In the name of the Market: how the European Commission paved the way for monetary union

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ABSTRACT The advent of economic and monetary union (EMU) is often interpreted as the logical outcome of structural trends, macroeconomic consensus, or grand geopolitical bargains. This article argues, however, that such views miss an essential dimension of the EMU process, namely the political strategy developed within the European Commission in order to achieve that goal. As part of their integrationist agenda, Commission officials selectively marshaled the political and economic significance of Europe’s emerging Single Market. Thus, over time, they induced key actors to re-articulate their preferences in terms of monetary union. The article discusses the two main facets of the Commission’s strategy, i.e. the politics of monetary sovereignty and the politics of monetary orthodoxy.

KEY WORDS EMU; monetary orthodoxy; monetary sovereignty; political strategy.

Acting on a plan outlined in the late 1980s, the European Union (EU) has recently made a decisive move toward an economic and monetary union (EMU) that will take full effect at the turn of the new millennium. This article shows how European Commission officials, acting in the name of consolidating the Single Market, developed a political strategy that paved the way for EMU. It highlights two distinctive and successively prominent facets of the Commission’s strategy which I call the politics of monetary sovereignty and the politics of monetary orthodoxy. On the one hand, European Commission officials raised the political stakes of EMU, acting decisively to liberalize capital movements while exhorting European governments to embrace EMU as a compensatory instrument for regaining monetary sovereignty. On the other hand, they increasingly paid official tribute to German-style monetary orthodoxy, thus recruiting and cementing a pro-EMU coalition around that model. Thus, Commission officials made an important contribution to the political task of concretizing what remained until then a distant Europeanist ideal.

The goal of this article is to suggest, through an exploration of the Commission’s EMU strategy, that monetary union cannot be explained in isolation from the concrete political mobilization that led to it. In the specialized literature on monetary union, EMU typically appears as the quasi-preordained outcome of broad historical trends or events. According to some analysts, the advent of EMU resulted
from the evolution of structural interests and/or macroeconomic ideas in the context of a pre-existing European monetary system within increasingly liberalized financial markets (Goodman 1992; Gros and Thygesen 1992; Henning 1998; McNamara 1998; Moravcsik 1998). Others explain it as the outcome of a grand geopolitical bargain that consisted in anchoring a reunified Germany to its European partners (Andrews 1993; Garrett 1993; Baun 1996). These two conventional themes help to understand particular aspects of EMU, but they tend to obscure the political dynamic that has fueled the process of monetary union since the 1980s despite huge economic and political adversity.

This article traces the successive steps of EMU back to a specific political strategy invented and consistently waged by European Commission officials. In the march toward EMU, the European Commission’s relentless invocation of market integration served both as a rationale and as a coalition-building device for monetary union. The significance of that strategy derives from the very fact that monetary union was neither the uncontested solution to economic problems, nor an easily obtainable response to German reunification. Commission officials successfully disseminated the notion that EMU altogether provided a coherent solution to the problems created by financial globalization and the end of the Cold War. Of course, EMU would have never got off the ground without the support of other institutional actors who were collectively in charge of making the formal decisions on monetary reform (on the respective roles of central bankers and governmental actors, see Cameron 1994 and Moravcsik 1998). Commission officials nonetheless performed a pivotal part as recruiting agents for the cause of EMU. Building upon timely perceptions of the Single Market’s desirable nature and shape, they induced key actors to reframe their preferences in terms of EMU. Thus, they fostered solid political momentum behind an originally lukewarm and unfocused demand for monetary integration.

THE POLITICS OF MONETARY SOVEREIGNTY

Commission officials praised the merits of EMU at a time when many state actors felt that their decision-making autonomy was diminished and threatened by the increasing fluidity of financial markets. While taking steps to further liberalize financial markets, they channeled such concerns into the somewhat paradoxical idea that national monetary sovereignty could best be preserved by transferring it to the European level. They spread the notion that EMU represented an improvement over a de facto situation in which most member states no longer controlled their own monetary policies. The underlying logic of the Commission’s strategic reliance on the politics of monetary sovereignty becomes apparent in the form of three basic figures: seducing the French; promoting EMU in parallel with the liberation of capital movements; and co-opting the Germans.
The seduction of the French: nurturing a growing political demand for EMU

The latest EMU campaign was officially launched by a series of memoranda circulated in early 1988 between French, Italian, and German government ministers. Yet, the sudden proliferation of governmental initiatives in this area was the result of a clearly charted evolution in which officials of the European Commission were leading actors. Commission President Jacques Delors, already a fervent supporter of the European monetary system (EMS) as French finance minister in 1981–4, was perhaps the first Frenchman to be seduced by the idea of monetary union. He tried to sell the idea of EMU as soon as he became president of the European Commission in 1984. Despite his persistent lobbying of European governments before and during the Single Act negotiations, Delors did not win the member states’ clear consent to move toward monetary union. He did obtain, however, that EMU be reasserted as a ‘long-term’ objective of the European Community (EC) and as a natural counterpart to the Single Market. As it turned out, the political linkage established between the idea of EMU and the Single Market agenda encountered increasing success in the following years.

