

# The New Germany

by *Martin Walker*

On September 22, in Germany's closest election in more than 50 years, a divided and uncertain electorate gave a narrow victory to the governing coalition of Chancellor Gerhard Schröder's Social Democrats and their Green Party allies. But the voters declined to give the new government a clear mandate, and the prospect of four years of weak government and political deadlock now looms. Schröder's coalition held just enough seats in parliament to avoid dismissal and must now try to govern with a majority of only nine seats in the Bundestag. The conservatives won a three percent greater share of the national vote than they did in the previous election four years ago, but they and the Free Democrats, their likely partners in a coalition, fell short of a governing majority. The ex-Communists of the former East Germany, running as the Party of Democratic Socialism, won only four percent of the vote and two seats. Various extreme right-wing parties fared even worse, winning barely three percent of the vote in all—and no seats.

It's some consolation that Germany chose between moderates of the center-Left and center-Right, and that extremist parties of the Right and Left did poorly. But the closeness of the election result has left the new German government looking fragile. The conservative leader, Bavarian premier Edmund Stoiber, has predicted that the majority is too small to work and too unstable to last: "Should the result not allow us to form a government, I predict that this Schröder government will rule for only a very short time." And he returned to a campaign theme: "This coalition will not heal our country's economy, and there will be no release from the isolation from Europe and the United States."

The new government faces two immediate challenges: a damaging rift with its American allies over Iraq, and an economic and political crisis with its European partners. Despite the efforts of the conservatives to focus on the stagnant economy and Germany's four million unemployed, the main drama of the election campaign stemmed from foreign policy. Schröder's blunt refusal to support an American-led assault on Iraq, even if it were to have a United Nations mandate, helped him claw back from an eight-point deficit in the opinion polls. The task of repairing relations with Washington has been made no easier by the heatedly anti-American campaign rhetoric, including an episode that outraged the White House: a bizarre comparison of George W. Bush to Adolf Hitler by Schröder's justice minister, Herta Däubler-Gmelin.

The international focus of the campaign was all the more surprising in view of the grave domestic conditions in Germany. For the past seven years, German has recorded the worst economic performance in Europe. Further, the main political parties all agree that the constitution needs amending: The powers of the second chamber in parliament, the Bundesrat, must be weak-



AP Photo/Christof Stache

*In the recent election campaign, Chancellor Gerhard Schröder played the anti-American card and used opposition to U.S. plans for a war against Saddam Hussein to appeal for votes.*

ened so that the elected government can govern without being blocked. But that change requires the agreement of the Bundesrat, and of a majority of the powerful *Länder*, the 16 individual states that make up the Federal Republic of Germany. No wonder Josef Joffe, editor of *Die Zeit*, calls Germany “a blocked society, incapable of reform.” And yet the election hinged on foreign policy. Germans found to their surprise that the celebrated mantra of Bill Clinton’s 1992 campaign — “It’s the economy, stupid!” — did not work. The headlines and the public imagination were caught by the country’s aversion to war with Iraq, by its suspicion of the United States, and by controversy over Germany’s attitudes toward Israel, still strongly colored by guilt and bitter memories of World War II and the Holocaust.

The composition of the new German government was decided not by the two main political parties, which finished almost neck and neck, but by the smaller parties, which were able to furnish the votes needed for a majority coalition. The Greens, scoring their best-ever result, campaigned as pacifists, deeply opposed to war and wary of military operations, even peacekeeping missions with a UN mandate. The Free Democrats, liberal centrists who now advocate far-reaching economic reform, have traditionally held the balance of power. But this time they faltered and, after highly critical remarks about Israel by their deputy leader, Jürgen Möllemann, won only 7.4 percent of the vote. The prominent coverage given Möllemann’s outbursts and Däubler-Gmelin’s clumsy references to Bush and Hitler was a reflection of how the campaign skirted the serious issues of economic and social stagnation. Neither the voters nor the politicians seemed to know what to do about those issues, so they chose to talk about other things, and held an election that decided little — except that Germany is a country in denial.

