

## CHAPTER 10

### POLICY OUTCOMES

**Learning Objectives:**

- How does the size/scope of government in Germany compare to the US; why do they differ?
- What are the major policy outputs of the German government?
- What are the ways in which Germans pay for or are taxed for government services?
- Has German unification improved or worsened the life conditions of Easterners?
- What are the major policy challenges that Germany faces today?

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**Quote of Note:**

*"I'll promise you all blooming landscapes in eastern Germany . . .  
Many people will do better and none will do worse."*

Chancellor Helmut Kohl in 1990

If a German sits down at breakfast with the morning newspaper, she reads about many of the same policy problems that face other postindustrial societies. Probably at the top of this list are concerns about the economy. This has been especially pressing for the Federal Republic, because the economy struggled following German unification. The economy seemed to improve after 2005, and then global recession struck in 2008. Germany worked with other EU members to strengthen credit markets in order to restore Europe's economic system. Its export oriented economy makes Germany especially intertwined with the global system. The Merkel government first implemented a set of economic reform and stimulus programs in 2009, which stabilized the economic situation. But following the 2009 election, Merkel set a new course to limit the scope of government activity and lessen the federal deficits that had grown after unification. This policy was not embraced by the German public or even Merkel's coalition partners, but it was a cautious, prudent step after the national debt crisis in Greece and worries about several other European states. By 2011 these policies seemed to be benefitting the economy. In 2012 the German economy was the engine of Europe; it had markedly lower unemployment and more positive economic growth forecasts while many other European economies were struggling. Yet, other policy challenges still remain.

Intertwined with debates about the economy is the question of the German welfare state. German social benefits are extremely generous, and critics claim that present benefit levels are unsustainable.

Globalization puts pressures on the competitiveness of German businesses, and the changing composition of the labor force means pension and health programs face mounting demands and declining resources. For at least two decades, the calls for reform have been widely debated, with modest action. Merkel

promises to make these programs more secure by changing their benefits. This will generate strong resistance from the opposition.

Many of the other issues facing government also sound familiar to people, in London, Paris or Washington, D.C. There are persisting debates about environmental quality issues, and Germany has been a leader in environmental policy reform. Gender equality issues are important in Germany, especially since unification brought together two societies with different policy goals and programs dealing with women. Issues of immigration and foreign rights have also risen near the top of the policy agenda. Germany experienced a massive inflow of immigrants, refugees, and asylum seekers in the 1990s, and now faces the challenges of living in a multicultural society. In addition, since the September 11th terrorist attacks--partially organized by Middle Eastern students who had studied in Germany--the threat of international terrorism has become an important policy matter. At the same time, Germany is struggling to define a new international identity for its foreign policy in a post-Cold War world.

Finally, there are the persisting policy challenges of German unification. Unification had many positive consequences for the nation. It brought new freedom and liberty to 16 million new citizens in the East. Gradually, living standards and other life conditions have improved for the former residents of the GDR. But this progress has come at a cost. And many of the current policy challenges facing the Federal Republic are related to the experience of unification, or worsened because of unification. Germans thought their nation faced major policy challenges in the mid-1980s, this now seems like the 'good old days' when the policy problems facing the nation seem simpler in hindsight.

This chapter tracks the policy accomplishments of the Federal Republic through its history, and the distribution of policy responsibilities within the political system. Then, we discuss the major policy challenges facing Germany today and for its immediate future.

### **The Scope of Government**

The Federal Republic's government plays a major role in protecting the social order, managing the economy, and promoting the individual well-being of its citizens.[\(1\)](#) The Federal Republic (and many other European democracies) are much more directly involved in social and economic life than is the United States' government. This partially reflects the German government's efforts to create the postwar Economic Miracle and to distribute its benefits. This also reflects a common public belief that the government should actively address personal and societal needs. The government of the FRG responded to these expectations and steadily expanded its policy responsibilities over the past fifty years.

One of the most basic measures of the scope of government activity is the overall level of government spending. Total public spending has grown dramatically over the past five decades.[\(2\)](#) In 1950, total public spending -- federal, state, local government, and the social security system -- was only 15 billion Euros. Public expenditures grew steadily during the 1950s and 1960s (under the conservative rule of the CDU/CSU), and then spiked upward when the SPD took control of the government to reach 269 billion Euros in 1975. In 2010, total public spending was over 1.1 trillion Euros. Even after adjusting for inflation rates and population, total public expenditures increased severalfold in the past 50 years!

Not only has government spending grown with the general economy, it has taken a larger and larger slice of the total economic pie. Public spending grew from under 30 percent of the Gross National Product (GNP) in the early 1950s to a peak of 52 percent in 1982, and still near 50 percent today. In other words, about one out of every two Euros in the economy is spent by public programs. The comparable figure for the United States is about just over a third of the GNP.

Almost any measure of the scope of government activity in the FRG shows an upward trajectory paralleling these expenditure statistics. Per capita public spending increased from about DM 750 per person in 1950 to over 13,789 Euros in 2010. Employment in the public sector accounts for a growing percentage of the work force. The number of people with jobs in the public sector has nearly doubled over the last 40 years, or about one-sixth of the total labor force.

The statistics on government spending are impressive, but they tell only part of the story. Government regulations dictate other activities and expenditures by the private sector. For instance, employers provide government-mandated maternity and unemployment benefits that are not counted as a government expenditure, but they are social benefits created by government legislation. Similarly, the costs that a business incurs in meeting government pollution standards are not expenditures by a public agency, but they are still outputs of the policy process. When individuals spend time preparing their tax returns, this is a government-mandated activity not represented in official expenditure figures. Other legislation determines what is socially and legally acceptable behavior: how to treat minorities, industrial safety standards, acceptable noise levels, or protection of women's rights. Although the number of state-owned businesses has decreased in recent decades, the Federal Republic still has major holdings in transportation, communications, energy and the media. Finally, government regulations directly influence everyday life in a multitude of ways; ask anyone who has tried shopping on Saturday afternoon (when the law requires that all shops close at 2PM). Even when the Germans are drinking their beloved beer, FRG and EU regulations prescribe the allowable contents.

### The Scope of GDR Government

Of course, by any of these same measures, the government's involvement in society and the economy was much greater in the former German Democratic Republic.<sup>(3)</sup> It is difficult to make firm comparisons of government spending between the FRG and GDR; both states used different accounting systems and the GDR's true budget was a state secret. Most estimates suggest that public spending in the GDR accounted for about 80 percent of total national income by the end of the 1980s. The state directly owned and controlled more than 95 percent of the industrial and transportation sector. To facilitate centralized planning and control, the government combined individual firms into approximately 150 mammoth corporations (*Kombinate*). State-run agricultural cooperatives (*Landwirtschaftliche Produktionsgenossenschaft*, LPG) or on nationalized estates (*Volkseigene Güter*, VEG) controlled more than 90 percent of agriculture. The GDR government determined economic policies, and then carried them out under the supervision of government ministries. The state also controlled finance and investment activities, and foreign trade was a government monopoly. In short, virtually all aspects of the economy were under the control, or at least supervision, of the government. All this changed, of course with unification. This is discussed below.

The growth of government activity in the Federal Republic reflects a postwar consensus among politicians and the public on the desired role of government. The Christian Democrats presided over a tremendous expansion of government activity during the 1950s and 1960s. Total public expenditures (in constant prices) increased almost threefold under their stewardship. Far from criticizing this activity, the Social Democrats pressed for the government to do even more. When the Social Democrats got control of the government in 1969, their attempts to expand social programs often received bipartisan support. During the FRG's decades of economic growth, few public figures criticized the government's expanding involvement in society.

The public's general support of big government conditioned this growth trend. As we noted in Chapter 4, the German political culture attributes a special status to the state. Not only is the government responsible

for the basic operation of the social and economic systems, but it is also the protector of individual welfare and the guarantor of societal interests. Sometimes this tendency is excessive. For instance, the state of Baden-Württemberg and Southwest Radio created a government research and training center to better prepare German rock stars for their careers. Most people have a more realistic view of reasonable government activity, but this attitude still involves the government in a range of activities. If a legitimate need exists, Germans expect the government to deal with the problem. People view the state as the master problem-solver, for all manner of personal and societal problems.

Public opinion polls in the West document the public's belief that the state should actively address social and personal needs (Table 10.1). A 2006 survey found that Germans have high expectations of government<sup>(4)</sup>. A very large majority think that providing adequate medical care, protecting the environment, providing a decent living standard for the elderly, and student financial aid are the government's responsibility. In fact, a majority endorses a government role on all the items in the table. In all areas but one (helping industry), Germans are more likely than Americans to support government activity. Furthermore, Easterners are even more supportive of government action in most of these same areas, which is a consequence of the values inherited from living under a socialist state.<sup>(5)</sup> In summary, Germans expect their government to become involved in ensuring the quality of life and in providing for basic social needs.

