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Article

The launch of EMU and German export interests

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Abstract

In this paper, I examine the support of German businesses—especially exporters—for the Economic and Monetary Union before 1999. I argue that the support of the German export sector for the EMU depends crucially on its implications for export competitiveness. If exporters conclude that the EMU will improve their competitive position, they will likely support monetary integration. In contrast, other business actors should be more skeptical about the prospects of a European currency union. I therefore expect that the major export enterprises will use their dominant position in the business community to assert their interests. The empirical analysis is based on enterprise surveys and a detailed qualitative study of the role of export interests in Germany's peak industrial association. I close by discussing how my results provide important insights for various scholarly debates, including the debate on Germany's role in the Eurozone.

Key words: EMU, Germany, business interests, export competitiveness

JEL classification: F150 economic integration, F450 macroeconomic issues of monetary unions, L210 business objectives of the firm

1. German business interests and the euro

Almost three decades ago, the Maastricht Treaty radically advanced European integration by challenging the sovereign tradition of European nation states in an unprecedented manner. Most importantly, the treaty laid the legal foundations of the Economic and Monetary Union (EMU) with the euro as common currency. Forming the EMU has arguably been the most momentous decision in the history of European integration to this day. How was this decision perceived in Germany? While the German public's disapproval of the EMU before and around the official introduction of the euro is historically well-established (see Figure 1), the attitude of the German business community toward the formation of the currency union

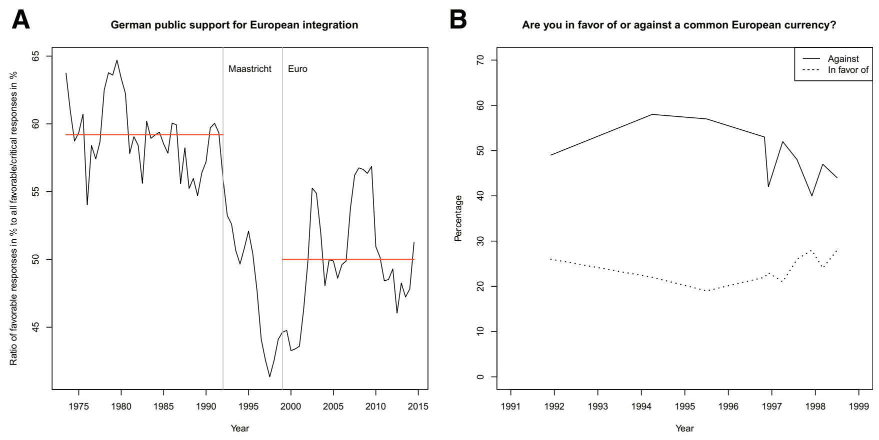


Figure 1 German public support for European integration and the euro.

Sources: Left panel: Guinaudeau and Schnatterer (2019). Right panel: Noelle-Neumann (1992, 1997) and Noelle-Neumann and Petersen (1998). Horizontal lines in the left panel delineate averages over time.

is still a matter of controversy. There are essentially two opposing viewpoints in the literature.

On the one hand, Moravcsik (1998, pp. 391–396) argues in his widely cited book *The Choice for Europe* that German business strongly supported the EMU at the time of Maastricht because it would open up markets, guarantee the free movement of capital and investment and limit the appreciation of the deutsche mark. Moravcsik claims that 'public pressure for EMU came from business' (ibid., p. 393) and that the Kohl government 'side[d] with business in favor of EMU' (ibid., p. 394). This economic argument has remained popular. Iversen *et al.* (2016, p. 171), for instance, state that 'the German government believed [at Maastricht] the elimination of the use of devaluation by France and Italy was a major benefit for German exporters'.

On the other hand, in line with research that paints the German rationale for forming the EMU strongly in political terms (e.g. De Grauwe, 2013; Scharpf, 2018) and especially as a consequence of Helmut Kohl's personal belief system and political self-assertion (Risse *et al.*, 1999; Esch, 2012), Mody (2018) claims that Kohl had no business support for his EMU-friendly position whatsoever: 'The German public did not support it, and neither did the German business community' (ibid., p. 93). While Moravcsik (1998) contends that large exporters and banks strongly favored the currency union (p. 392), Mody (2018) argues that 'Kohl was worried about the aversion of German business to the prospect of a single currency' (p. 107), in particular the lack of support among 'German bankers and manufactures' (ibid.).

In addition to their conflicting findings, the cited studies suffer from several shortcomings. First, they largely treat the business community as a monolithic block with uniform preferences across sectors and enterprises, characterizing it as either fully supportive of EMU or strongly opposed to it. Second, even though the contributions outline various potential motives behind the alleged business preferences, they do not provide a clear theoretical framework for why these specific preferences emerged and they do not assess which of the underlying motives dominated in empirical terms. Third, the existing literature does not examine how business preferences developed over time. Yet, the temporal sequence may be a crucial factor in understanding the motives that led to the formation of these preferences.

Beyond its historical significance, studying the EMU-related interests of German business actors prior to the introduction of the euro is also important for our understanding of current dynamics within the Eurozone. Recent research in comparative political economy (CPE) highlights both the changing nature of the German industrial relations system and the importance of a competitive real exchange rate for the German export-led economy[1] (Kinderman, 2005, 2008, 2017; Streeck, 2009; Thelen, 2014; Scharpf, 2018; Höpner, 2019). Some voices within this literature suggest that cost reduction has become a key concern of the German export industry, and that wage and consumption repression have increased German export competitiveness with respect to its trading partners (Baccaro and Pontusson, 2016; Baccaro and Benassi, 2017). Proponents of this view argue that the euro has contributed to cementing this strategy of 'competitive disinflation' (Höpner, 2019) by giving the country a lower real exchange rate than a German currency would have had and by providing an opportunity for real exchange rate devaluation against other Eurozone countries by means of nominal wage restraint.

This understanding of Germany's role in the Eurozone rests on the implicit assumption that German business leaders—especially those from the export industry—have long been keenly aware of the competitive implications of EMU and thus supported its formation in anticipation of future competitive gains. However, the argument that the euro has been an important explanatory factor for the gains in German exports is not entirely straightforward for two reasons. First, Germany began to improve its competitive position before the euro officially started in 1999 (Dustmann *et al.*, 2014). Second, it is still an open question how important prices and costs are for German export performance compared with non-price factors like quality or technological sophistication (cf., Paternesi Meloni, 2021). This underscores the need to clarify how German business preferences on the EMU developed prior to the official introduction of the common currency and how they were linked to events affecting the country's export competitiveness.