In what she described as the one “unambiguous failure” of her foreign policy, British prime minister Margaret Thatcher tried without success to block the unification of Germany after the fall of the Berlin Wall. “A reunited Germany is simply too big and too powerful to be just another player within Europe,” she concluded in her memoirs. Germany, she said, is “by its very nature a destabilizing rather than a stabilizing force in Europe.” The perception that a united Germany would be uncomfortably powerful for its European neighbors was widespread at the time. Lady Thatcher even claimed subsequently that French president François Mitterrand and Dutch premier Ruud Lubbers agreed with her in private but believed that German unification could not be stopped and should there-

fore be tamed within an ever closer European Union (EU), with the mighty deutsche mark absorbed into a single European currency.

The defining fact about post-Cold War Germany is that successive governments, political parties, and the broad public were all happy to make the accommodation to Europe.

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Indeed, since the 1950s a national consensus had developed behind a phrase coined by the novelist Thomas Mann: “a Europeanized Germany, rather than a Germanized Europe.” One of the central issues now, for Germany and Europe both, is how far the process of accommodation will go. And like so much else that will affect Germany’s future, from the global economy to prospects for the Atlantic Alliance, the matter is not entirely in German hands. The British and French—and other partners in the European Union—stand firmly against German proposals for a federal Europe, in part because they still fear that Germany could dominate it.

Before unification, West Germany had the strongest economy in Europe. Its population of just over 60 million was roughly equal to that of France, Britain, or Italy, but its gross domestic product (GDP) was half again as large as Britain’s. Unification brought an additional 18 million new citizens from the former East Germany, which was perceived to be the most advanced and efficient of the Warsaw Pact economies. With both the largest population in Europe (and thus the largest voting block in the European Parliament) and the largest economy, Germany in the 1990s seemed destined to achieve by peaceful means what two world wars had failed to secure for it by force of arms.

It is one of the major surprises of the post-Cold War era that the united Germany has lived up neither to its own hopes nor to the fears and expectations of its neighbors. In 1999, Otmar Issing, chief economist of the European Central Bank, warned that Germany could become “the sick man of Europe unless it drastically reformed its costly welfare state.” In July 2002, the research group of

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Deutsche Bank issued a thoughtful report, “Is Germany Heading the Same Way as Japan?” that was intended to set the tone for the German general election in September. The report stressed that Germany’s growth had lagged behind that of its EU partners for almost a decade: “Gloomy prospects and chronically weak growth in the 1990s . . . have raised the question, now being asked publicly, whether Germany is following Japan to become a second potential trouble spot among the large industrial nations—an area with weak economic momentum, reliant on other countries for most of its growth impetus.”

The nation’s plight is worrying its partners in the EU, who are accustomed to Germany’s paying \$10-12 billion more annually into the EU budget (which falls just short of \$100 billion) than it receives. An EU without this German contribution would be a far more cantankerous body. Daniel Gros, director of the Center for European Policy Studies in Brussels, calls the situation “the new German problem.” “Until recently,” he has said, “the ‘German problem’ in European affairs was how to deal with a country that was stronger than its neighbors and thus a menace to equilibrium on the continent. It now seems that the problem is the opposite—how to deal with a country that constantly underperforms.”

In addition to economic disappointments, other factors have contributed to the German mood of malaise. The German education system, once a source of pride, is faltering badly. The media sounded a note of panic this spring when German high school students performed poorly in an international comparative test of 15-year-olds. Of the 32 participating countries, Germany ranked 25th in overall reading, mathematics, and science literacy. The outcome compounded an already present concern about recurrent spasms of skinhead violence and isolated neo-Nazism among the young, particularly in the former East Germany, where youth unemployment in some regions is as high as 30 percent. The sense of crisis in Germany’s crowded and underfunded universities is best caught by the titles of two recent best-selling books, *Im Kern verrottet?* (Rotten to the core?) and *Ist die Uni noch zu retten?* (Can the university still be saved?).

**S**o Germans are feeling a deep concern about the future. Sobering demographic trends suggest that a low birth rate and ever-longer life expectancy are making the current German social system unsustainable; there are too few Germans of working age to finance the pensions of the increasing numbers of old people. In 1990 German women had an average of 1.45 children each, a figure already well below the replacement rate of 2.1. (American women in 2001 had, on average, 2.1 children.) By 2000, according to Eurostat, the European Union’s official statistics body, the average number of children had dropped to 1.34 for each woman.