The Commission’s support of EMU intersected with a powerful surge of political interest in monetary integration on the part of most members of the EMS exchange rate mechanism, especially France. The reasons for a growing French demand for EMU, however, are not self-evident. Strangely, many accounts of the recent EMU process imply that the only real puzzle is why Germany would willingly give up its Deutsche Mark – perhaps because German officials, for political and bargaining purposes, often portrayed EMU as a pure act of Europeanist generosity. By contrast, it is often forgotten that, in the 1970s, the biggest hurdle on the way to monetary unification was domestic political opposition and lack of governmental commitment in France. At that time, the national malaise vis-à-vis what many Frenchmen considered an unacceptable dilution of monetary sovereignty was much more salient than the Germans’ angst over the possible loss of the Deutsche Mark. By the 1980s, this state of affairs had changed so radically that most analysts tend to take for granted the existence of a French national interest in moving towards EMU.

The French interest in EMU must be understood in light of the early 1980s’ currency crises and the important political decision, made by Mitterrand in March 1983, to remain within the EMS. Until that decision, French government officials typically envisioned the EMS as a convenient instrument for conducting anti-inflationary policies in the name of ‘Europe’. After March 1983, however, the EMS could no longer be seen as a mere tool at the service of broader government objectives. It was de facto institutionalized as a permanent feature of and constraint on French economic policy-making. The return to floating exchange rates was politically ruled out, since it was equated with macroeconomic mismanagement and the ‘illusion’ that France could durably pursue a different course than that of its main trade partners within the EC. This evolution is perhaps best epitomized by the personal trajectory of Pierre Bérégovoy, a prominent member of the French
government who originally favored the idea of opting out of the EMS and later became the staunchest advocate of a *franc fort* policy within the EMS.\(^6\)

From the standpoint of countries like France or Italy, while the EMS carried certain adjustment costs, it also presented the advantage of lowering inflationary pressures and bringing credibility to the government’s economic policies.\(^7\) Such a system could only work well, however, if these countries accepted, at least temporarily, to become part of a ‘Deutsche Mark zone’ and to subordinate other macroeconomic policy objectives to that of pegging the French franc to the German mark. In turn, that commitment was difficult to sustain for the government of a country like France, where the preservation of national policy autonomy remained a potent political symbol as well as a policy objective. The notion of ‘tying one’s hands’ to the German currency ‘anchor’, however coherent economically, was always problematic politically. What Benelux and other small EC member states saw as the inevitable ransom of monetary stability and economic interdependence, the bigger states like France and Italy increasingly perceived as an unacceptable subordination to German power. Ever since the creation of the EMS, successive French governments consistently yet unsuccessfully tried to prevent its evolution into a *de facto* ‘Deutsche Mark zone’.\(^8\) There was in fact a contradiction at the heart of the French embrace of EMS discipline, since French officials never came to terms with the consequences of that choice, namely the German dominance of the system.

In that context, key Commission officials became ardent advocates of EMU *vis-à-vis* élite actors, both in France and in other member states which were in a similar position within the EMS. By taking up the growing French and Italian criticisms of the EMS and officially supporting EMU as a way to ‘re-equilibrate’ the EMS, Delors and his advisers regained the initiative on the subject of monetary reform.\(^9\) Monetary union was increasingly presented as a fair complement to the emerging Single Market, as it delineated a path to surmount the contradictions of EMS membership. Meanwhile, the franc and the lira remained periodically the object of market tensions, since the depth of French and Italian commitments to the EMS was in doubt. After the currency crisis of January 1987, in which France was forced to devalue and to raise interest rates despite its unflinching commitment to the *franc fort* policy, the demand for a reform of the EMS became even more pressing.\(^10\) At that point, of course, the French political support of EMU partly expressed a generic and somewhat idealistic choice in favor of ‘European union’ as a remedy for the failures of policy co-ordination (Sandholtz 1993).\(^11\) Yet, there also existed clear reasons that stacked the cards in favor of *monetary* integration over other possible alternatives to the pursuit of regional integration. Many in the French political élite were definitively seduced by the notion that EMU would reinvigorate, rather than dilute, French ‘sovereignty’.\(^12\) As national monetary policies were *de facto* aligned on Germany, Margaret Thatcher’s fierce critique of EMU in the name of ‘sovereignty’ was quite atypical across Europe.\(^13\) The anti-EMU position never really took hold in the political establishments of those member states which were strongly committed to the EMS – except, of course, Germany.
The strategy of ‘parallelism’: jointly promoting the EMS and capital liberalization

