long-time ally Mitterrand, who later claimed in his memoirs that he "together with George Bush, was the first one to welcome the prospect of unification,"[271] initially tried to "block any move to German unification […] [with] Mitterrand even going so far as to visit the GDR in December 1989 in a show of support for its sovereignty."[272] Consequently, the late autumn of 1989 was marked by "a crisis situation in Franco-German relations."[273]

In early December, Mitterrand met with Gorbachev in Kiev, where they discussed, among other things, the German question. At this meeting, Gorbachev supposedly told the French President to help him prevent reunification, "otherwise I might be replaced by a general,"[274] thereby underlining long-standing fears by both Mitterrand and Thatcher that German unification could bring about the General Secretary's downfall and, subsequently, the takeover of the Soviet Union by more conservative forces. However, while Mitterrand agreed that France did not want reunification, he admitted that "ultimately, it will be unavoidable"[275] as he recognized that, in the end, "only the Soviet Union and the United States had the power to stop it."[276] Still, the subsequent EC summit in Strasbourg was no picnic for the German Chancellor. In fact, in his memoirs, Kohl called it "one of the most fateful meetings of the European Community."[277]

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[267] Garton Ash, *In Europe's Name*, 348.
[268] Schwarz, *Helmut Kohl*, 567.
[269] Judt, *Postwar*, 639.
[270] Kohl, *Erinnerungen: 1982-1990,* 1033.
[271] Mitterrand, *Über Deutschland*, 29.
[272] Judt, *Postwar*, 640.
[273] Dyson and Featherstone, *The Road to Maastricht,* 363.
[274] Schwarz, *Helmut Kohl*, 560.
[275] Ibid, 561.
[276] Garton Ash, *In Europe's Name*, 348.
[277] Kohl, *Erinnerungen: 1982-1990,* 1011.

At Strasbourg, the unification of Germany was, obviously, one of the main topics. The 'Iron Lady' stood at the center of its opposition, which included, among others, the Dutch Prime Minister Ruud Lubbers and the Italian Prime Minister Giulio Andreotti, and advocated strongly against reunification, culminating in her famous outcry "We've beaten the Germans twice. Now they're back!"[278] However, Kohl had already smoothed the atmosphere early on, way before Thatcher's outburst, when he had announced that the Federal Republic agreed to set up an intergovernmental conference (IGC) on the EMU during the Italian EC Presidency, which meant before the end of 1990.[279] In the end, the Chancellor returned to Germany with a massive diplomatic success: while he had not yet promised anything substantial concerning monetary integration apart from committing to treaty negotiations at a fixed date, he had, despite Thatcher's passionate opposition, "secured European public endorsement of German reunification."[280] Still, while many pundits subsequently claimed that a deal exchanging the deutschmark for unification had been made at Strasbourg, "the significance of this summit is arguably overrated"[281] as, on the one hand, no substantial decisions concerning monetary union had been made, thereby giving Germany the option to delay proceedings or opt-out later on, while, on the other hand, the EC members' endorsement of reunification "did not have any significant influence on the future course of events."[282] However, Kohl's relationship with Mitterrand was still shattered as the Chancellor's agreement to an IGC on monetary union was not enough to allay Mitterrand's fears that Germany, in the end, might emerge "as a brake on the European unification process."[283] Only after a clearing private meeting in early January 1990 could the discord between the two leaders be resolved. There, during long walks at the French coast, Kohl managed to convince Mitterrand of the "earnestness of my European commitment and the reliability of a reunified Germany. […] Our mutual bond of trust seemed to have been restored."[284]

It has been suggested that, following Mitterrand's realization that he, in the end, could not stop the unification of Germany, a quid-pro-quo deal had been concluded between him and Kohl, whereby France offered its support for reunification

[278] Harding, "Kohl tells of being battered by Iron Lady".
[279] Schwarz, *Helmut Kohl*, 561.
[280] Caton, *France and the Politics of European Economic and Monetary Union,* 41.
[281] Schwarz, *Helmut Kohl*, 563.
[282] Ibid.
[283] Dyson and Featherstone, *The Road to Maastricht*, 364.
[284] Kohl, *Erinnerungen: 1982-1990,* 1037.

in exchange for the German agreement to "introduce the Euro earlier and at different conditions."[285] However, while it might be possible that such a deal was made, with Judt suggesting that "the Germans agreed readily enough to all the French conditions,"[286] it seems to me that too much attention is given to this potential agreement. If one assumes that such a deal indeed existed and stringently thinks through its implications, one can only conclude that this agreement could not have had any significant impact on either German unification or European monetary integration, but could, in fact, only have been a symbolic gesture as the French neither had the power to stop unification from happening nor did they have any control mechanisms to make sure that Kohl stuck to his promises of introducing a single currency both more quickly and at conditions more favorable to France. Indeed, as we will see in the final part of this thesis, the unification of Germany significantly worsened the French bargaining power in the Maastricht negotiations and led to the EMU becoming a French idea with German design. Ultimately, it did not really matter to the subsequent course of history whether or not Mitterrand and Kohl agreed to this alleged quid-pro-quo deal.

[285] Sauga, Michael, Stefan Simons and Klaus Wiegrefe. 2010. "Der Preis der Einheit." *Der Spiegel,* September 27, 2010. Accessed November 13, 2018. http://www.spiegel.de/spiegel/print/d-73989788.html, 47.
[286] Judt, *Postwar*, 640.

B. The German Monetary Union

"What's economically wrong, cannot be politically right."[287]
- Oskar Lafontaine, 1990

While it was inconsequential for the EMU whether or not Kohl and Mitterrand struck a symbolic quid-pro-quo deal, the Chancellor's offer to form an economic and monetary union with the GDR closed the German back door out of a European monetary union and a single currency as it completely deconstructed the ordoliberal 'coronation theory'. For decades, the Bundesbank, which stood at the center of the traditionally strong ordoliberal coalition,[288] had argued that a monetary union could only be introduced after the potential members had sufficiently converged to the German macroeconomic standards.[289] Thus, a European monetary union would represent the final stage of European integration, thereby crowning the project of European unification.[290] Apart from the economic argument, the Bundesbank had based its view on its legal mandate to "safeguard the currency"[291] by arguing that it could only accept a new European currency that would be "at least as stable as the D-Mark."[292] With Kohl willing to enter into an economic and monetary union with East Germany, "a region of considerable relative underdevelopment,"[293] Germany was no longer able to use these arguments against a monetary union on the European stage.

Unsurprisingly, the Chancellor had not informed Karl Otto Pöhl, the President of the Bundesbank, of his decision. As a matter of fact, Pöhl, who was in East Berlin at a meeting with Horst Kaminsky, the President of the East German *Staatsbank*, when Kohl made his offer to the GDR public,[294] was not even aware of Sarrazin's latest paper, on the basis of which the Finance Ministry and subsequently, the Chancellor decided to move ahead with the economic and monetary union.[295] Confronted with this new reality, and despite his obvious anger for having been passed over in such a major decision, Pöhl quickly recognized that he had to play along. As Kohl's decision

[287] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 316.
[288] Dyson and Featherstone, *The Road to Maastricht*, 262.
[289] Kaelberer, *Money and Power in Europe*, 112ff.
[290] Dyson and Featherstone, *The Road to Maastricht*, 110.
[291] § 3 Gesetz über die Deutsche Bundesbank (Bundesbankgesetz) v. 26.7.1957, BGBl. I 1957, p. 745.
[292] Dyson and Featherstone, *The Road to Maastricht*, 44.
[293] Burda, Michael C.. 1990. "The Consequences of German Economic and Monetary Union." *Center for Economic Policy Research Discussion Papers,* No. 449, August 1990. Accessed January 24, 2019. http://www.cepr.org/active/publications/discussion_papers/dp.php?dpno=449.
[294] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 184.
[295] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 184.

was not based on economics, but was, indeed, a drastic political measure to appease the East German population and stop the massive flow of migrants into the Federal Republic without erecting another barrier at the inner-German border, it did not touch the Bundesbank's mandate. As Waigel correctly pointed out, it "'was a political decision, a decision by the party leaders. It did not have to be presented to the Bundesbank.'"[296] Consequently, Pöhl did not want to waste his political capital by protesting a decision that he could not overturn anyway. Thus, already on the night of the decision, he provided a "'balanced, excellent account' […] with an optimistic tone"[297] in a televised interview. With his upbeat reaction, he ensured that the Bundesbank had an important seat at the table once the negotiations with the GDR started. Indeed, the important role of the Bundesbank in the subsequent months was highlighted by Kohl who stated in his memoirs that "in the end, we took all steps in close contact and full consultation with the Bundesbank and its leadership."[298] In addition, Hans Tietmeyer, who was a member of the Bundesbank's directorate at the time and would go on to become the institution's president in 1993, was picked as the leader of the West German delegation in the actual treaty negotiations.[299]

However, these negotiations could only start after East Germany had elected a new government in free and fair democratic elections, which were scheduled to take place on March 18. Early on, polls showed the Social Democrats with a commanding lead and even in mid-February, only four weeks before the elections and almost two weeks after Kohl had made his offer, the SPD still stood at 48 percent.[300] At that point, however, the party was already divided between the followers of Hans-Jochen Vogel, the party leader who had already called for a prompt monetary union with the GDR before Kohl decided to do so, and those of Oskar Lafontaine, the SPD's designated *Kanzlerkandidat*, who sternly opposed the introduction of the deutschmark in the GDR at such an early point in time.[301] This division within the West German SPD spilled over to its East German counterpart after Lafontaine held a memorable speech at the first party congress of the East German SPD in late February. There, he not only "demanded a more restrained pace toward the unification of the two German states,"[302]

[296] Schell, "Zusammenbruch mit Perspektive", 18.
[297] Ibid.
[298] Kohl, *Erinnerungen: 1982-1990,* 1059.
[299] Schwarz, *Helmut Kohl*, 585.
[300] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 266.
[301] Ibid, 189.
[302] Ibid, 190.

but also stipulated that German unification could only come about within the wider framework of European unification. The justification for his views made things even worse for the SPD as he argued that a monetary union with the GDR was only acceptable for the Federal Republic when it did not endanger price stability, thereby pushing the introduction of the deutschmark into the distant future, and even pointed out that, in his opinion, administrative barriers should be set up at the inner-German border in order to control the migration crisis.[303] Obviously, this speech was not received well in East Germany, with the party winning a meager 21.9 percent of the vote on election day while the 'Alliance for Germany', an electoral alliance led by the CDU, nearly won an absolute majority with 48 percent.[304] This result clearly showed that the East German people believed in the path offered to them by Chancellor Kohl, whose rallies shortly before the election were, according to his memoirs, attended by "approximately one million people,"[305] and rejected Lafontaine's approach of postponing unification to some unknown point in the rather long-term future.

Having been provided a mandate to create the economic and monetary union, the negotiations between West Germany and the GDR could finally start after a coalition government between the 'Alliance for Germany', the SPD and the liberals under Prime Minister Lothar de Maizière of the CDU had been built.[306] However, even before the elections, Kohl had underlined the seriousness of his offer by conducting exploratory expert talks. As Hans Tietmeyer put it, these talks "proved to be very helpful for the subsequent negotiations. They, at the very least, contributed materially to a clarification of ideas and to the exchange of information and data."[307] Consequently, when the negotiations started at the end of April, the delegations did not have to start from scratch. However, although East Germany had gotten a new, democratically elected government, its delegation showed in "all questions regarding monetary, economic and social policy a remarkable degree of consent with the positions that had been taken by the Modrow government during the German-German expert talks."[308] Thus, the delegations had to overcome some fundamental points of contention which concerned, among other things, the exchange rate, the question of

[303] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion,* 190.
[304] Ibid, 266.
[305] Kohl, *Erinnerungen: 1990-1994,* 42.
[306] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 270ff.
[307] Tietmeyer, Hans. 1994. "Erinnerungen an die Vertragsverhandlungen." In *Tage, die Deutschland und die Welt veränderten: Vom Mauerfall zum Kaukasus. Die Deutsche Währungsunion,* edited by Theo Waigel and Manfred Schell, 57-117. München: edition ferenczy bei Bruckmann, 61f.
[308] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 273.

private property, the future role of the Staatsbank, and issues regarding social security and financial transfers.[309] Remarkably, the negotiations still proceeded quickly. As early as May 2, first results were presented to the public. In their 'Twelve Point Declaration', the two governments stated that agreement had been reached on the terms and conditions of the deutschmark's introduction in East Germany. According to this declaration, the currency changeover was to take place on July 2 with all current payments like wages, salaries and pensions being exchanged at a rate of 1:1, while all other claims and debts were to be exchanged at a rate of 2:1 with the exception of an age-dependent personal allowance for which the more favorable rate of 1:1 applied.[310]

By announcing that the economic and monetary union was to start on July 2, the two governments had put significant pressure on their delegations to reach agreement on the remaining points of contention, particularly since the Bundesbank would need a sufficient amount of time to make "the necessary technical and organizational preparations for the currency changeover and the subsequent exercise of the Bundesbank's tasks."[311] Consequently, the delegations had to conduct several marathon meetings where they reached a final agreement. First, the Federal Republic agreed to grant the GDR's tattered industry a broad assistance package to allow structural adjustment and preserve its close economic ties with the Comecon countries, which were the GDR's main export markets.[312] Second, West Germany succeeded in legalizing private property in the GDR, which was one of its preconditions, as it is vital to any market economy. Indeed, the GDR conceded that it "will remove this obstacle to investment for investments from the Federal Republic and from abroad […] in order to trigger the necessary impetus for the modernization of its economy.'"[313] The final issue that needed to be resolved concerned financial transfers from West and East Germany. Here, the breakthrough came only shortly before the scheduled initialing of the treaty with West Germany agreeing to provide the GDR with about 85 billion deutschmark for 1990 and 1991.[314] Thus, the treaty creating the economic, monetary and social union could be signed as scheduled on May 18, 1990, by the two finance ministers Theo Waigel and Walter Romberg.[315]

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[309] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 283f.
[310] Ibid, 288f.
[311] Tietmeyer, "Erinnerungen an die Vertragsverhandlungen", 86.
[312] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 208.
[313] Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 300.
[314] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 211.
[315] Tietmeyer, "Erinnerungen an die Vertragsverhandlungen", 114.

a. Good Bye, Lenin!

"Without this treaty, the reunification on October 3, 1990 would not have been possible."[316]

- Theo Waigel, 1994

The significance of the monetary union for the subsequent political unification of the two Germanies cannot be overestimated. As the whole project of introducing the deutschmark in the GDR has, from its very beginning, been based on political rather than economic reasons, it did already "imply some kind of political union."[317] As Hans Tietmeyer put it, with the monetary union "the unification process became irreversible."[318] However, while unification might "seem inevitable in retrospect, […] to those involved, 'it took some very hard work'."[319] which is particularly true for Chancellor Kohl. As we have already seen, he had to fight very hard to push his project of German reunification forward and had, at the time the monetary union entered into force, already overcome the opposition from both France and the United Kingdom. As President George H.W. Bush had supported the unification of the two Germanies since the very moment the Berlin Wall had turned into dust, the only power that still needed to be convinced was the Soviet Union and its General Secretary Mikhail Gorbachev.

Only a few days after his offer to the GDR, Kohl visited Gorbachev in Moscow. During this meeting, the Soviet leader consented to the creation of the monetary union by stating that "the Germans in the Federal Republic and in the GDR have to know for themselves which way they want to go."[320] Although the Chancellor did not need the approval of the Four Powers to enter into an economic and monetary union with the GDR, which is why he did not inform their leaders before announcing his decision to the public, the endorsement by the Soviet Union was symbolically very important. Although Soviet acceptance to a reunified Germany could still not be foreseen to happen anytime soon, it was certainly a first step in that direction. Consequently, Kohl wrote in his memoirs that "now the world looked completely different. The breakthrough was accomplished!"[321]

[316] Waigel, "Zu diesem Buch", 7.
[317] Caldwell, Peter C.. 2011. "Introduction." In *German Unification: Expectations and Outcomes,* edited by Peter C. Caldwell and Robert R. Shandley, 1-14. New York: Palgrave Macmillan, 4f.
[318] Tietmeyer, "Erinnerungen an die Vertragsverhandlungen", 117.
[319] Caldwell, "Introduction", 1.
[320] Kohl, *Erinnerungen: 1982-1990,* 1066.
[321] Ibid*,* 1067.

One of the main points of contention between Germany and the Soviet Union was the issue of the country's future alliance membership. For Kohl and his Western partners it was of vital importance that a reunified Germany remained within NATO. Following the presentation of his 'Ten Point Plan' in late November 1989, Kohl had reaffirmed his commitment to the Atlantic alliance by pointing out "West Germany's 'unwavering loyalty' to NATO"[322] in a message to the American President. Obviously, the Soviet Union was opposed to seeing its former satellite state and member of the Warsaw Pact join NATO. Thus, in their meeting in mid-February 1990, Gorbachev told Kohl that while he was aware that neutrality might "humiliate the German people […], he nevertheless sees a reunified Germany outside of the military structure with solely national armed forces that suffice for national defense."[323] However, over time Gorbachev gradually realized that he could not prevent a reunified Germany from staying within NATO. While, at first, he proposed that Germany could simultaneously be a member of both NATO and the Warsaw Pact, which was, despite Mitterrand acquiring a taste for it, an unrealistic idea,[324] Gorbachev later on followed the strategy of "extract[ing], quite literally, a price for his concessions."[325]

Shortly after the monetary union between the Federal Republic and the GDR had entered into effect, Kohl, together with, among others, Waigel and Genscher, once again visited Gorbachev. This time, the Chancellor's hand was even better than when he had met the General Secretary five months earlier. As Waigel put it, with the monetary union "the cornerstone for a positive solution of the so long and painfully open German question"[326] had already been laid. This view was shared by the Chancellor, who argued that the monetary union "was the crucial step on the way to the unification of our fatherland, […] [as] the Germans in the Federal Republic and the GDR were now irresolvably joint together again."[327] The West German-Soviet summit started in Moscow, but subsequently took its participants to the Caucasus region. There, in a much more relaxed environment than within the thick Kremlin walls, Gorbachev finally agreed that reunified Germany could remain within NATO, thereby honoring the Helsinki Accords where it was stated that all participating states,

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[322] Ikenberry, G. John. 2011. "German Unification, Western Order, and the Post-Cold War Restructuring of the International System." In *German Unification: Expectations and Outcomes,* edited by Peter C. Caldwell and Robert R. Shandley, 15-39. New York: Palgrave Macmillan, 23.
[323] Kohl, *Erinnerungen: 1982-1990,* 1066f.
[324] Kohl, *Erinnerungen: 1990-1994,* 131.
[325] Judt, *Postwar,* 641.
[326] Waigel, "Zu diesem Buch", 10f.
[327] Kohl, *Erinnerungen: 1990-1994*, 154.

which included the Federal Republic, the GDR and the Soviet Union, have "the right to be or not to be a party to treaties of alliance."[328] For the time being, Gorbachev's condition was that NATO must not be expressly mentioned in the final treaty.[329] His real price, however, only came to be known later on when Kohl, after tough negotiations, had to give in to the Soviet demand of 15 billion deutschmark in order not to risk a Soviet veto to the reunification treaty.[330] Altogether, the Soviet Union had "secured the best terms it could,"[331] with the Federal Republic transferring about 71 billion US dollars to the Soviet Union and, after its disintegration, its legal successor Russia between 1990 and 1994.[332] With the benefit of hindsight, it has to be concluded that this was, in the end, a small price to pay. If Kohl had not agreed to Gorbachev's demands, unification would have been delayed and become much more difficult to bring about, particularly considering that the Soviet Union dissolved in 1991. As Waigel put it, in that case "every single CIS state would have started to negotiate with us. […] Everything would certainly have become much more expensive."[333]