In the next section, I develop the following theoretical argument. I argue that the German export sector's support for EMU crucially depends on its preferences regarding the level of the exchange rate. If exporters calculate that the EMU will improve their competitive position in terms of a more competitive exchange rate, then they will support monetary integration. At the same time, other businesses should generally be more skeptical about the prospects of a common European currency. This implies that frictions within the business community will emerge. These should play out especially in the context of business associations, where small and large enterprises from different sectors are collectively organized. There, I expect that major representatives of the export sector will use their dominant position to advance their own interests.

In the empirical section, I draw on business surveys from 1988 to 1998 as well as primary and secondary sources covering these and earlier years. The results show that the

1 The notion that the German economic model is export-led has been present in the literature for a long time (see, for instance, Mazier *et al.*, 1999 [first edition 1984]).

EMU enjoyed comparatively little business support in Germany in the run-up to Maastricht and that support decreased even further as a result of the signing of the treaty. Only in the second half of the 1990s, business became increasingly favorable toward the currency union, although with significant differences across sectors and enterprise sizes. In line with these findings, the EMU-related positions of Germany's peak business association[2]—the Bundesverband der Deutschen Industrie (BDI; Federation of German Industries)—demonstrate that while the BDI was decidedly critical of the common currency in the late 1980s and early 1990s, it became fully supportive of the euro after the large real appreciation of the deutsche mark in the mid-1990s. In addition, the developments within the BDI reveal a strategic approach of large exporters to overcome the skepticism of small-to-medium-sized companies by equating the well-being of smaller enterprises with their own well-being. I conclude by discussing the significance of these findings for various scholarly debates.

2. Business disagreement and the role of the export sector

I start developing the theoretical argument by pointing out how different business actors—and among them especially the export sector—should assess the costs and benefits of European monetary integration. Since this discussion suggests that business attitudes toward EMU may vary in a partly opposing fashion, I expect that the leading representatives of the export sector use their dominant position in Germany's peak business association to make their opinion prevail.

2.1 Business attitudes toward the EMU

In the following, I distinguish between preferences about the exchange rate *regime* and preferences about the exchange rate *level*.

Exchange rate regime

The seminal contribution to this field is Frieden (1991). Frieden (1991) identifies four categories of business actors: import-competing producers, non-tradables producers, export-competing producers and international traders and investors. The business dealings of import-competing and non-tradables producers are limited to the domestic economy. Thus, they should favor a floating exchange rate system that allows governments to use monetary policy as a macroeconomic tool to affect domestic economic conditions. In contrast, the export sector (especially large exporters, which can relatively easily absorb the costs associated with the currency transition) as well as international traders and investors should favor a fixed exchange rate system like the EMU because uncertainty and risks induced by currency fluctuations hurt their foreign business activities (see also Frieden, 2006, pp. 22–23).

Exchange rate level

It is important to understand that preferences on the exchange rate regime are closely linked to preferences on the exchange rate level. As Steinberg and Walter (2013, p. 31) put it:

2 The term 'peak' is used to describe the fact that an association is the major domestic group in a certain area of interest.

> An additional set of complications arises from the fact that the exchange-rate regime and exchange-rate level are chosen neither in isolation from one another nor in isolation from other policies.

The literature argues that in particular the export sector is concerned with the exchange rate level (Walter, 2014). Generally, export enterprises should favor an undervalued currency because domestic depreciation lowers the price of exported goods and hence boosts the international competitiveness of their sector (Frieden, 1991, 2006).

Yet, the importance of price competitiveness for German exports has long been controversial, with skeptical voices suggesting that Germany's exporters mainly compete on non-price competitiveness factors such as quality as opposed to cost or price (e.g. Hall and Soskice, 2001). In Table A1 in the Online Appendix, I survey 34 studies that provide 70 estimates of the price elasticity of German exports. Although the results vary depending on the time period observed and the estimators, price measures and control variables used, some general conclusions can be drawn. First, the large majority of contributions report a statistically significant, negative relationship. This suggests that lower (higher) prices translate into rising (declining) exports in Germany. Second, most estimates are below one, which means that a one unit decrease (increase) in prices corresponds to a less than one unit increase (decrease) in exports. Both the direction and the general size of the German estimates are roughly in line with the average price elasticity of exports reported across countries (see Bussière *et al.*, 2020).[3]

However, most of the reviewed studies do not explicitly account for non-price competitiveness factors, which might imply that they suffer from an omitted variable bias. Thus, Table A2 in the Online Appendix zooms in on research that examines the role of the non-price competitiveness of German exports, with a focus on those studies that compare the results for non-price competitiveness with the results for the price competitiveness of German exports. These studies underscore the high technological complexity of Germany's exports and their high elasticity regarding non-price competitiveness factors, suggesting that non-price competitiveness is more important for German exports than price competitiveness. However, some contributions that focus on the post-reunification years argue that there was a relative decline in non-price competitiveness over this period and that the export boom since the mid-1990s is therefore explained by relative improvements in price competitiveness and not by non-price competitiveness. Whether these more recent findings reflect actual trends or simply certain choices regarding measurement and statistical specification is (of course) open to debate.

This scientific debate on the role of price and non-price competitiveness notwithstanding, the German export sector has historically shown a high awareness regarding the importance of a competitive exchange rate for its own well-being (Kinderman, 2008; Höpner, 2019).

3 Focusing on the price elasticity of exports only might be a bit limiting, given that German exporters might also worry about foreign competition in the home market. This is related to the so-called Marshall–Lerner condition, which holds that a depreciation improves the trade balance if the absolute sum of import and export elasticities is greater than 1. There is empirical evidence suggesting that the Marshall–Lerner condition holds globally when its full conditions (i.e. taking into account both price and quantity elasticities of imports and exports) are considered (see Bussière *et al.*, 2020). However, the resulting improvement in the trade balance varies across countries and thus might be potentially small in Germany.

Höpner (2019), for instance, describes how a coalition led by large exporters and industrial associations—most importantly the BDI—promoted a policy regime of undervaluation in the Bretton Woods years, which produced exchange rate depreciation and hence export surpluses through a combination of competitive disinflation vis-à-vis trading partners and resistance to correcting revaluations. Moreover, there is evidence that the German export sector favored the establishment of the European Monetary System (EMS) in the late 1970s because the end of the Bretton Woods System put strong upward pressure on the deutsche mark and exporters hoped to regain competitiveness by sharing this upward pressure with other European countries (see Gros and Thygesen, 1998, p. 37). Höpner and Spielau (2018) suggest that the EMS indeed provided a modest degree of undervaluation for Germany.