But there’s a paradox here. Despite the economic statistics, modern Germany is not just a rich and prosperous democracy but one of the most agreeable societies on earth, with a high quality of life. It has less crime than France, Britain, or the United States, recycles more of its waste, and enjoys cleaner and safer streets. There are salmon again in the cleansed Rhone and Elbe rivers, once two of the most polluted waterways in Europe. The cities of Berlin and Hamburg alone spend more on culture than the whole of Britain does. Germans spend more on books than the British, French, and Dutch combined, and more on tourism than the

British, French, and Swedish combined. Wages are high. It takes a German autoworker 35 hours to earn enough to buy a color TV, as against 51 hours for a French autoworker and 78 hours for a Belgian.

There's a further paradox. Germany has become, as Chancellor Gerhard Schröder promised in the 1998 election campaign, "a normal nation." By this he meant a country that could, at last, play a full role on the world stage. The traditional self-constraints on German foreign policy have almost disappeared. German warplanes took part in the 1999 Kosovo campaign, which also saw German troops sent to combat outside their own borders for the first time since 1945. Since Kosovo, German special forces have fought alongside their British and American counterparts in the Afghanistan campaigns against Al Qaeda. And yet there is not the slightest sign of militarism in the country. Indeed, Germany's allies in the North Atlantic Treaty Organization, in particular the United States, complain that the country spends only 1.5 percent of its GDP on defense, roughly half the proportion of America, Britain, or France. But veteran officials such as Horst Teltschik, national security adviser to former chancellor Helmut Kohl, warn that Germany's small defense budget, along with Chancellor Schröder's outspoken attacks on the Bush administration's pledge of "regime change" in Iraq, "seriously undermine our alliance with America, the bedrock of our foreign policy for 50 years."

Which leads to the cruelest paradox of all. So long as it was divided, and in a fundamental way subordinate to the grand strategies of the Cold War, Germany boomed. As noted above, West Germany became the most powerful economy in Europe, and East Germany was, by a considerable margin, the most prosperous of the Warsaw Pact states. Once the division ended, Germany languished under high unemployment, economic sluggishness, and social unease. Having lost the excuse of the Cold War to explain its problems, it appeared to lose its way and to become less than the sum of its reunited parts.

**A**ny analysis of modern Germany must begin with the unfinished business of unification. Thirteen years after the fall of the Berlin Wall, the absorption of the former East Germany has been immensely expensive and far from successful. With 20 percent of the country's population, the former German Democratic Republic produces just 10 percent of the new Germany's GDP. Unemployment is twice as high as in the West, and productivity barely 70 percent of Western levels, despite almost a trillion dollars in state subsidies since 1990. (That's 10 times more money, allowing for inflation, than the Marshall Plan pumped into West Germany after 1949.) The government has resignedly announced that federal aid to the East will have to be extended for another 20 years, along with the income tax surcharges to pay for it.

The problem, it seems widely accepted, stems from the decision of then-chancellor Kohl to speed up unification by exchanging West German and East German marks at near parity. In real purchasing power, a more appropriate exchange rate would have been three or four East marks to one West mark. This strain on the federal budget forced up interest rates in Germany and across Europe. Though the measure brought most East Germans appreciably closer to West German living standards, it also left East German

industry massively overpriced and unable to use its one structural asset, cheap skilled labor, at the very time the East Germans were losing their traditional markets in Eastern Europe and the Soviet Union. Thus, the East Germans had the worst of both worlds: Their goods were too crude and ill packaged for Western markets and too costly for Eastern ones.

There are, of course, a few bright spots. Volkswagen built a \$187 million plant in Dresden to assemble its new Phaeton car, creating more than 500 new jobs earlier this year. BMW announced this year that it would build a new plant in Leipzig instead of shifting production abroad; it was persuaded to remain in Germany by tax breaks and subsidies that will pay more than a third of the plant's construction costs. There have even been some local successes—erstwhile East German industrial concerns that have restructured and prospered. The most commonly

cited example is Jena-Optik, an optical engineering group that employed more than 20,000 people when it made the cameras, binoculars, and gun sights for many of the Warsaw Pact armies. It was turned into a thriving company by Lothar Späth, a popular, hard-driving former chief minister of his native Baden-Württemberg state. As a result, Späth is something of a hero in the East and was recruited for this year's election campaign to be the economics czar of a future conservative government. But Späth's success at JenaOptik came at high cost: \$2 billion in state subsidies and the elimination of some 16,000 jobs. The firm, which suffered a small loss this year after a period of impressive growth, now employs some 7,000 people worldwide, but only 1,100 of them are in the former East Germany.