With the Four Powers agreeing to the unification of the two Germanies, Germany was officially reunited on October 3, 1990 under Article 23 of the *Grundgesetz,* which meant that the East German states joined the existing Federal Republic, thereby ensuring that Germany retained its membership status in international organizations and the European Union.[334] Thus, the GDR had vanished from the map less than a year after the Berlin Wall had fallen. The fact that the process of political unification went so fast and, in the end, smoothly, must, at least in part, be accredited to Chancellor Kohl's political brinkmanship, which had manifested itself in his 'Ten Point Plan' and his offer of an economic and monetary union to the GDR. In fact, the significance of the monetary union for the political reunification can hardly be overestimated. As Waigel put it, "without this treaty, the reunification on October 3, 1990 would not have been possible."[335]

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[328] Organization for Security and Co-operation in Europe (OSCE). 1975. "Conference on Security and Co-operation in Europe: Final Act of Helsinki." *OSCE*. Accessed April 15, 2019. https://www.osce.org/helsinki-final-act?download=true, 4.
[329] Kohl, *Erinnerungen: 1990-1994*, 175.
[330] Ibid, 217.
[331] Judt, *Postwar,* 642.
[332] Ibid.
[333] Schell, Manfred. 1994. "War der Weg richtig? Ein Rückblick nach vier Jahren: Interview mit Bundesfinanzminister Theo Waigel." In *Tage, die Deutschland und die Welt veränderten: Vom Mauerfall zum Kaukasus. Die Deutsche Währungsunion,* edited by Theo Waigel and Manfred Schell, 243-247. München: edition ferenczy bei Bruckmann, 243.
[334] Schwarz, *Helmut Kohl,* 596.
[335] Waigel, "Zu diesem Buch", 7.

b. Unintended Consequences

"Surely the greatest irony of German monetary union is that harnessing monetary policy to national goals ultimately served anti-nationalist ends."[336]

- Jonathan Zatlin, 2011

Apart from its implications on the political unification of Germany, the German monetary union also had considerable effects on the project of European monetary integration. While much progress had been made throughout the second half of the 1980s, culminating in the publication of the Delors Report in April 1989, the engine began to stutter at the subsequent Madrid summit, where Kohl refused to commit to a fixed date for the start of an IGC on the EMU. Consequently, the French were left worrying whether the Federal Republic was, in the end, "serious about creating the single currency or whether, instead, the Germans' tactical aim was to spin out the process, extracting French concessions on market liberalization and economic reform without delivering their side of the deal."[337] These fears were only strengthened in the immediate aftermath of the fall of the Berlin Wall. However, at that point in time, the French perspective was blurred since Kohl did not deliberately slow down the process of European integration, as Mitterrand suggested in late November when he let the Chancellor know that, in his view, "Germany seemed to have emerged as a brake on the European unification process."[338] Instead, Kohl was "totally distracted by the mounting pressure of events in Germany and the opening of the German question as a practical issue,"[339] which left him with insufficient resources to focus on Europe at the same time. Still, at the Strasbourg summit in early December, an agreement could be reached that mandated the start of an IGC before the end of 1990. However, the Federal Republic's consent to negotiate a new treaty did not yet mean that the Germans were also going to sign it in the end, leaving France with a rather dubious victory.

The offer of an economic and monetary union to the run-down GDR on February 6, 1990 proved to be, however, a real game changer concerning the future of the EMU. It immediately undermined the traditional ordoliberal 'coronation theory', which the Federal Republic had used in the past to delay any move that would have seen West Germany give up its precious deutschmark by arguing that a monetary union

[336] Zatlin, "Rethinking Reunification", 84.
[337] Caton, *France and the Politics of European Economic and Monetary Union*, 36.
[338] Dyson and Featherstone, *The Road to Maastricht*, 364.
[339] Ibid, 365.

between the EC countries could only be achieved as the final step of European integration after sufficient economic convergence between the member states had been achieved.[340] In addition, West Germany had a harder time using the theoretical framework of Robert Mundell's optimal currency area as an argument against the EMU as well, since the criteria of this model, which represents the main economic theory on whether countries or regions should use the same currency,[341] were at least partly not fulfilled by the inner-German monetary union.[342] Consequently, Kohl's decision "to place the monetary cart before the political and economic horse when it came to German-German unity […] [had] removed the intellectual and diplomatic grounds for German objections to rapid EMU."[343] Thus, probably "the greatest irony of German monetary union is that harnessing monetary policy to national goals ultimately served anti-nationalist ends"[344] as, in the short term, the German monetary union had paved the way toward the Maastricht Treaty.

In the mid- to long-term, however, the German monetary union also had adverse effects on the project of European monetary integration. As expected, the very favorable exchange rate and the massive financial transfers to the states that formerly belonged to the GDR had increased the money supply by "approximately 15 percent without the economic activity to justify it,"[345] which led to a significantly higher inflation rate.[346] Consequently, the Bundesbank had to adopt disinflationary policies such as higher interest rates in order to fulfil its legal mandate to safeguard the currency. However, in doing so, the Bundesbank could not live up to "its international role as anchor of the ERM."[347] As the deutschmark had been the system's anchor currency "since its inception,"[348] the Bundesbank's restrictive monetary policy had to be followed by disinflationary measures by the other members of the ERM in order to uphold the pegs. However, "with European labor markets slow to adjust, disinflation meant unemployment. In turn, rising unemployment meant waning support for the policies of austerity needed to defend the ERM pegs."[349] Consequently, as George

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[340] Kaelberer, *Money and Power in Europe*, 112ff.
[341] Swoboda, Alexandre. 1999. „Robert Mundell and the Theoretical Foundation for the European Monetary Union." *International Monetary Fund,* December 13, 1999. Accessed April 4, 2019. https://www.imf.org/en/News/Articles/2015/09/28/04/54/vc121399.
[342] Zatlin, "Rethinking Reunification", 75.
[343] Ibid, 63.
[344] Ibid, 84.
[345] Ibid, 80.
[346] See Appendix f), Chart 2.
[347] Zatlin, "Rethinking Reunification", 80.
[348] Dyson and Featherstone, *The Road to Maastricht*, 25.
[349] Eichengreen, *Globalizing Capital*, 175.

Soros put it, the Bundesbank's disinflationary policies "'acted as the transmission mechanism for turning the internal disequilibrium of the German economy into a force for the disintegration of the EMS.'"[350] As a result, Italy and the United Kingdom could not keep their exchange rates to the deutschmark within the designated bands and were forced to leave the ERM on September 16, 1992.[351] Subsequently, even France came under attack and was "on the brink of exiting the ERM, a step that would have dealt a fatal blow to EMU."[352] Overall, the effects of the Bundesbank's disinflationary policies in the wake of the deutschmark's introduction in East Germany were, according to Zatlin, "the primary reason that prospects for a common currency had receded by 1993."[353] Thus, while the German monetary union initially accelerated and intensified the Maastricht process,[354] it later on threatened to derail European monetary integration by deconstructing the ERM.

In the GDR itself, the German monetary union effectuated "the most dramatic depression in German history."[355] By August 1990, only a month after the introduction of the deutschmark in the GDR, industrial output had fallen by half compared to the previous year. Consequently, most industrial enterprises were facing insolvency and unemployment skyrocketed. By October 1990, more than half a million East Germans were out of work and about 1.7 million were underemployed. As a result, the GDP of the former East German states lost about one-third of its value within only two years.[356] All of this meant that the Federal Republic had to massively increase its financial transfers to the East in order to prevent its economy from total collapse.[357] However, this still did nothing to boost job growth as the unemployment rate in the Eastern states constantly stood at about 15 percent between 1992 and 1996. [358] Even today, there is a significant macroeconomic divide between the west and east German states. In March 2019, the average unemployment rate in the states that formerly belonged to the GDR stood at 6.7 percent and was, thus, two percentage points higher than in the

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350 Zatlin, "Rethinking Reunification", 80.
351 Eichengreen, *Globalizing Capital,* 170.
352 Dyson and Featherstone, *The Road to Maastricht*, 253.
353 Zatlin, "Rethinking Reunification", 81.
354 Kaelberer, *Money and Power in Europe*, 177.
355 Seibel, Wolfgang. 2011. "The Quest for Freedom and Stability: Political Choices and the Economic Transformation of East Germany 1989-1991." In *German Unification: Expectations and Outcomes,* edited by Peter C. Caldwell and Robert R. Shandley, 99-119. New York: Palgrave Macmillan, 99.
356 Grosser, *Das Wagnis der Währungs-, Wirtschafts- und Sozialunion*, 451ff.
357 Ibid, 373ff.
358 Ibid, 464ff.

west German states.[359] Additionally, if one excludes Berlin, which is a special case anyway, in 2017 the five German states with the lowest GDP per capita were still the five east German states.[360] However, compared to the other former Comecon countries, the economic performance of the east German states looks less gloomy. The GPD per capita of the poorest east German state, Mecklenburg-Vorpommern, is roughly on par with that of the Czech Republic and is significantly higher than, among others, those of Poland, Hungary and Bulgaria.[361] Still, one must not forget that the states of the former GDR had a much better starting position as they received massive financial transfers from the Federal Republic. Consequently, it is, in my opinion, hard to disagree with Irwin Collier who claimed that "one would be hard-pressed to find a better characterization than 'splendid failure'"[362] for East Germany's economic reconstruction.

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[359] Statista. 2019. "Arbeitslosenquote in Deutschland nach Bundesländern (Stand: März 2019)." *Statista,* March 2019. Accessed April 5, 2019. https://de.statista.com/statistik/daten/studie/36651/umfrage/arbeitslosenquote-in-deutschland-nach-bundeslaendern/.

[360] Statista. 2018. "Bruttoinlandsprodukt (BIP) je Einwohner nach Bundesländern im Jahr 2017." *Statista,* June 2018. Accessed April 5, 2019. https://de.statista.com/statistik/daten/studie/73061/umfrage/bundeslaender-im-vergleich---bruttoinlandsprodukt/.

[361] Wirtschaftskammer Österreich. 2019. "BIP je Einwohner." *Wirtschaftskammer Österreich,* February 2019. Accessed April 5, 2019. http://wko.at/statistik/eu/europa-BIPjeEinwohner.pdf.

[362] Collier, Irwin L.. 2011. "A Splendid Failure: Reflections on Two Decades of East German Economic Reconstruction." In *German Unification: Expectations and Outcomes,* edited by Peter C. Caldwell and Robert R. Shandley, 121-135. New York: Palgrave Macmillan, 121.

III. A Neoliberal Europe?

"National sovereignty had been pickpocketed by the Treaty of Rome."[363]
- Quinn Slobodian, 2018

Although, at first sight, the German ordoliberals seemed to have lost out on the German monetary union, one recognizes upon closer inspection that, after Pöhl had quickly accepted defeat on the introduction of the monetary union, the treaty actually included some core neoliberal beliefs. In fact, Schwarz even referred to the creation of the monetary union as "the hour of the neoliberal economists."[364] To give an example, the East German industry did not receive the benefit of infant industry protection, which would have given it time to adjust to the requirements of the world market. Instead, following the line of argument established by Ludwig von Mises, "far from being permitted to shelter themselves from the push and pull of competition, […] [East German corporations] must be trained by the forces of the world economy to respond correctly to the guidance of market demand."[365] Thus, although "all parties involved knew that a severe adjustment crisis was approaching the industry of the GDR with the monetary union,"[366] the focus was not on slowly rebuilding and establishing a viable industry, but rather let the world market decide in a Darwinist way whether any of the GDR's companies were able to compete with the global competition from the get-go. Consequently, the ordoliberals approached the negotiations about EMU with confidence. They had, in their view, prevented disaster on the German monetary union and were well aware that they had a strong hand in the upcoming negotiations.

Intellectually, ordoliberalism was one of the many variants of neoliberalism and shared most of its basic tenets. Consequently, its main focus was not, as is often suggested for all forms of neoliberalism, "on the economy as such but on the institutions creating a space for the economy."[367] This space, once created, should be "separate from that of representative government,"[368] as democracy, which is prone to majoritarian demands for redistribution and communization, can, in their view, threaten the world economy. Thus, "world economic order depends on the protection

[363] Slobodian, Quinn. 2018. *Globalists: The End of Empire and the Birth of Neoliberalism.* Cambridge: Harvard University Press, 209.
[364] Schwarz, *Helmut Kohl,* 551.
[365] Slobodian, *Globalists*, 148.
[366] Sarrazin, "Entstehung und Umsetzung der deutschen Wirtschafts- und Währungsunion", 208.
[367] Slobodian, *Globalists,* 6.
[368] Ibid, 278.

of dominium (the rule of property) against the overreach of imperium (the rule of the state),"[369] an argument which even led some neoliberals, among them Ludwig Erhard, to advocate human rights of capital as a counterweight to human rights as such.[370] Originally, the main difference between ordo- and neoliberalism was that the former focused on the nation, while the latter's unit of analysis was the world as a whole.[371] However, second generation ordoliberals such as Ernst-Joachim Mestmäcker did not share their intellectual forefathers' focus, but argued that "economic integration could work without political integration as long as a well-designed treaty created legal mechanisms to move against concentrations of private and public economic power."[372] Thus, the new kids on the ordoliberal block, who, as trained lawyers, represented the constitutionalist arm of neoliberalism, saw Europe as the big prize to be won.

Neoliberals did not see democracy as a virtue. While Fukuyama identified institutions as a bulwark supposed to defend liberal democracy with political agency being "one of the basic dimensions of freedom that complete and enrich the life of an individual,"[373] neoliberals only saw value in democracy as long as it was able to avert revolutions. Consequently, in their view, institutions should not protect democracy but should, instead, "protect the world market against governments."[374] According to Friedrich August von Hayek, one of neoliberalism's intellectual masterminds, this could be accomplished by creating a supranational authority that "could prevent the mandate of individual states from expanding in ways that would damage the prosperity of the whole."[375] Thus, as neoliberals had to acknowledge that "the era of the nation state was irreversible,"[376] their fix was to create supranational institutions that could enforce laws and regulations onto nation states, thereby undercutting their democratic legitimacy and curbing their ability to enact anti-neoliberal economic policies.

With the Treaty of Rome, the six founding members of the European Economic Community agreed to introduce a common market, based on the "'four freedoms', which are often regarded as the core of its economic constitutions: free movement of goods, workers, capital, and establishment and the provision of services."[377] Having

[369] Slobodian, *Globalists*, 271.
[370] Ibid, 125.
[371] Ibid, 11.
[372] Ibid, 204.
[373] Fukuyama, Francis. 2015. *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy.* New York: Farrar, Straus and Giroux, 37.
[374] Slobodian, *Globalists,* 250.
[375] Ibid, 104.
[376] Ibid, 265.
[377] Craig and de Búrca, *EU Law,* 5.

the four freedoms, which represented the human rights of capital, enshrined in the treaty was, however, not enough to speak of a neoliberal victory as it was not yet clear how these rules would eventually be enforced. This, however, was to change soon with two groundbreaking decisions by the European Court of Justice (ECJ). First, in *van Gend en Loos*, the ECJ decided that the "European Economic Community constitutes a new legal order of international law for the benefit of which the states have limited their sovereign rights, albeit within limited fields, and the subjects of which comprise not only the Member States but also their nationals. Independently of the legislation of Member States, Community law not only imposes obligations on individuals but is also intended to confer upon them rights which become part of their legal heritage. […] According to the spirit, the general scheme and wording of the EEC Treaty, Article 12 must be interpreted as producing direct effects and creating individual rights which national courts must protect."[378] Second, in *Costa v ENEL*, the ECJ found that "the integration into the laws of each Member State of provisions which derive from the Community, and more generally the terms and the spirit of the Treaty, make it impossible for States, as a corollary, to accord precedence to a unilateral and subsequent measure over a legal system accepted by them on a basis of reciprocity."[379]

Thus, based on these two cases, it was established that Community law was directly effective, which means that individuals could enforce Community provisions in national courts,[380] and self-executing, which means that whenever national and Community law are in conflict the latter prevails. Consequently, "national sovereignty had been pickpocketed by the Treaty of Rome"[381] as the nation states' sovereignty was under attack from two directions, both "upward and downward."[382] Therefore, one might conclude that the Treaty of Rome was built on the basis of "Hayek's blueprints for federation from the 1930s"[383] and, in the view of ordoliberals and constitutionalist neoliberals, constituted the roots of a neoliberal economic order. Consequently, already long before the Maastricht Treaty, the EEC was governed by a an "economic constitution"[384] that ensured that the economy was encased by institutions that protected it from exuberant intervention by the member states' governments.

[378] Case 26/62 *Van Gend en Loos* v *Nederlandse Administratie der Belastingen* [1963] ECR 2.
[379] Case 6/64 *Costa* v *ENEL* [1964] ECR 593f.
[380] Craig and de Búrca, *EU Law,* 189.
[381] Slobodian, *Globalists*, 209.
[382] Ibid.
[383] Ibid, 182.
[384] Ibid.

A. The Road to Maastricht

"Events, dear boy, events."[385]
- Harold Macmillan

Although Kohl had agreed to start negotiations on the EMU before the end of 1990 at the Strasbourg summit, the movement toward the EMU only really started to gain momentum after he had announced his offer to enter into an economic and monetary union with the GDR. As Kohl had not informed Mitterrand of his decision in advance, thereby once again presenting the French leader with a fait accompli, Mitterrand was subsequently pressing the Chancellor to rapidly move ahead with the European monetary union. Thus, Mitterrand decided to apply pressure on the European stage with Roland Dumas, his Minister of Foreign Affairs, "urging his European colleagues in the February Foreign Affairs Council to agree to advance the start of the IGC on EMU from December to July, but to no avail."[386] After the convincing victory of Kohl's 'Alliance for Germany' in the East German elections, Mitterrand recognized that this was not only a clear mandate to move ahead with the German monetary union, but also meant, in effect, that German unification had become inevitable. Consequently, as Mitterrand realized his "failure to make German unification conditional on faster and stronger progress in *construction européenne*,"[387] he decided to give in to German demands on a parallel IGC on political union "in order to induce German concessions on EMU."[388] Subsequently, Kohl and Mitterrand proposed the establishment of a "parallel IGC on political union to give more unity, coherence, and legitimacy to EC policies and to put in place a common foreign and security policy"[389] in a letter to the other EC heads of state and government. The Franco-German proposal was accepted at the Dublin summit in late June 1990 and it was decided that both IGCs should start at the Rome summit in mid-December. According to Kohl, the decisions at the Dublin summit represented the "starting signal for a development that would lead to the Treaty of Maastricht and, thereby, to the creation of the European Union as we know it today. […] Now none of our European neighbors could seriously doubt how important European unity was to us even after reunification."[390]

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[385] Judt, *Postwar,* 1.
[386] Caton, *France and the Politics of European Economic and Monetary Union*, 44.
[387] Dyson and Featherstone, *The Road to Maastricht*, 204.
[388] Ibid, 205.
[389] Ibid, 377.
[390] Kohl, *Erinnerungen: 1990-1994,* 153.