While Commission officials capitalized on French and Italian desires to recover some of their lost monetary sovereignty, it was equally clear that this very prospect could easily alienate traditional German sympathies to the cause of European economic integration. Thus, something also had to be done to reassure the Germans that ‘strengthening the EMS’ was not a thinly veiled way of shifting the burden of adjustment on strong-currency countries. Commission officials effectively dodged this problem by advocating a transition toward EMU in parallel with capital liberalization. On the one hand, they became ever more vocal public advocates of EMU in European policy circles – even though there was no legal basis for Commission initiatives on the monetary front. On the other hand, Commission officials used their formal prerogatives in the area of financial market integration to set capital liberalization firmly on the EC agenda as early as 1986. The strategy of ‘parallelism’ is an old EC recipe for engineering integrative spillovers (see Haas 1958; Coombes 1970). With their campaign in favor of EMU, however, Delors and his team carried this art to a wholly unprecedented high-political dimension. It soon became clear that the EMU objective raised the ante far beyond the neo-functionalist problem of ‘upgrading common interests’. This time, the game of European integration would entail huge political controversy, as prominent national actors stood to lose some of their power and prerogatives.

By simultaneously promoting the idea of strengthening the EMS and the agenda of financial liberalization, Commission officials were engaging in a risky enterprise. Since the liberalization of capital movements opened the way for unfettered currency speculation, the EMS system of quasi-fixed exchange rates could easily become its victim. Commission officials, especially within the Directorate-General for Economic Affairs (DG II), were acutely aware of the economic incompatibility between fixed exchange rates, freedom of capital movements, and national policy autonomy. 14 In 1987, a Commission-sponsored group of experts under the chairmanship of former Director-General Tommaso Padoa-Schioppa published a report on the EMS, recommending a move toward monetary union as a way to solve the conundrum by transferring monetary policy to the Community level. 15 While the report spelled out a coherent economic rationale to move forward on EMU, the political problem remained, at the time, that there were few tangible economic pressures or interests that unambiguously pushed in the direction of EMU. Even though there were good reasons to believe that the Single Market’s survival depended politically on a regime of exchange rate stability, such reasons were not sufficiently salient to spur enthusiasm for EMU. 16 The political decision to move to monetary union still required a genuine leap of faith.

However risky and potentially contradictory the strategy of parallelism may have appeared in economic terms, it made a lot of sense from a political perspective. Delors apparently calculated that the odds of a breakdown of the EMS were sufficiently small at that time to justify a bold initiative in favor of liberalizing capital movements. 17 Meanwhile, the Commission’s push for European directives in the area of capital liberalization had the effect of removing some of the most important
political obstacles to EMU. A durable bone of contention between the French and the Germans on the issue of EMU was the French reluctance to completely forgo the option of conducting ‘dirigiste’ financial policies, traditionally used for purposes of industrial policy and for rewarding various interest groups. German monetary officials saw these policies as deeply flawed because of their inflationary potential. Since the early 1980s, German (and Dutch) central bank and financial officials had therefore made it clear that they would be prepared to consider any further strengthening of the EMS only if other countries accepted to liberalize capital movements and thus submit their economic policies to the test of ‘market discipline’. Even after the French financial system was dramatically liberalized in 1984–6, they continued to suspect that France’s interest in strengthening the EMS was motivated by a desire to shun the cost of expansionary macroeconomic policies by ‘exporting’ French inflation to Germany. Thus, by standing behind the German-Dutch demand to liberalize capital movements, Commission officials were not only balancing their support of France’s demand for a more ‘symmetric’ EMS. More importantly, they were effectively countering both the dirigiste nostalgia of French politicians and the German apprehensions regarding their partners’ ‘inflationary’ temptations.

On the one hand, the removal of capital controls meant that France’s monetary policy autonomy appeared as more illusory than ever before. It massively reinforced an already strong desire to somehow compensate for a perceived loss of monetary sovereignty vis-à-vis market actors and the German central bank. On the other hand, it made it increasingly hard for Germany to resist the pressure of its neighbors and the Commission in favor of EMS reform. German government officials saw the EMS as a haven of relative stability in a highly volatile international monetary environment and in the context of recurring conflicts between German and US priorities. While German government officials did not have an obvious interest in revamping the EMS, they continued to express a very clear preference for preserving it as an instrument of external stability for the German mark in relation to the currencies of its most important trade partners. Whether this preference corresponded to the ‘true’ economic interests of Germany is debatable, but the fact is that it was very consistently and strongly held among the German élite, especially in the run-up to ‘1992’. The fact that, outside Germany, the EMS was increasingly seen as an embodiment of German monetary hegemony was a genuine cause for concern, since it carried the threat that other member states would eventually defect from the EMS. German government officials felt that they had a lot at stake in the preservation of the EMS in some form.