Since the level of the exchange rate seems to have been a major concern for German exporters for a long time, the question arises how German exporters assessed the implications of EMU for the price competitiveness of their products. From the perspective of the German export sector, the euro might improve competitiveness in two ways, where the first aspect relates to countries inside and the second aspect to countries outside the currency union. First, by binding other countries to the common rules of the EMU, the possibility of competitive currency devaluations is ruled out among its member states. Second, by forming a currency union with countries that are more prone to inflation than Germany, the common currency's value might stay below what the corresponding value of the deutsche mark would be.[4] Thus, due to the stimulus of an undervalued currency, German exports might become more price competitive relative to non-EMU countries. Both aspects have in common that competitive gains should increase with the size of the currency union (provided the countries that join have weaker currencies than the deutsche mark).

2.2 The dominant role of the export sector

Assuming that these attitudes toward the EMU are correctly identified, disagreement may emerge within the business community. The different viewpoints should especially clash in the context of Germany's peak associations, the BDI, where enterprises of different size and from different sectors are collectively organized. How will this conflict play out? I build on the widely accepted view that the German political economy is dominated by a 'strong and resilient cross-class coalition' (Thelen, 2014, p. 58) that consists of export producers and their skilled workforce (see also Hassel, 2014). What are the features of this export coalition and how do they affect the coalition's internal and external relationships? Recent theoretical contributions to the field of political economy have attempted to give generalized answers to these questions.

Amable and Palombarini (2008; see also Amable, 2019) argue that a coalition ('social bloc' in their usage) becomes dominant when most of its interests have translated into economic, social, and political realities. However, the various actors within a coalition often differ in their interests and thus internal mediation is necessary. The outcome of this mediation

4 It is important to note that this is not automatically the case. In fact, the euro continued to appreciate against the US dollar until the Great Recession and it is not clear whether the deutsche mark would have appreciated more than the euro during this period (Dustmann *et al.*, 2014). However, since 2008, the Eurozone has in all likelihood kept Germany undervalued compared with a counterfactual deutsche mark (Krugman, 2013).

process is commonly dominated by those in the coalition that have the most resources and the greatest political influence. The interests of outside groups are largely ignored. Institutions (both formal and informal) play an important role in this process, as they define the strategical space in which the different actors operate. In addition, there is also an ideological element to a dominant coalition, in the sense that the coalition determines which (and whose) interests are legitimate and which (and whose) are not. Baccaro and Pontusson (2019) take this idea even a step further by arguing that the dominant coalition has the ideological strength to convince others that its own interests are everyone's interests, even if this should imply for some that they adopt preferences which are objectively against their actual material interests.

I believe that these theoretical considerations are useful for deriving testable hypotheses regarding the anticipated business controversy on EMU and the role of export interests within it. Based on the notion that the export sector indeed occupies a dominant position in the German economic system, large export enterprises may be the most influential economic actors. Since large exporters are also supposed to be among the strongest supporters of EMU, I expect them to actively promote their position in the institutional context of the BDI, which traditionally favors their interests (Höpner, 2019). In particular, this should entail concerted efforts to dissolve the concerns of those businesses who oppose a European currency union. Within the resulting mediation process, large exporters should be able to produce an ideological discourse that emphasizes the legitimacy of their own interests and delegitimizes the opposing interests of other groups. This might even comprise attempts by large exporters to present their own interests as the interests of the entire business community, including those who have material reasons to reject the EMU.

2.3 Summary

In essence, I argue that the German export sector should strongly favor the EMU, in particular if the currency union promises to enhance the price competitiveness of German exports. At the same time, other sectors should be more skeptical. I expect that these diverging preferences become especially visible in the context of the BDI. There, the major exporters will use their dominant position to downplay the concerns of their EMU-skeptical counterparts and instead emphasize the legitimacy of their own interests.

3. Empirical findings

The empirical analysis has two parts. First, in order to assess the support of German businesses for EMU in a quantitative manner, I draw on business surveys conducted between 1988 and 1998. Second, I use primary and secondary sources to examine the EMU-related positions of the BDI and the underlying role of export interests. The primary sources are both archival material of published statements and newspaper articles.

3.1 Business surveys on EMU preferences

In 1988, the Association for the Monetary Union of Europe commissioned a poll based on 1036 interviews of business leaders in Belgium, France, Germany, Italy, the Netherlands, Spain and the UK (Association for the Monetary Union of Europe, 1988). The results of this poll are summarized in Figure 2. While a small majority of German business leaders expressed support for a common European currency, the level of business support in

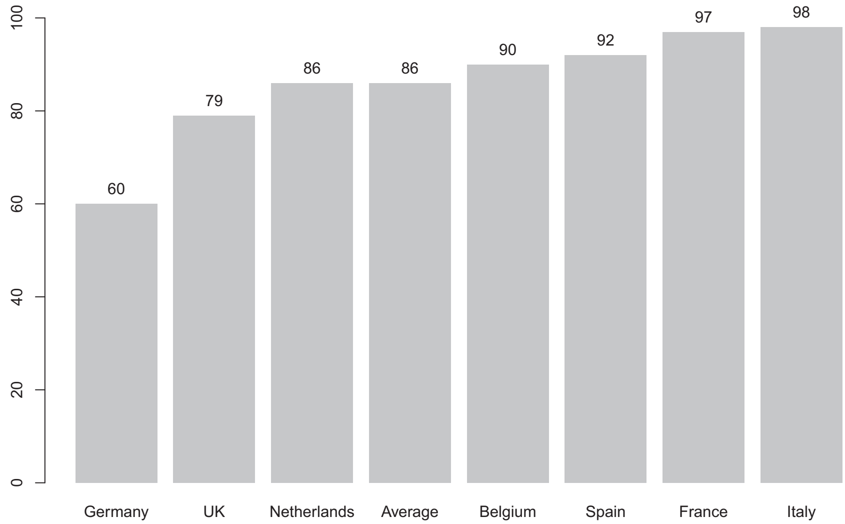


Figure 2 Percentage of business leaders who support a common European currency, 1988.