Probably even more importantly, Germany had agreed to set the end of 1992 "as the date for the final ratification of the treaty amendments"[391] at the Dublin summit. This was particularly significant to France as it denied Germany the possibility to protract the negotiations. After the self-inflicted destruction of the ordoliberal coronation theory, this was a second strong signal that Germany would not prevent further European integration at the last minute. However, it was still not set in stone that the IGCs would deliver any significant results as there were substantial differences between the German and French positions on both monetary and political union. While these differences should have been clarified at the Franco-German summit in mid-September, the Iraqi invasion of Kuwait in August 1990 prevented both Kohl and Mitterrand from focusing on the preparations for the two conferences. Consequently, the Franco-German summit delivered no results concerning the two ICGs, but "simply pointed forward to decisions to be taken at the Rome European Council on 14-15 December 1990."[392] However, although the Chancellor and the President did not have the resources to sufficiently coordinate the preparations for the conferences, progress was being made on a technical level by the Finance Ministries and central banks, which managed to agree, with the exception of Great Britain, "on a framework for future treaty negotiations at a Special European Summit in Rome on 27-28 October."[393]

After the political unification of the two Germanies had been completed, Kohl was at the height of his power. At the CDU's party congress, where he received the endorsement of 943 out of 964 delegates, the Chancellor announced his main goals for the next legislative period. Apart from the reconstruction of the states that formerly belonged to the GDR, the main part of his speech was pertaining to Europe. In fact, having been strengthened on the Community level by the establishment of the second IGC on political union, Kohl called for the "completion of the European Union with the vision of a European federal state: the United States of Europe."[394] Thus, it was obvious that the Chancellor's pet project was not the EMU, but rather the political union, which was confirmed by Kohl in his memoirs where he stated that "our core goal was and remained the political unification of Europe."[395] At the federal elections shortly before the Rome summit, the CDU/CSU won comfortably with 43.8 percent

[391] Dyson and Featherstone, *The Road to Maastricht*, 377.
[392] Caton, *France and the Politics of European Economic and Monetary Union*, 48.
[393] Ibid.
[394] Schwarz, *Helmut Kohl*, 596.
[395] Kohl, *Erinnerungen: 1990-1994,* 284.

of the vote. As the FDP recorded 11 percent of the vote, the reigning coalition government was reelected. However, although the results were unambiguous, "in the cold light of day there can be no talk about a tremendous electoral victory."[396] Still, Kohl interpreted the result as a "massive leap of faith,"[397] which, together with the successful reunification, led to the Chancellor developing an "enormous sense of superiority"[398] on the European level. By then, the balance of power between France and Germany within the Community had clearly shifted toward the latter. In addition, John Major, who had succeeded Margaret Thatcher as British Prime Minister in late November 1990 following her resignation, was not cut from the same cloth as the 'Iron Lady'. However, as the self-aware Chancellor failed to a constantly increasing degree to keep up a modest appearance among his European colleagues, his popularity among his fellow EC heads of state and government obviously did not skyrocket.[399]

The Rome summit in mid-December was, just as the Franco-German summit in September, overshadowed by "more immediate political events […] [as] the French found themselves fighting to keep the European Parliament in Strasbourg, against the wishes of its members who preferred to work in Brussels, and endorsing a Dutch-brokered US ultimatum to Saddam Hussein to get his troops out of Kuwait by 15 January or face the consequences."[400] Consequently, Kohl stated that the Rome summit "fell short of expectations."[401] In spite of that, the two conferences were officially opened, but only really started under the Luxembourg Presidency in the first half of 1991 and found their conclusions under the Dutch Presidency in late December. The negotiations on the EMU "took place in a distinct institutional setting […] and met at different levels: on eleven occasions as a ministerial IGC, but twice as regularly at the level of officials."[402] In addition, the Ministers of Finance negotiated within the framework of ECOFIN meetings, and the Committee of EC Central Bank governors was asked "to make various technical submissions."[403] Finally, the "Dutch Presidency also instituted a third level to agree texts, involving central bank and finance ministry officials."[404] Thus, the IGC on the EMU was a very structured process.

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396 Schwarz, *Helmut Kohl*, 599.
397 Kohl, *Erinnerungen: 1990-1994,* 280.
398 Schwarz, *Helmut Kohl*, 622.
399 Ibid.
400 Caton, *France and the Politics of European Economic and Monetary Union*, 49.
401 Kohl, *Erinnerungen: 1990-1994,* 285.
402 Dyson and Featherstone, *The Road to Maastricht*, 5.
403 Ibid.
404 Ibid.

a. Negotiating Positions

"A stable currency takes precedent over a common one."[405]
- Reimut Jochimsen, 1993

When the two conferences started in earnest under the Luxembourg Presidency in early 1991, Germany and France were on very different paths as, on the one hand, their positions on both monetary and political union diverged to a significant degree, while, on the other hand, their respective economic developments, which had strongly converged in the late 1980s, were suddenly moving in opposite directions. While Germany continued to experience strong growth throughout 1990, France was experiencing declining growth rates.[406] Moreover, in order to fulfill its legal mandate of safeguarding the currency, the Bundesbank had to increase interest rates to counter the inflationary pressure that resulted from the increase in money supply following the creation of the German monetary union.[407] As the deutschmark was the anchor currency of the ERM, the other members of the system, including France, had to follow the Bundesbank in adapting disinflationary measures in order to uphold the pegs. However, "with European labor markets slow to adjust, disinflation meant unemployment,"[408] thereby further dampening French growth prospects. Thus, the French recognized that "the political window opened up by Mitterrand's convincing re-election would soon close,"[409] which is why the French negotiators wanted to push through the negotiations, and particularly the IGC on the EMU, as fast as possible.

The French negotiation team for the EMU conference was led by Jean-Claude Trichet, who was Director of the Treasury at the time of the negotiations and would become President of the ECB later on. The primary French goal was to "achieve a single currency (the ECU) and a single monetary policy."[410] In the negotiations, however, the French team had to find a delicate balance between what was acceptable domestically, where especially members of the Socialist party saw the "French model of the 'social' republic […] at stake"[411], and the external goal of binding Germany irreversibly into the European framework. In order to achieve its external goal, one of

[405] Kaelberer, *Money and Power in Europe*, 169.
[406] See Appendix f), Chart 3.
[407] Zatlin, "Rethinking Reunification", 80.
[408] Eichengreen, *Globalizing Capital,* 175.
[409] Caton, *France and the Politics of European Economic and Monetary Union*, 49.
[410] Dyson and Featherstone, *The Road to Maastricht*, 224.
[411] Ibid, 203.

the most important items on the French agenda was to make the transition to the third stage irreversible by setting “a fixed final date for stage 3.”[412] During the course of the negotiations, Bérégovoy tried to make this position palatable to the Germans by arguing that irreversibility “would ‘bind in’ future, potentially less responsible, French governments, to a framework of economic discipline and stability.”[413] However, it was apparent that this straightjacket on future French governments could not be achieved by irreversibility as such, but only by tough convergence criteria with sanctions in case of violations. The idea of convergence criteria was, however, rejected by the weak-currency countries which felt that such “criteria would simply serve as a tool to exclude them from participation in EMU.”[414] Consequently, France, which basically wanted all EC members to participate in the common currency,[415] “did not include convergence criteria”[416] in its first draft for the treaty. However, as the French recognized that convergence criteria were of the utmost importance to the Germans, and especially the Bundesbank, they later on included them under the principle of viability, which the EMU should also derive “from the strengthening of ECOFIN’s policy instruments for ensuring economic convergence, including sanctions designed to avoid excessive deficits.”[417] Apart from viability, the French negotiation team based its points on the principle of democracy, which should ensure that “the Union would remain under intergovernmental control,”[418] thereby appeasing the French population who did not want to lose French sovereignty for a monetary union designed by Germany.[419] This should be achieved “in the context of a strong, fully democratic ‘economic government’ based on the right of the Council to issue economic-policy guidelines,”[420] thereby constituting a counterweight to the independent ECB.

The idea of an economic government did not go down well with the Germans, who feared for the ECB’s independence.[421] German disquiet was further strengthened by the French initially rejecting “the goal of central bank independence for the ECB despite the basic agreement reached in the Delors Report.”[422] Bérégovoy based his

[412] Dyson and Featherstone, *The Road to Maastricht*, 202.
[413] Ibid.
[414] Kaelberer, *Money and Power in Europe*, 187.
[415] Caton, *France and the Politics of European Economic and Monetary Union*, 53.
[416] Kaelberer, *Money and Power in Europe*, 187.
[417] Dyson and Featherstone, *The Road to Maastricht*, 229.
[418] Caton, *France and the Politics of European Economic and Monetary Union*, 52.
[419] Dyson and Featherstone, *The Road to Maastricht*, 203.
[420] Ibid, 408.
[421] Ibid, 414ff.
[422] Kaelberer, *Money and Power in Europe*, 183.

argument on the recent disinflationary record of the government-controlled Banque de France, thereby suggesting that the evidence on whether an independent central bank was necessary to achieve monetary stability was not so clear. However, already at the start of the negotiations, the French recognized that Germany would not back down on central bank independence, which is why France decided to accept it from the outset. In the end, they argued that, "with monetary independence already lost *de facto* to the Bundesbank, a seat on an independent ECB was a net gain."[423] Another important item was the length and content of the second stage of the EMU. Here, France advocated for rather "relaxed conditions for entry […] [to] a lengthy stage 2,"[424] which was congruent with the French notion that all member countries should be given the chance to join the common currency and Bérégovoy's "abhorrence of the idea of a 'two-speed' EMU."[425] Moreover, the French team "pressed the case for an automatic passage to stage 2 on 1 January 1994,"[426] argued for the increasing usage of the *écu* in stage 2 and strongly advocated for the ESCB to be operational throughout the whole stage 2.[427] Finally, concerning the third stage, France did not only want to set a fixed date for its start, but also stipulated that no member state could veto "the move to full economic and monetary union in the third stage,"[428] while ensuring that no one was arbitrarily excluded, which was an important gesture toward the weak-currency countries, and that no member state would be compelled to join the common currency, which was included to appease Great Britain.

For Chancellor Kohl, the political union had priority over the monetary union. Consequently, he declared at the beginning of the negotiations that "'he is not prepared to accept an economic and monetary union without an adequate political union.'"[429] While Kohl was preoccupied with the political union, Waigel and Horst Köhler from the Ministry of Finance as well as Tietmeyer, who represented the Bundesbank, were the main German players in the negotiations on EMU. Overall, with the ordoliberals Köhler and Tietmeyer in charge of the negotiations and Vice-Chancellor Genscher being "deeply committed to neo-liberal economic ideas,"[430] it was clear from the outset that Germany would insist on its traditional ordo- and neoliberal principles being

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423 Dyson and Featherstone, *The Road to Maastricht*, 223.
424 Ibid, 237.
425 Ibid, 225.
426 Ibid, 238.
427 Caton, *France and the Politics of European Economic and Monetary Union*, 53.
428 Ibid.
429 Schwarz, *Helmut Kohl,* 698.
430 Dyson and Featherstone, *The Road to Maastricht*, 372.

implemented in the final agreement on the EMU. The French draft treaty, however, had put the ill-prepared German delegation on the backfoot. This situation, however, changed soon as Köhler was able to get agreement for a German draft treaty by the Bundesbank, the Finance Ministry and the Chancellor himself. This treaty "outlined tough German bargaining positions"[431] and found itself at odds with many of the French demands. First of all, it represented classic German ordoliberalism by postulating freely set prices, open markets and privatizations as fundamental principles in the economic framework of the EMU. Moreover, the draft treaty included provisions on a stability-oriented budget policy intended to prevent excessive deficits by setting clear rules and imposing sanctions in case of violations. Second, the European Council should not have a role in determining the broad guidelines of economic policy. Instead, this role was supposed to be taken by the ECOFIN Council. Third, the transition to stage 2 could only happen on January 1, 1994, as it had been proposed by the French, when the single market was completed, "domestic legislation to make national central banks independent before their incorporation in the ESCB in stage 3 [had been introduced], and satisfactory and lasting progress in convergence"[432] had been achieved. Particularly the second point was contested by the French, who viewed this condition "as an intervention into the domestic politics of EU member states."[433] Fourth, the transition to the third stage could only take place when certain, not yet precisely defined convergence criteria concerning price stability, deficits and interest rates had been met by the member states. In contrast to the French proposal, there was "no reference to a timetable, even in the loosest sense."[434] Finally, since the French had already agreed to an independent ECB prior to the German draft treaty, the status of the ECB was not an issue anymore. However, it was still important for Germany that the ECB's main aim was to ensure price stability. In addition, Germany worried about the French proposal of the ESCB being already operational in phase 2, as they feared that this "would confuse responsibilities between the common monetary and national central banks."[435] Consequently, due to the many discrepancies in the French and German draft treaties, it became clear that tough negotiations would be following.

[431] Dyson and Featherstone, *The Road to Maastricht*, 411.
[432] Ibid.
[433] Kaelberer, *Money and Power in Europe*, 184.
[434] Dyson and Featherstone, *The Road to Maastricht*, 412.
[435] Kaelberer, *Money and Power in Europe*, 185.

b. From London With Love?

"My objections were heard in stony silence.
I now had no support. I just had to say no."[436]
- Margaret Thatcher, 1990

Although France and Germany were, as leaders of the weak- and hard-currency blocs respectively, the most important players in the negotiations, other member states also had a significant role in shaping the outcome of the IGC. Particularly the United Kingdom, which was molded by "Thatcher's strident opposition"[437] to the EMU, proved to be a constant disruptive factor. In the summer of 1990, John Major, then the Chancellor of the Exchequer, "proposed developing a fixed version of the existing ECU, backed by a 'European Monetary Fund', which would compete with, and if successful replace, national currencies within the European Monetary System."[438] Thus, the idea behind this 'hard ECU' was that markets would eventually decide which currency was the best and that a common European currency would only be introduced after it had beaten the national currencies in the financial markets. The British proposal was, however, "merely diversionary tactics […] [as] the British hoped these proposals would appeal to the Bundesbank and would reinforce skepticism about the EMU process in Germany."[439] However, the British forgot that for the German ordoliberals it was paramount to have institutions such as the Bundesbank, or later on the ECB, that would encase and protect the economy from any potentially harmful majoritarian interference. The 'hard ECU' plan did not provide for such institutions. By contrast, in its rejection of the British proposal the Bundesbank argued that "increased currency substitution would undermine the effectiveness of national monetary policies,"[440] thereby posing a danger to the Bundesbank's holy grail of price stability.

One of the birth defects of the 'hard ECU' plan was that Thatcher did not believe in it. In fact, as she told the House of Commons in late October 1990, "in her view, there was little chance of the 'hard' ECU being used in preference to the existing national currencies of the EC."[441] This statement came only days after the first Rome summit, where the 'Iron Lady' had basically rejected all proposals made by the other

[436] Thatcher, Margaret. 1995. *The Downing Street Years.* London: Harper Collins, 767.
[437] Dyson and Featherstone, *The Road to Maastricht*, 641.
[438] Caton, *France and the Politics of European Economic and Monetary Union*, 54.
[439] Kaelberer, *Money and Power in Europe*, 186.
[440] Ibid.
[441] Dyson and Featherstone, *The Road to Maastricht*, 634.

EC members, including one by the Italian Presidency to make references "to a 'single or common' currency in the final communiqué to recognize Britain's 'hard' ECU plan,"[442] thereby completely isolating the United Kingdom and, consequently, weakening its bargaining power. Within a few weeks, her destructive attitude at the Rome summit, together with her deprecative statement about the British 'hard ECU' plan in the Commons, contributed to her domestic political downfall. After a challenge to her leadership was mounted within the Conservative Party, Thatcher resigned on November 28, 1990, and was replaced by John Major, who had given birth to the 'hard ECU' plan only a few months earlier.

With Major at the helm, the 'hard ECU' plan gained some traction. Especially Bérégovoy found the idea appealing and in December 1990 obtained Mitterrand's "permission to explore UK ideas further, provided that they did not hold up progress towards a Treaty deal with Germany."[443] Subsequently, Mitterrand shortly seemed to support the British proposal and even met with Major to discuss his 'hard ECU' plans and the UK's involvement in the ongoing negotiations in mid-January 1991. However, "Mitterrand's intention in engaging the UK was never to displace the Franco-German relationship but merely to strengthen France's negotiating hand."[444] Consequently, after the United Kingdom opposed a strengthened role of the European Council as an 'economic government', one of France's key goals for the negotiations, the love affair between Paris and London was over rather quickly. Nevertheless, Major still pursued the 'hard ECU' and "found an unexpected ally in the Spanish,"[445] which presented their own variant of a hardened ECU in late January. In contrast to the British proposal, which was a mere ploy to delay or even avoid the introduction of a single currency, the Spanish plan offered a different path toward a single currency by incorporating some of the British ideas on the 'hard ECU'. Thus, its ultimate goal was the rather prompt introduction of a single currency that would "not have to await the 'crowding-out of existing national currencies by the 'hard' ECU'."[446] While this plan appealed to some countries, Major decided not to support it as this "would have required London to back the commitment to a single-currency goal."[447] Consequently, the idea of the 'hard ECU' was at a dead end.

[442] Dyson and Featherstone, *The Road to Maastricht*, 633.
[443] Caton, *France and the Politics of European Economic and Monetary Union*, 55.
[444] Ibid.
[445] Dyson and Featherstone, *The Road to Maastricht*, 638.
[446] Ibid, 639.
[447] Ibid, 640.

However, despite the 'hard ECU' plan having gone down in flames, the British interference in the EMU negotiations was still far from over as Major instrumentalized the Dutch Prime Minister Ruud Lubbers, who presided over the Council in the second half of 1991, to protract progress on the EMU.[448] While these attempts ultimately failed, they caused a lot of anger on the French side, which pointed out "the danger posed by the Dutch mishandling of the negotiations."[449] The French were particularly furious about the provisions concerning the transition to the third stage in the Dutch draft treaty of August 1991, which "provided for an 'opt-in' by states that met the conditions for entry and for a 'critical mass' of six to eight states to be ready and willing."[450] Thus, under this provision, it would have been up to the member states to decide at some future point whether they actually wanted to join the common currency, which stood in sharp contrast to the principle of irreversibility of the third stage promoted by France. However, the French were well aware that any attempt at making the EMU irreversible had to be balanced by some exception for the United Kingdom, which would otherwise likely reject the subsequent treaty, thereby making the whole negotiation outcome void. Consequently, the French advocated for a "'no coercion' principle [that] was best satisfied by 'opt-outs' for specific countries, not a generalized 'opt-in'."[451] Due to the considerable French pressure, the Dutch Presidency changed its position. However, while the new draft treaty of late October, which had replaced the generalized 'opt-in' with a generalized 'opt-out', satisfied Horst Köhler and the German negotiation team,[452] "it still failed to meet French objections."[453] On this issue, Kohl did not share Köhler's position, but firmly placed himself on the French side. In fact, Kohl was so furious at Lubbers for "unilaterally carry[ing] on the game of the British"[454] that he would block the Dutch Prime Minister's attempt of succeeding Delors as President of the Commission in 1994. However, it was not only the French and the Germans that were unhappy with the Dutch leadership as it was widely criticized for "failing to bring forward well-formulated texts in good time to ensure an EMU agreement at Maastricht."[455] As a result, some major points of contention had not been resolved when the Maastricht summit began on December 9, 1991.

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[448] Schwarz, *Helmut Kohl,* 697.
[449] Dyson and Featherstone, *The Road to Maastricht*, 438.
[450] Ibid, 243.
[451] Ibid, 244.
[452] Ibid, 438.
[453] Ibid, 244.
[454] Schwarz, *Helmut Kohl*, 697.
[455] Dyson and Featherstone, *The Road to Maastricht*, 438.

