German Politics and EMU Convergence

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The Maastricht Treaty delineates several "convergence criteria" that govern the entry of all member states of the European Union (EU) into European economic and monetary union (EMU). Because macroeconomic adjustment within monetary union significantly reduces the severity of austerity measures necessary to attain convergence, this paper argues that a rapid transition to monetary union is far more desirable than the gradual convergence process outlined in the Maastricht Treaty. Since monetary union is a political as well as an economic process, this paper analyzes the political dynamics within Germany and the entire EU that have led to the acceptance of the gradual approach to monetary union and the convergence criteria. The paper concludes with an explanation of how the emergence of several salient political crises, combined with certain political conditions, will result in the beginning of the rapid transition to monetary union in the EMU and the abolition of the convergence criteria.

> Monetary union is never a matter of convergence, but of political will—the will to foot the bill which union imposes.
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> —Brian Reading, *The Fourth Reich*

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Introduction

In the eyes of West Germany's Bundesbank, the end of the world began on July 1, 1991. On this day the conversion of East German ostmarks to Deutsche marks began, a process that would help solidify a newly united Germany. The Bundesbank's reservations were shared by economists all over the world; from a strictly economic viewpoint, the rush to German monetary union made no sense at all. However, the political will to proceed with rapid monetary union was strong enough to overcome the resistance of the Bundesbank and other domestic opposition. Karl Otto Pohl, president of the Bundesbank at the time, called German monetary union a "disaster" and cautioned that the process would be equally ill-fated for the European Union (EU) if it did not rigorously adhere to the Maastricht Treaty's plan to achieve macroeconomic convergence of member states before the start of monetary union (Gunther et al. 1993).

The Maastricht Treaty, ratified—albeit narrowly—by all EU member states, delineates several "convergence criteria" that govern the entry of states into European economic and monetary union (EMU). A member state may participate in the monetary union provided that (1) its inflation rate is not more than 1.5 percent higher than the average of the three lowest inflation rates in the EU; (2) its currency's exchange rate has remained within the normal bands of the European Exchange Rate Mechanism for at least two years prior to entry; (3) its budget deficit is less than 3 percent of the nation's GDP; (4) its government debt is less than 60 percent of GDP; and (5) its long-term interest rate is less than 2 percent higher than the average interest rate in the nations with the three lowest inflation rates in the EU (European Commission 1990).

Because the degree of austerity needed for convergence is considerably reduced by macroeconomic adjustment within monetary union, this paper argues that rapid transition to monetary union is preferable to the gradual process outlined in the Maastricht Treaty. Monetary union is a political as well as an economic process; therefore to understand attitudes towards the pace of convergence one must analyze the political dynamics within Germany and the EU. The emergence of several political crises and conditions will result in a trend toward rapid transition to monetary union in the entire EU and the abolition of the convergence criteria.

German Monetary Unification: Economics Versus Politics

Economics

Pohl's strongly negative characterization of German monetary union was a response to the horrendous conditions Germany endured for the first several years after its implementation. In an effort to avoid stigmatizing East Germans, the government converted ostmarks to the much stronger Deutsche marks at a 1:1 ratio. As the Bundesbank predicted, this resulted in short-term economic disaster.

Former East Germans, who had always longed to acquire Western products but were unable to afford them, suddenly found that their buying power was incredibly strong because of the 1:1 conversion rate. They rushed to purchase western German goods and shunned the low-quality products made in eastern German factories. Because of monetary union, the region could not use exchange rate controls or tariffs to protect its industries (Baylis 1993). In addition to the extremely sparse demand for their output, eastern German firms faced much higher real wage costs because salaries were also converted to Deutsche marks at a 1:1 rate. As a result, unemployment and corporate bankruptcy quickly spread throughout the former East Germany (Reading 1995).

Economic problems were not confined to the eastern portions of Germany, however. After a brief boom, triggered by short-lived eastern German demand, the recession that enveloped most of Western Europe struck western Germany with full force. But fiscal policy could not be used liberally to offset the recession, as huge transfers had already been committed to eastern Germany. East Germans had used these transfers almost exclusively for consumption rather than investment, so the Bundesbank did not want to lower interest rates significantly because of the threat of increasing inflation. At the same time, tax revenue was much lower than usual because of the recession. All of these factors raised the public sector deficit from 2.1 percent of GDP in 1990 to 3.2 percent in 1993 (Walter 1995).