Thus, the Commission’s strategy of linking capital liberalization and strengthening the EMS, although risky, was politically quite shrewd. Delors’ active promotion of the liberalization of capital movements as part of the Single Market agenda precipitated a reassessment of the institutional framework of monetary policy and initiated a sequence of events which eventually led to EMU. The recent EMU drive can be directly traced back to the Commission’s strategy of seducing the French to the idea of EMU while systematically removing the only remaining trapping of national monetary sovereignty, namely the availability of discretionary
capital controls. In this sense, EMU did not stem from a French process of substantive learning and paradigmatic conversion to the virtues of the ‘German model’ of monetary stability – nor, in fact, did it reflect an unquestioned and unanimous consensus behind that model among German politicians. After all, the French government never positively wanted to conduct inflationary policies. The periodic emergence of inflation in France was an unintended consequence of the fact that printing more money was a way to defuse political conflicts about the public allocation of resources in the economy. The main difference between France and Germany was not simply a difference of policy paradigms, i.e. between a growth-oriented and a stability-oriented national economic culture. At least as important was the fact that, until capital liberalization, the only institutional limit to the political control and manipulation of French monetary policy was the EMS, whereas German monetary policy was the prerogative of an independent and politically powerful central bank. Whatever bridging occurred between French and German macroeconomic conceptions was the result, rather than the cause, of a progressive transition from a politically controlled monetary policy apparatus toward a regime of free capital movements and later central bank independence in combination with EMS membership.

Delors’ gamble: co-opting the Bundesbank into EMU

In June 1988, merely a few days after the stumbling block of capital liberalization was finally eliminated by the EC Directive on Capital Movements, Chancellor Kohl decided to move on the EMU front. The European Council of Hanover decided to commission a feasibility study of EMU from a committee of central bankers and experts chaired by Jacques Delors. After Hanover – and thus well before German reunification – Delors was increasingly able to count on the political support of Helmut Kohl. Even at that point, however, EMU was not yet a done deal. Delors reasoned that, in order to enhance the political credibility of his pet project, he had to secure a legitimate seal of approval from national central bankers (Delors 1994: 238). Such formal endorsement was all the more necessary in that EMU was bound to stir controversy in central banking circles, as it threatened to deprive the national central banks of their most important prerogatives.

After nine months of deliberations, the Delors Committee came up with a sweeping report, unanimously approved by its members, which concluded not only that EMU was possible, but that the right way to proceed toward this goal was to move decisively toward a single currency for Europe. In retrospect, the most remarkable achievement of the Delors Committee was to extract the consent of the most serious potential opponent to EMU among national central bankers, namely German Bundesbank President Karl Otto Pöhl. Of course, there was no a priori guarantee that this would happen. Yet, the political momentum behind European integration in 1988–9 was such that no single member of the committee ever openly questioned the objective of EMU. The Bundesbank had initially agreed to participate in the Committee for fear of being presented with a political fait accompli, like the introduction of the EMS in the not-so-distant past. This time, German central
bank officials clearly hoped to influence the terms of whatever compromise was achieved on EMU. The other participants in the Delors Committee, including Delors himself, quickly understood that EMU would have to proceed on terms that were roughly agreeable to the German central bank.\textsuperscript{28} This political reality later became clear after the French government issued a proposal to promote the role of the ECU as a ‘common currency’ before moving toward the single currency, attempting to bridge the gap between the idea of a single currency and a (half-hearted) British proposal to develop a ‘parallel’ currency.\textsuperscript{29} The German central bank then bluntly rejected the British proposal, so that the schema envisioned by the Delors Report remained the only option on the table.

While Pöhl’s signature was probably a \textit{sine qua non} for EMU to proceed, it also triggered a political process that largely escaped the control of the Bundesbank. The publication of the Report was a breakthrough that opened the road for the Maastricht Treaty. In substance, the Delors Report went well beyond the more incrementalist conception envisioned by most EMU advocates until that time. The Delors Report jumped well ahead of the game by definitively shifting the object of the debate from a ‘common currency’ to a ‘single currency’. It stated that, once the political decision to move toward EMU was made, the transition process should be irreversible and proceed in three successive phases. It recommended that the management of the newly created currency be entrusted to an independent central bank at the European level – a principle which understandably appeared palatable to a committee primarily made up of central bankers.\textsuperscript{30} Finally, by specifying that ‘the decision to enter upon the first stage should be a decision to embark on the entire process’, the Report implied that EMU was indeed possible in the near future, since by definition the first phase of EMU could start as soon as the Capital Movements Directive became effective. On the whole, the Delors Report built a high degree of automaticity into the EMU process. German central bank officials apparently underestimated the powerful logic of France’s or Italy’s desire for monetary sovereignty and their unwillingness to live under the status quo.\textsuperscript{31} When the European Council decided to move forward on the basis of the Delors Report, they could hardly conduct a frontal attack on a plan that they had essentially pre-approved.