B. The Maastricht Treaty

"The Maastricht Treaty […] is a cipher for a Europe united in peace and freedom. […] However, for me, the Maastricht Treaty is also a cipher for a project that is not completed and has to withstand setbacks."[456]

- Joachim Gauck, 2017

Although many countries tried to influence the EMU negotiations, in the end "the French and the Germans made all the key decisions."[457] Going into the final rounds of negotiations, "Mitterrand's preoccupation was limited to securing irreversibility,"[458] which was to be accomplished by ditching the generalized 'opt-out' clause proposed by the Dutch. As he had Kohl on his side, this objective was not too hard to achieve and was accomplished by a special protocol to the Maastricht Treaty, "the import of which is that […] [the United Kingdom] was not bound to move the third stage of EMU even if it met the convergence criteria."[459] Thus, the general 'opt-out' clause from the Dutch draft treaty was transformed into a UK-specific 'opt-out' clause. By contrast, the issue of setting a final date for the transition to the third stage was much harder to resolve. On this issue, Schmidt and Giscard had been lobbying since mid-November, with the former Chancellor, who was deeply pessimistic about the future role of Germany, being the driving force since he was afraid of "sabotage by the Bundesbank and of German public opinion turning away from EMU by the end of the 1990s."[460] The matter was quickly taken up by Dumas and Mitterrand, who met with Kohl a few days before the Maastricht summit in Paris. At this meeting, the French President offered to recognize both Slovenia and Croatia, who had seceded from Yugoslavia in June 1991, in return for Germany agreeing to a fixed date for the transition to the third stage. As the recognition of the two Balkan states was of great importance to Germany, "an informal understanding was arrived at."[461] However, Mitterrand still feared that Kohl could, in the end, decide not to support a fixed date at Maastricht. Consequently, at Maastricht, he supported the approach of Italian Prime Minister Andreotti who proposed "inserting a final fixed date of 1 January 1999 in the

[456] Verleihung der Ehrendoktorwürde der Universität Maastricht. 2017. *Bundespräsidialamt,* February 7, 2017. Accessed May 7, 2019. http://www.bundespraesident.de/SharedDocs/Reden/DE/Joachim-Gauck/Reden/2017/02/170207-Niederlande-Ehrendoktorwuerde.html.
[457] Mody, *EuroTragedy*, 84.
[458] Dyson and Featherstone, *The Road to Maastricht*, 246.
[459] Craig and de Búrca, *EU Law,* 729.
[460] Dyson and Featherstone, *The Road to Maastricht*, 246f.
[461] Ibid, 250.

Treaty to ensure irreversibility."[462] As Mitterrand knew the Chancellor's inclination to symbolism and his desire to be remembered in world history, both of which could, for instance, be seen at Verdun in 1984, he managed to convince Kohl by underlining that the two of them would be "making history at Maastricht."[463]

In the final treaty, this issue was dealt with via a two-staged process that "set deadlines for a decision to move to stage three."[464] First, the Council should decide "by a qualified majority, not later than 31 December 1996 […], whether a majority of the Member States fulfil the necessary conditions for the adoption of a single currency; decide whether it is appropriate for the Community to enter the third stage, and if so, set the date for the beginning of the third stage."[465] Second, however, "if by the end of 1997 the date for the beginning of the third stage has not been set, the third stage shall start on 1 January 1999,"[466] with the Council deciding by qualified majority "which Member States fulfil the necessary conditions for the adoption of a single currency."[467] Two items of this provision are essential. First, the French demands for irreversibility and a fixed date had both been included in the Treaty and have subsequently often been "referred to as the 'automaticity clause'."[468] Second, the provision stated that the final decision of which countries would be allowed to adopt the single currency was to be a political choice by the Council, and, thus, not entirely based on the fulfilment of the convergence criteria.

The convergence criteria themselves were included "at German insistence […] [and] set targets for inflation, interest rates, exchange rate stability, and fiscal stability for countries seeking to qualify for participation in the monetary union."[469] The most important criterion was the metric of fiscal stability, which was defined in the 'Protocol on Excessive Debt Procedure' attached to the Treaty as "a budget deficit below 3 percent of GDP and an overall debt below 60 percent of GDP."[470] These provisions should ensure that "countries lacking the requisite stability culture and unable to live within their means"[471] would not participate in the single currency.

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462 Dyson and Featherstone, *The Road to Maastricht*, 251.
463 Ibid.
464 Kaelberer, *Money and Power in Europe*, 180.
465 Treaty on European Union (Maastricht text), July 29, 1992, Art. 109j(3), 1992 O.J. C 191/1.
466 Ibid, Art. 109j(4).
467 Ibid.
468 Kaelberer, *Money and Power in Europe*, 180.
469 Eichengreen, *Globalizing Capital,* 219.
470 Kaelberer, *Money and Power in Europe*, 179.
471 Eichengreen, *Globalizing Capital,* 220.

Consequently, to quote Eichengreen, the member states who wanted to join the Euro had to make "hard choices over whose fiscal ox to gore."[472] The other criteria, while still important, did not attain the significance of the fiscal provisions. They stated that inflation should be within 1.5 percentage points and nominal long-term interest rates within two percentage points of "'the three best performing Member States in terms of price stability.'"[473] In addition, the prospective members of the single currency had to stay within the "fluctuation margins of the ERM 'without severe tensions' in the two years prior to the examination of eligibility for stage three of EMU."[474]

The convergence criteria were, however, not the only substantive point which the Germans managed to push through. While Germany conceded to France that stage two was to begin on January 1, 1994, the negotiation team around Köhler effectively watered it down, leaving little relevant content to be implemented.[475] Thus, the beginning of stage two did not mark the creation of the ECB, as the French had demanded, but merely of a European Monetary Institute that was only tasked to undertake the technical preparations for the introduction of the single currency in stage three. Consequently, the responsibility for monetary policy stayed with the national central banks during the second stage.[476] In addition, "the rules governing the ECB itself were largely structured according to the model of the Bundesbank,"[477] which represented a major victory for the ordoliberal coalition. As a result, it was mandated in the Maastricht Treaty and the adjacent 'Protocol on the Statute of the European System of Central Banks and the European Central Bank' that, "when exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body,"[478] which ensured the independence of both the ECB and the national central banks. Furthermore, it was determined that "the primary objective of the ESCB shall be to maintain price stability,"[479] thereby establishing an even more potent focus on inflation controls than the mission to safeguard the currency in the *Bundesbankgesetz.*

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[472] Eichengreen, *Globalizing Capital,* 220.
[473] Kaelberer, *Money and Power in Europe*, 179.
[474] Ibid.
[475] Caton, *France and the Politics of European Economic and Monetary Union*, 56ff.
[476] Kaelberer, *Money and Power in Europe*, 180.
[477] Ibid.
[478] Treaty on European Union (Maastricht text), July 29, 1992, Art. 107, 1992 O.J. C 191/1.
[479] Ibid, Art. 105.

a. A European Germany or a German Europe?

"We do not want a German Europe, but a European Germany."[480]
- Thomas Mann, 1952

In his report about the Maastricht summit to the Bundestag on December 13, 1991, Kohl pointed out that the "agreed upon treaty about the economic and monetary union accommodates the German demands in all decisive points."[481] In addition, the Chancellor underlined that the German negotiation team had secured agreement on the primacy of price stability and added that "important details are regulated more clearly and unambiguously in this treaty than it is the case in the *Bundesbankgesetz*."[482] Consequently, "our successful *Stabilitätspolitik* has become the leitmotif of the future European monetary order."[483] Thus, with these statements, Kohl confirmed that the Maastricht Treaty represented a massive German negotiation success that allowed Germany to become the EMU's "constitutional architect."[484] However, while Germany was a leader insofar as it managed to persuade "others to follow a given course of action which might not be in the follower's short-run interest if it were truly independent,"[485] it is hard to argue that it acted as a hegemon. If one follows the line of argument put forth by Keohane, Germany was not a hegemon as it did not "possess enough military power to be able to protect the international political economy that it dominates from incursions by hostile adversaries."[486] Moreover, if one has a closer look at the criteria that Kindleberger used to define a hegemon in the international monetary system, it quickly becomes obvious that Germany failed to fulfill at least two of them as it did not provide "a steady if not countercyclical flow of capital, and a rediscount mechanism for providing liquidity when the monetary system is frozen in panic."[487] In fact, these two points were further complicated by the 'no bail-out clause'

[480] Dyson and Featherstone, *The Road to Maastricht*, 375.
[481] Rede von Helmut Kohl über die Ergebnisse des Europäischen Rates in Maastricht (Bonn, 13. Dezember 1991). 1991. *CVCE,* October 25, 2012. Accessed May 25, 2019. https://www.cvce.eu/de/obj/rede_von_helmut_kohl_uber_die_ergebnisse_des_europaischen_rates_in_maastricht_bonn_13_dezember_1991-de-12090399-dc71-42ee-8a3d-daf2420c0a9a.html, 3.
[482] Ibid.
[483] Ibid.
[484] Kaelberer, *Money and Power in Europe*, 189.
[485] Kindleberger, Charles P.. 1981. "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides." *International Studies Quarterly* 25(2): 242-254. Accessed November 6, 2018. https://www.jstor.org/stable/2600355, 243.
[486] Keohane, Robert. 1984. *After Hegemony: Cooperation and Discord in the World Political Economy.* Princeton: Princeton University Press, 39.
[487] Kindleberger, "Dominance and Leadership in the International Economy", 247.

incorporated into the Maastricht Treaty, which stated that neither the Community nor any member state shall "assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertaking of any Member State."[488] Consequently, I tend to agree with Kaelberer's assessment that Germany was not a hegemon, but took a "specific role [that] is best described as leadership through standard setting."[489]

The role of an economic and monetary standard-setter was nothing new to Germany. In fact, it had already acted as such in both the Snake and the EMS. However, in the EMU negotiations, Germany's bargaining power was much stronger than in the two previous attempts at European monetary cooperation. On the one hand, it derived its powerful position from having "a credible exit threat [...] [as] German participation was imperative for any functioning monetary union because the project would otherwise have no credibility."[490] On the other hand, "for the French leadership, there was an urgent need to secure a European deal as quickly as possible."[491] This imperative was based on the slowdown of the French economy and, more importantly, on German reunification, which induced Mitterrand to follow his goal of irrevocably tying Germany to Europe via a monetary union even more passionately. However, the President's almost reckless pursuit of a common currency had adverse consequences for both France and Europe as the French need "to secure German participation in EMU at virtually any cost created an asymmetrical bargaining interaction"[492] allowed Germany to push through most of its demands. In fact, Germany did not only succeed "on the substantial provisions of EMU but also on some of the symbolic issues,"[493] which included the abandonment of the name 'ecu' in favor of 'euro' and the decision to base the ECB in Frankfurt. Indeed, apart from accepting a final date for the start of the third stage, Germany only conceded on the creation of a cohesion fund, which was supposed to "promote and support structural changes within the poorer EU countries,"[494] and the responsibility for exchange rate policy, where the Council got at least some influence.[495] In addition, Kohl, who had previously stated that "'he is not prepared to accept an economic and monetary union without an adequate political

[488] Treaty on European Union (Maastricht text), July 29, 1992, Art. 104b(1), 1992 O.J. C 191/1.
[489] Kaelberer, *Money and Power in Europe*, 75.
[490] Ibid, 190.
[491] Caton, *France and the Politics of European Economic and Monetary Union*, 49.
[492] Kaelberer, *Money and Power in Europe*, 190.
[493] Ibid, 196.
[494] Ibid, 195.
[495] Ibid, 193ff.

union',"[496] had to agree to a severely scaled down political union. For the Chancellor, this was probably the most painful concession. In his memoirs, he regretted that only limited progress was made on this issue, but also pointed out that "the most important thing was to cross the finish line at Maastricht."[497]

Obviously, the terms of the Maastricht Treaty "were not universally popular – in the poorer member states it was widely and rightly feared that they would constrain public policy and perhaps even prevent growth."[498] However, as Germany was not prepared to make any concessions concerning macroeconomic standards or the ECB and France was desperate to see the end of the deutschmark, it was probably the only deal that could be achieved. Nevertheless, with the benefit of hindsight, it has to be concluded that Mitterrand shortsightedly agreed to a treaty that was not in Europe's best interest. While the initial idea behind the EMU was to dismantle the German "nuclear bomb"[499] and weaken Germany's economic supremacy, the final outcome much rather strengthened Germany's grip on the European economy and gave it "disproportionate political influence."[500] By ratifying the Maastricht Treaty, the member states signed up to the German stability ideology and firmly established the principles of "price stability and fiscal austerity"[501] in the EU. Thus, the EMU became a French idea with German design. By pushing through its terms, Germany had set Europe on an ominous path that would haunt the poorer member states during the sovereign debt crisis with the mandated austerity policies "biting deep into the social fabric of Europe."[502] Moreover, the crisis of the ERM that came about only shortly after the conclusion of the treaty showed that solidarity with its partners did not seem to be a German priority when its own economic well-being might be affected, as "the Germans did not believe that they had an obligation to help relieve the distress of weaker members of the union."[503] By contrast, Germany made it clear that "their domestic interest came ahead of a European neighbor's needs."[504] Consequently, it seems clear that the Maastricht Treaty did not establish a European Germany but much rather a German Europe.

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[496] Schwarz, *Helmut Kohl,* 698.
[497] Kohl, *Erinnerungen: 1990-1994,* 387.
[498] Judt, *Postwar,* 715.
[499] Schwarz, *Helmut Kohl,* 431.
[500] Mody, *EuroTragedy*, 114.
[501] Ibid.
[502] Tooze, *Crashed,* 373.
[503] Mody, *EuroTragedy*, 100.
[504] Ibid, 106.

b. Neoliberal Hegemony?

"A spectre is haunting Europe."[505]
- Karl Marx and Frederik Engels, 1848

The concepts of hegemony discussed in the previous chapter covered aspects of political, military and economic power. What they missed, however, was "that man is not ruled by force alone, but also by ideas."[506] In the science fiction movie 'Inception', Dom Cobb, the main character who is a corporate spy that steals secrets by infiltrating his victims' dreams, notes that "'the most resilient parasite is an idea,'"[507] thereby underlining the significance of ideas in our minds. However, ideas do not only influence individuals, but also whole societies. In the *Manifesto of the Communist Party*, Marx and Engels briefly dealt with the importance of ideas within society and found that "the ruling ideas of each age have ever been the ideas of its ruling class."[508] This line of thought was subsequently further developed by Antonio Gramsci, who argued that it was not enough to just look at the political level. By contrast, "to be meaningful, the notion of the state would also have to include the underpinnings of the political structure in civil society, […] [like] the church, the educational system, [or] the press."[509] Consequently, the ruling class cannot exert hegemonic power without dominating civil society, which he referred to as "the marketplace of ideas."[510] Thus, Gramsci maintained that changes in the distribution of power among states can always "be traced to fundamental changes in social relations,"[511] i.e. to changes in the dominium of ideas. What we should take away from this short excursion into Gramscian and Marxist thought is that ideas matter and can in some cases even exert hegemonic influence over a given society.

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505 Marx, Karl and Frederik Engels. 1848. "Manifesto of the Communist Party." *Marxists Internet Archive.* Accessed May 26, 2019. https://www.marxists.org/archive/marx/works/download/pdf/Manifesto.pdf, 14.
506 Bates, Thomas R.. 1975. "Gramsci and the Theory of Hegemony." *Journal of the History of Ideas* 36(2): 351-366. Accessed November 6, 2018. https://www.jstor.org/stable/2708933, 351.
507 Highfield, Roger. 2010. "Inception: 'The most resilient parasite is an idea planted in the unconscious mind'." *The Telegraph,* July 27, 2010. Accessed May 26, 2019. https://www.telegraph.co.uk/news/science/roger-highfield/7911983/Inception-The-most-resilient-parasite-is-an-idea-planted-in-the-unconscious-mind.html.
508 Marx and Engels, "Manifesto of the Communist Party", 25.
509 Cox, Robert W.. 1983. "Gramsci, Hegemony and International Relations: An Essay in Method." *Millennium: Journal of International Studies* 12(2): 162-175. Accessed April 30, 2019. https://doi.org/10.1177/03058298830120020701, 164.
510 Bates, "Gramsci and the Theory of Hegemony", 353.
511 Cox, "Gramsci, Hegemony and International Relations", 169.

Since its very foundation in 1949, the Federal Republic had been a fertile ground for the ideas of ordo- and neoliberalism. As Ludwig Erhard, West Germany's first Minister of Economics, had been part of the "Geneva School neoliberals [that] proposed their own vision of a world of rights"[512] by, for instance, demanding human rights of capital as a counterweight to human rights as such, ordoliberalism took root in the economics ministry and quickly became its dominant ideology. From there, it spread to the Ministry of Finance and the Bundesbank and also won the support of employer and banking federations.[513] However, following Gramsci, in order for an ideology to become hegemonic it does not just have to dominate the elite level of politics, but also win over civil society. Consequently, the support of "the influential quality press, notably the *Frankfurter Allgemeine Zeitung* and *Die Welt*"[514] was another crucial piece of the puzzle. Even more importantly, one of the main ordoliberal tenets, austerity of the state, fit nicely with the Protestant conviction that taking on debt is sinful.[515] Only this combination of having strong support both among the elites and within civil society made it possible that ordoliberalism became such a powerful ideology. Indeed, as Winfried Kretschmann, the Prime Minister of Baden-Württemberg, pointed out, the stereotypical "'Swabian housewife represents the starting point' in German thinking on the euro and fiscal management."[516] As a result, "the domestic reach and grip of the ordo-liberal coalition on EMU was impressive."[517]

Within Europe, the seeds of a neoliberal economic order had been sown by the Treaty of Rome, which had, according to Slobodian, undermined the member states' national sovereignty.[518] However, the constraint on national sovereignty was not yet very far-reaching. In fact, if we apply Dani Rodrik's model of the political trilemma of the world economy, which states that it is impossible to "have hyperglobalization, democracy and national self-determination all at once"[519] with two of the three being the maximum that can be achieved simultaneously, it becomes obvious that during the era of the Bretton Woods system, where globalization was still constrained, it was very

[512] Slobodian, *Globalists*, 125.
[513] Dyson and Featherstone, *The Road to Maastricht,* 278.
[514] Ibid, 278f.
[515] Lingens, Peter Michael. 2019. *Die Zerstörung der EU: Deutschland als Sprengmeister, Österreich als Mitläufer.* Wien: Falter Verlag, 11.
[516] Hail, the Swabian housewife. 2014. *The Economist,* February 1, 2014. Accessed May 27, 2019. https://www.economist.com/europe/2014/02/01/hail-the-swabian-housewife.
[517] Dyson and Featherstone, *The Road to Maastricht,* 278.
[518] Slobodian, *Globalists,* 209.
[519] Rodrik, Dani. 2012. *The Globalization Paradox: Democracy and the Future of the World Economy.* New York: Norton, 200.

much possible to uphold both national sovereignty and democratic legitimacy.[520] However, after the failure of Bretton Woods and the start of Margaret Thatcher's and Ronald Reagan's neoliberal projects in the Anglo-Saxon world, hyperglobalization became a key goal that undermined especially democratic legitimacy. As we have already seen, Francois Mitterrand's democratically legitimated attempt at social reforms and a Keynesian spending spree in France in the early 1980s had to be abandoned due to the massive pressure by financial markets as "it was unthinkable for France even to contemplate choosing between remaining in the Western economic (and political) orbit and casting itself out into a doubtfully sustainable middle route between capitalism and Communism."[521] Thus, even before the Maastricht Treaty was concluded, anonymous markets were strong enough to influence, if not dictate, the course of action of a EC member state, even in the case of a country as big as France.

