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A Baxter Publication

Germany: Progress and Potential

The fate of Germany is intimately linked with the fate of Europe. When the Soviet Union stalked out of the four-power Control Commission and blockaded Berlin in 1948, it confirmed the division of Germany as well as the Cold War division of Europe. Now the breaching of the Berlin Wall has opened the way not only to German unification but also to a new order for the whole of Europe.

German unification is taking place on two tracks, one concerned with the internal aspects (economic, political and legal terms of unification) and the other, with the external aspects (implications for the European Community, for European security arrangements and for the rights of the four victorious powers of World War II). The internal aspects are the exclusive responsibility of the two German states but the external aspects must obviously involve others. On both tracks, the pace of events has been forced by the clearly expressed will of the German people themselves to unite, as confirmed by the May 18 elections in East Germany.

Since those two elections, West and East German officials have been working out the internal terms of unification. German Economic and Monetary Union has been negotiated and will come into effect at the beginning of July. It calls for exchanging East German wages, salaries and pensions for Deutschemarks at a favourable one-to-one rate but limits the amount of personal savings that can be swapped at that rate. All other savings will be exchanged on a two-for-one basis.

Many West Germans grumble about the burden of supporting the East German economy with respect to infrastructure, pensions and unemployment benefits. In the short term, there will be upward pressure on interest rates and inflation not only in Germany but also in the European Community. In the longer term, however, an increase in the German growth rate can be expected and, by extension, an additional boost to the growth rate of the EEC (estimated at 0.5% next year and 1.0% the year after).

Fundamental Restructuring Essential

Political union will follow in due course, using Article 23 of the West German Basic Law, but the timing has not been settled. Article 23 provides for automatic accession to the Federal Republic of Germany by any East Germany Länder (provinces) which so request. Before that can happen, the East German government and parliament will have to recreate the five Länder which the Communists had abolished, and agreement will have to be reached on their representation in the Bundesrat or up...

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NOTE TO READERS: Our pages are numbered sequentially from the start of the year to facilitate production of a cross-referenced index that will accompany December's issue.

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