Because of the handicap that this public debt inflicted on the government and the Bundesbank's reluctance to lower interest rates, western German firms were forced to make their own adjustments to the recession. These largely took the form of extensive restructuring efforts or the transfer of production operations to other countries where wages and benefits were less costly. As a result, between 1992 and 1994, almost

900,000 Germans living in the former West Germany lost their jobs (Walter 1995).

Politics

Despite the plethora of economic arguments against German monetary union, sufficient political motives existed to induce the former West German government to accept the costs that monetary union would impose. The economic conditions that emerged in the wake of German monetary union came as no surprise to Chancellor Helmut Kohl and his coalition government. The Bundesbank had persistently cited these dangers in its campaign to derail monetary union. But German policy makers felt that the political benefits of the process outweighed its economic costs.

The most pressing political problem at the time was the surge of former East Germans who had rushed to the West as soon as the Berlin Wall fell. At one point 40,000 citizens migrated to the former West Germany each week. By spreading the powerful Deutsche mark eastward, western Germany effectively promised former East German citizens that their living conditions would rise to the levels enjoyed in the former West Germany. Consequently, the monetary union largely defused the migration problem (Reading 1995).

The other political crisis facing the government concerned the perennial threat to German stability emanating from Eastern Europe. Security from Eastern threats has been a priority for Germans since the Ottoman Turks in the sixteenth century posed the danger of invasion. Peter the Great and the Russians were the source of German anxieties in the eighteenth century. Early in the twentieth century, the Bolshevik Revolution and Soviet expansionism created a new threat from the East. This escalated into the postwar partitioning of Germany and placed the eastern threat within Germany's traditional boundaries. As the Cold War era ended, Germany reunified and the instability of the newly democratizing Eastern European states emerged as the primary threat to the nation (Blech 1995).

By merging with eastern Germany, newly freed from the clutches of the USSR, the former West Germany inherited a multitude of economic deficiencies and sociopolitical liabilities that threatened to drag the region into the Eastern European zone of instability. The Bonn government therefore strove to ensure that the low productivity, weak currency, social unrest, and political instability of the former East Germany would not cross its borders. Monetary union was viewed as an extremely effective means of anchoring the former East Germany to the stability and prosperity of western Germany, as well as limiting the possibility that western Germany would succumb to the serious problems faced by its former neighbor.

The political urgency confronting the German government was also based on its interest in self-preservation. Today Helmut Kohl is affectionately known as the "unification chancellor." After his victory in the 1994 general elections Kohl solidified a hold on power that eclipses the duration of any other current European leader. In addition, at the end of his current term he will have served longer than any other German chancellor since World War II (Reading 1995). This personal success would not have been possible were it not for the overall success of German unification.

The government's narrow margin of victory in the 1994 elections reflected a disgust with the economic conditions in the former East Germany as well as political and public opposition to various aspects of the unification process. On the other hand, Kohl's victory and that of his Christian Democratic Union (CDU) coalition party was a display of approval from German voters. The victory rewarded the government's ability to reunite a nation while bolstering Germany's long-term economic strength and maintaining Germany's massive degree of influence over Western Europe and the EU, all of which could not have been achieved without monetary union (Sontheimer 1995). One might reasonably infer that Kohl and his party would have lost the 1994 election had the German monetary unification effort been aborted by the economic-based reservations of the Bundesbank and other opposition.

Germany and the EU Convergence Criteria

That rapid monetary unification was accomplished in Germany without a preceding period of convergence does not necessarily mean that this approach would also succeed in the case of European monetary union. The two processes have many irreconcilable differences, including the sizes of the relevant geographic areas and the full political union of a united Germany as opposed to the limited political union currently present in Europe.

But each process shares an important dynamic. In both cases, Kohl and the CDU's politically motivated support for monetary union was pitted against the Bundesbank's strong reservations based on economic and monetary criteria. As this paper has described above, although the Bundesbank was vehemently opposed to German monetary union, the salience of the political issues connected with the process eclipsed the Bundesbank's concerns in the eyes of the German government.