However, before Maastricht, the member states had, at least theoretically, the possibility to conduct their own fiscal and monetary policies. With the Maastricht Treaty, this changed fundamentally. As Germany acted as a standard-setter that did not make any compromises concerning macroeconomic standards as well as the role, structure and mandate of the ECB,[522] German ordo- and neoliberalism became the hegemonic ideology within the EU's economic constitution. This had several important implications. First, the power to conduct monetary policy was handed to the newly created ECB, which was, as a "hyper-independent"[523] institution, neither democratically legitimated nor accountable to any democratically legitimated body. Second, the convergence criteria, and especially the strict fiscal rules that set low limits for the member states' public debt,[524] bound the member states to strict fiscal austerity. These rules ensured that "Germans would have a huge say in how the eurozone operated. German officials had invented the system and Germany's large economic size gave it disproportionate political influence."[525] In fact, "at Bonn's behest, Europe's finance ministers would thus be bound, Ulysses-like, to the euro-mast: unable to respond to the Siren-calls of voters and politicians for easier money and increased public spending."[526] Consequently, "the resulting rules-based, numbers-

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520 Rodrik, *The Globalization Paradox,* 205ff.
521 Judt, *Postwar,* 553.
522 Kaelberer, *Money and Power in Europe*, 199.
523 Mody, *EuroTragedy,* 160.
524 Lingens, *Die Zerstörung der EU*, 86.
525 Mody, *EuroTragedy*, 114.
526 Judt, *Postwar*, 715.

focused governing of the Eurozone has not only generated problems for the European economy, it has also cast doubts on the European Union's democratic legitimacy and its social solidarity."[527] Apart from these two points, another component of Rodrik's trilemma, namely national sovereignty, was undermined by awarding the authority to conduct monetary policy to the inherently unaccountable ECB. The resulting encasement of the economy with a protective layer against majoritarian demands and national interests "reflected the view of neo-liberal economics that markets needed rules, not states."[528] Thus, without being a hegemon, Germany succeeded in giving birth to a neoliberal hegemony as it effectively created a "'Hayekian economic constitution' [which] aimed at the 'immunization of expanding capitalist markets against egalitarian-interventionist democratic politics.'"[529]

While this outcome was far from what Mitterrand had originally intended in his long pursuit of a common European currency, the Maastricht Treaty did not constitute the result of Kohl's dreams either. As the Chancellor saw himself in the tradition of Konrad Adenauer much rather than that of Ludwig Erhard, he "stood intellectually for the primacy of foreign and security policy"[530] over economic considerations. Thus, for him a political union was the great prize to be won. However, in his eagerness to go down in history as a great European, he gave up on an effective political union, which would have been "the opposite of the ordo-liberal union that currently structures the institutions of the euro."[531] Consequently, by allowing the German ordoliberal coalition to get their way on basically every major decision on the EMU, he is ultimately responsible for setting Europe on a path that would lead to the implementation of strict austerity policies all over Southern Europe during the sovereign debt crisis, thereby exacerbating the worst economic crisis that the continent has witnessed since the end of the Second World War. Thus, by giving his blessing to the Maastricht Treaty, he not only created a neoliberal hegemony within the EU, but also ensured that, about a century and a half after the *Manifesto of the Communist Party* had been published, a specter was once again haunting Europe.

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[527] Schmidt, Vivien A.. 2015. "The Forgotten Problem of Democratic Legitimacy: 'Governing by the Rules' and 'Ruling by the Numbers'." In *The Future of the Euro*, edited by Matthias Matthijs and Mark Blyth, 90-114. New York: Oxford University Press, 91.
[528] Skidelsky, *Money and Government,* 377.
[529] Slobodian, *Globalists,* 266.
[530] Dyson and Featherstone, *The Road to Maastricht,* 260.
[531] McNamara, Kathleen R.. 2015. "The Forgotten Problem of Embeddedness: History Lessons for the Euro." In *The Future of the Euro*, edited by Matthias Matthijs and Mark Blyth, 21-43. New York: Oxford University Press, 29.

Conclusions

"You shall not crucify mankind upon a cross of gold."[532]
- William Jennings Bryan, 1896

In early July 1896, Chicago was the political center of the United States as the Democrats had gathered to choose their candidate for the upcoming presidential elections. On the second day of the Convention, 36-year old William Jennings Bryan, a native Illinoisan and former Congressman from Nebraska, walked up to the podium to deliver a truly memorable speech. With fiery words he advocated for the abandonment of the gold standard and the introduction of "unlimited silver coinage"[533] in order to alleviate the economic pressure on farmers and workers. When he ended his speech with the famous line that "you shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold,"[534] the audience was stunned. As Bryan recalled later, "'when I finished my speech, […] I went to my seat in a silence that was really painful. When I neared my seat, somebody near me raised a shout, and the next thing I was picked up and bedlam broke loose."[535] The next day, Bryan clinched the Democratic nomination.

Although Bryan eventually lost to William McKinley in the presidential elections, his 'Cross of Gold' speech went down in history not only as one of the best speeches ever made at a party convention, but also as an example of economic populism, which Eichengreen defined as "an approach to economics that emphasizes distribution while deemphasizing the risks to economic stability from sharp increases in government spending, inflationary finance, and government institutions overriding the operation of the market."[536] If Bryan had lived one hundred years later in Europe, one could easily see him advocating against the Maastricht Treaty, which, on ordoliberal German insistence, prevented the member states' governments from engaging in a Keynesian spending spree by introducing strict fiscal rules. The treaty also ensured low inflation by making price stability the ECB's sole objective while deemphasizing questions of distribution. Consequently, using Eichengreen's

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532 Rodrik, *The Globalization Paradox,* 37.
533 Eichengreen, *Globalizing Capital*, 40.
534 William Jennings Bryan Cross of Gold Speech July 8, 1896. No date. *University of Groningen.* Accessed June 2, 2019. http://www.let.rug.nl/usa/documents/1876-1900/william-jennings-bryan-cross-of-gold-speech-july-8-1896.php.
535 Ibid.
536 Eichengreen, Barry. 2018. *The Populist Temptation.* New York: Oxford University Press, 5.

definition, it can be said that the Maastricht Treaty is the direct opposite of economic populism. This point was taken up in a speech to the Bundestag by the German politician Gregor Gysi of the Socialist PDS in April 1998, where he stated that the EMU's disregard for solidarity and fair distribution gave the euro the potential to divide Europe. Almost prophetically, he underlined that while the common currency would boost "Germany's export opportunities, […] [it] would weaken the industry in Portugal, Spain and other countries."[537] Consequently, he concluded that the Maastricht Treaty established "a euro of the banks and export corporations, not of the small- and medium-sized businesses that are dependent on the domestic market, not of the employees."[538]

Gysi's statements are in line with what I have shown in this thesis. The story I told started in the 1980s when the French President Francois Mitterrand passionately wanted to create a European monetary union in order to contain Germany's influence on the European economy and dismantle the deutschmark's supremacy. In spite of strong German opposition to this idea, which was headed by the Bundesbank and the traditionally ordoliberal Ministries of Economics and Finance, Mitterrand succeeded in putting the EMU firmly on the EC's agenda by the end of the decade. Undoubtedly, this would not have been possible without his excellent relationship with the German Chancellor Helmut Kohl. Indeed, the two of them saw themselves as "the engine of the EC,"[539] with Kohl being particularly keen on being remembered as a great European statesman. However, while Mitterrand was initially an equal partner in this process, the fall of the Berlin Wall changed everything. While the German monetary union moved Europe closer to a common currency than ever before by deconstructing coronation theory, the traditional ordoliberal argument against a European monetary union, the subsequent reunification of Germany significantly changed the balance of power between France and Germany in favor of the latter. Faced with this new reality, the French leadership felt "an urgent need to secure a European deal as quickly as possible,"[540] with Mitterrand being ready to accept almost every German demand in exchange for binding reunified Germany irreversibly into the European framework. Consequently, the German negotiating team had all the leverage in the Maastricht negotiations, where they were able to secure a treaty that reflected a German Europe

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537 Lingens, *Die Zerstörung der EU*, 187.
538 Ibid, 187f.
539 Kohl, *Erinnerungen: 1982-1990,* 286.
540 Caton, *France and the Politics of European Economic and Monetary Union*, 49.

much rather than a European Germany. Apart from conceding a fixed date for the transition to the third and final stage of the EMU, which was probably the most important demand of France and other weak-currency countries, Germany made no other major concessions. By contrast, its negotiating team around the ordoliberals Tietmeyer and Köhler managed to push through all German demands concerning macroeconomic standards, including the convergence criteria, as well as a hyper-independent European Central Bank whose sole responsibility was to ensure price stability, thereby establishing a hegemony of ordo- and neoliberal economic thought in the European Union.

As Gysi had already pointed out in 1998, the EMU, as it was designed at Maastricht, had substantial weaknesses. Indeed, only shortly after his speech, he was joined in his criticism by the newly elected German Chancellor Gerhard Schröder of the SPD. As Germany was experiencing an economic slowdown, causing the Economist to call the country "the sick man of the Euro,"[541] it suddenly felt the harshness of its own fiscal rules since it no longer had the option to "respond to its latest bout of weakness with lower interest rates and a bigger budget deficit."[542] Consequently, Schröder and his Finance Minister Hans Eichel were in an uncomfortable position. As the Chancellor pointed out, it was a mammoth task to "challenge the inflexible and growth inhibiting Maastricht criteria with their borrowing limit of three percent"[543] within the strongly ordoliberal Ministry of Finance. Still, in order to combat recessionary pressure, "we temporarily had to move away from strict fiscal consolidation. Thus, a collision with the Maastricht criteria was inevitable."[544] The abandonment of the fiscal rules during Germany's economic downturn clearly shows the absurdity of prescribing austerity to an ailing nation. In fact, "Eichel rightly insisted that more austerity would be counterproductive. […] Austerity can actually increase the debt burden because it causes GDP to decline and hence the debt-to-GDP ratio to rise."[545]

However, Schröder had already shown early on during his Chancellorship that neoliberal economic ideas were not foreign to him. In a speech to the Bundestag in

[541] The sick man of the euro. 1999. *The Economist,* June 3, 1999. Accessed November 5, 2018. https://www.economist.com/special/1999/06/03/the-sick-man-of-the-euro.
[542] Ibid.
[543] Schröder, Gerhard. 2006. *Entscheidungen: Mein Leben in der Politik.* Hamburg: Hoffmann und Campe, 436.
[544] Ibid, 437.
[545] Mody, *EuroTragedy,* 150.

June 1999, he pointed out that that it is "important that we adapt our national policies to the requirements of globalization."[546] Consequently, despite his Finance Minister's precious insights, he did not attempt to change Europe's neoliberal manifesto but rather pushed through a reform package that was severely molded by neoliberal ideology. While Schröder's Hartz IV reforms reduced the German unemployment rate, it mainly created insecure jobs that "helped to down wages for unskilled workers. […] In the first ten years of the euro, despite soaring productivity, half of German households experienced no wage growth at all."[547] Thus, while Germany underwent an economic transformation that was particularly painful for its own population, the Maastricht criteria remained untouched and were, consequently, still in place when the sovereign debt crisis hit Greece. At this point in time, Eichel's wise words about the counterproductivity of austerity had long been forgotten and the neoliberal specter had risen from the shadows to haunt the Hellenic Republic.

January is generally not the most pleasant time of the year to visit Athens. It tends to be rather cold, with rain regularly falling on the heads of ill-prepared tourists. Still, when Angela Merkel travelled to the Greek capital in January 2019, a lot seemed to have changed since her visit at the height of the sovereign debt crisis in 2012. This time, she was not greeted by wrathful demonstrations, but a smiling Greek Prime Minister. As Alexis Tsipras pointed out, a "'relationship of trust'"[548] had been built between the two countries. Indeed, to quote Tsipras, the Chancellor had "'wanted to come for some time because she considers it also her own success that while Greece was on the verge of bankruptcy in 2015, it has managed to recover and of course remain in the central core of the European Union.'"[549] The recovery was represented by the Greek GDP growing by 1.93 percent in 2018, with the OECD projecting a solid growth rate of 2.14 percent for 2019.[550] All seemed to be well.

Unfortunately, I cannot let the story end on this happy note. While the Greek economy indeed grew in 2018, this does not make up for the fact that the country's

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546 Regierungserklärung von Bundeskanzler Gerhard Schröder zum Thema "Globalisierung gemeinsam gestalten" vor dem Deutschen Bundestag am 16. Juni 1999 in Bonn. 1999. *Die Bundesregierung,* June 18, 1999. Accessed June 1, 2019. https://www.bundesregierung.de/breg-de/suche/regierungserklaerung-von-bundeskanzler-gerhard-schroeder-782426.

547 Tooze, *Crashed,* 95.

548 Smith, Helena. 2019. "Angela Merkel on 'victory tour' visit to Athens." *The Guardian,* January 10, 2019. Accessed June 3, 2019. https://www.theguardian.com/world/2019/jan/10/angela-merkel-on-victory-tour-visit-to-athens.

549 Ibid.

550 Real GDP Forecast. 2019. *OECD Data.* Accessed June 3, 2019. https://data.oecd.org/gdp/real-gdp-forecast.htm.

GDP stood at below sixty percent of its pre-crisis level in 2017.[551] Indeed, growth rates of about two percent will not change the desperate situation Greece still finds itself in anytime soon. Despite a shrinking population, more than 19 percent of its labor force were still out of work in 2018.[552] During the German Chancellor's visit, demonstrations were banned in downtown Athens, with only a few dozen leftist protestors being able to "break the police cordon before they were driven back."[553] Meanwhile, the attentive observer could hear a faint voice through the splashy sound of raindrops exploding on the grey cobblestones of the unnaturally empty Syntagma square. The specter of neoliberalism had come to stay.

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[551] Greece. No date. *The World Bank.* Accessed May 29, 2019. https://data.worldbank.org/country/greece.

[552] Greece. No date. *OECD Data.* Accessed May 29, 2019. https://data.oecd.org/greece.htm.

[553] Greek police use tear gas against anti-Merkel protesters. 2019. *Ekathimerini,* January 10, 2019. Accessed June 3, 2019. http://www.ekathimerini.com/236454/article/ekathimerini/news/greek-police-use-tear-gas-against-anti-merkel-protesters.

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Appendices

a) Chronology[554]

01.-22.07.1944	Bretton Woods Conference
08.05.1945	Unconditional surrender of Germany
18.12.1946	Declaration of par values by 32 countries
01.03.1947	IMF begins its operations
03.04.1948	Start of the Marshall Plan
16.04.1948	Foundation of Organization for European Economic Co-operation (OEEC)
23.05.1949	Foundation of Federal Republic of Germany (West Germany)
07.10.1949	Foundation of German Democratic Republic (East Germany)
19.09.1950	Foundation of European Payments Union (EPU)
14.08.1952	West Germany joins Bretton Woods Agreement
01.01.1958	Treaties of Rome creating the European Communities comes into force
27.12.1958	Western European countries make currencies convertible start of convertible period of the Bretton Woods system
Jul. 1960	EEC Commission advises Germany to revalue
Oct. 1960	Gold rush on London market Adenauer refuses to revalue German mark
Feb. 1961	US criticizes Germany for refusal to revalue
03.03.1961	Germany revalues
Nov. 1961	London Gold Pool officially formed
07.04.1962	Van Campen Report on coordination of monetary policies within the EU published

[554] Based on Bordo, Michael D.. 1993. "The Bretton Woods International Monetary System: A Historical Overview." In *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, edited by Michael D. Bordo and Barry Eichengreen, 3-108. Chicago: University of Chicago Press., Burhop, Carsten, Julian Becker and Max Bank. 2013. "Deutschland im Weltwährungssystem von Bretton Woods." *Geschichte und Gesellschaft* 39(2), 197-239., Kaelberer, Matthias. 2001. *Money and Power in Europe: The Political Economy of European Monetary Cooperation.* Albany: State University of New York Press., and Caton, Valerie. 2015. *France and the Politics of European Economic and Monetary Union.* New York: Palgrave Macmillan.

24.10.1962	Commission of the European Communities proposes Action Programme for the Second Stage
Jan. 1963	De Gaulle vetoes British entry in the European Communities
Spring 1964	Italian balance of payments crisis; alleviated by help from US and IMF
08.05.1964	Establishment of the Committee of Central Bank Governors
04.02.1965	De Gaulle calls for return to the gold standard
10.02.1965	France announces that it would exchange all incoming dollars into gold
Jul. 1967	France leaves Gold Pool
12.03.1968	US removes 25% gold requirement against Federal Reserve notes
15.03.1968	Gold Pool disbanded and replaced by two-tier gold system
May 1968	Strikes and student riots in France create pressure to devalue
12.02.1969	Barre Report published by Commission of the European Communities
28.04.1969	De Gaulle resigns as President of France
Jul. 1969	IMF's special drawing rights enter into force
08.08.1969	France devalues by 11.1%
29.09.1969	Germany revalues by 9.3%
08.10.1970	Werner Report published
22.03.1971	Council of Ministers endorses basic goals of Werner Report, thereby announcing Economic and Monetary Union as official goal
05.05.1971	German Bundesbank suspends operations in foreign exchange market
10.05.1971	German Bundesbank allows German mark to float against the dollar
15.08.1971	USA terminates convertibility of US Dollar to gold
17./18.12.1971	Smithsonian Agreement sets new parities
10.04.1972	Basel Agreement creates the Snake in the Tunnel
24.04.1972	The Snake in the Tunnel takes effect; members: Belgium, France, Germany, Italy, Luxembourg, the Netherlands
02.05.1972	Denmark, the United Kingdom and Ireland join the Snake
23.05.1972	Norway joins the Snake as an associated member
23.06.1972	The United Kingdom and Ireland leave the Snake
27.06.1972	Denmark leaves the Snake
10.10.1972	Denmark rejoins the Snake

13.02.1973	Italy leaves the Snake
19.03.1973	Breakdown of Smithsonian Agreement Snake loses the tunnel Members of the Snake float jointly against the dollar Sweden joins the Snake as an associated member Germany revalues by 3% against other Snake currencies
29.06.1973	Germany revalues by 5.5%
19.01.1974	France leaves the Snake
10.07.1975	France rejoins the Snake
15.03.1976	France leaves the Snake again Snake becomes essentially a "deutschemark zone" (or "mini-Snake")
18.10.1976	Germany revalues
28.08.1977	Sweden leaves the Snake
27.10.1977	Jenkins proposes to restart the EMU process
07.04.1978	Giscard d'Estaing and Schmidt present plans to replace Snake with a completely new system
Jul. 1978	Announcement by European Council that a European monetary system would be set up by the end of the year
14.09.1978	Aachen summit between Giscard and Schmidt brings breakthrough in EMS negotiations
17.10.1978	Germany revalues by 4%
01.11.1978	Schmidt accepts larger fluctuation band for Italian lira at Siena Summit
05.12.1978	European Council adopts rules for EMS
12.12.1978	Norway leaves the Snake
13.03.1979	European Monetary System becomes operative End of the Snake
21.05.1981	Francois Mitterrand sworn in as French President
05.10.1981	Germany revalues by 5.5%, France devalues by 3%
01.10.1982	Helmut Kohl takes office as Chancellor of West Germany after a successful constructive vote of no-confidence against Chancellor Helmut Schmidt
15.01.1985	Delors advocates single European currency in inauguration speech
01.07.1987	Single European Act becomes effective
18.09.1987	Basle-Nyborg Accord changes rules of EMS
02.06.1988	German-French summit at Evian
27./28.06.1988	Hanover Summit mandating an expert committee on economic and monetary union
12.04.1989	Delors Report published

