

# The Lost and Forgotten Lesson of German Reunification and How It Can Relaunch the European Union Project

**Florin Bonciu<sup>1</sup>**

**Abstract:** *The European Union has been confronted, particularly in the past decade, with a diminishing position in the world economy in nominal terms (as percentage of world GDP), a decline of its global competitiveness and an increase in the diversity of the situations that cause troubles to its member states and regions that went far beyond the possibility of being efficiently managed by a single set of rules. Unfortunately, this growing diversity of situations, correlated with the increase of the inequality phenomenon in the developed countries, has been met by the European institutions with a more and more rigid framework that attempted to apply the principle “one size fits all” to a reality fundamentally characterized by diversity. This paper draws a parallel between the European Union’s attempt to assist its member states and regions in reducing development gaps and the German reunification process after 1990 by suggesting a master plan that might relaunch the European Union’s project, with a large support of the European citizens and along with that solving issues like economic growth and unemployment. The proposal starts from the German reunification lesson that was based on a massive financial intervention, correlated with a well-defined master plan that has been implemented with German rigor. At the same time, the proposal takes into account the economic projects that already exist in the European Union (particularly regarding infrastructure), as well as the low cost of money that characterizes the current international situation.*

**Keywords:** *European Union existential crisis, European Union relaunch, German reunification lesson*

**JEL classification:** F02, F15, F53, F55

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## Long and medium term trends manifested within the European Union project

### The long term perspective

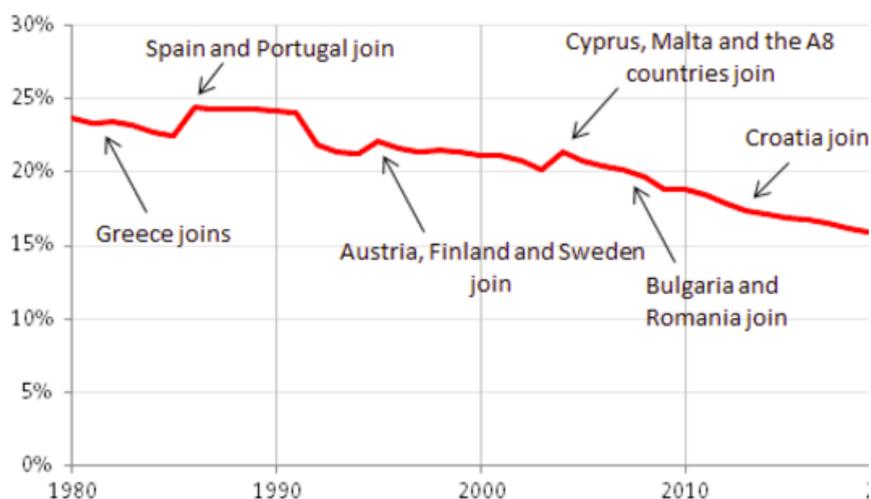
The European Union has been particularly affected by the economic crisis that began in 2008 but there is to mention that its contribution to growth (world GDP) has been declining for the past 30 years (from almost 30% in 1980 to merely 16.5% in 2016 – Figure 1) even though more countries joined the EU in the meantime. This decline, despite all the limitations of using GDP as an indicator (Coyle, D., 2014) reflects the fact that

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<sup>1</sup> **Florin Bonciu**, PhD, is a University Professor with the Romanian-American University in Bucharest and Senior Researcher with the Institute for World Economy in Bucharest. His activity materialized in 16 books and over 100 papers on issues related to international economics, European integration, international investments and international business. E-mail: [fbonciu@gmail.com](mailto:fbonciu@gmail.com).

European Union could not capitalize its own resources as well as the full potential of globalization. The enlargements, particularly the ones from 2004 and 2007 that involved 10+2 countries, provided a breath of a fresh air consisting in new markets and low labour costs but only caused delays in the decline.

**Figure 1. The decline of the share of European Union in world GDP, expressed in PPP terms, in %**



**Source:** Data from IMF World Economic Outlook, April 2016 and IMF data mapper. Figure drawn by Full fact team sourced at page <https://fullfact.org/europe/eu-has-shrunk-percentage-world-economy/>, retrieved at October 5, 2016. Note: Data for 2015 and 2020 represents forecasts and estimates.