**Table 10.1 Public Views of Government Responsibilities**

	West	East
Provide health care	95	97
Protect environment	94	93
Provide for elderly	93	95
Student financial aid	91	94
Control prices	74	86
Provide housing	73	86
Provide for unemployed	67	80
Reduce income differences	67	83
Provide jobs	62	80
Help industry	58	62

Source: 2006 International Social Survey Program.  
Percentage saying area is definitely or probably government responsibility.

Although Government activity grew almost steadily during the first quarter century of the Federal Republic's history, in the 1980s the mounting costs of these programs prompted a reevaluation. Helmut Kohl took office in 1982 promising to restrict the scope of government in the face of accumulating economic problems. The government cut spending or benefits for virtually every social program. Despite these efforts, the scope of government did not shrink appreciably. Some of the most glaring examples of economic inefficiency, such as government subsidy programs to uncompetitive industries, resisted reform. One estimate claimed that government subsidies to transportation, coal and steel, and other industries still amounted to almost 6 percent of the FRG's Gross Domestic Product in the late 1980s. Kohl found out that each government program exists because it has political supporters, often members of his own coalition. Moreover, popular support for a strong state remains high.

The scope of government activity then expanded as a result of German unification. At the outset, Kohl claimed that the East could pull itself up by its own bootstraps (this claim was quickly disproved). Policy makers soon realized that the inadequate economic infrastructure of the GDR required a massive infusion of development aid from the West. The social dislocation caused by the conversion to a market economy made tremendous demands on social services programs. These immediate needs for governmental action overshadowed earlier debates about the appropriate scale of government in the FRG. Public spending quickly ratcheted upward as a result of unification (to approximately 52 percent of the GDP in 1992). There was a clear and pressing need, and Germans inevitably expected government to actively address this need.

The pressure for economic and social reform increased during the 1990s. Schroeder's government advocated a series of reforms to strengthen the competitiveness of the economy in the international system and to manage the costs of Germany's extensive social service programs (see below). Some progress was made, but only incremental changes to the status quo. The Grand Coalition that emerged after the 2005 election was supposed to find a bipartisan way to balance the costs and benefits of government, but little changed. The CDU-CSU/FDP government elected in 2009 entered office with different plans for economic reform, but these were soon shelved as economic recession swept across Europe and the German economy appear stronger than most of its neighbors.

### **The Government Balance Sheet**

It is difficult to describe the activities of the government simply in terms of spending and budgets. The FRG's extensive network of social service programs, for example, are the largest part of public spending. However, most of their income and spending is through insurance programs that are separate from the government's normal budget.

Germany's federal system of government also complicates the description of policy outputs. The Basic Law distributes policy responsibilities among the three levels of government. The local communities (*Gemeinde*) administer federal/state policies such as youth programs, public health and social assistance programs, as well as the maintenance of public records. In addition, the Basic Law (Article 28) grants the local government responsibility for "all the affairs of the local community within the limits set by the law." This provision justifies a broad range of local government activities. Many municipalities develop the economic infrastructure of their community, for example, through the creation of industrial parks, transportation facilities, and other public services. Local governments also promote the cultural life of the community through the construction of cultural facilities and support for local artists. Finally, local authorities provide basic public utilities such as gas, electricity, and public transport.

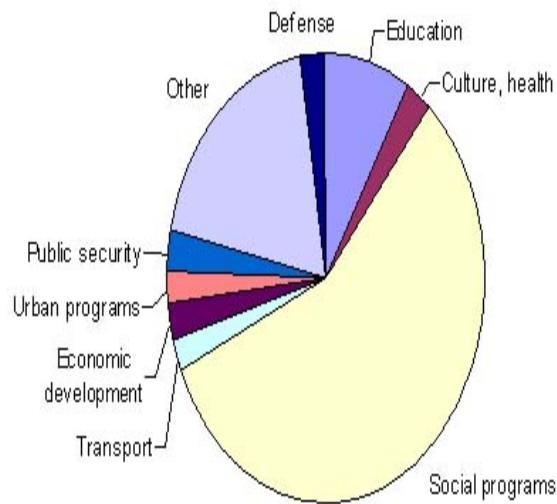
Although we focus on the policy process within the Federal Republic, the [European Union](#) is an important actor in the policy process. Many economic, social and cultural regulations are now based on EU directives. The European Union has a major impact on agricultural policy through its *Common Agricultural Program*. EU development aid also assisted in the restructuring of the Eastern states. The total amount of EU spending is modest by the standards of the FRG government, but this is of growing importance in understanding what policies are enacted, especially in terms of regulatory policy.

The distribution of policy responsibilities between the state and federal governments is more complex because they hold independent and concurrent powers (see Chapter 2). In general terms, the Basic Law charters the states to manage educational and cultural policies. They are also primarily responsible for public security and the administration of justice. The Basic Law assigns policies that are best handled at the national level to the federal government, such as foreign policy, defense, long-distance transportation, and communications.

The sharing of policy responsibilities means that all levels of government are significant policy actors. In 2010, the federal budget's share was 31 percent, the state governments spent 27 percent, and the local governments spent 16 percent (and most of the remainder was spent by the social insurance programs).

Because of these multiple levels of policy activity, the best overview of the nation's policy priorities combines expenditures for all public sources: the federal government, the state governments, local governments, and the social security system (Figure 10.1).<sup>(6)</sup> The largest share of public expenditures, by far, is devoted to social programs: health care, pensions, unemployment, and similar programs. The extensive coverage and benefits of the various social programs account for over half of all government expenditures. It is easy to understand why the Federal Republic is sometimes described as a welfare state (see below). Exact estimates of how much social services spending has grown over the years are difficult to calculate because of changes in accounting practices, but it undoubtedly was among the fastest growing sectors of public spending. Social service programs apart, public expenditures span a number of different policy areas. Education is an important concern of all three levels of government and accounts for almost a tenth of public spending. Defense and foreign policy expenditures constitute another significant share of the budget. Spending on defense and foreign policy area has decreased from about 13 percent of all expenditures in the early 1960s, to barely 2 percent of public spending today. Other public spending is devoted to transportation, culture, urban planning, economic development and other policy areas.

**Figure 10.1 Total Public Spending, 2006**



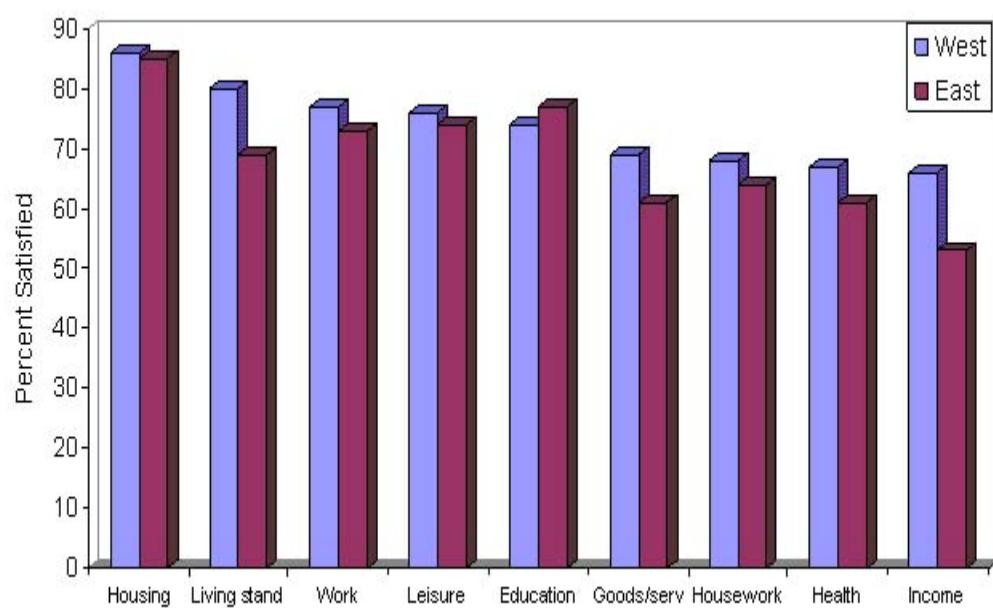
The distribution of public expenditures across the various levels of government show their differing policy activities. The federal government is primarily responsible for spending in the areas of defense, foreign affairs, transportation, and energy development. In the transportation area, for example, the federal government spends about the same amount as the state and local levels combined. The Länder, in turn, are the primary funding source for public security and education. Local government primarily funds community development, housing, and cultural activities. Apart from these three levels of government, a separate social security system, based largely on social insurance contributions, provides the largest single category of public expenditures. The social security budget is typically larger than all federal expenditures combined!

