'The cost of inter-German monetary union' from the Frankfurter Allgemeine Zeitung (17 February 1990)

Caption: On 17 February 1990, the German Conservative-Liberal daily newspaper Frankfurter Allgemeine Zeitung analyses the issue of the cost of German reunification.

Source: Frankfurter Allgemeine Zeitung. 17.02.1990, n° 41. Frankfurt/Main. "Die Kosten der deutsch-deutschen Währungsunion", p. 11.

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The cost of inter-German monetary union

Difficult investigation / Brussels favours ‘East German DM’ with restricted convertibility

FAZ Frankfurt, 16 February. Following the Federal Government’s proposals for a German monetary union, more and more people are voicing doubts about the cost of such a step, and now politicians and economists have taken a stance on the matter. They are generally agreed that the Federal Republic would have to raise thousands of millions of Deutschmarks for the reconstruction of the GDR. However, the Director of the Institut der Deutschen Wirtschaft, Gerhard Fels, considers calculations involving billions of marks to be unrealistic. Undoubtedly, the taxpayer would be dealing with costs of a few thousand million DM. But the improvement of the GDR’s infrastructure would not have to be financed by the public sector. The private sector could — internationally — raise the cash for investment in the various companies.

The CDU/CSU parliamentary party’s spokesman on economic affairs, Matthias Wissmann, had estimated the sum required to bring the GDR up to West German standards at around DM 890 000 million over ten years. In total, 3.6 million motor vehicles, 8 million telephone lines and around DM 600 000 million for housing were needed. Denitrification and desulphurisation of the coal-fired power stations would cost DM 14 000 million, and building new ones at a cost of around DM 39 000 million also had to be considered. Wissmann contrasted this with the possible savings on aid programmes for Berlin and the areas bordering on the GDR and on benefits for migrants.

The President of the Hamburg Institute of International Economics (HWWA), Erhard Kantzenbach, does not anticipate any danger to the stability of the German mark, since the GDR would have to surrender its sovereignty over monetary policy to the Deutsche Bundesbank. Rather, he finds the figures quoted too low. None the less, given the level of the Federal Republic’s gross national product, which at around DM 2 300 000 million is approximately ten times higher than that of the GDR, the Federal Republic would be able to cope.

Converting savings accounts from East German marks into Deutschmarks would be a challenging task for the Federal Republic. The Deutsche Bank estimates that the accounts hold around 180 000 million East German marks. Assuming an exchange rate of three to one, the Bundesbank would have to raise DM 60 000 million. Experts do not accept the view that the GDR is insolvent, but they do concede that the introduction of the market economy would lead to higher unemployment in the GDR. Providing unemployment insurance and raising GDR pensions would cost approximately DM 15 000 million.

The EC Commission is also considering the possible economic impact of monetary union. The Federal Minister of Finance, Theo Waigel, told his counterparts in other EC countries that, in the medium term, all EC Member States would benefit from the new market economy in the GDR: ‘Overall, the EC Commission estimates the boost to growth in the European Community at up to 0.5 % per annum.’

According to reliable sources, experts in Brussels prefer the model of an ‘East German DM’, issued by the Bundesbank and with initially restricted convertibility, to immediate monetary union. Nevertheless, they expect a rapid implementation of monetary union, which would be a kind of automatic transfer of revenue, lessening the need for comprehensive direct revenue equalisation from Bonn. With initial income subsidies of DM 300 per worker, average monthly wages in the GDR, after deduction of living costs, would amount to 70 % of the West German level (DM 2 400) at DM 1 700. This should be sufficient to halt the present stream of migrants.

As a contrast, experts at the Commission refer to the possible consequences for the Federal Republic and the EC: The boost to economic growth in the Federal Republic, ‘provisionally estimated at 1 % per annum’, may well be accompanied by ‘possibly substantially increased taxes’ and an ‘increase in the budget deficit by 1.5–2 % of gross domestic product.’ Dangers of inflation may be combated with a monetary policy designed to maintain stability. This would require an increase in interest rates so as to stabilise prices. Significant upward revaluation of the German mark compared to the American dollar, Japanese yen or British pound would inevitably lead to tensions within the European Monetary System and would bring up

the issue of resetting the EMS parities.