In our opinion this long term decline has been primarily determined by the mechanical extrapolation of some rules and institutions that had made perfect sense in 1957 for the six initial member states (in the sense that those countries were to a large extent comparable and compatible as regards to culture, level of development, traditions and values, etc.), while they were less and less applicable to the next stages of enlargement (with reference to countries like Spain, Portugal, Greece and the more so to the countries belonging to the 2004 and 2007 enlargement waves).

Contrary to what happened during the real life enlargement process, from our point of view, in order to accommodate the diversity of situations and the development gaps, a pragmatic and functional approach for those enlargements could have referred to:

- a) **either requesting the new member states to first become OECD member countries** (in this way securing a comparable level of development at least to a certain extent). Such an approach would have delayed quite considerably several countries in their accession but would have avoided most of the difficulties that manifested after accession in the implementation of the *acquis communautaire*;

**b) or changing the rules of the game** (i.e. the Treaties) **and institutions** in order to accommodate the diversity of situations and development gaps brought by the new Member States. In this respect, maybe the establishment of a DG for Developing countries in the European Commission would have been appropriated and beneficial. Such a Directorate General could have had the objective to support the new less developed member countries up to the moment they would have reached the average level of development of the European Union expressed in GDP/habitant.

In our opinion the combination of an ever increasing diversity of member states and maintenance of the same rules (and even enforcing stricter ones) has been an efficient recipe for decline and even for the crises that manifest today in the European Union.

### **The medium term perspective**

For the purpose of this paper the medium term perspective refers to the situation that developed in the European Union after the onset of the crisis of 2008 until mid-2016. The crisis affected all member states but in different ways and at different intensities.

Given the differences in the levels of development and historical backgrounds that characterizes the different member states, **the crisis has acted as an amplifier** in the sense that the differences just grew bigger and bigger and more acute. It is interesting to mention here that the euro zone as a whole performed less (measured by GDP year on year increase) than the European Union average. As a proof of the stricter rules, the results were less satisfactory. A point to be mentioned here is that of the particularly unsatisfactory economic performance of the euro zone, which has two components: a) more and more rigid rules; b) but also the application of such rules to very different situations that may vary from Germany to Greece and from Italy to Portugal.

At the same time, other indicators, particularly unemployment rate (out of which youth employment is of clear concern) differentiated a lot the European Union member countries and had a lot of social and political implications. The same differentiation of the member states situation, amplified by the crisis, could be found in aspects related to budget deficit and external debt. In many cases, a logical and much needed decision for greater efficiency in public spending and functioning of public sectors has been replaced by austerity measures applied in a mechanical manner that only aggravated the economic and social conditions, despite of some improvements in the nominal indicators.

Under these circumstances, while the state of affairs in the member countries and their regions has become more and more diverse, the European Union's institutions launched the idea of the United States of Europe, by trying to implement stricter rules (like the European Semester) or involving rather abstract and vague concepts (like structural deficit and potential GDP) with very little (if any) immediate use.

In the meantime, after 2008, at a global level, new centres of economic power have emerged (for instance some members of the G-20 and particularly China, but also India) and, what is more important, the role of states increased and the realpolitik approach (based on clearly expressed interests and negotiations) re-emerged.

In this context the idea of “soft power” has declined markedly (Friedman, G., 2015) together with the idea of multilateral institutions (like World Trade Organization) which started being complemented rather than replaced by bilateral and plurilateral approaches. In our opinion, the high dynamics of bilateral trade agreements in the wake of Doha Round failure is another representation of diversity and its acceptance in the international arena.

In other words, nowadays **the world economy is growing simultaneously more and more inter-connected, but also more diverse**. Real life and real economy manifest themselves anyway for better or for worse and they reclaim the acceptance of diversity and flexibility. At the same time realpolitik means that states and other actors with regional or even global scope of action base their actions and strategies on specific interests and are willing to use “real/hard power” to achieve them.

### **European Union – where is it in 2016?**

As of mid-2016, European Union is confronted with a number of tensions, contradictions and existential questions, among which we can mention:

- the prolonged effects of the economic crisis that started in 2008;
- the centrifugal forces that tend to disrupt a number of its member states into regional and historical components (the list here is rather long and includes Belgium with the Flemish and Walloon divisions, Spain with Catalonia’s attempts for independence, Italy with the League of North secessionist ideas and even Venice with the idea to become again a city-state, Great Britain with the failed Scottish referendum of September 2014 and with the Brexit referendum of June 2016);
- the world geopolitical reality that is based more and more on real force (including military one as can be noted in Syria) that European Union as an entity is lacking;

Under these circumstances the European Union’s institutions have repeatedly missed the opportunity **to use its diversity as an asset rather than a liability** and tried instead in vain to impose standard rules to all its member states.