However, no such salience presently exists in the case of European economic and monetary union. As a result, Kohl and the CDU do not possess the political impetus necessary to overcome the opposition of the Bundesbank. Thus, the Bundesbank has faced minimal government interference in its efforts to delay EMU and has succeeded in solidifying the rigorous adherence to the strict convergence criteria outlined in the Maastricht treaty as a cornerstone of the German government's policy regarding EMU. And because Germany wields nearly absolute power over European monetary policy, adherence to the convergence criteria has quickly become the priority of all member states wishing to qualify for EMU. Member states have been shadowing the Bundesbank's interest rate movements for many years and have continued to mimic Germany's monetary policies by embracing the convergence criteria as the definitive standard for macroeconomic health. Klaus Liebscher, the chief executive of Austria's central bank, exemplified this attitude in a recent statement in which he said that for Austria, "as [for] an economically stable country like Germany, economic convergence is a must and cannot be tampered with. Fiddling with the convergence criteria . . . should be clearly opposed" (Austria Central Bank 1995).

The German government had three main reasons for adopting a strategy of gradual convergence with regard to EMU. First, most Germans view their powerful Deutsche mark as a symbol of national pride as well as a valuable economic asset. According to one survey, 70 percent of Germans are reluctant to sacrifice their currency in exchange for a common European currency (Staunton 1995).

Largely as a result of this attachment to the Deutsche mark, public support for EMU within Germany is currently quite low. Another opinion poll reported that 61 percent of Germans were opposed to the process. (Traynor 1995). Consequently, Kohl and the CDU's ability to proceed with monetary unification at the present time is limited, as the political support of that 61 percent is at stake. The gradual convergence strategy thus provides a convenient means for the government to postpone EMU; given time, it hopes the German public will view the idea more favorably.

The second reason for the government's adoption of the gradual convergence strategy concerns organizational theory. The first law of organizational behavior holds that an institution will never wholeheartedly cooperate with any venture that will result in its own demise. European monetary union would mean the end of the Bundesbank, since monetary policy would be controlled by the European Central Bank once a single currency is established. Thus it is not surprising that the Bundesbank insists upon a gradual macroeconomic convergence of the European member states before they can participate in EMU. The alternative would be immediate convergence, which would result in the loss of the Bundesbank's formal autonomy and the dramatic reduction in its influence over German and European monetary affairs. (Buiter, Corsetti, and Roubini 1992).

Third, unlike the case of German monetary union, where the large-scale migration from East to West Germany was stemmed by the transfer of ostmarks into Deutsche marks, Europe does not currently face a political crisis that political leaders can use to justify introducing a common currency before macroeconomic convergence is attained. Thus, the cautious approach toward EMU championed by the Bundesbank is not directly threatened by major political initiatives.

The gradual approach adopted by the European Union is lauded by proponents of the "coronation theory." Coronation theorists argue that monetary union should merely be the official formalization of a preceding, extensive period of macroeconomic convergence. According to this theory, adjustment should take place predominantly outside of the monetary union. Europe is now in the midst of this adjustment period as member states struggle to meet the Maastricht convergence criteria. The following section argues, however, that in the case of EMU it is better to pursue macroeconomic convergence within the monetary union, rather than outside it.

An Alternative Strategy for the Transition to EMU

Although macroeconomic convergence is truly necessary for the long-term survival and credibility of a common currency, as the success of German monetary union demonstrated, convergence does not necessarily have to precede monetary unification. Paul DeGrauwe of Leuven University argues that convergence in Europe would be much less painful if it were preceded by the introduction of a single European currency, as gradual convergence threatens to split the European Union into EMU and non-EMU factions (1995a). Because the purpose of EMU is to unite the economies of all member states, the gradual convergence strategy is, as stated in *The Economist*, "like a slimming club telling would-be members to get thin before they join" (Russian Roulette 1995).

Governments of countries with high inflation generally lack credibility in monetary policy. The success of the European Monetary System, before its near destruction, in lowering inflation throughout the EU showed that a credible commitment to an exchange rate arrangement in which low inflation is a priority is an effective way of reducing the costs of disinflation (DeGrauwe 1995b). Today, in an environment in which member states are left to their own devices to achieve reductions in inflation, high-inflation member states must raise interest rates higher than countries with low inflation in order to achieve a given inflation rate reduction. Higher interest rates result in an increase in unemployment and a reduction in growth. But high-inflation member states would not face this disadvantage within EMU because these nations would automatically inherit a much lower inflation rate once a single currency is introduced.

Assuming that a majority of the large, influential EU economies possess a low inflation rate, in the short term the inflation rates of smaller, high-inflationary member states will converge to the rates of the larger countries once a single currency is adopted. Presently this low inflationary core is anchored by Germany and France and supplemented by Belgium, Luxembourg and the Netherlands. Countries such as Greece, Italy and Spain would see their inflation rates decrease immediately upon monetary unification. This would significantly reduce the costs in terms of unemployment and inflation in these member states since much of the inflation reduction would be accomplished without an increase in interest rates (From Here to EMU 1995).