Table 1 Attitudes toward EMU across economic sectors in percent, 1989/1992

	Reasonable		Perhaps		Not reasonable	
Economic sector	1989	1992	1989	1992	1989	1992
All	59	40	7	12	34	48
Industry	65	45	6	11	33	44
Construction	54	43	6	12	40	46
Commerce	47	26	15	12	38	62

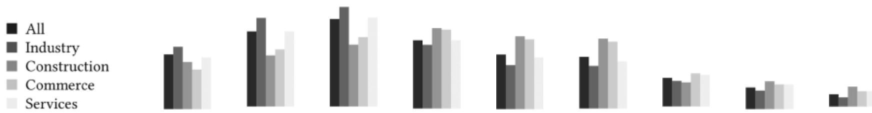
Source: Nerb (1989, 1992).

Germany was much lower than in the other surveyed countries. In fact, German business support was 26 percentage points below the cross-country average and 19 percentage points behind the UK, the country with the second lowest level of support. This level of business support in Germany was confirmed in a 1989 survey of 500 business leaders from industry, construction, and commerce conducted by the Ifo Institute for Economic Research, in which 59% of respondents described a common currency as ‘reasonable’, 7% as ‘perhaps reasonable’ and 34% as ‘rather not’ or ‘not reasonable’ (Nerb, 1989).

Table 1 breaks these numbers down for each sector and presents the corresponding data from a follow-up survey that was conducted in August 1992 (Nerb, 1992), that is, after the signing of the Maastricht Treaty. As expected by the literature on exchange rate policy, industry leaders—which include the large exporters—showed the highest level of support in 1989, with around two-thirds of them describing a common currency as reasonable and one-third as not reasonable. In contrast, only about half of the construction and commerce leaders supported a common currency at the time. Overall, this confirms the impression of Figure 2 that there was no overwhelming business support for EMU at the time. The 1992

Table 2 Attitudes toward EMU across economic sectors in percent, 1995/1997–1998

	Desirable			Undesirable			No answer		
Economic sector	1995	1997	1998	1995	1997	1998	1995	1997	1998
All	36	50	58	45	36	34	19	14	8
Industry	41	59	66	42	29	28	17	12	6
Construction	31	34	41	53	48	46	16	18	13
Commerce	26	38	46	52	46	44	22	16	10
Services	34	50	59	45	34	31	21	16	10



Source: DIHT (1995*b*, 1997, 1998).

survey shows that support across all sectors declined even further after the Maastricht Treaty was signed. The total percentage of those who found a common currency reasonable dropped from 59 to 40. In the industry sector, only 45% of leaders remained supportive, while 44% opposed the EMU. In construction and commerce, more business leaders described the EMU as not reasonable than reasonable.

The same survey reveals that the decrease in support for European monetary integration clearly was caused by the Maastricht Treaty. Eighty percent of the surveyed business leaders stated in August 1992 that the treaty is flawed and should be amended (only 14% declared the opposite). This opinion was shared across sectors, ranging from 78% in industry to 84% in commerce. Furthermore, 76% of all respondents agreed to the statement that a European currency would not be as stable as the deutsche mark. Forty-nine percent of business leaders concurred that the 'hard deutsche mark' was irreplaceable (up from 35% in 1989). Thus, the Ifo Institute concluded that 'politicians obviously have failed to generate sufficient acceptance for a European currency among businesses' (own translation, Nerb, 1992, p. 5).

Next, I turn to business surveys that were carried out by the DIHT between 1995 and 1998. The DIHT (renamed Deutscher Industrie- und Handelskammertag, DIHK, in 2001) is an umbrella organization for the local Chambers of Commerce and Industry. All German companies (with the exception of handicraft businesses, the free professions and farms) are required by law to join a chamber. Hence, the DIHT represents more than three million enterprises, ranging from small kiosk owners to large publicly traded companies. Table 2 presents results from three surveys, which were conducted in 1995, 1997 and 1998 (DIHT, 1995*b*, 1997, 1998). The survey findings are based on the responses of more than 25 000 companies. The question they were asked is whether the start of the EMU on January 1, 1999, is desirable or not. Table 2 shows the distribution of responses in percent both for all sectors and for individual sectors. To improve readability and simplify comparisons, I include barplots at the bottom of the table, which compare responses across different sectors.

The results illustrate that overall support for the EMU had further declined by 1995: Only one-third of all companies labeled the EMU as desirable at the time. Two years later,

Table 3 Attitudes toward EMU across sector-specific enterprises in percent, 1995/1997–1998

	Desirable			Undesirable		
Economic sector	1995	1997	1998	1995	1997	1998
Industry						
Intermediate goods	45	60	67	39	29	28
Capital goods	42	60	67	41	28	26
Durable consumer goods	35	62	64	45	28	29
Nondurable consumer goods	40	56	61	45	32	34
Commerce						
Wholesale trade	30	42	54	53	44	39
Retail trade	24	36	41	52	44	39
Services						
Hospitality	28	42	48	38	27	40
Transport	22	40	52	54	43	37
Banking		83	92		16	8
Insurances		67	74		26	22
Enterprise-related services		51	59		31	31
Other services	38	42	52	43	36	35

Note: For some categories, information is not available for the 1995 survey.
Sources: DIHT (1995*b*, 1997, 1998).

however, approval had increased markedly. In 1998, business support for the common currency returned to roughly the level reported by opinion polls in the late 1980s. Looking at the individual economic sectors, the German industry sector consistently showed the highest levels of support for the EMU. While the number of industry companies that found the EMU desirable was about equal to the number of industry skeptics in 1995, a strong two-thirds majority of the industry sector expressed a desire for the EMU in 1998. A similar increase in support can be observed for the service sector, even though this increase started from a lower base level (only 34% of support in 1995 compared 41% in the industry sector). At the same time, construction and commerce industries clearly had reservations regarding the common currency. The construction companies that opposed the EMU consistently outnumbered their EMU-friendly peers. In the commerce sector, resistance to the EMU was strong in 1995. Although the disapproval of the EMU leveled off somewhat in subsequent years, support for monetary integration remained relatively low.