Budget expenditures indicate the policy efforts of the government, but the actual results of these expenditures are more difficult to assess. Most measures of policy performance suggest that the FRG has been fairly successful in achieving its policy goals.<sup>(7)</sup> Standards of living in the West have improved

dramatically, as real wages increased almost five-fold between 1950 and 2007. Health statistics show similar improvement; for instance, the number of doctors per capita more than doubled over the past five decades, and the average life expectancy lengthened by nearly ten years. Educational levels and access to higher education have dramatically improved. Although localized shortages of housing still appear, overall housing conditions display similar improvement. Even in new policy areas, such as energy conservation and the environment, the nation has made substantial progress.

Perhaps the best overall assessment of conditions today comes from the evaluations of the citizens who are the consumers of government policy outputs.

Figure 10.2 compares Westerners and Easterners in 2006 in their satisfaction with various aspects of life.<sup>(8)</sup> In 1990 there was a wide gap in satisfaction levels compared between Westerners and Easterners; but this gap has narrowed over time. Most Westerners are satisfied with most life



domains: their job (77 percent), housing (86 percent), living standard (80 percent), and education (74 percent). Almost equal proportions of Easterners are satisfied with their job (73 percent), housing (85 percent), and living standard (69 percent). Easterners are even more satisfied with education when compared to the West.

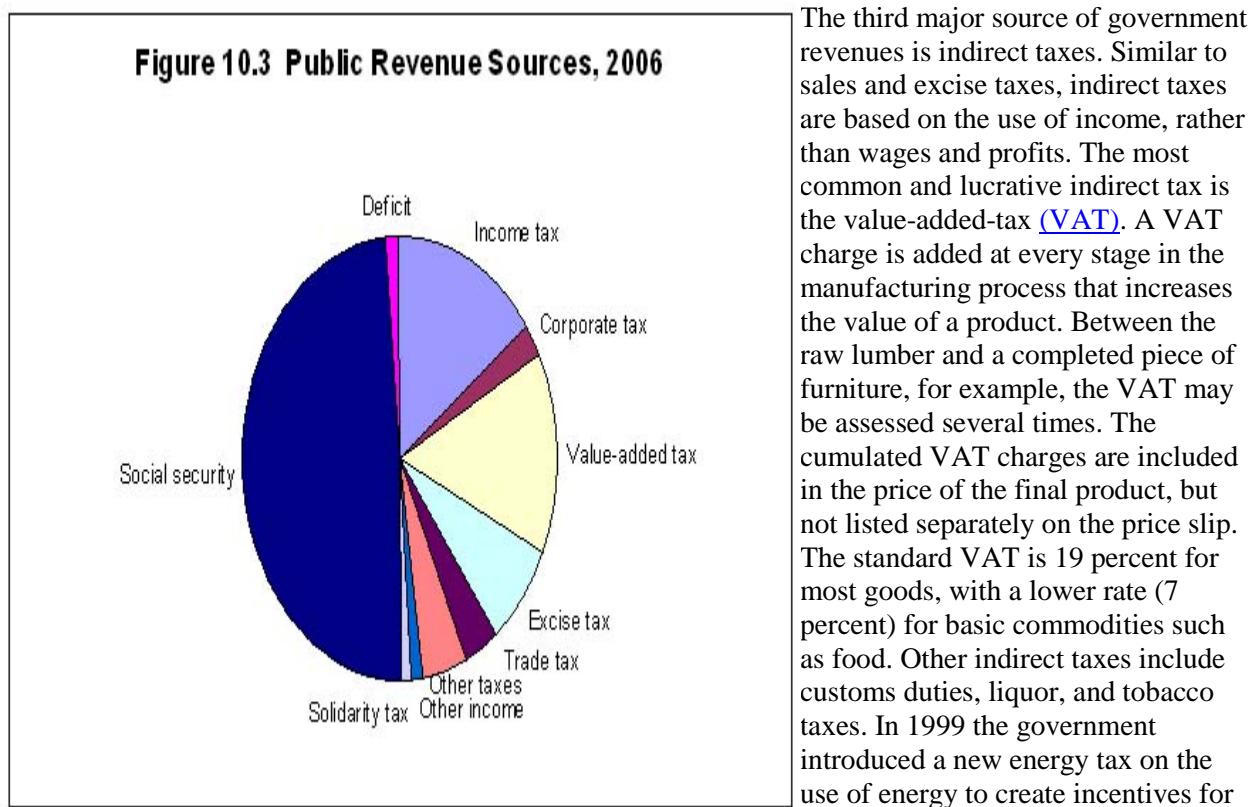
### A Taxing Proposition

The benefits of government programs are, of course, not due to the largess of government. The taxes paid by individuals and corporations fund these programs. Therefore, large government outlays mean an equally large collection of revenues. These revenues are the real source of government programs.

Three different types of revenue provide most of the funds for the FRG's public policy programs. The largest share comes from contributions to the social security system (Figure 10.3). The health, unemployment, disability, retirement and other social security funds are primarily self-financed by employer and employee contributions of an insurance system. The pension plan provides a typical example. Contributions to the pension plan amount to about 20 percent of a worker's gross monthly wages, half paid by the employee and half by the employer. All social insurance contributions combined -- pensions, health, unemployment and others -- account for roughly 40 percent of average worker's

income, split between contributions made by the employer and the employee. These insurance contributions are not taxes per se, the contributions are made to separate social security funds and used solely for this purpose.

The next most important source of public revenues are direct taxes. These are taxes directly assessed by the government and paid to the government. Personal income tax is one of the largest sources of direct taxes (Figure 10.2). The rate of personal taxation rises with income level up to a maximum of 45 percent (plus a solidarity surcharge to benefit the East). This tax system makes allowances for business expenses, private investments, and social security deductions, so the actual tax rate is lower than the official rate. The average worker pays about a fifth of wages in direct income taxes. The government also taxes corporate profits, but at a much lower rate than personal income. Tax policy encourages businesses to be profitable, and to reinvest their profits in further economic development. Altogether, the income and corporate tax account for slightly less than a quarter of all public revenues.



The third major source of government revenues is indirect taxes. Similar to sales and excise taxes, indirect taxes are based on the use of income, rather than wages and profits. The most common and lucrative indirect tax is the value-added-tax ([VAT](#)). A VAT charge is added at every stage in the manufacturing process that increases the value of a product. Between the raw lumber and a completed piece of furniture, for example, the VAT may be assessed several times. The cumulated VAT charges are included in the price of the final product, but not listed separately on the price slip. The standard VAT is 19 percent for most goods, with a lower rate (7 percent) for basic commodities such as food. Other indirect taxes include customs duties, liquor, and tobacco taxes. In 1999 the government introduced a new energy tax on the use of energy to create incentives for conservation and to provide

additional government revenue. Altogether, indirect taxes account for about one-fifth of all public revenues.



[YouTube video news report on raising the VAT from 16 to 19 percent \(2:39min\)](#)

Indirect taxes are one of the secrets to how government revenues have grown so dramatically over time. Indirect taxes are normally "hidden" in the price of an item, rather than explicitly listed as a tax. Consumers therefore forget that they are paying taxes every time they purchase a product. This situation also makes it easier for policy makers to raise indirect taxes without evoking public awareness and opposition because the taxes are hidden. The VAT on consumer durables has increased from 10 percent in

the 1960s to its present 19 percent (less on food and books). Furthermore, indirect taxes rise automatically with inflation; as the price of goods rise, so does the indirect tax. A negative aspect of indirect taxes is their regressive nature; they weigh more heavily on low-income families because a larger share of their income is used for consumer goods. Nevertheless, indirect taxes remain popular with political leaders because of their low visibility. They are mandated by the European Union as one method of standardizing cost structures within the EU.

Even with these multiple revenue sources, public expenditures repeatedly have exceeded public revenues in recent years. To finance this deficit the government draws upon another source of "revenue" -- loans and public borrowing -- to maintain the level of government services. Although politicians initially viewed government borrowing originally as a temporary measure for dealing with an economic recession, the total public debt has grown in good times and bad. German unification also created huge new demands on the government, and deficits spiraled up by the 1990s. A full accounting of public spending would show deficits averaging more than 50 billion Euros a year since union. To grapple with this problem, the Basic Law was revised in 2009 to add a constitutional limit on public deficits beginning in 2016. The new provision limits the deficit to 0.35 percent of the Gross Domestic Product, dropping to zero in 2020. A skeptic might expect the government to find ways around this limit once it takes effect.