In the long term, however, the inflation rates of these countries will only remain low if the future European Central Bank is dedicated to the long-term maintenance of low inflation and price stability. Most independent central banks produce low inflation largely because their reputation is not backed by the credibility of a national government, but instead rests on the bank's ability to convince the public that it can produce economic stability (Alesina and Summers 1993). DeGrauwe and other proponents of rapid transition emphasize that the success of this alternative hinges on the European Central Bank's ability to bring about these economic conditions.

Imposing certain rules and restrictions upon the members of the future European Central Bank can ensure low inflation and price stability to a degree. For example, it could be mandated that countries that fail to control their budget deficits forfeit their right to help formulate monetary policy. Although this option might cause domestic political problems within member countries, it would eliminate the possibility that European monetary policy could be adversely affected by heavily indebted countries desiring an excessively expansionary monetary policy. Other restrictions could include removing from the board of the European Central Bank directors representing member countries that fail to attain price stability (DeGrauwe 1995b).

The convergence of EU inflation rates would also be greatly accelerated within EMU simply because only one currency would exist. Although inflationary pressures will still exist in those countries experiencing serious inflation difficulties, the pressures would be alleviated somewhat as the single currency would bring a similar rate of inflation to each member state (DeGrauwe 1995b).

Critics of DeGrauwe's rapid transition strategy, such as Minford (1992) and Hughes Hallett and Vines (1993), insist that these gains are illusory for two main reasons. First, they believe that policies designed to lower inflation do not directly reduce growth and employment. Instead, Europe's chronic unemployment problems are mainly viewed as a result of the high non-wage costs of full-time employees. Because of the reluctance of European firms to pay these benefits, they are hiring part-time employees in their place, leaving a score of qualified, motivated people out of work.

Although the high costs of full-time labor are a contributing factor to Europe's unemployment dilemma, the effects of macroeconomic policies designed to reduce inflation, such as those mandated by the convergence criteria, remain a primary contributor to high unemployment rates. Many economists dismiss the logic of the Phillips Curve, which posits an inverse relationship between inflation and unemployment. But the majority of Phillips Curve critics question its utility as a basis for macroeconomic policy making, not the fact that this inverse relationship exists (Rutlidge 1995, 126). The empirical evidence for this relationship is overwhelming, having generally held for 35 years (Fuhrer 1995, 42).

Second, the skeptics assert that although currency union will result in short-term inflation reductions for some member states, it will not eliminate the fundamental differences that exist among the economies of member states. The price differences today between goods made in Greece and Germany, for example, are reflected in the exchange rate between the drachma and the Deutsche mark. Under monetary union, however, these price differentials will vanish, rendering Greece's goods uncompetitive because of the greater productivity of German labor. EMU's opponents conclude that any gains made by a rapid transition will be more than offset by the introduction of this kind of competitive disadvantage.

However, as the German case illustrates, the extent of this damage is likely to be much less severe than critics suggest. After ostmarks were exchanged at a 1:1 rate with Deutsche marks, industries in the east of Germany were initially devastated by their lack of competitiveness with western German companies and by widespread unemployment. But today, less than five years later, the eastern German economy is firmly on the road to recovery. In June 1995, the region's economic growth rate was recorded at an impressive 9 percent and export growth was tracked at 25 percent (Miller 1995).

The conversion of member state currencies into euros will likely be at a rates that are much more accurate than the rate adopted for German monetary unification. The more accurate the conversion rates are, the more price differences will be preserved within monetary union. Although the conversion rates will not reflect economic realities perfectly, the resulting distortion of prices is likely to be significantly less than that experienced in German monetary union.

If the European Central Bank manages to establish low inflation throughout the EU, reductions of public debt would be easier within EMU. Under the gradual convergence plan currently in place, member states must resort to increasing their interest rates in order to cut inflation. This increases the interest payments faced by countries, making it harder for them to meet the Maastricht public debt criteria. If member states were inside EMU and within the realm of a European Central Bank that kept inflation low, these countries would inherit low inflation and would not be forced to raise interest rates. This would ease the fiscal convergence process (From Here to EMU 1995).