Table 3 substantiates these findings by looking at sector-specific producer groups and companies. In the industry sector, approval of EMU was higher among the predominantly export-oriented manufacturers of intermediate and capital goods than among producers of nondurable consumer goods (e.g. food), which rely more on the domestic market. According to the DIHT, the analyses of some local chambers 'show a clear positive relationship between export dependency and approval of the EMU' (own translation, DIHT, 1998, p. 5). For instance, an analysis of the survey responses of Bavarian industrial companies revealed that among companies with an export share below 20% less than 50% found the EMU desirable in 1997. Among companies with an export share of 50–60%, however,

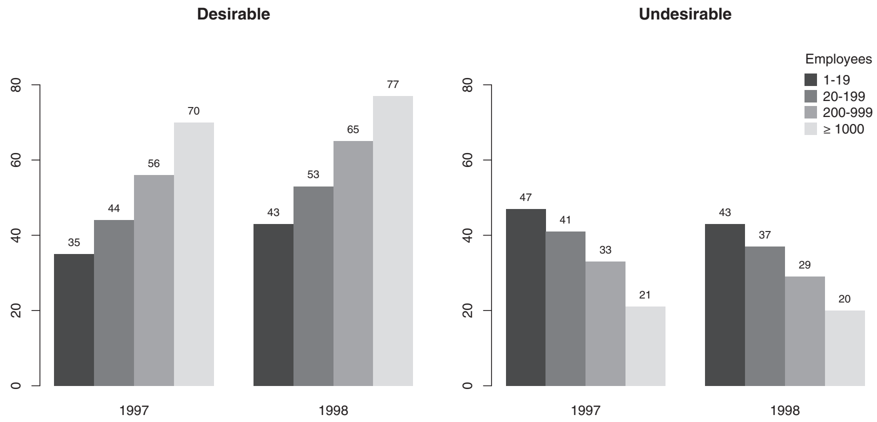


Figure 3 Attitudes toward EMU across enterprise sizes in percent, 1997/1998.

support for the EMU was above 70% (DIHT, 1997). This is also corroborated by a smaller DIHT survey from 1995 (DIHT, 1995*a*), which shows that support for EMU was very high among the strongly export-oriented electrical engineering (73.7%) and automotive (77%) enterprises.

I find a similar pattern in the commerce sector. While disapproval of the EMU was in general relatively high in this sector, companies of the wholesale trade, which often have foreign trade relations, supported monetary integration to a noticeably higher degree in the second half of the 1990s than the domestically oriented retail trade. In the diverse service sector, large differences between companies emerge. On the one hand, as expected, service providers like banks and insurers had a very strong desire for EMU. On the other hand, domestically operating services like the hospitality industry were considerably less supportive.

Figure 3 examines how the support for EMU in 1997 and 1998 varied across enterprise sizes. The difference in additional support between a small enterprise with 1–19 employees and a large enterprise with more than 1000 employees exceeded 30 percentage points. The larger the company, the more likely it did approve of the EMU, with the biggest businesses being overwhelmingly in favor of monetary integration. On the flip side, while more than 40% of the smallest enterprises found the common currency undesirable, only around 20% of the largest employers agreed with them.

All in all, these survey results paint a fairly mixed picture. While a majority of German businesses seems to have supported a currency union before Maastricht, the level of support was small from a comparative perspective and support declined further (with surprisingly little differences across sectors) after the treaty was signed. The surveys suggest that German businesses feared the EMU would not be as stable as the deutsche mark. This contradicts the notion that businesses—especially those that operate internationally like the export sector—necessarily prefer a fixed exchange rate system like the EMU over a system based on national currencies. Yet, in the second half of the 1990s, cross-sector business views of the EMU became considerably more positive, with support being particularly strong among large exporters, banks and insurers. Above, I have provided two potential explanations for this trend: A changing perspective on the implications of EMU for export competitiveness and the dominating role of export interests in the BDI. I will turn to these aspects in the next section.

3.2 *Appreciation of the Deutsche mark and the role of export interests in the BDI*

The analysis of business surveys suggests that the EMU was by no means an uncontroversial issue among German businesses. The survey findings raise two questions: First, why did business support for the common currency increase since the mid-1990s and why so strongly among export-oriented enterprises? Second, how did the differences in opinion within the business community play out? To answer these questions, this section gives a detailed account of the BDI's positions on EMU and the underlying role of export interests.

I focus on the BDI for several reasons. First, the BDI is Germany's peak business association, especially when it comes to economy policy (Braunthal, 1963). Second, the BDI indirectly represents nearly all German industrial enterprises. Particularly important for the purposes of this study, the BDI represents not only large and small enterprises from the export sector, but also companies from import-competing (e.g. the Bundesverband der Deutschen Süßwarenindustrie; Federation of the German Confectionery Industry) and non-tradable (e.g. Hauptverband der Deutschen Bauindustrie; Association of the German Construction Industry) sectors. Third, the BDI is commonly perceived as the industrial umbrella organization with the greatest political influence (Bührer, 2016). Fourth, the BDI has a long history of engaging in foreign policy, most notably European policy (Bührer, 2016, 2017).

Although the BDI had been generally supportive of further economic and monetary integration at least since The Hague Summit of 1969 (Bührer, 2016, 2017), it was less than enthusiastic about the events that started to unfold in the late 1980s. When the 1988 European Council Summit in Hanover set up a committee chaired by Jacques Delors, which should study and recommend concrete stages leading to a European EMU, the BDI began to publicly advocate for a slowing down of the process. In an opinion piece entitled 'Don't sacrifice price stability for monetary integration' (own translation, BDI, 1989*a*) published in March 1989, the BDI cautioned against hasty institutional steps toward a currency union. According to the BDI, the existing EMS had proven to be an 'island of stability' and had brought planning and calculation security to the German industry. Thus, in line with the Bundesbank, BDI's primary concern was price stability: 'In no case must it be endangered by a misguided monetary cooperation' (own translation, ibid., p. 4). The formation of a European central bank and a common currency, so the BDI, should only be the last steps in the process of monetary integration. Prior to these, all countries must—under the same conditions—belong to the EMS Exchange Rate Mechanism (ERM), there needs to be a sufficient consensus on economic, financial and monetary policy, and all capital controls have to be fully lifted. Furthermore, giving up the possibility of exchange rate adjustments too early could lead to significant challenges due to the economic and structural differences between member states. The statement concluded with the BDI's hope that the upcoming report of the Delors Committee would recommend a timetable that is 'economically responsible'.

After the Delors Report was presented in April 1989, proposing a three-staged move toward EMU, and the European Council declared in June 1989 that the first of the three stages of EMU should start on July 1, 1990, the BDI began to outline its own vision of the currency union. While it generally evaluated the Delors Report as an important contribution to the discussion (BDI, 1989*b*), it renewed its concern that economic differences between countries were still too large to form a currency union (BDI, 1989*d*) and again warned against premature decisions that might lead to a 'dangerous inflation community' (BDI, 1989*c*). For the German industry, BDI's president Tyll Necker argued in October 1990, price stability is more important than exchange rate stability (Süddeutsche Zeitung, 1990).