The sharing of these various tax revenues is a basic element of Germany's federal system of government. The federal government and the Länder each receive 42.5 percent of the income tax, with the remaining 15 percent distributed to local government. About two-thirds of the VAT goes to the federal government, with the other third distributed among the states. Other taxes are used exclusively or primarily by one level of government. For instance, the energy, tobacco, and liquor taxes are assigned to the federal government. The revenues from the automobile, inheritance, and lottery taxes go to the state governments. The local communities primarily benefit from the property tax. The German government, and other members of the European Union, also send a portion of the VAT revenues to Brussels to fund the Union's activities.

The distribution of tax revenues is one of the continuing sensitive issues of the federal system. The division of taxes between the federal and state governments is subject to periodic review, as the distribution of policies responsibilities changes between the two levels of government. In addition, the Basic Law mandates financial equalization between the Länder redistributes tax revenues from the more affluent to the less affluent states. Because of the gross economic disparities between the West and the five new Länder, the unification treaty temporarily suspended East/West state equalization. The government addressed this issue with a series of reforms in the 2000s, which decreased the requirements for equalization while giving the states more control over their budgets. This also involved changes in the type of laws requiring Bundesrat approval, effectively decreasing the Bundesrat's political influence as part of the bargain. The nature of federalism remains a very intense source of political controversy between the Länder and the federal government.

The average German obviously has deep pockets to fund the extensive variety of public policy programs. American taxation levels look modest by comparison, though cries of a tax revolt are heard more often in the United States than in the Federal Republic. And when contributions to social service insurance programs are included, more than half of the average worker's wages go to the government.

It may seem like the taxpayer contributes an excessive amount to public coffers, and Germans are no more eager than other nationalities to pay taxes. In fact, one of the main reform policies of the FDP during the 2009 campaign was to reduce tax levels (but this reform was forgotten after the election as the government gave priority to reducing the deficit). Still, the main question is not how much citizens pay, but how much value is returned by the government. In addition to normal government activities, Germans

are protected against sickness, unemployment, and disability; government pension plans furnish a livable retirement income. Moreover, the majority of the public expects the government to take an active role in most policy areas.

### Current Policy Challenges

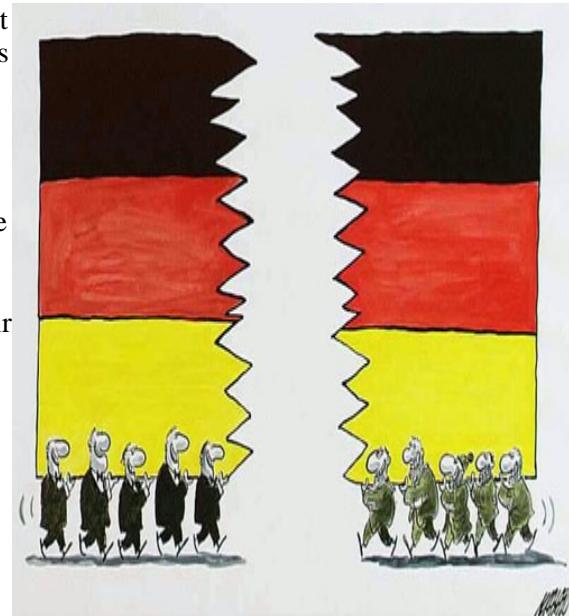
The last decade has been a time of tremendous policy change and innovation for the Federal Republic as it has adjusted to new domestic and foreign policy circumstances. While there are policy needs in many areas, we discuss four prominent issues. The first involves the problems flowing from German unification. The second discusses reform the economic and social systems. The third area involves protecting the environment and the quality of life. The fourth is to define a new international role for Germany in the post-cold war era.

#### The Challenges of Unification

As unification progressed in 1990, Helmut Kohl promised a rapid economic miracle in the East to improve the living conditions of the FRG's new citizens. Reality fell short of these promises.

Even before unification occurred, the economy in the East was struggling. The root of the GDR's economic problems was its obsolete and inefficient economic structure. Most manufacturing facilities were severely outdated by Western standards (or by the standard of other economies trading on the world market). The GDR had deferred capital investments for more than a decade. Moreover, the lack of market forces made it difficult for GDR planners to even determine which investments would generate a significant return. For many Western businesspeople, their first tours through eastern plants were like trips to industrial museums. One observed that the East was an industrial junkyard, albeit a very strictly organized and supervised junkyard.

Labor practices compounded these problems. The GDR guaranteed every worker a job. But without the competition of a market economy there were few incentives to ensure the productive use of labor. More hours of labor were required to provide the same level of output as in the West. Inefficiency was everywhere. For instance, industrial enterprises employed large secretarial pools to recopy typed materials because the communist government restricted access to xerox equipment. Inefficiency was then magnified by the large administrative structure of the state.



The consequences of these economic practices became glaringly obvious following [Currency Union](#) in July 1990. Eastern managers realized that their labor costs and productivity levels were costing them more to produce goods than what they were worth on an open market. For example, the camera that Pentacon could sell in the West for DM 100 would cost the firm DM 700 to make in its East German plant. The FRG government's choice to transition to a market economy with an economically unrealistic currency exchanged rate of Ostmarks to DM forced the Eastern economy into virtual bankruptcy.

Industrial output decreased in the turbulent months of early 1990, and then plunged downward following Currency Union in July 1990. Most firms laid off employees as orders decreased, and to cut their labor costs in the hope of maintaining the viability of firm. Cuts in the size of the Eastern civil service and other public employment further increased unemployment. More than old Stasi agents were out of work; there were layoffs in the GDR's foreign service, military personnel, economic managers, public administrators, and even the famed Olympic sports coaches. In 1991-92 nearly one-third of the Eastern labor force was unemployed or on "short hours" where they received their salaries but did not work, with FRG social programs picking up the tab.

The Federal Republic then faced the challenge of rebuilding the economic system of the East. One of the first steps was the creation of a trust agency (*Treuhändanstalt*, THA) that was charged with privatizing the more than 8,000 firms that the GDR government owned. The trust dissolved the large state-owned cartels, converted individual enterprises into corporations, and sold them off to private buyers.<sup>(9)</sup> The THA had sold off the entire East German economy by 1994 and then disbanded itself.

The privatization program confronted some of the fundamental problems of economic reconstruction. Because of the antiquated production methods, Western firms often found that it was more cost effective to upgrade their existing facilities in the West than to rebuild an outdated Eastern factory. The lack of economic expertise and entrepreneurial spirit among Eastern managers further discouraged Westerners from joint ventures in the East. Legal problems further hampered rebuilding efforts. The unification treaty guaranteed that individuals who illegally lost property under the Third Reich or GDR regimes could reclaim their property. This guaranteed the property rights of Jews and other Germans who had suffered under the Nazis and individuals who fled West to escape the postwar communist government. There were nearly one million claims, which created a nightmare for lawyers trying to establish legal title for property in the new Länder. The uncertain liability of new owners for the past practices of Eastern firms, such as unknown toxic wastes or groundwater pollution, further stunted investment.

### The Difficulties of Economic Transition

One practical example can illustrate the magnitude of the problems of restoring Eastern industry.<sup>(10)</sup> The GDR's chemical industry was reputed to be one of its most modern sectors, and best able to compete in a global economy. BASF, the West German chemical giant, identified SYS as a potential Eastern partner. SYS boasted a relatively modern facility built with western technology. It produced polyurethane that BASF hoped could expand its plastics manufacturing capability in Europe. It seemed like a natural candidate for an East/West merger.

BASF approached the Treuhand in the 1991 to purchase the SYS facility. BASF calculated that it would require DM 500 million to upgrade the plant to the productivity standards of BASF's western facilities. In exchange for promising to make these investments, the Treuhand gave BASF the SYS at no cost. In addition, the Treuhand assumed the liability costs for any environmental damages discovered after BASF assumed control of the plant.

To increase productivity, the new managers cut the labor force by nearly half -- increasing the demand on the FRG's social welfare programs. BASF reduced employee benefits provided by the plant, such as daycare and recreational facilities. Many of SYS's assets were written off as economically unviable or unproductive. Attempts to restructure the plant ran into problems ranging from the need to retrain workers to the difficulties of getting telephones service to BASF's western headquarters and potential customers. In the midst of this economic transformation, SYS lost its contracts with other East European nations. Within two years BASF had spent the majority of its DM 500 million commitment and the renovations were far from complete. A decade later, BASF had invested almost three times more than its initial plans

in order to construct a modern chemical and plastics manufacturing center around the original plant.

