

Rethinking on German reunification based on political and economic factors

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Abstract: The unification of Germany was a major historical event at the end of the 20th century. In the process of German reunification, various forces at home and abroad launched fierce competition and struggle. The reunification of Germany ended these disputes to a certain extent and realized the reunification of sovereignty. At the same time, the German government has been committed to internal unity and the integration of political, legal, economic, and social systems. Although the internal unification of Germany is an internal problem, it is also affected by the external factors of economic globalization. The impact of economic globalization on sovereign states will inevitably affect the protection of citizens' interests by sovereign states. This paper mainly analyzes the reasons and results of German reunification from the political and economic aspects and tries to provide a new perspective and conclusion for rethinking this important historical issue. Although there are still some deficiencies in this analysis, the consideration of political and economic factors is not very comprehensive, and there is no in-depth analysis of other factors. Nevertheless, this attempt is still beneficial to provide some basic views and Enlightenment for the historical study of German reunification.

1. Introduction

Germany was united under Brandenburg Prussia when the new German Empire was established in 1871. However, after Nazi Germany was defeated in World War II, Germany was occupied by the US, the UK, the USSR, and France, split into several regions and made Germany two separated countries for decades. Therefore, the German reunification in the 1990s was a unique process in human history. The fall of the Berlin Wall symbolizes the break of the physical and political separations in Germany, turning East Germany and West Germany into one country that changed history [1].

The reunification of Germany was a major historical event at the end of the 20th century. In the process of German reunification, various forces at home and abroad launched fierce competition and struggled [2]. This essay will analyze the underlying political causes and consequences of German reunification from both internal and external aspects. At the same time, there are plenty of economic causes and consequences relevant to German reunification. Therefore, this essay will use some qualitative methods to discuss in detail the relationship between the German reunification event and its economic situation. In terms of reasons, it will discuss the households of the West German people based on the conclusion that "reducing trade barriers between the two countries will help promote their commodity exchange and price unification, to improve the living and income level of the economically weaker countries" [3]. In discussing the results or economic impact of German reunification, it will discuss it from the micro and macro perspectives. The main indicators selected are the development of East German companies at the micro level and the price fluctuation of the European stock market at the macro level.

Through the analysis of the above contents, this paper hopes to provide some new thoughts for reflecting on the issue of German reunification.

2. Political causes and consequences

2.1. Political causes of German reunification

2.1.1. The internal and external challenges

The German reunification in the 1990s had both internal political causes and external political causes. This paper will focus on the internal and external challenges that East Germany faced in the 1980s and point out two main causes of the fall of the Berlin Wall.

In the internal aspect, the East Germany government failed to provide people who were living in the Eastern region with a stable and well-functioned society. After 1949, the split regions went in different ways. West Germany started to grow into a powerful country in its own right, but the East mostly stagnated and built the Berlin Wall to block the connection with the West. The then leading party of East Germany, the Communist party, has implanted the political ideas in favor of their own benefits and governance to the mind of people in East Germany and made these citizens believe in Communalism by telling them that Capitalism is corrupted and would not be the ideal social system. However, under the restrictive governance of the Communist party, the freedom, political rights, and other basic human rights of citizens in the East region were significantly limited. The great disparities existing in two different social systems made people in the East region have an unrealistic view of people's lives in the West region, believing that reunification will bring them a glorious future. These differences represented the fundamental rivalry of the 20th century between Capitalism and Communism. Even though the opportunities and freedom existing in the West region were usually exaggerated, people in East Germany tended to believe the ideas to be true. As a result, the Communist Party in East Germany soon lost its governing power and privilege and collapsed in a short period after the fall of the Berlin Wall. Moreover, even before the fall of the Berlin Wall, actions for reunification already took place in East Germany [4].

In the external aspect, the change in global political situations put great pressure on East Germany and led to the fall of the Berlin Wall. The Soviet Union had a major influence on the East German party and state leaders throughout the period that East Germany existed in history. The "peaceful evolution" that occurred in the Soviet Union made East Germany consider changing its current situation [5]. In fact, East Germany constantly faced the special and difficult tasks of maintaining national security and developing productive social forces since the country was established. When the Soviet Union evolved towards Capitalism through the course of reforms, East Germany realized that it could not be separated from the impacts of the Soviet Union and could not avoid its negative influence. As a result, East Germany gradually lost its strength and power to resist the long and elaborate Western strategy of peaceful evolution. Accordingly, the Soviet Union reforms and the Western strategic peaceful evolution process constituted two major challenges and pressure to East Germany and eventually brought East Germany to its knees.

2.1.2. The collapse of the Soviet Union

The international community had shown different attitudes towards German reunification. Britain held strong reservations. Margaret Thatcher wanted a counter-coalition of Britain, France, and the United States. A unified country would influence American attitudes. East Germany's integration into the EU was a non-starter. As for France, they also held strong reservations. France wanted Germany to remain divided. France feared that a unified Germany would turn towards the Soviet Union. However, the United States said Yes. German reunification should not weaken the cohesion of the Atlantic alliance or endanger Gorbachev's policy of opening up to the West. A unified Germany is committed to Europe. When it comes to the Soviet Union, Soviet Union wanted Germany to remain divided.