In front of the Finance Committee of the German Bundestag, BDI's director general, Ludolf von Wartenberg, stated in September 1991:

> It is senseless to believe that because of its export relationships in the European Community, German industry automatically values a single European currency. That view does not represent entrepreneurial reality. [...] A political union must be interwoven with the monetary union, the rules for entry must be strict, and the central bank must be committed to stability. On these essential principles, there can be no compromises (as quoted in Mody, 2018, p. 93).

The BDI provided a statement to the Finance Committee, in which it put these and other demands in concrete terms: The starting point for a monetary union must be an economic union that is based on competition and open markets; since the EMU also has significant political implications, it must be accompanied by a European political union; the future European central bank must be fully independent and its primary objective must be price stability because a stable currency is more important than a common currency; due to the large economic differences within the European Community, it would be reasonable if only a small number of core countries joined the EMU initially; finally, participation in the EMU must be based on strict compliance with ex ante defined convergence criteria, with strict fiscal discipline as their centerpiece (BDI, 1991*b*).

Although the results of the Maastricht Intergovernmental Conference in December 1991 and the Maastricht Treaty (signed February 7, 1992) itself largely met these requirements, the BDI criticized that the defined entry criteria would allow for too much political discretion. Moreover, the BDI expressed concern about the fact that the simultaneous development of an economic and political union was not achieved. Since the BDI believed that the currency union should only be the last step in the completion of such a double-track union, it considered the automatic movement to the final stage of EMU premature and economically unwise. Germany should only abandon the deutsche mark if the new European currency had the same degree of stability. No country should be forced to enter the EMU against its will (BDI, 1991*a*, 1992; Handelsblatt, 1991). So, despite being generally supportive of the EMU as a long-term goal, the BDI and in particular its president, Heinrich Weiss, 'took an exceptionally antagonistic attitude towards the government, publicly questioning the economic competence of the Chancellor and the coalition' (Duckenfield, 2006, p. 81).

This confrontational approach, however, caused unease within the BDI, with some BDI officials fearing it might reduce the organization's political influence, and eventually led to Weiss's resignation in August 1992 (Nürnberger Nachrichten, 1992). Subsequently, the BDI took a more supportive stance toward the Kohl administration. Following the government's lead, the BDI called for a swift ratification of the Maastricht Treaty (BDI, BDA and DGB, 1992), welcomed the yes-vote in the French referendum (Süddeutsche Zeitung, 1992), and publicly expressed relief about the decision of Germany's Federal Constitutional Court that declared the Maastricht Treaty to be consistent with the German constitution (Süddeutsche Zeitung, 1993*a*).

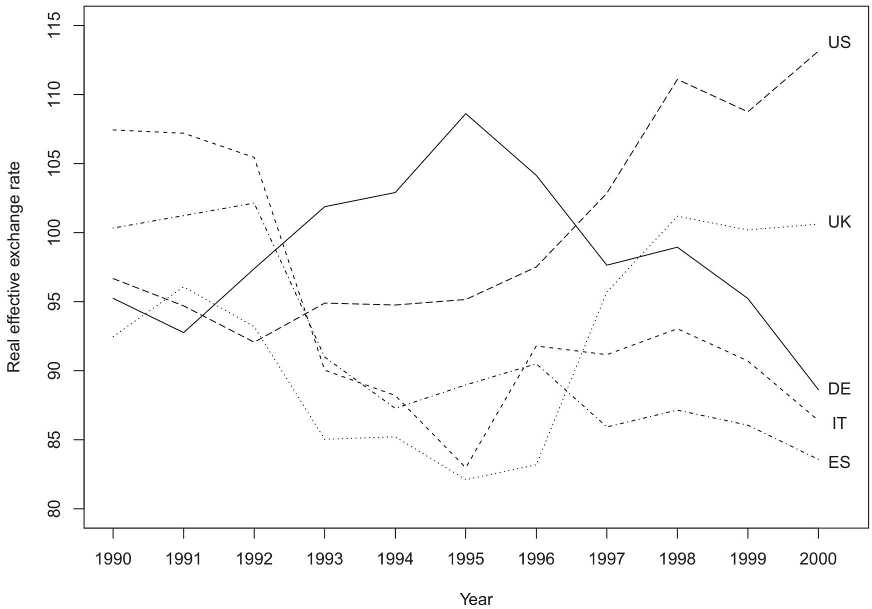


Figure 4 Real effective exchange rates of Germany (DE), Italy (IT), Spain (ES), the UK and the USA. *Source*: Darvas (2012).

But this did not mean that the BDI abandoned its initial position on EMU. In April 1993, Ludolf von Wartenberg repeated BDI's central requirement that membership in the EMU should be based on strict compliance with the convergence criteria. He warned that a politically motivated softening of the admission criteria would pose a serious threat to the future viability of the currency union. Given that no member state fulfilled the convergence criteria at the time, von Wartenberg was skeptical that the EMU could start on time (Frankfurter Allgemeine Zeitung, 1993; see also Handelsblatt, 1993). In its 1994 annual report, the BDI argued that—due to the lack of convergence—'the time horizon of a common currency is still a long way off' (own translation, BDI, 1994, p. 18).

At the same time, the BDI became increasingly concerned about the negative implications of an appreciating deutsche mark for the export industry. The large real appreciation of the deutsche mark (see Figure 4 for a comparison of Germany's real effective exchange rate with other countries in the 1990s) had essentially two reasons. First, the rapid depreciation of the US dollar following the Plaza Accord in 1985 (Eichengreen, 2008, pp. 145–149). Second, German reunification. In reunited Germany, rising consumer demand (especially high East German demand for products from the West) increased inflation and state deficits escalated because the public-sector costs of reunification were initially credit-financed. In an attempt to counteract these inflationary trends, the Bundesbank sharply raised the interest rate (Scharpf, 2018, pp. 27–29). However, since the Bundesbank's monetary policy was much too tight for the other EMS members (the ERM allowed only a margin of fluctuation of ±2.25%), these countries were immediately exposed to massive speculative attacks. The result was a period of successive devaluations of various European currencies (the currencies of Ireland, Portugal and Spain had to be devalued twice) and the departure of the British pound and the Italian lira from the ERM in 1992 (Henning, 1994, pp. 237–244).