Nobody really knew what it would cost to rebuild the East and to subsidize the economy through reconstruction. The costs were staggering. Huge investments created a transportation system and communication system in the East to sustain a modern economy. The costs of renovating Eastern industry and agriculture far exceeded initial predictions. In addition to these investment costs, the Federal Republic maintained government social programs in the East during this transition period. As eastern workers were laid off or encouraged to retire, they collected benefits from the FRG's liberal social programs funded largely by workers in the West. For instance, almost 100 billion Euros in public funds flowed from the West to the East in 1992. Only one-third went toward capital investments in the East, the rest was spent on unemployment benefits, pensions, other social programs, and on-going government activities. One attempt to estimate the total costs of reunification calculated that 1 trillion Euros in government and private funds were spent over the first ten years!

During the 1990 election Kohl promised voters that economic recovery in the East could occur without new taxes. Kohl reversed his position almost as soon as the votes were counted. In mid 1991 the government passed a tax package that raised the cigarette tax, gasoline taxes, and added a surcharge to personal income taxes. Employer contributions to the unemployment fund were increased, and the VAT tax was increased. Germans today are still paying a solidarity tax to cover some of the costs associated with unification. Furthermore, many in the West complain that their taxes were providing benefits for those in the East. These criticisms steadily increased over time. Although he achieved Germany's political goal of unification, Kohl barely won reelection in 1994. The accumulated costs and strains of unification finally led to his loss in the 1998 Bundestag election.



[YouTube video news report on unification 17 years later \(3:25 min\)](#)

Economic progress is being made. Recent economic growth rates in the East often exceed those in the Western states by a comfortable margin. However, the East-West gap is still wide. Unemployment rates in the East are still more than double the rates in the West, and even after years of investment, productivity in the East still lags markedly behind the West. Although standards of living in the East have rapidly improved since the early 1990s, they remain significantly below Western standards. Furthermore, even if the Eastern economy grows at double the rate of the West, it will take decades to reach full equality.

### Reshaping the Welfare State

Analysts often describe the Federal Republic as a welfare state, or more precisely a social services state, because of its extensive social services programs. Compulsory social insurance programs include health care, accident insurance, unemployment compensation, and retirement benefits. In the health care area, for example, the government requires all wage earners to participate in an authorized health insurance program. Insurance protection also extends to students, farmers, and those receiving unemployment or pension benefits; the government pays insurance premiums for individuals without an income of their own. Only employees with high salaries and self-employed persons are exempt from compulsory health insurance. This is a self-financing insurance program mandated and regulated by the government. These insurance programs protect members of society against the major health and economic risks of life.

A second set of programs provides financial assistance for the needy and individuals who cannot support themselves. Those who are unable to provide for themselves receive a subsistence allowance. These cash

allowances are normally modest, amounting to only a few hundred Euro per month. In addition, the recipient has access to other social service benefits such as health insurance, disability benefits, and educational grants. Another program provides housing subsidies for low income families to defray a part of their housing costs.

The early CDU-led governments instituted a third set of programs that extended social services to the population- at-large without regard to economic need. The CDU initiated these programs to legitimize the new democratic system and integrate citizens into the new state. By directly providing benefits to a large number of people (even if these benefits were merely the return of the taxpayers' money), the government advertised the advantages of the new democratic system. This involved the *Kindergeld* program (see box), subsidized savings program, and public housing programs. This investment yielded obvious returns as public attachments to the new political system developed.

### **Kindergeld**

One example of Germany's broad based social benefits is a program designed to lessen the economic burden of raising children by providing parents with a monthly payment for each child in the family (*Kindergeld*). The program initially began with support for large families of three children or more. Then payments started for families with two children, and then only one. These benefits have changed with the ebb and flow of the the economy and the partisan composition of the government. In 2009, a family receives 164 Euros per month for each of the first two children, 170 Euros for the third child, and 195 Euros a month for the fourth and each subsequent child. A family with three children thus receives a tax free check for 462 Euros from the government each month.

These programs created the basis of the modern German welfare state. The FRG's spending on social programs ranked among the highest of all Western industrial democracies from the early 1950s until the mid-1960s. Another round of program expansions began when the Social Democrats won control of the federal government in 1969. The SPD government improved the benefits and expanded the coverage of these programs. Accident insurance was extended to non-working adults and children; vocational training was provided for the unemployed; minimum pension benefits were guaranteed for all workers; and new medical coverage was provided. The family allowance program was enlarged to begin *Kindergeld* payments with the first child, nearly tripling the scope of this program in a single year. Yet because most other Western democracies were expanding their own welfare systems at an even faster rate, the FRG moved from a position as international leader in social programs to a level of social spending close to the European average.[\(11\)](#)

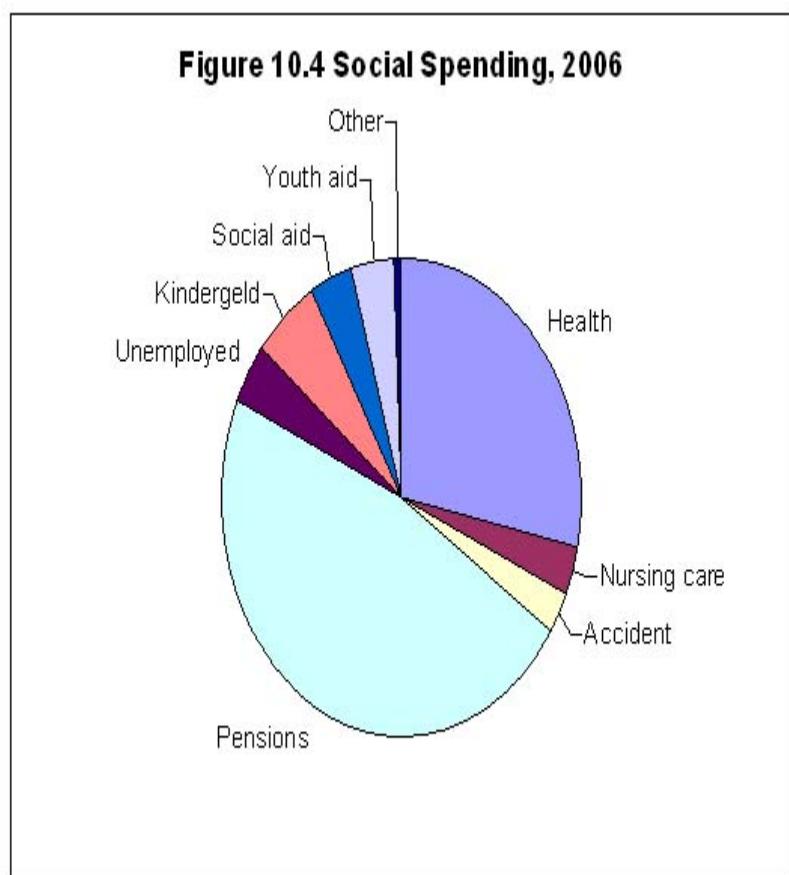
The socioeconomic protections of the German welfare state furnish generous benefits for anyone who needs them. At its highpoint, the unemployed worker received insurance payments that provided about 68 percent of normal pay (see reforms described below). Government labor offices will help the unemployed worker find new employment or obtain retraining for a new job. If a job is located in another city, the program partially reimburses travel and moving expenses. This is not an atypical example; benefits for most other programs were equally generous.

In one way or another -- through retirement programs, family allowances, health care, or other social services -- the welfare state has a direct effect on most families.[\(12\)](#) It is not a system intended to protect only the indigent. In fact, welfare payments to the financially unable are a very small and decreasing part of the social services budget.

The growth of social service programs reflects the widespread support for these policies among the public. Most people feel that these programs fulfill basic social needs that must be protected by the government, even if tax bills increase. Since the German system is heavily based on compulsory insurance programs, recipients are not seen as taking advantage of government handouts; they are receiving benefits they have "earned" through their contributions to these programs. Other programs (family assistance, savings plans, and educational assistance) are available to the entire public, and therefore are not seen as welfare support. As a result of this consensus, social service expenditures grew under both the early CDU/CSU governments as well as the Social Democratic governments of the early 1970s.

Growing public demands for social benefits and expanding program coverage have substantially increased the cost of these policies. The largest share of the social budget is devoted to the pension program for retirees, widows and orphans, amounting to 2437 billion Euro in 2006 (Figure 10.4). Health services account for another large, and rapidly growing, share of social spending. The family allowance program (*Kindergeld*) is another substantial social investment. By comparison to these three main programs, unemployment compensation, housing programs, and savings incentives account for a modest share of social spending, and outright welfare payments are almost negligible. If one considers only direct public expenditures for social services (as in Figure 10.1 above), these programs account for the largest single share of public expenditures. The growth of these programs has been so extensive that they have consumed an ever increasing share of the economy. In 1960 just more than a fifth percent of the GNP was spent on social services, by 2008 this share amounted to more than a third.