Of course, EMU was not sealed as a political deal until the Maastricht Treaty was signed; and, even after Maastricht, the future of EMU remained uncertain. In this regard, the fluctuating fortunes of EMU were influenced by the geopolitical and economic context. The sudden advent of German reunification provided a useful political rationale for Kohl’s very strong personal investment in favor of EMU.\textsuperscript{32} Concurrently, French and Italian pressures on Germany to allow the steady progress of EMU became extremely pressing only after November 1989.\textsuperscript{33} Yet, the Delors Report was formally approved by the European Council of Madrid as early as June 1989, i.e. well before the prospect of German unity was even remotely in sight.\textsuperscript{34} While the Report was followed by many more reports and high-level meetings up until December 1991, it served as a blueprint for the EMU provisions of the Maastricht Treaty, which for the most part merely confirmed and formalized the various recommendations of the Delors Report. It is barely an exaggeration to
say that the Maastricht Treaty only added three elements to the prior political endorsement of the Delors Report – the formal decision to move forward, the start dates of EMU’s second and third phases, and the convergence criteria. In hindsight, the Delors Report triggered a logic of institutional reform that would propel EMU through the late 1990s.

THE POLITICS OF MONETARY ORTHODOXY

While the pursuit of monetary sovereignty was an important source of motivation for state actors in the 1980s, another set of considerations emerged in the run-up to the Maastricht Treaty and during the transition process to EMU throughout the 1990s. During that period, the Commission’s EMU strategy increasingly rested on the politics of monetary orthodoxy, i.e. the political promotion of an orthodox economic policy agenda centered on the fight against monetary inflation. From the Commission’s perspective, that campaign served two main political purposes: the advocacy of ‘stability-oriented’ monetary policies secured the German commitment to EMU; and the orthodox technical presentation was a way to consolidate a core political constituency and to defuse potential political opposition to EMU at the domestic level.

The origins of monetary orthodoxy: a German solution to a common problem

The Delors Report’s argument in favor of making the fight against inflation the cardinal priority of macroeconomic policy appeared as an unavoidable political step toward EMU. One Commission official summarizes the situation as follows: ‘With the Delors Report, things became very clear: either the German model became the model for EMU, or the independence of the European Central Bank was rejected – but there was no third option.’ The progressive turn toward strict monetary orthodoxy largely reflected German preferences in a particular strategic context. Basically, the bargaining situation on EMU was completely asymmetric in favor of Germany. The fact that the German mark was the de facto anchor currency of the EMS meant that, at any point during the EMU process, Germany could easily decide that it was better off with the status quo – however fragile. And while the formal decision to engage in a transition process toward EMU was a sovereign prerogative of the federal government, the Bundesbank informally possessed an important say on the official German position regarding the modalities of that transition process. This situation helps to explain the rather draconian provisions of the Maastricht Treaty. In turn, the fact that EU governments tightly stood by their commitments to implement the Treaty underscores not only the resilience of the politics of monetary sovereignty, but also the growing power of monetary orthodoxy as a political logic for pursuing EMU.

The political logic of monetary orthodoxy did not emerge all at once. The Commission consistently spread the message that EMU was a logical extension of the Single Market, but its nature was left relatively open until very late – in part
because it was politically risky to venture into specific details. As early as the mid-1980s, however, the highly asymmetric bargaining situation was clear to Jacques Delors and monetary policy experts within the European Commission. Their response was to co-opt Germany not only formally, by taking the German central bank on board within the Delors Committee, but also informally, by praising the ‘German model’. The Commission’s official support of the German model certainly reflected a set of beliefs that were rather widespread in the late 1980s among European officials. During those times of robust economic growth, the prospect of renewed inflation was everybody’s bogeyman. Many saw the German model not so much in terms of renouncing the possibility of conducting expansionary policies in times of recession, but in terms of accepting a single albeit significant institutional change, namely central bank independence. Thus, the sudden tendency of state and EC officials to heap praise on the German model owes more to the attraction of shared monetary sovereignty than to a wholesale convergence of élite opinion on the alleged superiority of monetarist policies and central bank independence. The fact that many countries harbored anti-inflationary policies resulted in large part from prior political choices to stick with the EMS and to accept the logic of capital liberalization, rather than from a complete cognitive alignment on Germany’s economic priorities. The Commission did nothing to dissipate this potential source of conflict. In fact, any potentially controversial implications for fiscal policy were studiously avoided. While Delors and other Commission staff had no reason to be particularly enamored with the idea of central bank independence, they considered that the price to pay for EMU was to transfer many features of the German model to the EU level.