It is quite amazing the fact that confronted with conceptual, structural and even existential issues, European Union officials have always mentioned that there is no other alternative but to strictly stick to the existing rules while the alternative is quite natural, positive and obvious: to assess the situation and to draw new rules and institutions that respond to the current global environment and to the needs of the member states. **Therefore, the question for European Union is not at all “To be or not to be”, but rather a more pragmatic and forward looking “How to be”**. In this respect, we suggested in another paper the idea of changing the European Union’s motto from “Unity in diversity” to “Diversity in Unity” (Bonciu, F., 2015).

Dialectics as a reasoning method explains historical movement by a spiral that makes similar situations, institutions and systems to come back after some time, but on a different track of the socio-economic framework and with a different intrinsic quality. Apparently, after 1990 European Union has missed this dialectical movement entirely and nowadays it’s fighting, not against the Central European governments that have different

opinions or the “Leave” campaign of Great Britain, but rather against dialectics itself. This dialectical movement has brought back on a different plane and in a different context the pre-eminence of diversity and flexibility as well as the need to put the prosperity of the European people at the forefront. In this context, it is difficult, if not entirely impossible, to predict the evolutions of such a complex socioeconomic process as the one of European integration and, in this case, one can say that no state or supra-state entity (such as the European Union) can win a fight over dialectics.

The current situation of the European Union is further tangled by the decision of some of its leaders (particularly from Germany) to support migration as a possible solution to a future shortage of labour, with all its presumed positive implications regarding the alleviation of the consequences of the aging of population (among which, but not limited to, the funding of social security and pension funds).

Without going into too much detail, it is interesting to note that, at the same time with the discussion of migrants as a solution to a future labour shortage, apparently in a parallel world, there is a big discussion on the 4<sup>th</sup> industrial revolution, artificial intelligence, use of robots and the internet of things. Such subjects were important enough to become the key topic of the Davos meeting of 2016 (Schwab, K., 2016). However, it seems that nobody wanted to connect the dots and see that the 4<sup>th</sup> industrial revolution as a possible solution for clearing up the problem of labour shortage and of any associated costs, therefore leaving aside the need of migrants as a necessary solution. Of course the 4<sup>th</sup> industrial revolution is not a panacea, it will create issues of its own (such as the need for a new economic paradigm where human labour will be replaced at a scale that cannot be compared in any way with the first industrial revolution), but this is an entirely different subject. It is interesting to mention in this context that Japan, a developed country confronted in a rather acute way with the aging problem, adopted the use of robots as a solution to labour shortage, while Germany, a developed and highly industrialized country, mentions in a very low key the use of robots and artificial intelligence as a solution to a possible future shortage of labour, despite of the serious strategies elaborated on this topic, such as “Industrie 4.0” presented in August 2006 and followed by “High-Tech Strategy 2020” presented in June 2010 (Lydon, B., 2014).

In a few words, the European Union of today, as of late-2016, is confronted with an existential crisis, it needs a new paradigm, new values and a new rapport with the European citizens (by this, meaning the European nations or other consistent socio-cultural significant groups). Up to now, the responses have been rather administrative, trying to preserve the status quo rather than opening the floor for new ideas based on flexibility and diversity. Maybe in this context it would be useful to quote Herbert Spencer’s synthesis of Charles Darwin’s theory on natural selection as “Survival of the fittest” (Spencer, H., 1864) as a universal principle applicable not only to living beings but also to institutions and organization.

### **The lost and forgotten lesson of German reunification**

We want to mention from the very beginning of this part that the purpose of this exercise is not theoretical or just speculative. The purpose is to clearly formulate a proposal for a

possible and practical way of relaunching the European Union project in a way that may align it with the contemporary global and regional trends and balance of power, while at the same time finding a large popular support in the member countries.

We begin this part of the paper with an explanation of its title. We are going to deal with the German reunification lesson as a conceptual instrument for the relaunch of the European Union project later, but first we shall explain **why the lesson was both “lost” and “forgotten”**.