Convergence within EMU would facilitate fiscal adjustment in another way. Because the EU member states presently have their own currency, countries with high inflation or excessive deficits must pay a premium on their interest rates because of the risk that their currencies might be devalued against the Deutsche mark. With a single currency, no such risk exists since national currencies would disappear. *The Economist* determined that the cost of this premium to Italy is 1.5 percent of GDP per year, and to Belgium it is 2 percent of GDP per year (From Here to EMU 1995). Within EMU the abolition of this premium would bring countries with excessive deficits much closer to the fiscal positions mandated by the Maastricht Treaty.

Future Political Crises and the Abolition of the Convergence Criteria

Although the collapse of the Berlin Wall paved the way for German unification and resulted in worldwide celebrations, it also released a massive wave of East German migrants. The rapid transition to German monetary union and the spread of the Deutsche mark stemmed this flow with a promise of a sound economy for the former East Germany. At the same time, German monetary unification also protected the western regions of Germany from the political and economic instability of Eastern Europe by anchoring the former East German economy to the powerful Deutsche mark.

In the EU, however, a political crisis that might necessitate such a rapid transition toward monetary union, such as the migration of eastern German citizens to western regions, has not yet materialized. In addition, German security from the uncertainties of Eastern Europe has not been seriously threatened since the ratification of the Maastricht Treaty. As a result, critics and opponents of EMU have been able to institutionalize a strategy of gradual macroeconomic convergence of EU member states prior to the start of monetary union. Their only accomplishment so far has been to delay EMU indefinitely. The deadline for the start of monetary union has already been pushed back once and could be extended again if an insufficient number of countries qualify for, or wish to adopt, a single currency. In time, however, given the economic hardships imposed by the Maastricht convergence criteria, European monetary union, like German monetary union before it, will emerge as a palatable solution to salient political crises.

Because the gradual convergence strategy will exacerbate certain economic problems within the EU, future crises could include rising unemployment in the EU member states. The high interest rates required to lower inflation to the levels specified in the Maastricht criteria bring about a steady deterioration of growth and employment rates. In addition, well before the drafting of the Maastricht Treaty, the vast majority of European countries effectively relinquished control over interest rates to Germany. The combination of German economic dominance over the continent and the excessively strict convergence criteria has mired Europe in a chronic unemployment crisis. The impending rage of citizens in countries such as Italy, Finland, Spain, and Belgium (where unemployment is especially high) is a serious and growing threat to the fortunes of the political parties and individuals currently in power. Indeed, Italy just took over the rotating European presidency in January, and its acting prime minister, Lamberto Dini, has emphasized that reducing unemployment is his priority. He insists that "it is not possible to think of monetary union with European unemployment at 11 percent." Tony Blair, the leader of Britain's Labour party and widely expected to be the United Kingdom's next prime minister, has also stated that the European unemployment crisis should take precedence over the preparation for monetary union (Smart 1996).

A rapid transition to EMU could quickly put a stop to the two major dynamics exerting upward pressure on European unemployment. Because the convergence criteria would be abolished, European macroeconomic convergence would take place within monetary union. As discussed earlier, inflation convergence within EMU requires much less severe austerity measures than those currently being endured as member states converge outside EMU. The existence of a common currency and a single central bank in Europe would dramatically alter EU inflation rates and bring them much closer to parity. The deterioration of member state employment rates imposed by macroeconomic convergence would be significantly reduced, since the remaining inflation adjustments required for member states would be negligible compared to the tasks they face today.

In addition, member states would no longer be required to mimic German interest rate movements—a requirement designed in the best interest of Germany's economy, not the economies of other member states. Pressure to adhere to German rate increases often forces EU member states to adopt excessively high interest rates that are much too extreme for their economies, resulting in costly reductions in growth and employment rates. Once EMU begins, however, the formulation of monetary policy would no longer rest solely in German hands but would include the input of all member states taking part in monetary union.

When unemployment reaches a level that threatens European leaders' hold on power, more and more politicians will make jobs rather than monetary union their priority, as have Dini and Blair. But Chancellor Kohl and other proponents of EMU will not give up on monetary union simply because of an unemployment crisis, no matter how severe. Indeed, Kohl now supports deep structural changes and spending cuts for the economies of member countries—policies that are unpopular domestically but that would prevent higher interest rates and the consequent rise in unemployment. In the longer term, however, Kohl and other policy makers will realize that the only way to solve Europe's growing economic crises while preserving EMU is to proceed with a rapid transition to monetary union.