Consequently, BDI's new president, Tyll Necker (second term), stated in an interview in March 1993: 'In the general public, far to little attention is paid to the massive deterioration of the competitive situation in the industrial sector [caused by the appreciation of the deutsche mark]. In countries such as the United Kingdom, Sweden, Italy, and Spain, our products have become up to 30 percent more expensive. So in the near future, we will have to prepare ourselves for further sharp declines in exports' (own translation, Süddeutsche Zeitung, 1993*b*). After another large real appreciation of the deutsche mark in early 1995, economists concluded that the currency was overvalued by 15–20% (De Grauwe 1997, p. 106). Leading industry associations like the powerful Verband der Automobilindustrie (VDA; Association of the Automotive Industry) publicly complained that the strong appreciation of the deutsche mark greatly hurt their exports (VDA, 1996). The BDI itself identified the appreciating deutsche mark as the main reason for the weak performance of the German economy in 1995 (BDI, 1995*b*).

Against the backdrop of these adverse economic trends, the BDI published a response to the European Commission's green paper on the practical arrangements for the introduction of the single currency from May 1995, in which it adopted a markedly different tone toward the EMU. In its statement, the BDI argued that the euro would be without any doubt beneficial for the private sector because the common currency would allow to fully exploit the potential of the Single Market. Thus, in order to facilitate planning for the German industry, a reliable framework regarding the exact timetable and legal procedure of the currency conversion should be established as soon as possible. Another critical aspect—so the statement continued—is the setting of the conversion rate. An excessive valuation of the deutsche mark at the conversion date on top of the existing overvaluation would lead to a significant loss in the price competitiveness of the German industry, which in turn would have severe negative consequences for corporate earnings, investment and employment. Moreover, and—according to the statement—this aspect is of particular importance to the German industry, since the risk of currency depreciation would remain for countries that are not part of the euro, it is in the industry's interest that as many countries as possible join the EMU (BDI, 1995*a*; see also later that year, BDI, 1995*d*).

The BDI continued to push these aspects in 1996. In a stunning reversal of its previous position, the BDI argued in a press release that, regarding some of the convergence criteria, the Maastricht Treaty would allow for 'political discretion' (BDI, 1996*c*). According to Hans-Olaf Henkel, Tyll Necker's successor as BDI president, countries should be allowed to join the euro even if their deficit-to-GDP ratio exceeds the permitted 3%, as long as they show the will and the capacity to be permanent members of a 'stability community' (Süddeutsche Zeitung, 1996). BDI's remarkable change in position becomes perhaps clearest by comparing its 1995 and 1996 annual reports. In the 1995 report, the BDI still advocated for its initial position: 'In the interest of a real and permanent stability community, the selection of participants must not—on any account—follow political considerations, but exclusively economic assessments' (own translation, BDI, 1995*b*, p. 19; see also BDI, 1995*c*). In stark contrast, the 1996 report stated the following: 'As for the fiscal criteria, the [Maastricht] Treaty allows for political discretion, which should be used responsibly. A "precision landing" is not required' (own translation, BDI, 1996*b*, p. 18).

The BDI's focus on the fiscal criteria of the Maastricht Treaty especially aimed at Belgium and Italy, as both countries were so debt-laden that it was impossible for them to achieve a debt-to-GDP ratio even close to the required limit of 60% of GDP (Finanz- und Wirtschaftsspiegel, 1995; The Wall Street Journal Europe, 1995). In April 1997, Henkel explicitly praised the efforts Italy had made to meet the Maastricht criteria (Frankfurter Allgemeine Zeitung, 1997). The German magazine *Der Spiegel* explained BDI's change of mind in the following way: 'Behind this pushing is businesslike calculation: Some entrepreneurs fear massive appreciation if investors flee to the mark after a collapse of the currency union, others hope that a new, soft euro improves sales opportunities abroad. In particular, many enterprises wish for protection against currency speculations, exchange rate fluctuations, and the overvaluation of the mark, which has hurt their business frequently in the past years' (own translation, Der Spiegel, 1996, p. 78).

However, BDI's sudden enthusiasm for a large EMU was not shared by all its members. Reinhard Kudiß, the coordinator of BDI's task force on the currency union, is quoted in the same Spiegel article stating that the euro is mainly supported by large export enterprises. In contrast, small enterprises would fear the costs and risks that are associated with the replacement of the deutsche mark (Der Spiegel, 1996). This assessment was confirmed by Hans-Olaf Henkel, who publicly admitted that approval of the euro was low among small- and medium-sized businesses in the BDI (Süddeutsche Zeitung, 1996).

Indeed, the principal disagreement in the BDI seems to have been between enterprises of different sizes rather than between different sectoral associations. The associations representing the sheltered sectors either did not see the EMU as a major concern to their business (e.g. in the case of the confectionery industry), or simply accepted the dominant role of major exporters and thus did not organize opposition to the BDI's overall position (Duckenfield, 2006, pp. 79–104). An example of the latter is the construction industry. Its representatives supported the BDI's stance despite cuts in public infrastructure investment (explained by the need to meet the EMU entry criteria) and strong EMU-skepticism among its members, since they did not think their association had enough leverage to break the dominance of the export sector within the BDI. Going even further, they defined their own well-being in terms of the well-being of the export industry by arguing that 'so long as a boom in exports trickled through to higher profitability for export firms and their workers, construction would ultimately benefit from new investment in plants and new housing construction' (ibid., p. 86).

To dispel the concerns of smaller businesses, the BDI formed a special committee—called the Industry Forum EMU—in the spring of 1996, which had the alleged goal to provide a 'sober assessment' of the risks and chances associated with the currency union. Chaired by the BDI president himself, the majority of members consisted of Germany's leading export enterprises including AEG, Bosch, Hoechst, Mercedes-Benz and Siemens. The only medium-sized company in the committee was the Kleinewefers-Beteiligungs GmbH, an internationally operating mechanical engineering company with several hundred employees. Small enterprises were not represented at all. In July 1996, the Industry Forum EMU presented its report to the German public (BDI, 1996*a*). In essence, the report reiterated BDI's previous statements on the benefits of the EMU, especially its significance in reducing risks from exchange rate fluctuations and an overvalued deutsche mark. More importantly, the report claimed that the euro would be beneficial for small- and medium-sized enterprises, too. The corresponding paragraph is worth quoting in length:

> Small- and medium-sized industry enterprises would also benefit from the fact that Europe gradually frees itself from the unpredictable currency fluctuations. Indeed, they usually have a lower export share than large businesses. But as suppliers to large businesses, they [smaller enterprises] depend on them to operate successfully in exports. As a result of the relocation of production, the supply networks will be inevitably newly established too—often at the expense of small- and medium-sized partners from Germany. The network of industrial supplies in Germany is no longer as tear-proof as it used to be. Under the pressure of competition, more and more enterprises are forced to switch to foreign partners instead of their regular German suppliers (own translation, BDI, 1996a, p. 11).