In the run-up to the Maastricht Treaty, however, it became clear that central bank independence would be only one element of monetary orthodoxy among others. The idea of establishing quantitative ‘convergence criteria’ to ensure steady progress toward the ultimate goal of EMU quickly progressed among national monetary officials and central bankers. At that point, the Commission was internally divided on these criteria and more generally on the method of EMU. Delors himself was wary of forgoing too much maneuvering room through excessively strict criteria, whereas some of his advisers thought that the criteria were a necessary price to pay for a treaty on EMU. In any case, since the Commission had no formal prerogative in the intergovernmental conference, Delors’ team could only hope to influence the modalities of EMU by circulating treaty drafts on an informal basis. Thus, in the end, the quantitative approach prevailed, albeit with qualifying clauses that left some room to assess the degree of fulfillment of the convergence criteria. These criteria altogether embodied a definite turn toward monetary orthodoxy, since they mandated a tight control of national economic policies in order to fight inflationary pressures.

In view of subsequent events, it is hard to understand why the governments of Europe agreed to bind themselves to the strict ‘convergence criteria’ contained in the Maastricht Treaty. As Germany’s EMS partners were forced to adjust to the Bundesbank’s post-reunification interest rate hike by adopting restrictive monetary policies, the convergence criteria increasingly appeared as quantitative straitjackets
The 1980s’ convergence on the idea of fighting inflation began to crumble in the face of serious economic recession and in the absence of inflationary tensions. The controversies on EMU that erupted across Europe after the Danish failure to ratify the Maastricht Treaty manifested a certain decay in pro-European enthusiasm. Meanwhile, Kohl’s government was weakened domestically by the problems of German reunification and under heavy pressure from the central bank and the Parliament to remain strict on the convergence criteria. The credibility of governmental commitments to respect the convergence criteria and to achieve EMU was increasingly in doubt, which repeatedly triggered monetary crises within the EMS in 1992–3. When Delors left the Commission in 1994, he had lost some of his political credit, especially with regard to the French government. His successor Jacques Santer and the new EMU Commissioner Yves-Thibaut de Silguy inherited the task of introducing EMU in a very unfavorable context. In view of the situation, the Commission’s strategy evolved toward increasing reliance on a coalition that viewed EMU as the opportunity to consistently enforce orthodox monetary policy.

Keeping focused on EMU: monetary orthodoxy as political technology for EMU

After it was enshrined in a treaty, the recipe of monetary orthodoxy acquired legal force. Consequently, the promoters of EMU in the European Commission and in the member states increasingly chose to adopt an orthodox and legalistic discourse as a way to insulate the EMU process from political attacks. This orientation no longer embodied a policy consensus so much as it formed the cement of a bizarre coalition between a variety of political and institutional actors with divergent preferences and motivations. Paradoxically, the enterprise of EMU, which originally stemmed from a desire to shed German monetary orthodoxy on the part of sovereignty-seeking politicians, began to appear as the ultimate triumph of the Bundesbank.

The incorporation of monetary orthodoxy into the Commission’s EMU strategy was neither immediate nor exclusive of other political tactics. Most visibly, Commission officials conducted several public relations campaigns to convert élite opinion to EMU. As early as 1990, they attempted to capitalize on the success of the ‘1992’ program by presenting EMU as the ‘logical’ next step after the Single Market. Europe’s internationally oriented firms, wary of a potential spiral of competitive devaluation that could undermine the integrity of the Single Market, began to mobilize around that message in forums such as the Committee for the Monetary Union of Europe. After 1994 the Commission was no longer alone in lobbying in favor of EMU, since the newly created European Monetary Institute (precursor of the European Central Bank) immediately joined the EMU camp. Commission officials took the initiative, in January 1995, of preparing a Green Paper on the practical implications of the introduction of the euro. Put together after extensive hearings of professional associations, the Commission’s Green Paper was intended as a demonstration to the member governments that its scenario for EMU was
realistic and had the support of the private sector. It was discussed at the Madrid summit of December 1995 and the governments reiterated their commitments to EMU by formally approving the Commission’s practical agenda.

In retrospect, the Madrid Council marked the moment where the financial markets started to take EMU seriously and to prepare for its advent. Yet, there is little evidence that EMU was intrinsically in the economic interest of particular social groups. In order to initially muster the support of a broad and stable political coalition, therefore, EMU also had to be sold in more concrete terms than the abstract logic of economic necessity. Commission officials progressively realized that, while the political constituency liable to support EMU per se remained elusive, there was a clear constituency for monetary orthodoxy. It was made up of national politicians who favored a leaner state and/or leaner public budgets, national central banks and finance ministry officials, members of the business community, especially in the financial sector, and, more generally, all actors or social groups who conceived a political, bureaucratic, or economic interest in the provision of fiscally conservative policies. As unemployment rates reached all-time records and the economic recession increased pressure on public budgets, these actors and groups were searching for ways to secure their policy preferences.