The reunification of Germany was closely related to the collapse of the Soviet Union. The latter was closely associated with Mr. Gorbachev. Gorbachev's new ideas deeply influenced DDR. The movement of new thinking mainly reflects Gorbachev's self-obliteration of the struggle between socialism and capitalism and between the proletariat and the bourgeoisie. So the Western powers seized the opportunity to peacefully evolve the Soviet Union. Three main central ideas of new political thinking were demonstrated following [5].

Firstly, in the context of the world as a whole and the nuclear threat, the interests of all mankind were Paramount. Gorbachev thought the world was moving toward unity. If there was a nuclear conflict, it would be no winners and no losers. The world would inevitably be destroyed. In the context of the world as a whole and the nuclear threat, the survival of mankind is above all else. Secondly, it corrected people's views on socialism and capitalism. Conventional wisdom held that the interests of capitalist and socialist countries are essentially a zero-sum relationship in which the existence of one constitutes a fundamental threat to the security and prosperity of the other. Gorbachev dismissed this view. Capitalism, he argues, was not as dead as had been predicted. Therefore, the "general crisis of capitalism" theory should be abandoned. The relationship between capitalism and socialism is more like a dialectical unity and contradiction. They are interdependent. He advocated dialogue as the basic means of practice in international relations. Thirdly, the "new political thinking" completely changed the traditional Soviet war concept. Conventional wisdom held that a balance of military power is necessary for security. Gorbachev dismisses this view. He did not think the Soviet Union needed to deploy large numbers of weapons and maintain four million troops to protect itself. Conventional wisdom holds that the purpose of military force was to defeat the Enemies of the Soviet Union. Gorbachev believed that the purpose of the military was not to wage war but to prevent it. So he put military power based on defense [2].

Gorbachev took the initiative to change the former rigid foreign policy of the Soviet Union, taking the initiative to detente the relations with the capitalist countries led by the United States, and strengthen the political and economic exchanges and cooperation with western European countries. Objectively, it created a loose external environment for the unification of Germany, relaxed the control over GDR, and eased the internal resistance of Germany. So that Germany was finally unified. New Political Thinking contributed to the collapse of the Soviet Union to some extent. The unification of East and West Germany also had a lot to do with the collapse of the Soviet Union. The unification of Germany was an inevitable trend. The Soviet Union, which had exhausted its vitality in the Cold War, was facing disintegration. The chaotic situation in eastern and Western Europe at that time provided reasonable conditions for reunification.

2.2. Political consequences of German reunification

The first consequence was the elimination of the division between two political systems. The Eastern society was a socialist society with a strong emphasis on equality and basic consumerism. In contrast, Western society was a Capitalist society with hierarchies, competition, and diversity of equity. After the reunification, Germany tried to merge two social systems. However, It is a complicated process of making two countries with radical differences into one. The merger process was full of challenges and opposing voices. The political backlash in Eastern society was much stronger than that in Western society. Driven by feelings of being ignored by politicians, people in Eastern society protested and demanded political change.

The second political consequence was that the German government provided supportive policies and monetary assistance to the East region to help build a sound system in that society. After the reunification, the German government made efforts to engage people, especially young people, in the values of democracy and freedom. Moreover, after the reunification, the German government tried to reform the East German tax system to match the development and conditions of the West German tax system. For example, the government allocated over 2 trillion euros into the East 30 years after the reunification to boost the social and economic development in the East. A solidarity tax that more than 5 percent income tax hike was enforced in the East region. However, policies that improve things can cause unintended consequences as well. Since the reunification, Germany has been reforming its

business systems, and it took a relatively long period to create a well-organized capital market in the East [6].

People considered the Germany reunification a remarkable example of making Germany into a stable, functional, and democratic country. In the late 1980s, memories of a big, powerful, and devastating Germany were still a relatively bold idea. No one thought reunification was remotely possible until Gunter Schabowski misspoke in a press in 1989 that the border was due to be opened. Even though the two conflicting ideologies of social systems were then clashing with each other and have caused conflicts between the two religions, the reunification also brought many new opportunities to Germany and the transfer from Socialism to Capitalism in the East region has been a great leap for Germany.

3. Economic causes and consequences

3.1. Economic causes of German reunification

More German was willing to participate in enterprise activities and promote the communication on trade and commerce between East and West Germany. West German households who had social ties to East Germany in 1989 promoted investment and enterprise activities' contacts between East and West Germany. These households significantly affected economic performance at the regional level. These different effects were as follows.

First of all, the German households' rising increased the returns to entrepreneurial activity. As more citizens became rich and had enough money to buy more expensive things and live an upper level of life, the entrepreneurial company would have more hidden customers to have more chances to increase returns. The household's rising also increased the share of households who became entrepreneurs and the likelihood that firms based within a given West German region invest in East Germany. These phenomena promoted the growth of per capita income in East and West Germany through there were the certain account of people to divide more salaries which were transported by the other part of Germany, then made German reunification became the general trend since the unification in the commercial aspect is the benefit to almost all the German citizens [7].