The German reunification was a unique historical process that had different stages between May 1989 and September 1990 and, besides other implications for the two German states, it also had an implication for the European Union **because it represented an enlargement**. After all, the division of Germany, despite its artificial nature as an outcome of the political agreements between the Allies at the end of the WWII, had as a result the establishment of two German states which joined the United Nations on September 18th, 1973 as the 133rd and 134th member states (United Nations Association of Germany, 2013).

The German Democratic Republic existed as a state between October 7, 1949 and October 3, 1990 (New World Encyclopaedia, 2013), it was a member of United Nations (between 1973 – 1990), had a surface of 108,333 sq.km and a population in 1990 of about 16,111,000 people (New World Encyclopaedia, 2013).

Considering all the practical purposes, the reunification of Germany was also an enlargement of the European Union even if there was no classical route for that enlargement involving (as in case of other member states) negotiations by chapters, accession treaties and timetables for full harmonization with the *acquis communautaire*. The particularity here was the fact that we did not have a new member state to join the Union, but a state (East Germany) that merged with an existing member state of the European Union (Federal Republic of Germany).

In essence, the mechanism of enlargement (the way it was done) is less important than the enlargement itself, which no doubt existed. But if someone checks the official pages of the European Union (belonging to the European Commission or the European Parliament) dealing with the list of enlargements, this one is obviously missing ([www.europa.eu](http://www.europa.eu), 2016; [www.europarl.europa.eu](http://www.europarl.europa.eu), 2016). This is why we call it here **“the lost” lesson**, because apparently it has been lost from the historical narrative.

We may speculate here that one of the reasons of this omission is because European Union likes standard situations and procedures. And by all means the German reunification has been a non-standard procedure.

**The “forgotten” part of the German reunification** lesson represents the core part of our proposal for relaunching the European Union project. In our view, it is a “forgotten” lesson because the lesson is there (the way it was done and what was achieved), it took place here in Europe and not in other parts of the world, but it is just not taken into account, therefore it is a lesson not learnt. And it is our attempt here to bring this lesson to the attention of decision makers and all those interested in the revival and success of the European Union project.

The German reunification after almost 27 years has represented a success in reducing the initial huge differences between the West and the East, even if there is a lot of research pointing out to the fact that it is not a total success (Connolly, K. 2015). It is true that differences between West and East Germany still exist, but the reduction of gaps is more important and, at the same time, in 2016 Germany, the institutions and legislation are, basically, the same and so are the administrative mechanisms. It is an unfinished business, a near complete success, but a success nonetheless. And there are without any doubt a lot of lessons to be learnt from this success.

The main aspects of this lesson of German reunification consist in our opinion in 3 components:

- a) **the existence of a model or blueprint** represented by the Federal Republic of Germany (as a state and economic model to be implemented in the Eastern part of Germany). This part gave a clear target and yardstick for measuring the progress;
- b) **a huge financial package** that is was estimated at around 2 – 2.5 billion Euros for a yet unfinished business (Roth, T., 2014). The exact amount is not relevant; the magnitude of involvement is.
- c) **The implementation of a master plan of reunification with clear deadlines and objectives that have been carried out with German rigueur.**

Based on this very simplified model we propose the translation of the German reunification lesson to the re-launch of the European Union project. In the following we shall try to draw a parallel of the 3 components mentioned above for the case of German reunification to the situation of the European Union of 2016.

### **The relaunch of the European Union project based on German reunification lesson**

According to this approach, the relaunch of the European Union project should oversee 3 aspects that may re-establish a dynamic equilibrium across the organization and provide a large, public support:

- a) to create a solid base for economic growth and employment in all the member states and to secure a position of global competitiveness towards years 2030-2050;
- b) to use a process of democratic decision and to provide concrete results in a short period of time for as many European citizens as possible;
- c) to use the current international circumstances that allow for access to “cheap” money (that is the availability of money and the very low cost of borrowing, especially for international organizations that benefit of a high credibility).

According to this approach the European Union institutions would play the role of the Federal Republic of Germany. The goal of the process would be to solve 2 issues simultaneously:

- a) the existence of substantial development gaps between old and new member states as well as between various regions in all member states;

- b) the inequality issues that left huge parts of European populations outside the benefits of globalization and growth.

The process will consist in identifying projects that are of significant interest for the Single European Market and/or for specific member states or regions from the member states. Special attention can be paid to the projects that are already approved, such as the Ten-T projects regarding the European infrastructure. Other projects may refer to energy, agriculture, research, education, health, and aging population. These projects will lay the foundation for long term sustainable growth.