Thus, in order to obtain the support of these actors, the Commission increasingly framed EMU in terms of consolidating the liberal economic policy orientation embodied in the EMS and the Single Market. Despite certain misgivings about the Maastricht criteria within its ranks, the stakes of EMU were extremely high for the Commission. In the long march toward EMU, Commission officials needed to mobilize all the political supporters that they could find. And for fear of jeopardizing the very prospects of EMU, they could not afford to condone member states’ behavior that deviated from the terms of the Treaty. Thus, the Commission increasingly took up the defense of the criteria as a way to smooth out the political transition to EMU. As early as 1994–5, Commission officials emphasized the ‘necessity’ of stabilizing public deficits and that the ‘Keynesian model’ of countercyclical economic policy was ‘dead’. At a time when the recession was barely coming to an end and growth prospects remained fragile, the desirability of a swift transition to fiscal austerity was at least arguable. By then, however, what was originally a set of concessions to co-opt the advocates of strict monetary orthodoxy had become a political technology to achieve EMU.

Commission officials also realized that monetary orthodoxy, while useful as the cement of a liberal pro-EMU coalition, could also be used as a front to conceal divergent purposes. That front served an economic function, since market pressures on the EMS mandated a certain show of determination to proceed with the EMU project. Just as importantly, however, the façade of monetary orthodoxy served the political function of fudging potentially divisive issues until the EMU process was completed. For some actors, especially in France, the painful economic prescription of respecting the Maastricht Treaty was a necessary evil in order for EMU to happen. There clearly were some moments of uneasiness in the French government, especially on the part of Mitterrand, which created serious frictions with the Bundesbank and the German government. Meanwhile, the official Bundesbank
position in favor of strict respect of the criteria was probably not motivated only by the objective of preserving and diffusing the German model of monetary policy. Commission officials consistently tried to prevent or defuse potential conflicts on the political meanings and purposes of EMU. For example, when prominent French politicians started to demand a ‘weak’ euro at a time when the German government was trying to convince the German public that the euro would be ‘as strong as the Mark’, Commission officials tried to deflate this controversy by saying that it was ‘completely beside the point’ since the value of the euro would be decided primarily by market actors.

The Commission’s support of the orthodox terms of the Maastricht Treaty was motivated not only by its commitment to the goal of EMU, but also by the fact that it faced certain incentives to carefully jockey its political capital in the course of ongoing EMU-related negotiations. After the Maastricht Treaty was signed, it became ipso facto a negotiating baseline as well as an instruction manual for the member states which aspired to EMU. Any deviation from its specific terms weakened not only a country’s chances of reaching the promised Euroland, but also its bargaining position for deciding the details of EMU. The many aspects of EMU that were left relatively open for negotiation – including the possibility of anticipating certain deadlines, the identity of the final participants, the degree of monetary policy co-ordination during the long first and second stages of EMU, the character of economic policy co-ordination in the third stage, the location of the European Central Bank, and the external representation of the euro – constituted a strong set of incentives for the member states to adhere to monetary orthodoxy. Since they too hoped to exert some influence on the specific terms of EMU, Commission officials faced bargaining incentives to appear as tough defenders of monetary orthodoxy.

Finally, at a time when European integration in general and the Commission’s role in particular were subject to controversy, there was inevitably a dimension of turf defense in the Commission’s retrenchment behind the terms of the Maastricht Treaty. Commission President Jacques Santer repeatedly said that his idea was to try to do ‘less’ but ‘better’. The most promising area for doing this was to reassert the Commission’s role as ‘guardian of the Treaties’, while shielding the prospects of EMU from potential political bickering. The fact that, in application of the Maastricht Treaty, the Commission was responsible for the ‘multilateral surveillance’ of member states’ macroeconomic performance certainly contributed to its resignation to the convergence criteria, and then to the sanction-based approach of the German-sponsored Stability Pact. The Commission stayed officially neutral in the debate between the member states – mostly France and Germany – on fiscal policy co-ordination or the exchange rate policy of the euro, but it was often very ‘German’ in its watchdog insistence on macroeconomic convergence and stability-oriented policies. In the face of member state pressures and a logic of institutional competition with the European Monetary Institute, the Commission’s institutional prerogatives were at stake and therefore Commission officials could not afford to appear as ‘soft’ on their interpretation of macroeconomic convergence. At the same time, Commission officials in charge of EMU were also
under strong internal pressure to prove their neutral benevolence vis-à-vis all prospective EMU members. In the end, this dilemma was attenuated by a welcome Europe-wide upturn in the economic cycle, which definitively secured the prospect of a broad-based EMU.

This article has focused on the actions of key Commission officials who, despite their lack of formal monetary prerogatives, assumed a pivotal role in engineering EMU as a political extension of the Single Market. They first used monetary sovereignty as a bait to lure government officials to the idea of EMU; and, increasingly, they adopted monetary orthodoxy as a political insulation technology. Seen in this light, the euro’s recent birth and special characteristics are neither the result of grandiose geopolitical design, nor the product of abstract economic necessity. Rather, the euro embodies a political compromise between various aspirations for monetary sovereignty and for monetary orthodoxy.