Subsequently, Germany's demand for more trade and more commerce promoted the business connections between two parts of separated Germany. Foreign trade in Germany's border areas has become more and more prosperous since 70th twenty century. The basic treaty on the relationship between the two Germany signed by East and West Germany in December 1972 emphasizes that the trade between the Democratic Republic of Germany and the Federal Republic of Germany is not limited by national boundaries, and goods can flow freely. At that time two Germany changed the embassy's name to the Permanent Representative Office, which became the focal point of trade and commerce. But before signing this treaty, there was still a controversy of whether Germany should be reunification between East and West Germany, so they did not become reunified immediately. However, this treaty also opened a door for the whole of Germany to participate in commercial activities. In 1950, the total trade volume between the two countries was 745 million marks, in 1973 it was 5.6 billion marks, and after 1980 it exceeded 10 billion marks [8]. The increase of trade exchanges has greatly offset the institutional differences between the two Germany, making the relationship between the two Germany increasingly close, thus laying a material foundation for the unification shortly.

3.2. Economic consequences of German reunification

The economic consequences could be analyzed from the perspective of micro companies and the macro stock market, which was initially reflected in the negative sentiment towards West German enterprises and the abnormal rise of interest rates in European countries.

German reunification had a negative impact on most West German enterprises. East Germany used a socialist political system without enough economic strength before the German reunification. When the reunification began, lots of money had bound to flow from the rich West German to the falling East German. Contrary to the public's enthusiastic emotions, the sense of the market was generally

negative about the implications of reunification for West German firms because the economic situation in West Germany was much better than in East Germany, so they should give financial expenditure to them subsidize East German. This negative sentiment was spread across most of the broad sectors. A report by the German Research Institute IWH showed that up to 1.3 trillion euros of capital had flowed into former East Germany since 1991 to help local reconstruction. Since the fall of the Berlin Wall, the total net capital transferred from West Germany to East Germany had exceeded half of the German economy in 2008[9]. However, financial analysts were detached from the emotions engendered by reunification and were discriminating in their assessment of its impact, so the accuracy of asset evaluation generally decreased. After that, with the continuous influx of funds, the phenomenon of inflation began to appear in East Germany.

In addition, German reunification had a strong impact on the European stock market and led to some abnormal increasing interest rates in the stock market in various countries. This was due to the backwardness of East Germany; the economy was on the verge of collapse. To stabilize the economy of East Germany, West Germany needed to increase financial expenditure to subsidize East Germany. Still, the substantial increase in finance would increase the pressure of inflation in Germany. The government's financial expenditure would lead to an increased money supply, which was the root of inflation. This required Germany to raise interest rates to reduce the pressure of inflation. However, this would cause a problem. If Germany raised interest rates, but other European countries did not, the interest rates in Germany would be higher than those in other European countries. In this way, other countries would transfer their own capital to Germany for arbitrage, resulting in a large outflow of domestic capital. Therefore, other European countries were also forced to raise interest rates to balance the interest margin with Germany.

After the reunification of Germany, to promote the process of economic development in eastern Germany, relevant economic promotion policies were issued, which alleviated the problems of regional development imbalance to a certain extent [10].

4. Conclusion

To sum up, this paper mainly rethinks and analyzes the political and economic factors before and after German reunification.

The government changes its economic model to help citizens and the economy. The Government's objectives are: Creating free competition to have an open economy. There would be possibilities for creating private and independent businesses by having free competition because it turned out that East Germany and West Germany had different social patterns. The influence of West Germany's capitalist society made former East Germany's economy unable to develop fully. So the government intervened.

Besides, The political premise of the German Reunification: a unified Germany moving democratically. German unity to European unification and to the strengthening of the Community institutions. Gorbachev's new ideas deeply influenced DDR. The movement of new thinking mainly reflects Gorbachev's self-obliteration of the struggle between socialism and capitalism and between the proletariat and the bourgeoisie. So the Western powers seized the opportunity to peacefully evolve the Soviet Union. After World War II, the United States and the Soviet Union divided the world, each attacking and defending the other. Under these circumstances, NATO could not tolerate a unified Germany as an ally of the Soviet Union, nor as a political buffer against its own eastward advance. Therefore, the United States and NATO acquiesced, encouraged, and directly helped implement west Germany's reunification plan, even fantasizing about the rapid elimination of "red" communist forces around the world at the time of the reunification. The Soviet Union, which was in internal and external difficulties, gradually gave up effective intervention in the international affairs of Eastern Europe, so that East Germany was in a very passive situation when facing the pressure of the whole Western world.

In addition, the demand for Germany to more diverse and high-quality goods promoted communication through trade and commerce between the two parts of separated Germany and laid a solid economic foundation for German reunification. However, since German reunification happened

in 1990, it has had some negative impacts on some West German enterprises. Due to the inflation problem, the German governments had to raise interest rates, which led the stocks' price to rise up in series of European countries.

Of course, there are still some deficiencies in this paper. Other factors of German reunification have not been considered, which will be further supplemented and improved in the future. However, this paper is still helpful to provide some basic views and Enlightenment for the historical analysis of German reunification.

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