The lists of already approved projects or projects with a significant impact can be easily put together by a Task Force established by the European Commission. The selection has to be carried out in a short period of time and it can be updated periodically. Further on, in an expedite manner, the Council of the European Union and the Parliament can approve the list.

While the list may include infrastructure (and other) projects from all member states, it may be easier to start with projects from the new member states in Central and Eastern Europe. One obvious reason for this proposal is that there are more development gaps to be solved in that part of European Union.

After the list of projects is approved, they will be implemented under the direct authority of the European Commission (or a special implementing body with this purpose only), with a focus on results, short deadlines and efficiency. The usual delays due to public procurement practices have to be explicitly eliminated by adopting more straightforward procedures. Extraordinary circumstances reclaim extraordinary measures. We cannot solve the existing problems by using obsolete methods.

A particularly sensitive issue is related to transferring the implementation authority for these projects to the European Commission (or a special implementing body with this purpose only). In fact, this would mean to transfer more power to a Community organization. In our opinion the solution is to present the approach to the population directly and not via the political parties in the respective member states. The way in which such a proposal will be presented is crucial for its acceptance. In case the question addressed to the people is formulated as follows: "Would you like to transfer the implementing authority for infrastructure (and other) projects to the European Commission (or other specialized institutions)?" it is very possible that it would not be accepted. We can also expect that the political parties in the respective member states would be reluctant to give up decisions on funding large scale projects.

But if the question addressed to the people would be: "Would you like to have in a short period of time (for instance 1 – 3 years) running water, sewage, roads and highways, schools and hospitals, etc. and create a lot of jobs in the process?", it is very likely that they will approve.

There are 2 favourable circumstances for this approach:

- a) the funding is possible outside the European Union budget by means of borrowing at a very low interest rate to be done directly by the European Union. We can say that it

is the best time for borrowing money nowadays when we even have negative interest rates for deposits;

- b) all the technologies involved in building infrastructure of all sorts are very mature, there is a lot of expertise, technologies are available and, particularly, this type of projects create jobs not only in the countries where the projects are implemented but also in the rest of the European Union member countries where suppliers are located.

By launching such a large scale modernization of the infrastructure across European Union, a virtuous circle can be established. Quickly launched projects would mean jobs and quick results. Quick results in improving infrastructure will require equipment and other inputs that will help European economy as a whole. Quick results and jobs would mean the increase of aggregate demand and better prospects for all European companies. And better and modern infrastructure would allow for a better competitive position of European Union in the global economy in the long run.

A positive side effect in our opinion would be the fact that European people will have a clear, tangible connection between something that improves their life and the European Union. As result we will have a better defined idea of what European citizenship means and why it is useful not as an abstraction, but rather in daily life.

In order to maintain an objective approach, we draw the attention to some weak points or threats of the proposed approach. While all financial and technical aspects can be solved and the projects are already defined and some of them even approved, the difficulty is to have an agreement of all parties involved on the proposed mechanism. As this mechanism cannot be imposed, then the only alternative is to create a true awareness on the critical situation in European Union and the need for a decisive and bold approach.

An advantage of the proposed approach is that it is scalable, it can start small (but visible enough to create an impact and public awareness) and then be extended to regions, countries or whole sectors – like roads or railways.

## **Conclusions**

The European Union is at a certain point in its history when a new approach is required. The world has changed a lot, the socio-economic and cultural environment in the European Union member countries has changed, and the balance of power in Europe and the world has changed.

We may not like the idea of change as it can be unpleasant, difficult and putting us out of our comfort zones, but the moment requires a new approach and our understanding is that either we implement a change ourselves or history and geopolitical environment will do so.

We need to accept the fact that European Union is now much more diverse than in 1957 and that globalization is a phenomenon that permeates all fields of economic, political, social life. At the same time, the consequences of the 2008 crisis are still substantial - we are confronted with a change of generations and millennials are different while the 4<sup>th</sup> industrial revolution is more and more present in our daily lives.

Under these circumstances, diversity and flexibility should be assets for the European Union because they are abundant. Diversity and flexibility may lead to resilience and that is the ultimate test for any system be it simple or complex. The European Union is at the same time a useful concept and organization, but its usefulness exists as long as it is alive, flexible, adaptive and dynamic.

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