The move toward convergence criteria is likely to provoke yet another crisis before EMU is achieved. The costs of macroeconomic convergence outside of EMU are extreme because of the enormous gaps between the macroeconomic statistics of most EU member states and the numbers mandated by the convergence criteria. Because of these severe costs, many EU member states will be excluded from EMU if it begins in 1999 as scheduled.

All member states except for tiny Luxembourg would not qualify for EMU were it to be implemented today. Some countries have inflation rates well above the limits imposed by the Maastricht Treaty. The average inflation rate of the member states with the lowest inflation in the EU (Finland, Belgium, and Luxembourg)—the maximum inflation rate allowed by the Maastricht criteria—is currently 2.63 percent. Greece (at 8.2 percent), Italy (at 6.0 percent), Spain (at 4.4 percent), and Portugal (at 4.0 percent) must impose severe austerity measures if they are to reduce inflation to the appropriate level by the end of 1997, the deadline for initial EU membership (Country Data 1996). For other member states, the exchange rate rule poses a major problem. Britain, Sweden, Italy, Finland, and Greece are currently outside the bands of the Exchange Rate Mechanism (Smart 1995).

The greatest problems for most EU member states, however, are posed by the criteria for fiscal policy. Thirteen of the 15 member states presently do not qualify for the Maastricht budget deficits or public debt criteria. Even mighty Germany is currently running a budget deficit slightly above the cut-off. As of 1994, France, Britain, Spain, Portugal, Italy, Greece, and Sweden had budget deficits at least twice as large as the maximum permitted by the Maastricht Treaty. In addition, the public debts of Greece, Italy, and Belgium were well over 100 percent of GDP, significantly higher than the 60 percent mandated by the convergence criteria (From Here to EMU 1995).

To meet the Maastricht fiscal requirements, member states with excessive deficits require policy prescriptions that would dethrone even the most popular of governments. Consider the task facing Italy, for example, whose public debt exceeds 124 percent of GDP and whose budget deficit amounts to almost 10 percent of GDP as of 1994 (European Commission 1995). An Italian study showed that even if the budget deficit were reduced to 3 percent of GDP by the deadline, public debt would only be reduced to 94.7 percent of GDP. In order to fulfill both fiscal criteria, a surplus of more than 9 percent of GDP must be achieved before the deadline—a feat that would entail "severe budgetary policies as cannot be envisaged" (Caporale 1992, 69).

England and Denmark have already secured the right to opt out of the process, as they fear that the necessary economic adjustments would inflict excessive hardships on their citizens. It is unlikely that Italy, Greece, or Spain will be able to make such adjustments by the 1998 deadline, and it is probable that many other member states will also fail to meet the criteria within the designated timetable.

As a result, there is a very real possibility that the convergence criteria might split the EU into an EMU bloc and a non-EMU bloc. Such a split would threaten the very concept of unity on which the European Union is based. Fortunately, the most powerful country in the EU is also the one that has the most to lose from such a split. A divided Europe is an unstable Europe in the eyes of German leaders, and political instability within Western Europe is fatal.

Germany fears instability for two reasons. First, political instability would significantly diminish Germany's economic strength. The majority of German exports (54.4 percent of them in 1992) went to the EU member states (Schwarz, 1991). But German trade within the EU would suffer from a split because the resultant political tensions would threaten the single market. Barriers to trade within the EU that the single market has eliminated may be resurrected if the EU is politically divided.

Second, and perhaps more significant, political instability within the EU would expose Germany to the perceived security threat from Eastern Europe. Were its political, economic, and social ties to Western Europe severed, Germany would be in limbo between the capitalist democracies to the west and the unstable, former communist countries undergoing a drastic political and economic transition to the east. The powerful legacy of security threats from the East, in addition to the very real instability that currently envelops most of Eastern Europe, ensures that Germany will attempt to preserve Western European stability at all costs.

The use of monetary integration to prevent East German economic and political conditions from dragging West Germany into the Eastern European zone of instability illustrates the importance to Germany of being firmly docked in Western Europe. The European Union shields Germany from the insecurity of Eastern Europe. Presently Germany has legitimate reason to be concerned about the possibility of political and economic destabilization in Eastern Europe. The temporarily diffused Bosnian crisis is the largest outbreak of warfare within Europe since World War II. Slovakia, because of prime minister Vladimir Meciar's backward policies, has stalled its privatization efforts and shown signs of returning to autocratic rule (Slovakia Slips Backward 1995). In Poland Lech Walesa recently lost the presidential election to Aleksander Kwasniewski, a former Communist. And most significant, the reforms in Russia are severely threatened by the Communist Party's recent gains in the parliamentary elections and by President Boris Yeltsin turning his back on economic reform in an attempt to appease right-wing sentiments in the country. Yeltsin, who is a long shot to win the upcoming presidential election, recently accepted the resignation of Anatoly B. Chubais, the last liberal member of what has become a hard-line Russian cabinet (Stanley 1996).