26./27.06.1989	Delors Report endorsed at Madrid Summit by EU members
09.11.1989	Fall of the Berlin Wall
08.12.1989	Strasbourg Summit mandating an ICG on preparing Treaty amendments to implement EMU
01.01.1990	Start of stage one of the EMU process
06.02.1990	Chancellor Kohl proposes a monetary union between the two Germanies
19.04.1990	Germany and France agree on firm timetable for EMU
28.04.1990	Timetable adopted by European Council
01.07.1990	Start of the monetary union between the two Germanies
03.10.1990	German reunification
02.12.1990	Kohl re-elected as German Chancellor
09.12.1990	Beginning of the intergovernmental conferences on the EMU and political union
09./10.12.1991	Maastricht Treaty drafted by the European Council
07.02.1992	Maastricht Treaty signed by the members of the European Community
02.06.1992	Denmark rejects the Maastricht Treaty in a referendum
13.09.1992	Italy devalues
16.09.1992	Italy and the United Kingdom leave the ERM
20.09.1992	France approves Maastricht Treaty in a referendum
18.05.1993	Denmark ratifies Maastricht Treaty in second referendum
Aug. 1993	Widening of fluctuation bands in ERM from 4.5% to 30%
01.11.1993	Maastricht Treaty enters into force
01.01.1994	Start of stage two of the EMU process
17.05.1995	Francois Mitterrand's second and last term as French President ends
27.10.1998	Helmut Kohl voted out of office
01.01.1999	Start of stage three of the EMU process

b) Maps

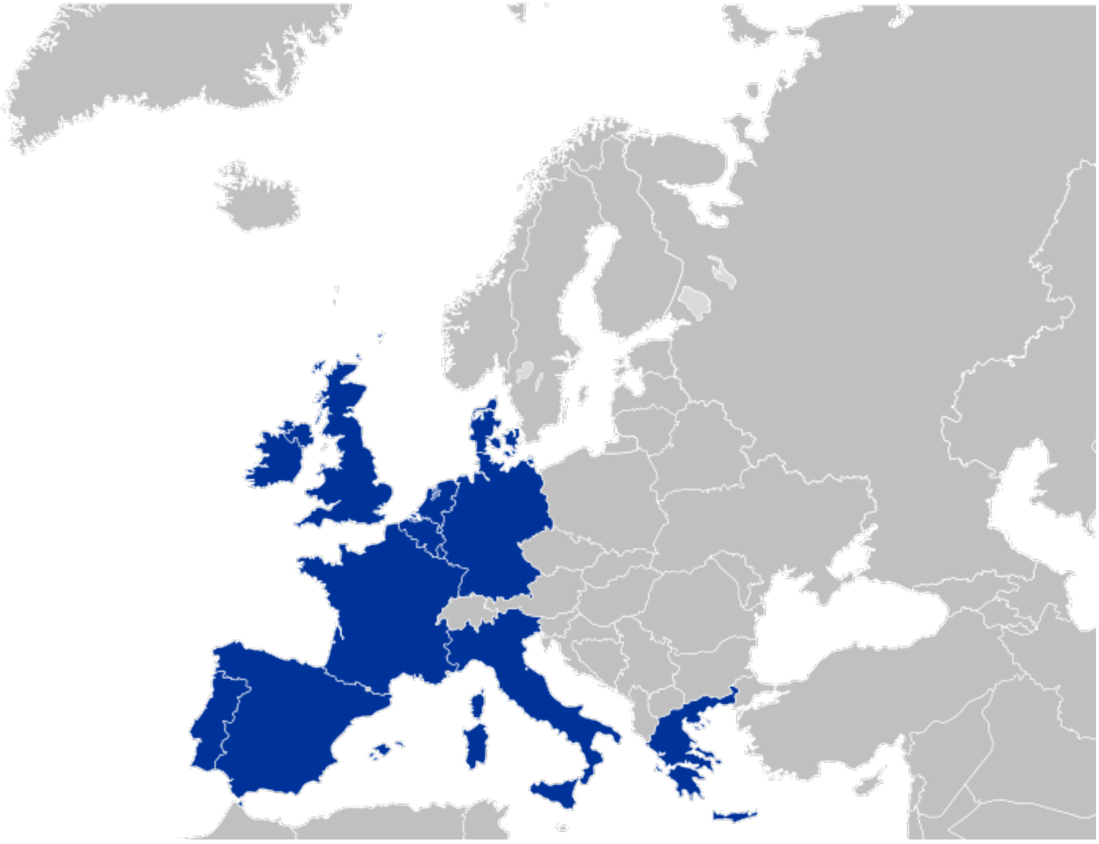
Map 1: Divided Germany: the Federal Republic of Germany (FRG) and the German Democratic Republic (GDR)[555]

[555] The Federal Republic of Germany and the German Democratic Republic (1961). No date. *German History in Documents and Images (GHDI).* Accessed January 15, 2019. http://ghdi.ghi-dc.org/map.cfm?map_id=363.

Map 2: Unified Germany in 1990: the Federal Republic of Germany[556]

[556] States of the Federal Republic (December 31, 1990). No date. *German History in Documents and Images (GHDI).* Accessed January 15, 2019. http://ghdi.ghi-dc.org/map.cfm?map_id=600.

Map 3: Member Countries of the European Communities in 1992[557]



[557] EU 12 (1992/93). 2009. *Wikipedia,* May 25, 2009. Accessed January 15, 2019. https://de.wikipedia.org/wiki/Datei:EU12-1992-93_European_Union_map.svg.

c) Dramatis Personae

West Germany

Konrad ADENAUER (1876-1967)
- Politician (CDU)
- Chancellor (1949-1963)

Willy BRANDT (1913-1992)
- Politician (SPD)
- Vice-Chancellor and Federal Minister of Foreign Affairs (1966-1969)
- Chancellor (1969-1974)

Hans EICHEL (*1941)
- Politician (SPD)
- Federal Minister of Finance (1999-2005)

Ludwig ERHARD (1897-1977)
- Politician (CDU)
- Federal Minister for Economics (1949-1963)
- Chancellor (1963-1966)

Hans-Dietrich GENSCHER (1927-2016)
- Politician (FDP)
- Leader of the FDP (1974-1985)
- Federal Minister of Foreign Affairs (1974-1982; 1982-1992)
- Vice Chancellor (1974-1982; 1982-1992)

Gregor GYSI (*1948)
- Politician (SED, PDS, The Left)
- Leader of the SED (1989)
- Leader of the PDS (1989-1993)
- Member of the Bundestag (1990-2002; since 2005)

Kurt Georg KIESINGER (1904-1988)
- Politician (CDU)
- Chancellor (1966-1969)

Helmut KOHL (1930-2017)
- Politician (CDU)
- Chancellor (1982-1998)

Horst KÖHLER (*1943)
- Economist and politician (CDU)
- Head of department ‘Geld and Kredit’ at the Federal Ministry of Finance (1989-1990)
- State Secretary in the Federal Ministry of Finance (1990-1993)
- President of Germany (2004-2010)

Oskar LAFONTAINE (*1943)
- Politician (SPD, The Left)
- Minister President of the Saarland (1985-1998)
- Leader of the SPD (1995-1999)
- Federal Minister of Finance (1998-1999)

Otto Graf LAMBSDORFF (1926-2009)
- Politician (FDP)
- Chairman of the FDP (1988-1993)
- Federal Minister of Economics (1977-1982)

Angela MERKEL (*1954)
- Politician (CDU)
- Chancellor (since 2005)

Karl Otto PÖHL (1929-2014)
- Economist
- President of Deutsche Bundesbank (1980-1991)

Thilo SARRAZIN (*1945)
- Economist and politician (SPD)
- Head of unit for national currency issues at the Federal Ministry of Finance (1989-1990)

Wolfgang SCHÄUBLE (*1942)
- Politician (CDU)
- Federal Minister of the Interior (1989-1991; 2005-2009)
- Leader of CDU/CSU in the Bundestag (1991-2000)
- Federal Minister of Finance (2009-2017)

Karl SCHILLER (1911-1994)
- Politician (SPD)
- Federal Minister of Economic Affairs (1966-1972)
- Federal Minister of Finance (1971-1972)

Helmut SCHLESINGER (*1924)
- Economist
- Vice-President of Deutsche Bundesbank (1980-1991)
- President of Deutsche Bundesbank (1991-1993)

Helmut SCHMIDT (1918-2015)
- Politician (SPD)
- Federal Minister for Economics (1972)
- Federal Minister of Finance (1972-1974)
- Chancellor (1974-1982)

Rupert SCHOLZ (*1937)
- Politician (CDU)
- Federal Minister of Defense (1988-1989)

Gerhard SCHRÖDER (*1944)
- Politician (SPD)
- Chancellor (1998-2005)

Lothar SPÄTH (1937-2016)
- Politician (CDU)
- Minister President of Baden-Württemberg (1978-1991)

Gerhard STOLTENBERG (1928-2001)
- Politician (CDU)
- Federal Minister of Finance (1982-1989)

Franz Josef STRAUSS (1915-1988)
- Politician (CSU)
- Leader of the CSU (1961-1988)
- Federal Minister of Finance (1966-1969)
- Minister President of Bavaria (1978-1988)

Hans TIETMEYER (1931-2016)
- Economist
- State Secretary in the Federal Ministry of Finance (1982-1989)
- Member of the Board of Directors of Deutsche Bundesbank (1990-1991)
- Vice-President of Deutsche Bundesbank (1991-1993)
- President of Deutsche Bundesbank (1993-1999)

Hans-Jochen VOGEL (*1926)
- Politician (SPD)
- Federal Minister of Justice (1974-1981)
- Leader of the SPD (1987-1991)

Theo WAIGEL (*1939)
- Politician (CSU)
- Leader of the CSU (1988-1999)
- Federal Minister of Finance (1989-1998)

East Germany

Lothar DE MAIZIÈRE (*1940)

- Politician (CDU)
- Deputy Chairman of the Council of Ministers (1989-1990)
- Prime Minister of the German Democratic Republic (1990)

Erich HONECKER (1912-1994)

- Politician (SED)
- General Secretary of the Socialist Unity Party of Germany (1971-1989)
- Chairman of the State Council (1976-1989)

Horst KAMINSKY (*1927)

- Politician (SED)
- President of the Staatsbank (1974-1990)

Egon KRENZ (*1937)

- Politician (SED)
- General Secretary of the Socialist Unity Party of Germany (1989)
- Chairman of the State Council (1989)

Hans MODROW (*1928)

- Politician (SED, The Left)
- Chairman of the Council of Ministers (1989-1990)

Günter SCHABOWSKI (1929-2015)

- Journalist and politician (SED)
- Member of the Politbüro (1985-1990)

Walter ROMBERG (1928-2014)

- Politician (SPD)
- Minister of Finance (1990)

France

Édouard BALLADUR (*1929)
- Politician (Conservative)
- Minister of Finance (1986-1988)
- Prime Minister (1993-1995)

Pierre BÉRÉGOVOY (1925-1993)
- Politician (Socialist)
- Minister of Finance (1984-1986; 1988-1992)
- Prime Minister (1992-1993)

Jacques CHIRAC (*1932)
- Politician (Conservative)
- Prime Minister (1974-1976; 1986-1988)
- President of France (1995-2007)

Charles DE GAULLE (1890-1970)
- Army officer and politician (Conservative)
- Leader of Free France (1940-1944)
- Chairman of the Provisional Government of the French Republic (1944-1946)
- President of France (1959-1969)

Roland DUMAS (*1922)
- Politician (Socialist)
- Minister of Foreign Affairs (1986-1988; 1988-1993)

Valéry GISCARD D'ESTAING (*1926)
- Author and politician (liberal-conservative)
- Minister of Finance (1962-1966; 1969-1974)
- President of France (1974-1981)

Francois MITTERRAND (1916-1996)
- Politician (Socialist)
- President of France (1981-1995)

Georges POMPIDOU (1911-1974)
- Politician (Conservative)
- Prime Minister (1962-1968)
- President of France (1969-1974)

Jean-Claude TRICHET (*1942)
- Economist
- Director of the Treasury (*Trésor*) (1987-1993)
- Governor of the Bank of France (1993-2003)
- President of the European Central Bank (2003-2011)

United States of America:

William Jennings BRYAN (1860-1925)
- Politician (Democrat)
- Democratic nominee for President (1896)
- Secretary of State (1913-1915)

George H.W. BUSH (1924-2018)
- Politician (Republican)
- Vice-President (1981-1989)
- President (1989-1993)

John CONNALLY (1917-1993)
- Politician (Republican)
- Secretary of the Treasury (1971-1972)

Richard NIXON (1913-1994)
- Politician (Republican)
- Vice-President (1953-1961)
- President (1969-1974)

Ronald REAGAN (1911-2004)
- Politician (Republican)
- President (1981-1989)

United Kingdom:

Winston CHURCHILL (1874-1965)
- Politician (Conservative)
- Prime Minister (1940-1945; 1951-1955)

Harold MACMILLAN (1894-1986)
- Politician (Conservative)
- Prime Minister (1957-1963)

John MAJOR (*1943)
- Politician (Conservative)
- Chancellor of the Exchequer (1989-1990)
- Prime Minister (1990-1997)

Margaret THATCHER (1925-2013)
- Politician (Conservative)
- Prime Minister (1979-1990)

Rest of the World:

Giulio ANDREOTTI (1919-2013)
- Italian politician (Christian Democrat)
- Prime Minister of Italy (1972-1973; 1976-1979; 1989-1992)
- Minister of Foreign Affairs (1983-1989)

Felipe GONZÁLEZ (*1942)
- Spanish lawyer and politician (Social Democrat)
- Prime Minister of Spain (1982-1996)

Mikhail GORBACHEV (*1931)
- Soviet politician (Communist)
- General Secretary of the Communist Party of the Soviet Union (1985-1991)
- Chairman of the Supreme Soviet of the Soviet Union (1989-1990)
- President of the Soviet Union (1990-1991)

Gyula HORN (1932-2013)
- Hungarian politician (Socialist)
- Minister of Foreign Affairs (1989-1990)
- Prime Minister of Hungary (1994-1998)

Saddam HUSSEIN (1937-2006)
- Iraqi politician
- President of Iraq (1979-2003)

Ruud LUBBERS (1939-2018)
- Dutch politician (Conservative)
- Prime Minister of the Netherlands (1982-1994)

Alexis TSIPRAS (*1974)
- Greek politician (Socialist)
- Prime Minister of Greece (since 2015)

Pierre WERNER (1913-2002)
- Luxembourg politician (Christian Democrat)
- Prime Minister of Luxembourg (1959-1974; 1979-1984)
- Author of the Werner Report

European Institutions:

Raymond BARRE (1924-2007)

- French economist and politician (conservative)
- Vice-President of the European Commission and Commissioner for Economic and Financial Affairs (1967-1973)
- Prime Minister of France (1976-1981)
- French Minister of the Economy and Finance (1976-1978)

Jacques DELORS (*1925)

- French politician (socialist)
- French Minister of Finance (1981-1984)
- President of the European Commission (1985-1995)

Roy JENKINS (1920-2003)

- British politician (Labor, SDP, Liberal Democrat)
- British Chancellor of the Exchequer (1967-1970)
- British Home Secretary (1974-1976)
- President of the European Commission (1977-1981)

d) Glossary

Adjustable Peg

"An adjustable peg is an exchange rate policy in which a currency is pegged or fixed to a major currency such as the U.S. dollar or euro but can be readjusted to account for changing market conditions. The periodic adjustments are usually intended to improve the country's competitive position in the export market."[558]

Balance of Payments

The balance of payments "summarizes all transactions that a country's individuals, companies and government bodies complete with individuals, companies and government bodies outside the country. These transactions consist of imports and exports of goods, services and capital, as well as transfer payments such as foreign aid and remittances."[559]

Bank deutscher Länder

The 'Bank deutscher Länder' "was the first central bank for the Deutsche Mark. It was founded on 1 March 1948 and was replaced in 1957 by the Deutsche Bundesbank."[560]

Banque de France

The 'Banque de France' is the French central bank. Since 1999, it has been a member of the European System of Central Banks (ESCB).[561]

Bretton Woods System

The Bretton Woods System was the international monetary system between 1945 and the early 1970s. It was a system of fixed but adjustable exchange rates, in which the dollar was pegged to gold and all other participating currencies were pegged to the dollar.[562]

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558 Adjustable Peg. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/a/adjustable-peg.asp.

559 Balance of Payments (BOP). No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/b/bop.asp.

560 Bank deutscher Länder. No date. *Wikipedia.* Accessed December 1, 2018. https://en.wikipedia.org/wiki/Bank_deutscher_Länder.

561 Bank of France. No date. *Wikipedia.* Accessed January 22, 2019. https://en.wikipedia.org/wiki/Bank_of_France.

562 Weerth, Carsten. No date. "Bretton-Woods-System." *Gabler Wirtschaftslexikon.* Accessed December 1, 2018. https://wirtschaftslexikon.gabler.de/definition/bretton-woods-system-29585.

Current Account

"The current account is one half of the balance of payments, the other half being the capital or financial account. While the capital account measures cross-border investments in financial instruments and changes in central bank reserves, the current account measures imports and exports of goods and services; payments to foreign holders of a country's investments and payments received from investments abroad; and transfers such as foreign aid and remittances."[563]

Deutsche Bundesbank

On July 26, 1957 the Deutsche Bundesbank replaced the 'Bank deutscher Länder' as West Germany's central bank. After German reunification, it became the central bank of reunified Germany as a whole. One of its central features is its independence from the German government. In 2002, with the introduction of the Euro, it transferred its competencies in monetary policy to the European System of Central Banks.[564]

Deutsche Mark

The Deutsche Mark was introduced in 1948 and was the official currency of West Germany from its foundation in 1949 until 2002. After German reunification in 1990, it became the official currency of reunited Germany as a whole.[565]

European Economic and Monetary Union (EMU)

The European Economic and Monetary Union, which was launched in 1992 and gradually replaced the European Monetary System, "involves the coordination of economic and fiscal policies, a common monetary policy, and a common currency, the euro. Whilst all 28 EU Member States take part in the economic union, some countries have taken integration further and adopted the euro. Together, these countries make up the euro area."[566]

European Central Bank (ECB)

The European Central Bank is the central bank that "has been responsible for monetary policy in the Euro area since January 1, 1999, when the euro currency was first adopted by some EU members."[567]

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[563] Current Account. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/c/currentaccount.asp.
[564] Vor 60 Jahren: Gründung der Bundesbank. 2017. *Bundeszentrale für politische Bildung,* July 24, 2017. Accessed December 1, 2018. http://www.bpb.de/politik/hintergrund-aktuell/252159/60-jahre-bundesbank-24-07-2017.
[565] D-Mark (Deutsche Mark). No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/d/d-mark.asp.
[566] What is the Economic and Monetary Union? (EMU). No date. *European Commission.* Accessed December 1, 2018. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-and-monetary-union/what-economic-and-monetary-union-emu_en.
[567] European Central Bank – ECB. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/e/europeancentralbank.asp.

