

Kohl's Euro

Ashoka Mody

On Nov. 28, 1989, Chancellor Helmut Kohl told the Bundestag that he had a ten-point plan to unify Germany. Neither his foreign minister, Hans Dietrich Genscher, nor the European allies had any hint that Kohl was about to accelerate the already dizzying pace of history. The American President George H.W. Bush received a letter explaining the plan just as Kohl was beginning his address to the Bundestag.

Uniting Germany was historically destined and Kohl will rightly be remembered for being one step ahead of the moment.

But, on Feb. 6, 1990—almost exactly when Bundesbank President Karl Otto Pohl and his East German counterpart, Horst Kaminsky, were telling journalists that it would be “premature to even consider” converting one Ostmark to one D-Mark—Kohl announced that this was exactly what he intended to do. The decision was motivated by an eye toward the elections in May. It did little to stem the migration from the east, but it did saddle the highly unproductive businesses in the east with West German costs, virtually crippling them—until recently.

Kohl promised riches to East Germans and no costs to West Germans. He rode the emotional reunion to great personal triumph. At that moment, history beckoned him some more.

From the December 1989 summit of European leaders in Strasbourg to the May 1998 summit in Brussels, Kohl single-handedly ensured the emergence of the euro in its present form. Pushed relentlessly by the French, Kohl nevertheless could, at each point in this nearly decade-long journey, have pressed the pause button. The advice from the Bundesbank and the Ministry of Finance was always to move slowly. But Kohl preempted his closest advisors. To their horror, he agreed to a definite date for the introduction of the euro at Maastricht in December 1991.

With the euro now a *fait accompli*, his advisors counselled—more strenuously than before—against admitting Italy into the first group of members. Kohl, however, insisted and by the decision date in May 1998, he had overruled good sense. With Italian entry, Portugal and Spain were also waived in. And the precedent ensured that Greece would be a eurozone member two years later.

Today, as the eurozone is mired in never-ending economic distress, and as countries with divergent economic trends tear at the fabric of the single currency, in a new book, Kohl has felt compelled to defend the concept to which he gave reality.¹ It is ironic that he blames his successor, Gerhard Schroeder, for allowing Greece to be admitted to the euro club.

It was all worth it, Kohl says, because ultimately the euro was a project to promote peace. On Dec. 12, 1989, the Chancery documents report a conversation in which Kohl says to U.S. Secretary of State James Baker, “The euro is not in the German national interest, but we need friends.” A united Germany, he asserted, could not have friends and would risk disturbing the peace if it were not tied down by the euro. In his book, Kohl repeats this mantra: “Due to the euro,” he says, “European unification became irreversible, and we took an important step towards a permanent guarantee of peace and freedom on our continent.”

The euro is sometimes described as an elite project. But it was much more than that. To push the euro through, Kohl bypassed the German citizen, knowing that the public overwhelmingly wished to keep the D-Mark. He wore down his economic advisors with the threat of ignoring them. And he gained a grip on his own party that made his authority almost unquestionable.

When the democratic process is so deliberately bypassed, the goal of peace will be a chimera. With great power comes the ability to do great good. But it also opens up the possibility of grave errors.

¹ Kohl, Helmut: *Aus Sorge um Europa*. Ein Appell, Droemer Knauer, München, 2014.

The distress caused by the euro's economic fetters is spawning mounting political discord. The discord is not accidental: it was built into the construction. German citizens, who were bypassed, now want a say. And their voice is being heard, as reflected in the recent electoral gains of the Alternative für Deutschland party. Elsewhere in the euro area, the economic stress is being cynically used to promote national fervor and even baser instincts.

Conflict is also built into the governance of the euro. The members of European Central Bank's Governing Council are espousing openly national positions. Increasingly frequent leaks of confidential deliberations reveal deep antagonisms.

Meanwhile, the fiscal rules and surveillance, which Kohl promoted as a cornerstone of the euro project, are creating the anticipated clashes. The shouting match between Germany and its traditional foils—France and Italy—displays both ill-temper and pettiness. French Finance Minister Michael Sapin warns that the barbs from German leaders will fuel nationalist populism in France. French Prime Minister Manuel Valls insists that France must be respected. Others express the sentiments against Germany more angrily.

If this was a project to win friends for Germany, it is not turning out that way.

The crisis persists because the divergent interests within the eurozone ensure that the decisions to deal with the complex problems are plagued by delays and half-measures. Forceful action must always wait until a financial meltdown seems imminent. And that ensures that the crisis takes on new forms, which breed further discord and conflict.

In October 1982, days after he first became chancellor, Kohl recounted to the French President Francois Mitterrand the loss of his uncle and brother in World War II. "Don't have any illusion," he said, "I am the last pro-European chancellor." And in his final years as German chancellor, Kohl rejected calls to retire because he believed that without him the euro may not happen.

Kohl may have believed that the single currency was needed to secure peace and that Italian membership was essential to that purpose. Or he may have

been lured by the sirens of history. We have his word that he was pro-European and we have his gift: the euro.

Kohl not only made sure that Europe would wear a monetary straightjacket but, to protect Germany from his folly, he imposed on all a fiscal straightjacket. Contemporary observers—even sympathizers—were clear that the German-inspired fiscal rules were economically misguided and politically divisive.

But Kohl's most debilitating legacy may have been the high-minded rhetoric with which he endowed the single currency project. There was never any connection between the prosaic euro and the magnificent metaphors of peace and unity that he invoked. Europe had laid as secure a commercial basis for peace as was possible with the Treaty of Rome in 1957 through to its culmination in the Single European Act of 1986. In contrast, the euro, by its very nature, generates conflicts among the member nations.

Kohl's metaphors purposefully wished away the inherent conflicts. And because the European elites—even if unwittingly at first—were sucked into the rhetorical idealism, they play on more words, “shared sovereignty” and “flexibility”, while insisting that reinforcing the dysfunctional system is the only way forward.

The great challenge today is to undo the legacy of Kohl's rhetoric. Breaking up the euro is too costly. Thus the task is to weaken the ties that bind while preserving the peace and unity. Let go the central fiscal rules and let countries deal with their private creditors. Staying the present course will deepen animosities—and the debt defaults will happen in any case. Soon, it may be too late to pull back.