In the face of public doubts within Germany about EMU and other aspects of European integration, Chancellor Kohl and his party have insisted that without solid European political unity, the continent risks the rebirth of old national rivalries that could lead to political, economic, and even military hostility within the region. The chancellor's dream of a federal Europe encompassing the present 15 member states as well as many Eastern European nations would permanently stifle this threat. European monetary union is the most important piece of Kohl's federal European puzzle. But the chancellor will not permit monetary union to destroy political unity by splitting the EU in half; this split would dash all of his hopes of ever realizing a permanent union (Europe's Iron Chancellor 1996).

Despite the lack of political crises that would diminish the economic reservations about EMU, realizing monetary union in Europe still hinges on a considerable increase in public support for the proposed single currency. This is especially true in Germany, where Helmut Kohl would not dare to threaten his coalition's slim majority by proceeding with a process that 61 percent of Germans oppose (Traynor 1995). Several opinion polls show that if an early election were to be held today, the CDU would lose its parliamentary majority to the coalition of the Social Democratic Party and the Greens (Boyes 1996). This opposition coalition is currently attempting to exploit public wariness of a single currency in order to propel itself into power (German SPD Opposition 1995).

Kohl, whose popularity rating has plummeted by ten points in the last several months, is in an especially precarious position. As the CDU is barely clinging to its majority, the chancellor himself has come under pressure to resign as head of his party. The replacement of Kohl, (perhaps by Wolfgang Schaeuble, the party's current parliamentary leader), is seen by some in the party as a means of revitalizing the CDU (Weight of Woes 1996).

The education of the citizens of member countries about the benefits of European monetary unification has only recently begun in earnest; it must be intensified in order to win their support. Because of the domestic political conditions in Germany, a rapid transition to monetary union cannot occur without public backing. In Germany this is an especially daunting requirement, given the status accorded to the Deutsche mark. A 1996 survey conducted by the Allensback Institute showed that 77 percent of high-level German executives support EMU. Assuming that these executives are familiar with the implications of monetary union, this poll suggests that the support of German citizens, informed about the costs and benefits of the single currency, is certainly attainable.

Despite the dire domestic political crisis faced by Kohl and his party, the chancellor is still the most powerful politician in the EU. Kohl shows no signs of bowing to pressure and abandoning his dream of monetary union and a federal Europe. In fact, Kohl has reportedly stressed to his party members that the goal of monetary union must be pursued rigorously despite current public opposition. The dangers associated with an EU split and the European unemployment epidemic will render the gradual convergence strategy for EMU an unfeasible alternative. With German monetary union Kohl demonstrated that he is willing to adopt a rapid convergence strategy that is disdained by many economists and politicians. If the support of the German public is attained, there is no reason why he would not adopt this strategy again.

Just as Germany dictates much of European monetary policy, it is also firmly in control of the EMU process. Presently, the lack of sufficient political impetus for EMU has allowed the Bundesbank and other opposition to delay monetary union by stressing the economic necessity of macroeconomic convergence before the introduction of the single currency. Helmut Kohl's intense desire for EMU will not be abated permanently by such economic reservations, just as his quest for German monetary unification did not falter in the face of the Bundesbank's fervent opposition. As soon as the dangers of the European unemployment epidemic and the threat of a destabilizing split of the EU are imminent and EU public opinion has warmed significantly toward EMU, the most powerful man in Europe will insist, as he had in the case of German unification, that a rapid transition to monetary union is the best means by which to defuse these pressing crises.

German officials have often formulated monetary policy with a blind eye to the ramifications of their actions on the rest of Western Europe. The acceptance of a rapid transition strategy to EMU would also be primarily a German decision. However, because the abolition of the convergence criteria would allow for adjustments within EMU, thereby drastically easing the pain EU citizens must endure as a result of macroeconomic convergence, this would be one case in which German preferences are in harmony with the best interests of the entire European Union.

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