The costs of these social programs stirred political controversy throughout the 1980s. Critics claimed that the social services network is overextended and its benefits are too generous. On the one hand, economic recession and high unemployment rates depleted the resources of the unemployment and assistance programs. The unemployment insurance fund, for example, ran into the red several times and only government intervention maintained the viability of these programs. On the other hand, demographic changes in the labor force signalled future problems for the social insurance system. Today there are about three persons employed full time for every pensioner over age 60; that proportion will slip to two-to-one early in a few decades. These population changes are producing an unfavorable balance of retirees drawing pensions and needing expensive health benefits versus active workers who are contributing to the social insurance funds. The basic issue is whether the Federal Republic's extensive social services network can remain unaltered in the face of these changing economic and demographic conditions.



In the 1980s the Kohl government moved to reform these social programs. The government reduced all major social programs in some manner. The starting age for pension benefits was moved back by six months at the same time that salary deductions were increased by half a percentage point. The government increased copayments for medical care and decreased allowances for maternity leaves. It replaced stipends for university students by means tested loans. Other programs suffered similar cuts: access to unemployment benefits was tightened by broadening the definition of acceptable alternative employment, unemployment benefits were reduced for unmarried workers, Kindergeld allowances were decreased for high income families, and housing programs were cut. Total spending for social programs (after adjusting for inflation) actually decreased during Kohl's first term to just under 30 percent of the Gross National Product in 1987.

The 1980s controversy over limiting social programs took a new turn because of German union. Earlier debates about the financial limits of the FRG's welfare program seemed almost insignificance when compared to the social costs accompanying unification. Easterners receive the same social benefits as other citizens of the FRG, but the cost of providing these services initially exceeded the resources of the social welfare system. For instance, the Federal Republic provided unemployment compensation and job retraining for the millions of workers unemployed in the East. Moreover, unemployment compensation was based on former Ostmark salaries converted into Deutsche Marks, and without these workers having made prior deposits into the Federal Republic's unemployment fund. Similarly, the FRG assumed the pension and responsibilities of the GDR, but without equivalent resources to support these pension payments. The same applies to health care, disability payments, Kindergeld, and other programs. As a result, social spending rapidly increased as a share of total public spending. By one account, the costs of providing the benefits of the Western welfare state to the residents of the new Länder incurred a deficit of about 100 billion Euros a year for the first decade after unification.

From one perspective, these social programs were designed to protect individuals from just the type of difficulties that faced Easterners as a result of unification. Unemployment compensation and other benefits sheltered individuals from the immediate consequences of the transition to a market economy, sparing Eastern Germans some of the severe hardships that occurred in the rest of Eastern Europe. These programs thus accomplished their goal of providing basic social needs and ensuring social peace. At the same time, these benefits came at a large cost. As these costs mounted, this increased pressures to reduce the scope and expenses of Germany's welfare state.[\(13\)](#)

After gaining office after the 1998 election, the Schröder government commissioned a series of studies and blue ribbon commissions to formulate policy reforms aimed at improving the economic competitiveness of the German economy and reducing social welfare costs. In 2004 the government began a new reform program known as "Agenda 2010" and the "Hartz reforms". One set of measures aimed at stimulating economic growth, such as a large drop in tax rates. Another set of measures reformed the social service programs to improve the competitiveness of the Germany economy and the cost of social services. For instance, labor market reforms eased employment rules, reduced the nonwage labor costs, and reformed the unemployment system. Unemployment benefits decreased from a share of former income to a fixed monthly benefit that is closer to the what those on welfare receive. The receipt of government benefits was also tied to a series of new requirements that encouraged individuals to find a new job. Pension benefits were reduced and the normal age of retirement will gradually increase over time; health benefits were reduced.

While these reforms moved in the right direction, many experts claimed that more was needed. The economy stagnated during Schröder's second term, which contributed to the government's loss in the 2005 elections (although economic growth picked up after the election). Many analysts hoped the Grand Coalition of CDU/CSU and SPD would undertake a new round of reforms that would reap even greater

returns. However, Merkel pursued a cautious course. Modest economic and social services reforms changed policies at the margins, without dealing with the fundamental policy challenges. The results of the 2009 election were ironic in policy terms. Schroeder's economic reforms and the SPD's participation in the Grand Coalition alienated many SPD supporters--the party suffered all the blame and little of the credit for the positive aspects of these policies. Conversely, Merkel seemed to get credit for Germany's relative success in the context of the global recession, and limited blame for the policies that contributed to this downturn.

The impetus for further policy reform ended with the impact of the global recession and the deepening financial problems of other European states. The FDP's calls for tax cuts in the 2009 election were shelved in the face of the economic slowdown as Merkel struggled to balance the federal budget while maintaining the economy. A small stimulus package aimed at maintaining employment, and the unemployment rate has gradually decreased since 2007. Germany's positive export balance has also moderated calls for further reforms to cut labor costs. Working with the EU to address the sovereign debt crisis in Europe and maintain the strength of the Euro have pushed other economic concerns from center stage. In 2012 the German economy is one of the strongest in Europe, but this has had the unintended consequence of decreasing the appetite for reforms that will continue this position in the future.

### **Protecting the Environment**

Although the Economic Miracle in the Federal Republic dramatically improved the living standard of the average family, economic growth carried some unintended consequences. Growth increased the burdens placed upon the land, water, air, and other natural resources. These burdens gradually showed in a deteriorating natural environment. The growth of auto ownership and the expansion of electricity production in the postwar Federal Republic steadily increased the amount of pollutants released into the air. In Cologne, for example, automobile emissions cause so much damage to the cathedral in the city's center that a crew of stonemasons is employed to continuously restore the stone exterior. Water pollution worsened as a result of discharges from the dense concentrations of industry along the banks of inland waterways. A massive fish kill along the Rhine in 1969 first drew widespread public attention to this worsening problem. Germany's high population density and urbanization magnified problems of noise pollution and the loss of natural areas. In short, the affluence of the Economic Miracle came at a substantial cost to the environment.

In the immediate post-WWII years, Germans were not very concerned with the conditions of the natural environment. Several dramatic environmental catastrophes and international policy studies in the 1970s finally drew public attention to ecological problems. Moreover, once affluence seemed secure, the people were more willing to address the negative consequences of economic growth. The SPD-FDP government revised the Basic Law in 1972 to grant the federal government jurisdiction on environmental matters. The government passed more environmental legislation in 1972-76 than in the first two decades of the Federal Republic.[\(14\)](#)

As attention to environmental issues grew in the late 1970s, the impetus for environmental reform came from outside the established party system. [Citizen-action groups](#) demonstrated against environmental problems in their locale. At the national level, environmental groups and other New Left groups mobilized opposition to nuclear power, toxic wastes, and other environmental issues.

The Greens entry in the Bundestag in 1980 provided a public forum to draw attention to the nation's environmental problems. Soon thereafter, events seemed to confirm the Greens' worst claims. In the early 1980s, pollution was damaging the Germans' beloved forests; in a few short years nearly half of all trees had succumbed. This convinced many people that the Greens' claim were not just rhetoric, one could

travel to the Black Forest and see the death of the forests. Environmentalists then drew the public's attention to water pollution, toxic wastes, and the other environmental problems threatening the nation. In 1986, a massive chemical spill in the Rhine and the nuclear disaster at Chernobyl heightened the sense of an approaching environmental Armageddon. When the Chernobyl fallout spread to Germany, government agencies on both sides of the border told parents to keep their children indoors and to avoid eating certain foods. It seemed that the morning newspaper increasingly was reporting another hidden environmental problem.

Helmut Kohl's government responded to many of these issues with new policy reforms. In 1986, Kohl created a new Ministry of the Environment; the Federal Republic was one of the last European democracies to do so.

Like many other issues, environmental protection took a back seat in the years following German unification. However, if environmental problems seemed severe in the West, they took on catastrophic proportions in the East.<sup>(15)</sup> The GDR had model environmental laws, but the government never enforced these laws. Many areas of the East were an environmentalist's nightmare: untreated toxic wastes from industry were dumped into rivers, emissions from power plants poisoned the air, and many cities lacked treatment plants for sewage. Nuclear power plants used the technology of the Soviet Union's Chernobyl reactor. Some East German rivers had pollution levels more than 200 times above EU environmental standards. Statistics compiled soon after unification found that citizens in Leipzig and Bitterfeld, for example, had significantly shortened life expectancies and more severe health problems than other Easterners. The costs of pollution were real.