*In Alas (1999), Neo Rauch's 1950s-style image of a man futilely beckoning a woman toward an ultramodern future offers a dispiriting comment on the fate of East Germany.*

Politicians, desperate to proclaim light at the end of the unification tunnel, hail these occasional successes. The Social Democratic Party's position paper insists that the overall picture is "not as dire as is portrayed in public." Actually, it may be even worse. The tax base of the old East is declining, as young people continue to leave. Between the fall of the Berlin Wall in 1989 and the formal declaration of unification the following year, some 800,000 East Germans—mainly the young—moved to the West. Since then, more than a million others have followed,

while fewer than 100,000 Westerners have made the journey the other way. The region has lost a quarter-million jobs in the past four years, mainly because the construction industry has shrunk now that the state's main infrastructure investments in roads, rail, and telecommunications have been completed. And the \$2.6 billion a year that the East receives from EU Structural Funds, which are meant to help lower-income regions, is about to be shifted to the even more deserving cases of Poland, Hungary, the Baltic states, and other new EU members. (Some EU aid to the East will continue because its more rural regions are so poor.) To the anger of Germans living in the East, German corporations have beaten the EU to investment in those other countries. Volkswagen, for example, has pumped more money into the old Czech Skoda car works than it has put into East

Germany. Indeed, Germans are by far the leading foreign investors in Eastern Europe.

Eastern Germans also complain of being patronized by their compatriots in the West, and they've indulged in a nostalgia boom for the old communist-era brands of East German beer, biscuits, confectionery, and washing powder. A similar kind of nostalgia helps explain the

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importance in the East of the Party of Democratic Socialism, the reformed Communists of the past, who have shared power in Berlin with the Social Democrats. But the success of the reformed Communists undermines the power of the Eastern bloc voting to help the main political parties win or lose national elections. In 1990, in response to Chancellor Kohl's unification drive, Easterners gave most of their votes to the Christian Democrats, securing Kohl's landslide. In 1998, feeling disillusioned with Kohl, they switched to give the bulk of their votes to the Social Democrats, and thereby delivered the chancellorship to Gerhard Schröder. Their recent disappointment with Schröder, because of his unfulfilled promise to cut unemployment, and their enthusiasm for Lothar Späth as the Christian Democrats' new economics chief, were a real concern for the Social Democrats during the 2002 campaign.

**T**he difficulties of absorbing the East would have been less worrisome had the traditional vigor of German industry been maintained, but the German economic miracle of the 1950s and 1960s has faltered. In the seven years since 1995, Germany has shared with Italy the bottom rung on the European growth ladder. To an American observer, the wonder is that the German economy works as well as it does, given the extraordinary constraints upon it. First, labor costs are high, and labor unions are so strong that it's difficult to fire workers. Second, the generous welfare system imposes a huge cost on employer and employee alike. Norbert Walter, chief economist of Deutsche Bank, argues that the focus of Germany's leaders on unification derailed prospects of social reform: "I thought unification would have provided a turning point. For those who had looked into the German welfare system and its instability before the Wall came

down, it was obvious it could no longer be sustained. The need for a complete overhaul of the German socioeconomic system is even more urgent now.”

The German skilled worker is the third highest paid in the world, after the Swiss and the Danish. But of a gross income of \$34,400 a year, the average German takes home just \$20,100. Moreover, that worker costs an employer almost exactly \$50,000, when social security and insurance provisions are factored in. It's cheaper, complain officials from the state of Hesse, for a German bank to post executives to London and fly them back twice a week for meetings than to keep them in their native Frankfurt. “We are risk-averse as a society. Germans do not want to give up the social safety nets,” says Walter. “The problem is not the politicians, but the electorate itself, which fears change. And there's another problem, the dominant mindset of the generation of 1968, who are just not gifted with the entrepreneurial and fighting spirit.”