European Exchange Rate Mechanism (ERM)

“The European Exchange Rate Mechanism (ERM) was a system introduced by the European Economic Community on 13 March 1979, as part of the European Monetary System (EMS), to reduce exchange rate variability and achieve monetary stability in Europe.”[568]

European Monetary System (EMS)

In the European Monetary System, several European countries fixed their exchange rates in an attempt to create a stable monetary system in 1979. It was replaced by the European Economic and Monetary Union in the 1990s.[569]

European Payments Union (EPU)

The European Payments Union was established in 1950 and served as a clearing house, where bilateral claims and liabilities resulting from trade between participating European countries were recorded and balanced at the end of each month. This arrangement facilitated intra-European trade.[570]

European System of Central Banks (ESCB)

“The European System of Central Banks (ESCB) consists of the European Central Bank and the national central banks of all 28 member states of the European Union. The ESCB is not the monetary authority of the eurozone, because not all EU member states have joined the euro. That role is performed by the Eurosystem, which includes the national central banks of the 19 member states that have adopted the euro. The ESCB's objective is price stability throughout the European Union. Secondarily, the ESCB's goal is to improve monetary and financial cooperation between the Eurosystem and member states outside the eurozone.”[571]

Fixed Exchange Rate

“A fixed exchange rate is a regime applied by a country whereby the government or central bank ties the official exchange rate to another country's currency or the price of gold. The purpose of a fixed exchange rate system is to keep a currency's value within a narrow band.”[572]

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[568] European Exchange Rate Mechanism. No date. *Wikipedia.* Accessed December 1, 2018. https://en.wikipedia.org/wiki/European_Exchange_Rate_Mechanism.
[569] European Monetary System – EMS. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/e/ems.asp.
[570] Burhop, Carsten, Julian Becker and Max Bank. 2013. “Deutschland im Weltwährungssystem von Bretton Woods.” *Geschichte und Gesellschaft* 39(2), 202f.
[571] European System of Central Banks. No date. *Wikipedia.* Accessed December 1, 2018. https://en.wikipedia.org/wiki/European_System_of_Central_Banks.
[572] Fixed Exchange Rate. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/f/fixedexchangerate.asp.

Floating Exchange Rate

“A floating exchange rate is a regime where the currency price is set by the forex market based on supply and demand compared with other currencies.”[573]

International Monetary Fund (IMF)

The International Monetary Fund, which was founded in 1945 in accordance with the Bretton Woods Agreement, is an “organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.”[574]

Smithsonian Agreement

The Smithsonian Agreement was an agreement between ten developed countries that “made adjustments to the system of fixed exchange rates established under the Bretton Woods Agreement. […] [It] resulted in a partial devaluing of the U.S. dollar, but it was not enough to address the underlying issues of the Bretton Woods Agreement, and it lasted just 15 months before the broader system collapsed.”[575]

Snake in the Tunnel

The ‘Snake in the Tunnel’ was a first attempt at a European economic and monetary union after the breakdown of the Bretton Woods system. It was designed as an exchange rate system in which the European currencies would fluctuate in a tunnel whose ceiling and floor were set by the exchange rates of the European currencies against the dollar in the Smithsonian agreement. After the breakdown of the Smithsonian Agreement in 1973, the tunnel collapsed. The Snake was ultimately replaced by the European Monetary System in 1979.[576]

Werner Plan

The Werner Plan was a report by the European Communities that was published on October 8, 1970. The report proposed “a plan for the gradual realization of an economic and monetary union within the European Union.”[577]

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[573] Floating Exchange Rate. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/f/floatingexchangerate.asp.

[574] About the IMF. No date. *International Monetary Fund.* Accessed December 1, 2018. https://www.imf.org/en/About.

[575] Smithsonian Agreement. No date. *Investopedia.* Accessed December 1, 2018. https://www.investopedia.com/terms/s/smithsonian-agreement.asp

[576] Kaelberer, Matthias. 2001. Money and Power in Europe: The Political Economy of European Monetary Cooperation. Albany: State University of New York Press, 106f.

[577] Michler, Albert F.. No date. *Gabler Wirtschaftslexikon.* Accessed December 1, 2018. https://wirtschaftslexikon.gabler.de/definition/werner-plan-49041.

e) Briefing Reports

Report 1: Bretton Woods and the Preconvertible Period (1945-1958)

In July 1944, with World War II still ravaging in Europe and the Pacific, representatives of 44 nations came together in Bretton Woods, New Hampshire, to discuss what the international monetary system should look like after the conclusion of the Second World War.[578] The main goal was to avoid "the mistakes of the interwar period […] [which] included, first, wildly fluctuating exchange rates after World War I and the collapse of the short-lived gold exchange standard; thereafter, the international transmission of deflation and the resort to beggar-thy-neighbor devaluations; and, finally, trade and exchange restrictions and bilateralism."[579] At the conference, two competing proposals, one by the British economist John Maynard Keynes and one by the American Harry Dexter White, were discussed. The resulting "Joint Statement and the Articles of Agreement were a compromise"[580], but incorporated more elements of the White Plan.[581] However, to balance American demands for fixed exchange rates with British insistence on flexible exchange rates, the representatives agreed on a new system called 'adjustable peg', under which participating countries had to "declare par values for their currencies in terms of gold or a currency convertible into gold (which in practice meant the dollar) and to hold their exchange rates within 1 percent of those levels."[582] In addition, the Bretton Woods agreement introduced the International Monetary Fund (IMF) as an institution monitoring developments in the international monetary system, and permitted capital controls, which was a necessary condition for the system of adjustable pegs to work.[583]

However, when World War II finally came to an end, the international monetary system looked nothing like the system envisioned by the representatives in Bretton Woods. Indeed, "full convertibility of the major industrial countries was not

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[578] Burhop, Carsten, Julian Becker and Max Bank. 2013. "Deutschland im Weltwährungssystem von Bretton Woods." *Geschichte und Gesellschaft* 39(2), 197.
[579] Bordo, Michael D.. 1993. "The Bretton Woods International Monetary System: A Historical Overview." In *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, edited by Michael D. Bordo and Barry Eichengreen, 3-108. Chicago: University of Chicago Press, 28.
[580] Eichengreen, Barry. 2008. *Globalizing Capital: A History of the International Monetary System. Second Edition.* Princeton: Princeton University Press, 95.
[581] Bordo, "The Bretton Woods International Monetary System", 34.
[582] Eichengreen, *Globalizing Capital,* 95.
[583] Ibid, 91f.

achieved until the end of 1958,"[584] with the dollar being the only major currency that was convertible in the first few years after World War II. For the Bretton Woods system to become operational, two main problems had to be solved: firstly, except for the United States, every country had introduced substantial controls on capital and trade. Secondly, "massive payment deficits and depleted international reserves in Europe"[585] led to a massive shortage of dollars. The two problems were solved by the mid-1950s. Firstly, the Marshall Plan allowed Western European countries to rebuild their economies, which led to current account surpluses. In turn for getting American aid, these countries had to liberalize their capital and trade controls.[586] Secondly, the countries that had joined the Marshall Plan established the European Payments Union (EPU), which acted as a clearinghouse where bilateral claims and liabilities resulting from trade between participating European countries were recorded and balanced at the end of each month.[587] Thus, intra-European trade was facilitated and the volume of payments transaction was reduced significantly.[588]

West Germany joined the Bretton Woods system in 1952.[589] As an Axis power, Germany had not participated in the negotiations at Bretton Woods. Thus, it joined a system on whose design it had had no influence at all. However, already during the preconvertible period, West Germany played a quite important role. Between 1950 and 1957, West Germany recorded an average annual increase of 600 million dollars in its currency reserves, which was due to its current account surpluses, while France continuously lost reserves. Thus, the franc had to be stabilized several times during this period. From 1955 onward, West Germany took several measures to reduce its current account surplus in order to alleviate the pressure on France. However, it refused to take the most important step, which would have been to reduce German interest rates as West Germany, molded by the experience of hyperinflation in the 1920s, did not want to risk higher inflation rates. As a result, huge amounts of capital flowed into West Germany, which came under intense pressure to revalue the deutschmark. The French crisis was only resolved after General de Gaulle became President of France and devalued the franc by almost 17 percent in 1958.[590]

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[584] Bordo, "The Bretton Woods International Monetary System", 37.
[585] Ibid, 41.
[586] Ibid, 41ff.
[587] Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods", 202f.
[588] Bordo, "The Bretton Woods International Monetary System", 43.
[589] Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods", 197.
[590] Ibid, 201ff.

Report 2: The Convertible Period and the Downfall of Bretton Woods (1958-1971)

When the full convertibility of the major currencies was achieved in late 1958, the Bretton Woods system finally kicked into gear. However, the "heyday of Bretton Woods, during which the system actually operated as envisioned under full convertibility, lasted only from 1959 through 1968."[591] During this time, each currency was pegged to the dollar, which, in turn, was convertible to gold at a fixed rate of 35 dollars per ounce.[592] Thus, members of the Bretton Woods system "intervened in the foreign exchange market, either buying or selling dollars, to maintain its parity within the prescribed 1% margins."[593] Already during these years, where the system seemed to work well, it faced, however, several severe problems, which is why Barry Eichengreen remarked that "the survival of the Bretton Woods System until 1971 [was] something of a surprise."[594] The main problems of the system were a lack of adjustment, liquidity and confidence.[595]

First of all, the adjustment problem meant that there was no automatic adjustment mechanism between surplus and deficit countries. The adjustment mechanism of the gold standard, the price specie flow mechanism, under which deficit countries had to introduce deflationary austerity policies, was no longer viable as regulations and the strength of labor unions had made it impossible to sharply reduce wages.[596] With the continuous removal of trade restrictions, governments had only two options left: they could introduce capital controls and they could devalue. However, "with the restoration of current-account convertibility, capital controls became more difficult to enforce"[597] and governments were wary of devaluing since such a step was seen as an admission of "an all-too-visible failure."[598] Thus, with no adjustment mechanism balancing between surplus and deficit countries, the asymmetries in the system increased continuously.

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[591] Garber, Peter M.. 1993. "The Collapse of the Bretton Woods Fixed Exchange Rate System." In *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform,* edited by Michael D. Bordo and Barry Eichengreen, 461-494. Chicago: University of Chicago Press, 461.
[592] Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods", 199.
[593] Bordo, "The Bretton Woods International Monetary System", 49.
[594] Eichengreen, *Globalizing Capital,* 121.
[595] Bordo, "The Bretton Woods International Monetary System", 50ff.
[596] Eichengreen, *Globalizing Capital,* 43f.
[597] Ibid, 119.
[598] Ibid, 120.

Secondly, the liquidity problem meant that there was not sufficient liquidity to "finance the growth of output and trade."[599] There were several reasons for this development: Firstly, the global gold stock did not grow nearly as fast as global output and, thus, had become inadequate by the late 1950s. Secondly, the IMF did not offer sufficient financing facilities. And thirdly, "the supply of U.S. dollars depended on the U.S. balance of payments,"[600] which leads us to our third and final problem, the confidence problem.

The confidence problem was probably the most severe problem of the Bretton Woods system as the system could only work as long as all members believed that they could exchange dollars for gold at a fixed rate of 35 dollars per ounce. In October 1960, a gold rush on the London market, which increased the price of an ounce to 40 dollars,[601] could only be counter-balanced by the major industrial countries agreeing on the establishment of the so-called 'Gold Pool', under which "they pledged to refrain from converting their dollar exchange and sold gold out of their reserves in an effort to relieve the pressure on the United States."[602] However, in 1965 the Gold Pool plunged into crisis when President de Gaulle announced that France would start to convert all its incoming dollars into gold.[603] After the United Kingdom was forced to devalue in November 1967, the Gold Pool lost three billion dollars in only four months, which led to its termination on March 17, 1968.[604]

During the final years of the Bretton Woods system, West Germany played a pivotal role. Between 1967 and 1969, its inflation rate was much lower than that of the United States and France. In France, much of the increase in prices could be traced back to the period of civil unrest in 1968, which was calmed down with higher wages. As President de Gaulle refused to devalue the franc to counteract against France's massive current account deficit, capital fled from France and, consequently, its reserves fell drastically. Subsequently, the Deutsche Bundesbank, which witnessed a massive increase in its reserves, urged the West German government to revalue the deutschmark, but both Karl Schiller, the minister of economic affairs, and Franz-Josef Strauß, the minister of finance, threatened to resign in case of a revaluation. Over the following months, Chancellor Kurt Georg Kiesinger refused to revalue despite vocal

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599 Bordo, "The Bretton Woods International Monetary System", 51.
600 Ibid, 51.
601 Ibid, 69.
602 Eichengreen, *Globalizing Capital,* 122.
603 Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods", 216.
604 Bordo, "The Bretton Woods International Monetary System", 70.

opposition not only by West Germany's principal allies, namely the United States, Great Britain and France, but also by the Bundesbank and Vice-Chancellor Willy Brandt. As the federal elections were to be held in autumn 1969, this split within the coalition government led to inactivity by West Germany and the issue was only resolved when the new government under the newly elected Chancellor Willy Brandt revalued the deutschmark. However, the next crisis was just around the corner, as the Bundesbank decided to raise interest rates to avoid higher inflation, while the Federal Reserve lowered the American interest rates. Because of the higher German interest rates, in April and May 1971 massive amounts of dollars flowed into West Germany. This caused its government to let the deutschmark float against the dollar on May 10, 1971. However, this decision did not alleviate the pressure on the United States, which still continuously lost reserves. By then, the writing was already on the wall and the "collapse of the Bretton Woods international monetary system followed as a matter of logic."[605] Its final demise came when President Nixon followed the advice of John Connally, his secretary of the treasury, and announced the suspension of the convertibility of the dollar to gold on August 13, 1971.[606]

[605] Eichengreen, *Globalizing Capital,* 122.
[606] Burhop et al., "Deutschland im Weltwährungssystem von Bretton Woods", 219ff.

Report 3: European Monetary Cooperation and the Snake in the Tunnel (1970-1979)

Already prior to the downfall of the Bretton Woods system, the member states of the European Communities started to take first steps toward monetary cooperation. In early 1969, the Commission advocated in the Barre Report for "closer coordination of economic and monetary policies within the EU."[607] Later the same year, at The Hague Summit, the heads of the member states' governments decided to set up a committee chaired by Pierre Werner, the then prime minister of Luxembourg, to fathom the possibility of a European economic and monetary union. Although the relationship between Chancellor Willy Brandt and President Georges Pompidou was strained, with the French president promoting domestic growth at the price of a high inflation rate, France and Germany were the driving forces behind this initiative toward closer cooperation.[608]

The committee finished its final report, the Werner Report, in 1970. It proposed to "fix exchange rates irrevocably, to eliminate fluctuation margins, and to establish complete freedom of capital movements within the EU."[609] In order to achieve these goals, it recommended the introduction of a common European currency. In addition, it proposed to centralize more competencies at the Community level, including some aspects of fiscal policy.[610] As the Bretton Woods system had failed, it may seem astonishing that Europeans wanted to introduce a system of fixed exchange rates once again. However, they had very good reasons: firstly, the participating countries were rather open economies, which means that they were highly sensitive to exchange rate fluctuations under a system of floating exchange rates. Secondly, in Europe "floating currencies had been associated with hyperinflation in the 1920s."[611]

However, West Germany was not particularly fond of the report's proposals. First of all, the deutschmark had become a symbol of German national pride[612] and was "indeed the currency of German power"[613]. Secondly, West Germany insisted that

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[607] Kaelberer, Matthias. 2001. *Money and Power in Europe: The Political Economy of European Monetary Cooperation.* Albany: State University of New York Press, 99.
[608] Cole, Alistair. 2001. *Franco-German Relations.* Harlow: Pearson Education, 15.
[609] Kaelberer, *Money and Power in Europe,* 100.
[610] Ibid, 100f.
[611] Eichengreen, *Globalizing Capital,* 150.
[612] Caton, Valerie. 2015. *France and the Politics of European Economic and Monetary Union.* New York: Palgrave Macmillan, 23.
[613] Garton Ash, Timothy. 1994. *In Europe's Name: Germany and the Divided Continent.* New York: Random House, 365.

prior to the realization of a monetary union there must be some degree of economic convergence between its prospective members as it feared importing higher inflation rates from other member states. The issue of preserving low inflation rates was absolutely crucial for West Germany as the country "had been deeply scarred by the experience in the 1920s of currency hyper-inflation which had destroyed the value of savings, ruined lives and contributed to the war."[614]

Despite these German reservations, the goals of the Werner Report were approved by the Council of Ministers. In addition, it "adopted a resolution calling for the realization in stages of a complete EMU by 1980."[615] Having seen the German concerns about a monetary union, it seems, at first glance, rather startling that West Germany agreed to this resolution. However, this apparent contradiction can be explained by the *Ostpolitik* pursued by Chancellor Willy Brandt. *Ostpolitik* was a comprehensive foreign policy that aimed to improve the relations between West Germany on the one hand and the Soviet Union and other Eastern European countries, most importantly the German Democratic Republic, on the other hand. However, "in order to gain and retain the support of Germany's Western partners, Bonn could not be seen to put those Western ties in question. On the contrary, she must redouble her insistence on their importance."[616] Thus, Chancellor Brandt had, in the end, little choice but to accept the resolution calling for the introduction of the EMU.

The first step toward the EMU, namely the introduction of narrower fluctuation margins, was scheduled to be implemented in June 1971. However, after the deutschmark was allowed to float in May and the Bretton Woods system broke down with the suspension of the convertibility of the dollar to gold in August 1971, European monetary cooperation could not start according to plan.[617] Still, the idea was kept alive and after the conclusion of the Smithsonian Agreement, a last effort to save the Bretton Woods system by introducing several adjustments and devaluing the dollar,[618] the EMU was already brought back to life in December 1971.

Under the Smithsonian Agreement, the fluctuation margins of participating currencies against the dollar were increased from 1 percent under the original Bretton Woods system to 2.25 percent. Subsequently, the Council of Ministers created a

[614] Caton, *France and the Politics of European Economic and Monetary Union*, 5.
[615] Kaelberer, *Money and Power in Europe,* 105.
[616] Garton Ash, *In Europe's Name,* 81.
[617] Kaelberer, *Money and Power in Europe,* 105.
[618] Eichengreen, *Globalizing Capital,* 131.

system called 'Snake in the Tunnel', where "the dollar exchange rates of the European currencies would provide the ceiling and the floor (the "tunnel") in between which intra-EU exchange rates would move collectively up and down (describing the curve of a snake)."[619] The weak dollar, however, prevented the envisioned snake-like curve. Instead, "the Snake was consistently pushed to the ceiling of the Smithsonian tunnel, […] [which] created adjustment pressures on the weaker currencies in the Snake."[620] As a result, the United Kingdom left the Snake in June 1972, only about one and a half months after joining, with Italy following the British example in February 1973. However, despite these difficulties, the Snake was kept alive even after the collapse of the Smithsonian agreement in March 1973, which meant not only that the Bretton Woods system was finally dead and buried, but also that the Snake had lost its tunnel. Still, the fate of the Snake did not improve, as the first oil shock disproportionately affected weaker currency countries. Thus, France left the Snake in January 1974.[621] Although the French briefly rejoined the system between July 1975 and March 1976, this basically meant the end of the first attempt of European monetary cooperation. Without France, Italy and the United Kingdom, the Snake had, in fact, become "a 'deutsche mark zone' for Germany and its smaller neighbors"[622]. This system, which could not be seen as a Community project anymore, stayed in place until the introduction of the European Monetary System (EMS) in 1979.[623]

Although the Snake had failed to deliver its goal of bringing closer the EMU, it still provided a very valuable insight: the Snake, as it was designed, could neither function with nor without West Germany. On the one hand, it became clear that the deutschmark was "Europe's reference currency and its anti-inflationary anchor"[624], which means that European monetary cooperation could not be achieved without Germany. On the other hand, West Germany, who became the standard-setter that had to be followed by the other members, showed an uncompromising stance on macroeconomic policy, especially concerning inflation, which made it too costly for weak currency countries to stay in the Snake.[625] Thus, the Snake could, in the end, not work with Germany either.