[YouTube video news report on solar energy systems in Germany \(3:59 min\)](#)

Unification started the process of environmental cleanup in the East. The government closed several nuclear reactors for safety reasons. Massive amounts were spent in improving water quality through new treatment plants, and improving air quality through new regulations on emissions. The European Union contributed to these cleanup efforts, since pollution is a transboundary problem.

At the same time, the Federal Republic instituted a new system for recycling consumer packaging (bottles and boxes) that became a model for Europe (the Green Dot program). Germans now recycle over 60 percent of consumer packaging, compared to less than 25 percent in the United States. New legislation stimulated the development of wind and solar energy sources. In 2007, Germany wind turbines produced about 6 percent of the nation's electricity, compared to only 1 percent produced by turbines in the United States. Germany is a global center for the development of solar technologies for producing electricity.

Environmental issues got a further boost when the Green party became part of the governing coalition after the 1998 election. Fulfilling a long standing promise, the new SPD-Green government committed the nation to the closure of all nuclear power plants by 2020. Even more fundamental was the introduction of the Eco-tax in 1999. The tax is added to carbon based fuels and energy. The goal is to decrease the nation's reliance on carbon based energy, spur conservation and the use of alternative energy sources, and stimulate research and technology (and jobs) in these new areas. This is criticized by some businesses as adding to their costs, but has been effective in meeting the initial policy goals. For instance, Germany supports the Kyoto protocol on climate change, and has been more successful than most other EU member states in reducing carbon emissions.

Many environmental challenges still face Germany, including continuing efforts to improve conditions in the East. However, the larger story is the progress that has been made in the last several decades--progress

that has come from initiatives by The Greens, CDU/CSU and SPD. Although Merkel initially opposed the SPD/Green policy of phasing out nuclear power, she moved to close the existing plants after the nuclear accident in Japan in 2011. Germany's record on many environmental issues is now among the best in the European Union. And public opinion surveys find that most people strongly support strict standards to protect environmental quality.

### A New International Order

The Federal Republic's postwar history shows the nation's dependence on international relations for its existence and sustenance. The Allied powers created the FRG and retained the right to intervene in its domestic affairs even after 1949. To become an independent nation the Federal Republic had to regain the trust of the Western powers in order to regain its sovereignty. This would be a difficult task because the FRG was an outcast among the international community of nations, and opposition to the rebuilding of any German state was considerable.

Chancellor [Adenauer's](#) strategy for rehabilitating Germany's image and regaining national sovereignty was to integrate Germany into the Western alliance. This decision reflected his preference toward Western culture and democratic institutions. He was the former mayor of Cologne during Weimar, a leader of the Zentrum party, and a strong Catholic. In addition, he believed that the West would eventually win its Cold war struggle with the Soviet Union. In the long run, therefore, he felt that German unification would occur on Western terms, and it was in the nation's best interests to have a close relationship with the West. (This seemed an idealist dream for forty years, but became prophetically true in 1989.)

Adenauer did not insist on absolute autonomy for the Federal Republic in his negotiations with the Western Allies. He wanted Germany to be a respected and equal partner in a strong Western alliance, and realized that such a goal might not be compatible with absolute national sovereignty. Furthermore, he believed that the Federal Republic's future influence in world politics would come through its association with other European nations, rather than as an individual nation-state. He therefore sought Germany's greater integration into international organizations and institutions. Military and economic goals occurred through international bodies such as [NATO](#) and the EU. By cooperating with other governments in these international forums, the Federal Republic lessened lingering anxieties about German foreign policy goals. Adenauer argued that "the age of the nation state belongs to the past, a past full of jealousy and steeped in blood."[\(16\)](#) Adenauer's willingness to relinquish national sovereignty had an almost paradoxical effect, for it hastened the establishment of a sovereign West German state.

The international rehabilitation of the Federal Republic proceeded faster than most people would have predicted. By the end of 1949 West Germany received a seat on the international boards that oversaw Ruhr development and the distribution of Marshall Plan aid. Adenauer supported the French plan for coordination of their coal and steel industries, and in 1952 the Federal Republic became a founding member of the European Coal and Steel Community (the predecessor of the European Economic Community). The major turning point was the American proposal to strengthen the Western military alliance by rearming the Federal Republic. Since the memories of German aggression in World War II were still very fresh, this proposal was a considerable shock to many Germans. The reaction of many West Europeans was equally negative. In debating the proposal for a rearmed West Germany, one French parliamentarian summed up these sentiments: "I don't know if they would frighten the Russians, but, by God, they'd frighten me."

Adenauer agreed to a German contribution to an international defense force -- if the FRG were treated as an equal ally and given its sovereignty. After temporary French resistance, the Allies reached an

agreement that called for the Federal Republic to develop armed forces within the international command structure of the North Atlantic Treaty Organization (NATO). On May 5, 1955, the Federal Republic became a sovereign nation state. The Western Allies recognized the Federal Republic as the only German government "freely and legitimately constituted and therefore entitled to speak for Germany as the representative of the German people in international affairs." In only six years, Adenauer led Germany from a position of political dependence to one of equality and acceptance within the Western alliance.

The Federal Republic rapidly became a mainstay of West European defenses. A universal draft maintained a large military force, and these troops held forward positions on the borders with East Europe. The Federal Republic made one of the largest manpower and financial contribution to NATO forces, and the German public strongly supports the NATO alliance. Moreover, to lessen public fears about German military might, Germany's military forces came under the authority of NATO's supreme commander in time of war. The FRG also renounced the use of nuclear, biological or chemical weapons. Germany sought to avoid any image that its growing military strength would threaten its allies, as the German military had in the past.

The Federal Republic's commitment to Western cooperation also includes the European Community.[\(17\)](#) The early success of the European Coal and Steel Community led to further efforts of European integration. In 1957, six member nations (the Federal Republic, France, Italy, Belgium, the Netherlands, and Luxembourg) signed the Treaty of Rome and created the European Economic Community (EEC). The EEC's immediate goal was to provide a common market for commerce, industry, manufacturing, and agriculture within the six member states. Common taxes, customs duties, a common agricultural program, and economic regulations coordinated the economies of the member nations.

During the postwar era there were two core elements of Federal Republic's postwar foreign policy. One involves its relationship with East Germany and the larger bloc of communist nations in Eastern Europe. The other involved its relationship with its neighbors in the West.

**RELATIONS WITH THE EAST.** Just as the Federal Republic was integrated into the Western alliance, the German Democratic Republic lived in a network of eastern alliances. East Germany countered the Federal Republic's integration into the Western alliance with calls for German reunification, but then the GDR established itself as a separate German state tied to the Soviet Union. In 1952 the regime transformed the demarcation line between East and West Germany into a fortified border and restricted access to the East. The East German economy was integrated into the Soviet bloc through membership in the Council for Mutual Economic Aid (Comecon). The GDR was a charter member of the Warsaw Pact military alliance that was formed in 1955 to counter NATO. The Soviet Union recognized the sovereignty of the German Democratic Republic in 1954.

The practical and symbolic division of Germany became real with the GDR's construction of the Berlin Wall in August of 1961. The wall sought to stem the tide of emigration from the East, although eastern propaganda claimed it was to protect the GDR from Western exploitation and contamination. More than a physical barrier between East and West, it marked the formal existence of two separate German states that had developed independently and existed within their own political spheres.



[YouTube video on building of Berlin Wall \(2:35min\)](#)

Throughout the postwar period, Berlin in particular, and intra-German relations in general, served as a pressure point for East/West conflict between the Soviet Union and the United States. For instance, the *Hallstein Doctrine* committed the FRG to renouncing diplomatic relations with any nation that recognized

the German Democratic Republic. Similarly, conflicts over Berlin had marked the lowpoints of the Cold War in the 1948 airlift, Kruschev's 1957 ultimatum for the West to leave Berlin, and then in the construction of the Wall. The world was divided in two though the center of Berlin.

Intra-German relations took a dramatically different course once the Social Democratic party won control of the government in the 1969 West German elections. After his selection as chancellor, Willy Brandt proposed a fundamentally different Eastern policy (*Ostpolitik*).<sup>(18)</sup>

In place of the confrontational approach that had characterized earlier governments, Brandt sought a reconciliation with the East. The photo shows him laying a wreath at the memorial to the Warsaw ghetto uprising and its suppression by the Nazis; an act that was widely seen as atonement for Germany's WWII actions. Treaties with the Soviet Union, Poland and Czechoslovakia resolved disagreements dating back to the end of the Second World War. A Basic Agreement with the German Democratic Republic began to normalize relations between the two Germanies. With Ostpolitik the Federal Republic defined a new political role for itself as a bridge between East and West. Brandt won the Nobel Peace Prize for his actions.