The software giant SAP remains a relatively rare “new economy” success. Germany's best-known companies are still rooted in the traditional technologies of engineering, automobiles, and chemicals, industries where labor unions are particularly strong. The three sectors account for two-thirds of German exports. A breakthrough seemed to have occurred in 1996, when the massive Deutsche Telekom monopoly began selling its shares to the public as the first step in the country's most ambitious privatization drive. Although fewer than one German in 10 owned stocks at the time, millions flocked to buy the Deutsche Telekom shares at an initial-offer price of \$25. The price swiftly soared to \$100—and then fell to \$18. The hesitant German conversion to the Anglo-Saxon entrepreneurial model has been further battered by the collapse of the Neuer Markt, the German equivalent of the NASDAQ, which has lost 90 percent of its value in the past two years—a period in which the main Frankfurt stock exchange has lost 52 percent of its value.

The fall in stock prices undermined Schröder's attempt to tackle the looming demographic threat to pensions by putting a modest two percent of the work force's national insurance payments into individual savings accounts. The idea was attractive while stock prices were rising, but it became far more controversial when prices plunged. Schröder's promised tax cuts ran into two additional problems: the estimated \$20 billion cost of this year's catastrophic floods in central Europe, and what is known as the Stability Pact of the new euro currency. Inspired by a former German government that feared fiscal profligacy in Italy and other EU members, the Stability Pact requires EU states to keep their budget deficits below three percent of their GDP—and imposes fines of one-half percent of GDP if the target is breached. Because recession drove Germany dangerously close to the three percent limit, the pact threatened an annual fine of \$10 billion just as the country faced the flood emergency.

In 2002 the German commitment to Europe began to appear, for the first time, a problem rather than a solution. The fiscal straitjacket of the Stability Pact limited the government's options in dealing with the floods. At the same time, EU rules against state aid to industry, in the name of fair competition, constrained Germany's strategic determination to lift the East to the West's economic standards. The EU's competition watchdogs also challenged the privileges long granted to Germany's powerful regional banks, which have benefited from state-backed finan-



cial guarantees. The Stability Pact posed a subtle threat to Germany's admirably decentralized constitutional system, which grants unusually wide powers to the *Länder*, or state governments. The *Länder* account for roughly half of government spending, and they've helped swell the deficit.

**T**hese difficulties with the EU are throwing into sharper relief the costs, as well as the advantages, of the international structure into which Germany has chosen to fit. The issue first emerged publicly in the 1998 campaign, when candidate Schröder warned that the EU should “not rely forever on the German wallet.” They emerged again in the 2002 campaign, with Christian Democratic candidate Edmund Stoiber warning, in a blunt speech this past May, that EU enlargement must have its limits—and should not include Turkey. “I believe there must be geographical borders for the EU,” he said. “Europe cannot end on the Iraqi-Turkish border. Whoever wants that endangers the cohesion of Europe.”

Stoiber also raised the delicate issue of German nationalism during the 2002 campaign, in a way that jolted the EU enlargement process. He demanded that the Czech Republic retract the Benes Decrees of 1945, under which some three million Czechs of German descent were deported from their homes in the border region of the Sudetenland on the grounds that they were Hitler's fifth column in the 1930s. Stoiber, married to a former Sudeten German, outraged the Czech government and alarmed other Eastern Europeans, particularly the Poles, who wondered whether the issue would put at risk the whole 1945 settlement of Europe's borders.

Because of Germany's history, such issues are intensely sensitive. Margaret Thatcher is not the only European who continued to see modern Germany through the perspective of World War II and the Holocaust. Her prejudices were reinforced by an unusual seminar she conducted at her country residence, Chequers, in March 1990, when she was fighting her doomed delaying action against unification. Six academic experts on Germany and Europe were summoned to join her. A memorandum on the session, subsequently leaked to the British press, listed what were seen as the negative aspects of the German character: “angst, aggressiveness, assertiveness, bullying, egotism, inferiority complex, and sentimentality.”