These remarks show that the large exporters behind BDI's Industry Forum EMU framed the benefits of the currency union for small- and medium-sized enterprises mainly in terms of their own well-being. The argument they advanced was that these smaller enterprises in their role as suppliers depend on the success of large export companies and thus the export-related benefits of EMU should trickle down to them as well. Mark Duckenfield (2006, p. 97) describes this strategy as follows: 'The large companies which dominated the Industry Forum looked at what was in the direct corporate interest of their members in an analysis of the costs and benefits of EMU. For their smaller counterparts, they looked not at the immediate impact of EMU on a small firm's bottom-line, but rather at a different conception of small company well-being. These conceptions prioritized the indirect benefits of EMU to small firms through direct benefits to large firms.' In short, Germany's major exporters argued that what is good for them is good for everyone else.

To sum up, while the BDI had been generally sympathetic to a common European currency since the idea gained traction in the late 1960s, it criticized the Delors report for being too hasty in its institutional recommendations. In particular, it feared that the EMU might threaten price stability. Consequently, the BDI insisted on clearly defined entry criteria, which should ensure that a sufficient degree of convergence was achieved among the future members of the currency union. From the BDI's perspective, strict compliance with these convergence criteria was a *sine qua non* and thus it recommended a small EMU of few core countries. This perspective changed, however, when the German economy was confronted with a massive real appreciation of the deutsche mark between 1992 and 1995, which seriously hurt German exports.

Since the spring of 1995, the BDI thus demanded that as many countries as possible should join the EMU because this would guarantee that competitive depreciations and exchange rate fluctuations of any kind are ruled out. In a remarkable reversal from its initial position, the BDI even argued that compliance with the fiscal criteria of the Maastricht Treaty was a question of political discretion. The BDI's main concern throughout this period was the well-being of the export sector, which reflected the dominant position of large exporters within the organization. Other sectors within the BDI were either indifferent or tacitly accepted the powerful role of the export industry. Yet, small- and medium-sized companies remained skeptical of the EMU. The BDI leadership together with large exporters addressed these skeptics by setting up the Industry Forum EMU. The Industry Forum did not, as it claimed, provide an objective assessment of EMU's costs and benefits, but rather deligitimized the concerns of those who opposed the currency union.

4. Concluding discussion

This paper has examined German business attitudes toward the EMU prior to the official introduction of the common currency in 1999. For the late 1980s and the first half of the 1990s, the empirical results show that business support for EMU was relatively low from a comparative perspective and that support declined even further as a result of the Maastricht Treaty. This reflected the cross-sector concern that the new European currency would not be as stable as the existing monetary system. But when German reunification and the resulting EMS crisis caused a large real appreciation of the deutsche mark that significantly reduced the price competitiveness of German exports, export-oriented businesses realized that the EMS did no longer serve their competitive interests and thus became increasingly supportive of the EMU. Consequently, the BDI—entirely dominated by major exporters—abandoned its EMU-critical stance and began to advocate for a large EMU based on softer fiscal entry criteria. The doubts of other BDI members were wiped away by the argument that what is good for the major exporters is good for them as well.

These findings provide important insights to several existing bodies of work. First, earlier research on German business preferences on EMU describes the business community as either fully supportive of the currency union or utterly opposed to it. The real picture is much more nuanced. While the average level of support was relatively low at the time around Maastricht, support increased markedly since the mid-1990s, in particular among large export enterprises. This change of mind is also clearly reflected by the BDI's positions. Thus, in a way, the results contradict both Moravcsik (1998) and Mody (2018). In light of these findings, it is on the one hand difficult to maintain the argument that the German government followed business's lead at Maastricht. Later on, on the other hand, it is not correct that there was no business support at all. In fact, since the mid-1990s there was strong support among major exporters for a large EMU that should even include countries like the highly indebted Italy. Relatedly, while the idea in the literature that the major exporters occupy a dominant position within the business community is clearly reflected by the dynamics within the BDI (both across sectors and enterprise size), the influence of the export sector on the German government's position on EMU in the late 1980s and early 1990s appears to have been limited. This suggests that Germany's initial motives for EMU must have been more political than economic.

Second, the literature on the political economy of exchange rate policy argues that exporters and other internationally operating enterprises should always favor a fixed exchange rate regime like the EMU because it reduces exchange rate variability. The findings of this study show that this is not necessarily the case. In the late 1980s and early 1990s, most exporters valued the deutsche mark more than any potential gains from EMU, especially since the EMS already provided them with sufficient exchange rate stability at the time. Only when their competitive position deteriorated in the wake of the EMS crisis of 1992–93, the German export sector felt an urgent need to go beyond the existing monetary arrangement. In other words, only when the stability of the EMS gave way to overvaluation, the EMU became a welcome 'historical accident' for German exporters. These results cast doubt on the rationality and perfect foresight assumed on the part of the business community in much of the extant literature. Like all other actors, businesses have to define their interests and calculate the best path forward against the background of inevitable uncertainty about the future. This study has shown that preferences are often unclear and can shift rapidly, especially during times of large-scale change and unexpected crises. Therefore, when analyzing preference formation, the political economy literature should take the sociological insights of fundamental uncertainty more seriously.

Finally, this paper adds important micro-level nuances to our understanding of Germany's role in the Eurozone. Some voices in CPE argue that wage moderation and the resulting real exchange rate devaluation are important factors in explaining the German competitiveness gains in the Eurozone. By demonstrating that the export sector's support for EMU crucially depended on how it assessed the implications of the currency union for the level of the exchange rate, this study suggests that German exporters' strategically anticipated such competitive advantages in the EMU. My findings might also help to explain why German exporters strictly oppose any strategy of internal adjustment in Germany that rests on wage increases (see Redeker and Walter, 2020). However, since it is still unclear how decisive prices and costs are for export performance compared with non-price factors, it should be a fruitful avenue for future research to further examine the relative importance of both price and non-price competitiveness in Germany and other Eurozone countries (see Paternesi Meloni (2021) for a recent attempt). Moreover, future work should pay more attention to the institutional conditions under which specific exchange rate levels occur in Germany.

Supplementary material

Supplementary material is available at *SOCECO Journal* online.

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