East Germany was originally very skeptical of rapprochement with the Federal Republic, but agreed after prodding from the Soviets. To the East German regime, Ostpolitik was a mixed blessing. On the positive side, it legitimized the GDR through its formal recognition by the Federal Republic and a normalization of East/West relations. On the negative side, mutual recognition and subsequent exchanges among the two German states

increased the exposure to western values and ideas among the East German population. The initial worries of many conservative GDR politicians that Ostpolitik would undermine their closed system seem to be substantiated by the eventual revolution of 1989.

When the prospects for German union were first discussed in late 1989 and early 1990, it was assumed that the Federal Republic's integration into NATO, the EU, and the general fabric of the Western alliance system would pose problems for the Soviets. For instance, most analysts thought the Soviet Union would veto any unification proposal that called for the Federal Republic to remain within NATO. Kohl and other FRG leaders openly stated their commitment to NATO.

With the collapse of the GDR [Gorbachev](#) heeded his own advice to respond to "life itself." Kohl travelled to the Soviet Union in July of 1990 and stunned most foreign observers by winning Soviet approval for a unified Germany within the NATO alliance. In return, Gorbachev won concessions on the reduction of combined German troop levels to a total of 370,000, the definition of the GDR territory as a nuclear-free zone, and Germany's continued abstention from the development or use of atomic, biological and chemical weapons. The Federal Republic assumed the costs for maintaining and relocating the Soviet troops over a phased withdrawal. Soviet approval for German union came not through force, but through words and a downpayment check for DM 15 billion.

In September of 1990 the four World War II allies -- the United States, Britain, France, and the Soviet Union--endorsed these agreements, granting Germany its full sovereignty and in essence ratifying the

peace treaty to end to World War II. The unimaginable became a reality with German union and full national sovereignty a few weeks later.

**EUROPEAN INTEGRATION.** European integration is a continuing process. In 1973 several different European institutions were merged into a single organizational unit, the European Community (EC). Over the next several years the membership expanded to include Britain, Ireland, Denmark, Greece, Spain, and Portugal. Moreover, the policy responsibilities of the community broadened to include social programs, regional development, monetary coordination, foreign aid, and other policy areas.



The pace of European integration quickened in the 1980s. French and German policymakers played key roles in winning support for the Single European Act in 1986. The Act committed the EC to the creation of a single market for goods, services and capital with the Community, expanded the policy responsibilities of the EC, and began a process of institutional reform within the Community. Public opinion surveys showed high levels of sympathy for the Community among the FRG citizenry.[\(19\)](#)

European integration made dramatic new advances since 1990. After unification, some Western members worried that Germany would turn its attentions eastward, diminishing its commitment and involvement in the Community. Chancellor Kohl reassured his allies through Germany's support for the 1992 Project, its commitment to the Maastricht treaty that expanded the policy role of the Union, and support for European Monetary Union. The replacement of the Deutschmark with the Euro was an important symbolic step for Germany. The European Community became the [European Union](#). This also involved a change in the policy making process and the relative power of the EU institutions. Germany was a stimulus of these reforms. The Federal Republic also was a bridge to Eastern Europe, strongly favoring expansion of the EU. Ten formerly communist

states have joined the EU since 2004. A unified Germany clearly approaches the process of European integration based on a different calculus than that which guided German actions for the previous 40 years.

Germany benefits considerably from its EU membership. Access to a large European market was essential to the success of the Economic Miracle, and is a continuing basis of its export oriented economy. Participation in Union decisionmaking also has given the Federal Republic design making influence on the course of European development. The Federal Republic also gains from open competition of the Single Market and the other policy reforms that have expanded European economic competition and openness.

These benefits are why Germany has been deeply concerned with the sovereign debt crisis that has affected several EU member states beginning in 2009, and the threat this poses to the Euro. Germany benefits from the internal market of the EU that allows it to sell its goods to other European states, and the Euro benefits Germany's international trade balance. This has led the Merkel government to support financial aid for struggling EU member states, even when the German public is skeptical of such aid. At the same time, Merkel has pressed for EU reforms to avoid these problems in the future and strengthen the EU. These dual negotiations demonstrate how Germany's economic fate is now closely tied to the success of the EU.

**A NEW FOREIGN POLICY ROLE.** The changing international order will alter the context for German foreign policy.<sup>(20)</sup> NATO existed as a bulwark of the Western defense against a Soviet threat from the East, the decline of this threat decreases the military role of the alliance. The Warsaw Pact disbanded in 1990; the Cold War is over. The ending of the Cold War produced an increasing importance of the European Union in Germany's foreign policy planning. In addition, Germany is likely to be more assertive on the EU's future course because of its willingness to act, and because it is the largest economy among the EU member states.

The Federal Republic has also joined in democratic allies in combating international Jihadist terrorism. Germany has had its own terrorist experiences. In 1986 terrorists bombed a Berlin discotheque that was a meeting place for American soldiers, killing two soldiers and injuring 230 people. The leader of the terrorist network that carried out the September 2001 terrorist attack on the United States was a Saudi exchange student in Hamburg, and he used his base in Germany as part of the early planning. In 2006 an attempt to plant bombs on two German trains failed, saving many lives. As a result of these threats, Germany has introduced a number of policies to make the country less hospitable to potential terrorists.

Germany will also play a different political role in the new international order. The new Germany is shedding its image as a economic giant and political midget in international relations. The leadership of the FRG now seeks to be a more active role for Germany in international politics. The new Germany is also assuming a larger responsibility in international disputes outside the NATO region. In 1993 the Constitutional Court interpreted the Basic Law to allow German troops to serve outside of the NATO area as part of international peacekeeping activities. In 1998 Schröder survived a no-confidence vote on sending German soldiers into former Yugoslavia, which changed the course of German foreign policy. Since 2001, German troops also serve in Afghanistan as part of the international coalition that freed that nation from Taliban rule. However, after a decade of war and a growing combat role for German troops, support for this effort is decreasing. And Schröder actively opposed the US-led invasion of Iraq in 2003, and remained a critic of US policy in this case. In mid-2008, German troops served in twelve nations as part of international peacekeeping efforts. In 2010 the government ended conscription for military service, leading to a further reduction of the size of the military. This history is another sign of the continuing debate about Germany's future international role.

### After the Revolution

Revolutions are unsettling, both to the participants and the spectators. And this has been the case with the German revolution of 1989. The Federal Republic is forging a new social and political identity, that shapes its view of itself. These changes are also reshaping domestic and international policies. The years since unification have been a time of great turbulence and hardships for many in the East, but also a time of great progress.

One frequently hears of a nostalgia for the past among Easterners who struggled through this period. The GDR times were quieter and more stable. The success of the movie "Goodbye Lenin" was a humorous example of these sentiments. But few easterners want to move backward in time. Even if they have struggled after the transition, and still harbor criticisms of life and politics in the FRG, they prefer the present system to the old regime. A recent public opinion survey asked Easterners a hypothetical question: if a new Berlin wall was built, would you want to be in the West or the East when this happened. By an overwhelming majority, Easterners wanted to be in the West. Life is not perfect in the Federal Republic, but it is better than what they experienced under the German Democratic Republic.

Moreover, unification has benefitted the nation in other ways. Germany is now an autonomous and sovereign state. This came only with the Four Power agreement in 1990 that granted Germany its full

sovereignty. Some of the foreign policy challenges we discussed above result from this new ability to define the nation's role with the same independence as other European democracies. And as we should expect from a stable, prosperous democracy, the Federal Republic is making positive contributions to the European Union and the international system in many ways.

The shock and then the new political debates spawned by unification have also changed domestic policies. The pressure from women's groups in the East led to a series of reforms in the mid-1990s that improved the status of women in the Federal Republic. Unification has also improved policy conditions in the East ranging from the protection of basic human rights to protecting the environment. Similarly, debates about educational reform have broadened because of the different perspective of Easterners and the new challenges faced by competing in a global economic system. Even the historic definition of German citizenship have changed at least partially as a result of the social forces generated by the democratic transitions of the 1990s.

In the end, the major progress is that Germany has again become a 'normal' European nation. It has its faults, as do all European nations and other advanced industrial democracies. It has its policy successes, as do all other advanced industrial democracies. But it no longer fundamentally different because of the burden of its history.

<b>Key Terms</b>		
Currency Union	indirect taxes	Social insurance system
direct taxes	<i>Kindergeld</i>	<i>Treuhand</i>
European Community (EC)	North Atlantic Treaty Organization (NATO)	Value added tax (VAT)
European Union (EU)	<i>Ostpolitik</i>	

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### Endnotes

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