The list is a caricature. Nearly 60 years after the end of World War II, it should be possible to consider modern Germany apart from Hitler's shadow. But Germans themselves make it difficult to do so, because an official anti-Nazism practically defines the identity of modern Germany. In this election year, which saw the banning of a small but unpleasant neo-Nazi group, the issue of Germany's Nazi past arose repeatedly. The first such occasion was when Stoiber demanded the retraction of the Benes Decrees. The second was when outspoken criticism of Israel greeted its response to the Palestinian suicide bombings. The deputy leader of the Free Democratic Party was driven to stand down for suggesting that, in the Palestinians' place, he too would be provoked into fighting back. It was left to Foreign Minister Joschka Fischer, of the Green Party, to say in an op-ed piece that Germany would have to consider whether it would ever be legitimate to criticize Israeli policies without plunging into the troubled waters of anti-Semitism.



*Skinhead political activists get media attention, but the popularity of skinhead attitudes among eastern Germany's young may be a greater concern.*

And then there was the cultural drama over a novel that topped the German bestseller lists throughout the summer, *Death of a Critic*, by the acclaimed writer Martin Walser. The novel, which seems to blur the line between fictional and real characters, deals with the murder by an outraged writer of a well-known Jewish literary critic. The book was condemned by the country's leading newspaper—in whose pages Germany's leading critic, who is Jewish, had made his reputation—as a kind of intellectual Nazism. Walser is perhaps best known outside Germany for a forthright speech, in the context of Schröder's ambition that Germany become “a normal nation,” in which he said that it was time to stop battering Germany with “the bludgeon of Auschwitz.”

**A**nd yet, the recurrent echoes of the past and the reminders of the old Germany no longer seem to fit. The face of modern Germany is to be found less in the dwindling numbers of its beer halls than in its stylish new restaurants, a thriving art scene, the splendid new modern art museum

in Munich, and events such as this July's 14th annual Love Parade in Berlin, which saw half a million young people dance to a deafening techno beat from monumental loudspeakers as 45 floats snaked toward the Tiergarten's Victory Column. The new Germany is a country of immigrants and refugees and not, as in the past, of nationality based purely on German blood. More than 480,000 immigrants have become naturalized citizens since the reform in 1999 of the law restricting citizenship to those of German blood.

**T**he new Germany can be seen as well in a host of experiments that, like Schröder's economic reforms, may seem tentative to non-Germans but are actually changing the habits of the country. Private universities are springing up to cope with the overcrowded mess of the free public institutions. Rather than start early and close at lunchtime, some experimental schools are staying open all day (a change that might increase the relatively modest numbers of women in the work force). Shops are open a little longer, increasing numbers of Germans are working part-time, and the country is catching up with Scandinavia and America in Internet connections. Thanks to mortgages, a nation of apartment dwellers is becoming a nation of homeowners, and the traditionally thrifty Germans now have a higher level of debt than free-spending Americans. With political and media consultants serving all parties, and the novelty of TV debates between the candidates, this year's election felt less German (about sober party platforms) than British or American (about personalities).

In education, the media, and the service sector, and in Germany's image abroad, a cultural revolution is struggling to be born, even as the political system appears deeply resistant to change or reform. The leading contenders in this year's election made clear that neither of the main parties wanted drastic change. In a long interview, Stoiber stressed that "discontinuity is best avoided in a society that faces far-reaching changes like globalization, September 11, enlargement of the EU, and the population trend. If we fail to safeguard prosperity and the welfare network, there will be serious protests." His was a strikingly modest agenda for a candidate campaigning on the dire plight of the German economy and taking as his central issue "that Germany must move up from last place in Europe."

The aftermath of this year's devastating floods in the Eastern city of Dresden suggests that unification is indeed working. Rudi Völler, coach of Germany's national soccer team, was stunned when he asked the players for donations to flood relief and the World Cup finalists raised \$500,000 in three minutes. Public appeals have raised more than \$100 million. "The wave of donations has been overpowering—there's never been anything on this scale before," said Lübke Roewer of the Red Cross. Tens of thousands of volunteers trekked to Dresden. At the city's famed opera house, reported Volker Butzmann, the opera's technical director, "everyone from cloakroom ladies to singers came to help with the clean-up."

The heartwarming response to the floods of Dresden may say more about the new united Germany than do the giant building projects of Berlin, the presence of German troops on international missions, and complaints about the Benes Decrees. Germany may think it's the sick man of Europe, in dire need of reforms it shrinks from making. But Germany feels like one nation again. And that, friends and critics alike might agree, is a genuine transformation. □