[619] Kaelberer, *Money and Power in Europe,* 106.
[620] Ibid.
[621] Eichengreen, *Globalizing Capital,* 151ff.
[622] Kaelberer, *Money and Power in Europe,* 106f.
[623] Ibid, 107.
[624] Eichengreen, *Globalizing Capital,* 157.
[625] Kaelberer, *Money and Power in Europe,* 117ff.

Report 4: The European Monetary System (1979-1987)

As the Snake did not provide the envisioned impetus for the introduction of a European monetary union, the President of the European Commission, Roy Jenkins, proposed "to restart the EMU process"[626] in 1977. While his proposal, in the end, came to nothing, it still proved to be important as it put the issue of monetary cooperation back on the agenda. Thus, it does not seem to be coincidental that only a few months after Jenkins' proposal, President Valery Giscard d'Estaing and Chancellor Helmut Schmidt presented their ideas of a new monetary system in Europe, which was supposed to replace the malfunctioning Snake, to the European Council.

Most interestingly, not President Giscard d'Estaing, but Chancellor Schmidt was the driving force behind this renewed attempt at monetary cooperation.[627] Chancellor Schmidt's reasons lay in the deteriorating relationship between West Germany and the United States. First of all, the depreciation of the dollar "put competitive pressures on Germany […] because the dollar dragged other non-Snake currencies (franc, sterling, and lira) down with it."[628] Consequently, fixing its exchange rate vis-à-vis its Western European allies would alleviate these pressures on West Germany. Secondly, the Carter administration, which suffered from very high inflation rates, wanted West Germany to reflate, which clashed with the latter's commitment to price stability and "introduced serious disagreements over the management of the global economy."[629] Thus, as it was already the case in the Snake, counterbalancing American monetary power was once again one of the prime motives for European monetary cooperation.

The new system, creatively called the European Monetary System (EMS), tried to cure the deficiencies of the Snake. Most importantly, it had to deal with the German problem, which lay at the core of the Snake's problems. Thus, President Giscard d'Estaing wanted to "strengthen the oversight powers of the Monetary Committee of the European Community with the goal of creating an EC body to which national monetary policymakers could be held accountable."[630] Moreover, France sought to introduce a "strengthened system of financing assistance for its members"[631], which

[626] Kaelberer, *Money and Power in Europe,* 127.
[627] Cole, *Franco-German Relations,* 92.
[628] Kaelberer, *Money and Power in Europe,* 130.
[629] Ibid, 131.
[630] Eichengreen, *Globalizing Capital,* 157.
[631] Kaelberer, *Money and Power in Europe,* 127.

would guarantee unlimited support for weaker-currency countries by strong-currency countries, particularly West Germany. Not surprisingly, West Germany did not agree to all of France's demands. Especially the latter point was met with strong opposition by the Bundesbank who saw it as a mechanism that "required it to purchase weak EMS currencies"[632], which, in turn, could jeopardize price stability in West Germany. To solve this issue, the German government gave the Bundesbank "the right to opt out of its intervention obligation if the government were unable to secure an agreement with its European partners on the need to realign"[633], thereby severely undermining the French proposal for financing assistance. However, the financing facilities under the EMS still proved to be much more extensive than under than Snake.[634]

Apart from the new financing facilities, the EC countries agreed to introduce the Exchange Rate Mechanism (ERM), which would lie at the heart of the EMS. Under the ERM, the exchange rates of the participating countries had to be held within a fluctuation margin of +/- 2.25 percent. The only country that was exempted from this rule was Italy, as Chancellor Schmidt grudgingly granted them a fluctuation band of +/- 6 percent.[635] Moreover, the ESM permitted capital controls[636] and introduced the European Currency Unit (ECU), which was used "for intra-EC bookkeeping purposes, the settlement of intervention debt, and as a reserve asset of EMS central banks."[637]

The EMS started operating on March 13, 1979, thereby replacing the Snake. In its first few years of operation, however, the EMS did not seem to be a big improvement on the Snake. After the French elected a Socialist government led by President Francois Mitterrand, who had promised to combat unemployment with Keynesian stimulus policies, in 1981, the franc came immediately under heavy downward pressure, which could only be counterbalanced by the extensive intervention of both the Banque de France and the Deutsche Bundesbank. Still, after four months, the franc had to be devalued. As this devaluation did not, however, improve the French balance of payments, speculators continued to sell francs, which is why France had to devalue again in June 1982 and in March 1983. After the third devaluation within as many years, President Mitterrand even thought about leaving the EMS and the EC, but, in the end, decided to end his expansive fiscal policies, thereby

[632] Eichengreen, *Globalizing Capital,* 159.
[633] Ibid.
[634] Kaelberer, *Money and Power in Europe,* 132.
[635] Ibid, 132.
[636] Eichengreen, *Globalizing Capital,* 160.
[637] Kaelberer, *Money and Power in Europe*, 127f.

stabilizing the franc.[638] Overall, from 1983 onwards, the EMS stabilized with realignments becoming both less frequent and less substantial. This development was certainly supported by an appreciating dollar, which "made it easier for European governments to live with a strong exchange rate against the mark."[639]

Within the EMS, West Germany took the leadership role that "had been occupied by the United States at Bretton Woods."[640] The deutschmark became the central anchor currency, which obliged all participating countries to follow the Bundesbank's monetary policy. In turn, this means that "Germany was able to control the macroeconomic performance of her partners without allowing them an influence in policy formulation."[641] However, while West Germany, just as under the Snake, did not make any concessions concerning its macroeconomic policy, it "showed greater flexibility on questions of external adjustment, financing, structural aid and symbolic issues."[642] As a result, Germany's leading role was accepted to a much larger degree than under the Snake. Thus, it can be said that, after the turbulent years between 1979 and 1983 had been weathered through, Europe experienced its first monetary success story as, to put it with Barry Eichengreen's words, "Europe's 'minilateral Bretton Woods' appeared to be gaining resilience."[643]

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[638] Eichengreen, *Globalizing Capital,* 162f.
[639] Ibid, 163.
[640] Ibid, 160.
[641] Cole, *Franco-German Relations,* 93.
[642] Kaelberer, *Money and Power in Europe,* 166.
[643] Eichengreen, *Globalizing Capital*, 164.

f) Charts and Figures

Chart 1: Inflation (1956-1986)[644]

Country/Year	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Germany	2.6	2.1	2.1	0.9	1.5	2.3	2.8	3	2.3	3.2	3.5	1.8	1.5	1.9	3.5	5.2	5.5	7	7	5.9	4.2	3.7	2.7	4	5.4	6.3	5.2	3.3	2.4	2.1	-0.1
Austria				1.1	1.9	3.5	4.4	2.7	3.9	4.9	2.1	4	2.8	3.1	4.4	4.7	6.4	7.5	9.5	8.4	7.3	5.5	3.6	3.7	6.3	6.8	5.4	3.3	5.7	3.2	1.7
Belgium	2.8	3.2	1.3	1.2	0.3	1	1.4	2.1	4.2	4.1	4.2	2.7	2.7	3.8	3.9	4.3	5.4	7	12.7	12.8	9.1	7.1	4.5	4.5	6.6	7.6	8.7	7.7	6.3	4.9	1.3
Denmark												7.7	8	3.5	6.5	5.9	6.6	9.3	15.3	9.6	9	10.9	10.2	9.6	12.3	11.8	10.1	6.9	6.3	4.7	3.7
France	1.9	3.1	15.3	5.8	4.1	2.4	5.3	5	3.2	2.7	2.6	2.8	4.5	6	5.3	5.4	6.1	7.4	13.6	11.7	9.6	9.5	9.3	10.6	13.6	13.3	12	9.5	7.7	5.8	2.5
Italy	3.4	1.3	2.9	-1	2.4	2.1	4.7	7.5	5.9	4.5	2.3	3.7	1.3	2.7	5	4.8	5.7	10.8	19.2	17	16.6	17.1	12.1	14.8	21.1	18	16.5	14.6	11	9.2	5.8
Luxembourg	0.6	4.6	0.7	0.4	0.4	0.5	0.9	2.9	3.1	3.3	3.3	2.2	2.6	2.3	4.6	4.7	5.2	6.1	9.5	10.7	9.8	6.7	3.1	4.5	6.3	8.1	9.4	8.7	6.4	4.1	0.3
Netherlands						0.6	2.4	3.2	5.8	3.9	5.8	3.5	3.7	7.4	3.7	7.5	7.8	8	9.6	10.2	8.8	6.4	4.1	4.2	6.5	6.7	5.9	2.7	3.3	2.3	0.1
Switzerland	1.5	2	1.8	-1	1.4	1.8	4.3	3.4	3.1	3.4	4.8	4	2.4	2.5	3.6	6.6	6.7	8.8	9.8	6.7	1.7	1.3	1	3.6	4	6.5	5.7	2.9	2.9	3.4	0.8
United Kingdom	5	3.7	3	0.6	1	3.4	4.2	2	3.3	4.8	3.9	2.5	4.7	5.4	6.4	9.4	7.1	9.2	16	24.2	16.6	15.8	8.3	13.4	18	11.9	8.6	4.6	5	6.1	3.4
United States	1.5	3.3	2.7	1	1.5	1.1	1.2	1.2	1.3	1.6	3	2.8	4.3	5.5	5.8	4.3	3.3	6.2	11.1	9.1	5.7	6.5	7.6	11.3	13.5	10.3	6.1	3.2	4.3	3.5	1.9
OECD Europe																6.9	6.8	9	13.8	13.6	11.4	12.1	10.8	12.4	16.6	13.2	11.3	9.3	9	8	5.3
OECD Total																5.7	5.2	8.2	14.1	11.9	9.2	10.1	9.1	11.2	14.8	12	10.6	10.3	8.7	7.5	6.6
Euro area (19)																															
EU (28)																															

[644] Based on Prices - Inflation (CPI). No date. *OECD Data.* Accessed December 6, 2018. https://data.oecd.org/price/inflation-cpi.htm.

Chart 2: Inflation (1986-2016)[645]

Country/Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Germany	0.2	1.3	2.8	2.7	4	5.1	4.5	2.7	1.7	1.4	1.9	0.9	0.6	1.4	2	1.4	1	1.7	1.5	1.6	2.3	2.6	0.3	1.1	2.1	2	1.5	0.9	0.2	0.5
Austria	1.4	1.9	2.6	3.3	3.3	4	3.6	3	2.2	1.9	1.3	0.9	0.6	2.3	2.6	1.8	1.4	2.1	2.3	1.4	2.2	3.2	0.5	1.8	3.3	2.5	2	1.6	0.9	0.9
Belgium	1.6	1.2	3.1	3.4	3.2	2.4	2.8	2.4	1.5	2.1	1.6	0.9	1.1	2.5	2.5	1.6	1.6	2.1	2.8	1.8	1.8	4.5	-0.1	2.2	3.5	2.8	1.1	0.3	0.6	2
Denmark	4	4.5	4.8	2.6	2.4	2.1	1.3	2	2.1	2.1	2.2	1.8	2.5	2.9	2.3	2.4	2.1	1.2	1.8	1.9	1.7	3.4	1.3	2.3	2.8	2.4	0.8	0.6	0.5	0.3
France	3.3	2.7	3.5	3.2	3.2	2.4	2.1	1.7	1.8	2	1.2	0.7	0.5	1.7	1.6	1.9	2.1	2.1	1.7	1.7	1.5	2.8	0.1	1.5	2.1	2	0.9	0.5	0	0.2
Italy	4.7	5.1	6.3	6.5	6.3	5.3	4.6	4.1	5.2	4	2	2	1.7	2.5	2.8	2.5	2.7	2.2	2	2.1	1.8	3.3	0.8	1.5	2.8	3	1.2	0.2	0	-0.1
Luxembourg	-0	1.4	3.4	3.3	3.1	3.2	3.6	2.2	1.9	1.2	1.4	1	1	3.2	2.7	2.1	2	2.2	2.5	2.7	2.3	3.4	0.4	2.3	3.4	2.7	1.7	0.6	0.5	0.3
Netherlands	-1	0.7	1.1	2.5	3.2	3.2	2.6	2.8	1.9	2.1	2.1	2	2.2	2.4	4.2	3.3	2.1	1.3	1.7	1.1	1.6	2.5	1.2	1.3	2.3	2.5	2.5	1	0.6	0.3
Switzerland	1.4	1.9	3.2	5.4	5.9	4	3.3	0.9	1.8	0.8	0.5	0	0.8	1.6	1	0.6	0.6	0.8	1.2	1.1	0.7	2.4	-0.5	0.7	0.2	-0.7	-0.2	0	-1	-0.4
United Kingdom	4.1	3.9	5.2	7	7.5	4.3	2.5	1.9	2.7	2.5	1.8	1.6	1.3	0.8	1.2	1.2	1.4	1.3	2	2.5	2.4	3.5	2	2.5	3.8	2.6	2.3	1.5	0.4	1
United States	3.7	4.1	4.8	5.4	4.2	3	3	2.6	2.8	2.9	2.3	1.6	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-0.4	1.6	3.2	2.1	1.5	1.6	0.1	1.3
OECD Europe	5.1	6.7	7.6	7.9	8.4	8	7.1	8.1	8.4	7.2	6.8	6.7	5.1	5.4	5.2	4.5	2.9	2.4	2.3	2.5	2.6	3.8	1.1	2.2	3.1	2.8	1.8	1.2	0.7	1
OECD Total	8.8	9.6	6.3	7	6.6	5.3	4.6	4.7	6	5.7	4.8	4.2	3.6	4	3.6	2.7	2.4	2.4	2.6	2.6	2.5	3.7	0.5	1.8	2.8	2.2	1.6	1.7	0.6	1.1
Euro area (19)											1.7	1.2	1.2	2.2	2.4	2.3	2.1	2.2	2.2	2.2	2.2	3.3	0.3	1.6	2.7	2.5	1.3	0.4	0	0.2
EU (28)											7.3	4.7	3	3.5	3.2	2.5	2.1	2.3	2.3	2.3	2.4	3.7	1	2.1	3.1	2.6	1.5	0.5	0	0.3

645 Based on Prices - Inflation (CPI). No date. *OECD Data.* Accessed December 6, 2018. https://data.oecd.org/price/inflation-cpi.htm.

Chart 3: GPD Growth Rates (1971-1999)[646]

Country/Year	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Germany	3.1	4.3	4.8	0.9	-0.9	4.9	3.3	3.0	4.2	1.4	0.5	-0.4	1.6	2.8	2.3	2.3	1.4	3.7	3.9	5.3	5.1	1.9	-1.0	2.5	1.7	0.8	1.8	2.0	2.0
France	5.3	4.5	6.3	4.3	-1.0	4.3	3.5	4.0	3.6	1.6	1.1	2.5	1.3	1.5	1.6	2.4	2.6	4.7	4.4	2.9	1.0	1.6	-0.6	2.3	2.1	1.4	2.3	3.6	3.4
Italy	1.8	3.7	7.1	5.5	-2.1	7.1	2.6	3.2	6.0	3.4	0.8	0.4	1.2	3.2	2.8	2.9	3.2	4.2	3.4	2.0	1.5	0.8	-0.9	2.2	2.9	1.3	1.8	1.6	1.6
Belgium	4.0	5.3	6.4	4.6	-2.0	5.7	0.6	2.8	2.3	4.4	-0.3	0.6	0.3	2.5	1.7	1.8	2.3	4.7	3.5	3.1	1.8	1.5	-1.0	3.2	2.4	1.6	3.7	2.0	3.6
Luxembourg	2.7	6.6	8.3	4.2	-6.6	2.5	1.6	4.1	2.3	0.8	-0.6	1.1	3.0	6.2	2.8	10.0	4.0	8.5	9.8	5.3	8.6	1.8	4.2	3.8	1.4	1.4	5.7	6.0	8.5
Netherlands	4.3	3.5	5.4	3.4	0.0	4.5	2.5	2.7	2.0	1.3	-0.8	-1.2	2.1	3.1	2.6	2.8	1.9	3.4	4.4	4.2	2.4	1.7	1.3	3.0	3.1	3.6	4.3	4.5	5.1
Denmark	3.0	3.9	4.1	-1.1	-1.5	5.9	1.9	2.2	3.9	-0.5	-0.7	3.7	2.6	4.2	4.0	4.9	0.3	0.0	0.6	1.5	1.4	2.0	0.0	5.3	3.0	2.9	3.3	2.2	2.9
United Kingdom	3.5	4.3	6.5	-2.5	-1.5	2.9	2.4	4.2	3.7	-2.0	-0.8	2.0	4.2	2.3	4.2	3.1	5.3	5.7	2.6	0.7	-1.1	0.4	2.5	3.9	2.5	2.5	4.0	3.1	3.2
Ireland	3.5	6.5	4.7	4.3	5.7	1.4	8.2	7.2	3.1	3.1	3.3	2.3	-0.2	4.4	3.1	-0.4	4.7	5.2	5.8	8.5	1.9	3.3	2.7	5.8	9.6	7.8	10.3	8.5	10.6
Greece	7.8	10.2	8.1	-6.4	6.4	6.9	2.9	7.2	3.3	0.7	-1.6	-1.1	-1.1	2.0	2.5	0.5	-2.3	4.3	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.9	4.5	3.9	3.1
Portugal	6.6	8.0	11.2	1.1	-4.3	6.9	5.6	2.8	5.6	4.6	1.6	2.1	-0.2	-1.9	2.8	4.1	6.4	7.5	6.4	4.0	4.4	1.1	-2.0	1.0	4.3	3.5	4.4	4.8	3.9
Spain	4.6	8.1	7.8	5.6	0.5	3.3	2.8	1.5	0.0	2.2	-0.1	1.2	1.8	1.8	2.3	3.3	5.5	5.1	4.8	3.8	2.5	0.9	-1.0	2.4	2.8	2.7	3.7	4.3	4.5
European Union	3.6	4.7	6.1	2.2	-0.8	4.6	2.8	3.2	3.8	1.5	0.3	1.0	1.8	2.5	2.6	2.7	2.9	4.4	3.7	3.0	1.4	1.1	-0.1	2.8	2.7	2.0	2.9	3.0	3.0
United States	3.3	5.3	5.6	-0.5	-0.2	5.4	4.6	5.6	3.2	-0.2	2.6	-1.9	4.6	7.3	4.2	3.5	3.5	4.2	3.7	1.9	-0.1	3.6	2.7	4.0	2.7	3.8	4.5	4.4	4.7

[646] Based on DataBank: World Development Indicators. No date. *The World Bank.* Accessed March 14, 2019. https://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDP.MKTP.KD.ZG&country=DEU#.

Pledge of Honesty

"On my honour as a student of the Diplomatische Akademie Wien, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it."

Vita

Having been born and raised in Styria, I graduated with honors from BG Stainach in 2012. Upon completion of my civil service at the Austrian Red Cross, I moved to Vienna and studied International Business Administration at the Vienna University of Economics (WU) and the George Washington University in Washington, DC. Subsequently, I worked as a bank analyst at the department of banking supervision at the Austrian National Bank (OeNB) before doing my Master's in Advanced International Studies at the Diplomatic Academy and Stanford University.

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