The irony is that the advent of EMU dramatically changes the very terms of the debate over monetary sovereignty and monetary orthodoxy. On the one hand, EMU means that formal monetary sovereignty is effectively relocated at the EU level, but primarily under the stewardship of the European Central Bank. On the other hand, once released from the Bundesbank’s singular veto power over the progress of monetary union, the member governments of Euroland can gain considerable influence on the practical orientation of monetary policy if they collectively assert their treaty-defined prerogatives in other economic policy areas. Whatever the future may hold for the euro, it is safe to say that the Commission’s EMU strategy has powerfully contributed to reshaping the institutional context within which interests are defined and policy is made.

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NOTES

1 See, for example, Delors’ speech to the European Parliament on 14 January 1985.
2 While Germany’s attachment to its national currency is particularly strong for well-known historical reasons, its official support of the idea of EMU was constantly reiterated by successive German governments. Kohl’s personal commitment to European integration certainly played an important role in the advent of EMU, but his concep-
tualization of German national interest was not particularly new. The continuity of German governmental support of EMU as a foreign policy objective is perhaps best represented in the action and thinking of long-time Foreign Minister Hans-Dietrich Genscher. See Tsoukalis 1977: 106ff.; Kruse 1980; Genscher 1998: 140.

3 Stanley Hoffmann, in his 1974 article ‘Obstinate or obsolete?’ (reprinted in Hoffmann 1995), identified the French concern for monetary sovereignty as a permanent obstacle on the way to monetary union.

4 On this well-known episode, see, for example, Bauchard 1986; Hall 1986, especially chapter 8; Favier and Martin-Rolland 1990: 438–64; Attali 1993: 252–409.

5 On the French motivations for creating the EMS, see Ludlow 1982: 199.


7 For the economic argument in favor of ‘tying one’s hands’, see Giavazzi and Pagano 1988.


9 Delors started working on EMU with a very small team of advisers directly around him and in the Directorate-General for Economic Affairs (DG II), which de facto would increasingly define the Commission’s official line on EMU. See Ross 1995: 81–4.

10 French Finance Minister Edouard Balladur authored an article titled ‘EMS: advance or face retreat’ in the Financial Times of 17 June 1987. By 1987–8, mainstream French policy circles were actively discussing the EMS and monetary reform was one of the issues at stake in the 1988 electoral campaign. See ‘Barre, Balladur, Bérégovoy: Les projets des “3 B”’, La Tribune de l’Expansion, 22 April 1988.

11 It is important to remember that EMU itself was then modestly envisioned as a movement toward permanently fixed exchange rates, some degree of pooling of national monetary reserves, and increased reliance on the ECU. See Aeschimann and Riché 1997: 86–93.

12 Note that this motivation was not prominent in the 1970s, according to Tsoukalis: ‘From the French point of view, monetary integration used to be desirable only as a means of promoting EEC unity in external relations. In this respect, French politicians were torn between the objective of having a common external monetary policy and their fear of loss of national sovereignty’ (Tsoukalis 1977: 80).

13 For a critical assessment of Thatcher’s position on EMU, see Harden 1990.

14 In fact, this was one of their central arguments for strengthening the EMS. According to one interview with a Commission official, DG II chose to re-christen Mundell’s ‘unholy trinity’ as the ‘inconsistent quartet’, in order to emphasize the condition of free trade – which was implicit in the traditional formulation – and thus the link with the Single Market. See also Tommaso Padoa-Schioppa, ‘European capital markets between liberalization and restrictions’ (1982) reprinted in Padoa-Schioppa 1985; and ‘The EMS is not enough: the need for monetary union’ (1987), reprinted in Padoa-Schioppa 1994.


16 It is worth noting that the spillover dynamic of market integration in the 1970s ‘did not succeed in preventing internal crises, nor did it really take place when it was most needed [i.e. in currency crises]’ (Tsoukalis 1977: 79).

17 According to Age Bakker, Delors gave two reasons for full capital liberalization at a May 1986 meeting of the EC Monetary Committee: first, the existence of the ‘1992’ objective; and, second, the fact that greater freedom of capital would be necessary to make monetary co-operation more effective (see Bakker 1996: ch. 6). Thus, Delors
apparently assumed – or pretended to assume – that the EC Monetary Committee ascribed intrinsic value to the notion of effective monetary co-operation. That may have been the case for some but probably not all members of that Committee. It is no secret that, among EC central bankers and finance ministry officials, some actors valued the EMS much less wholeheartedly than others.


19 This was an important motivation behind Genscher’s support for a relaunching of the EMU project, as he explained it in a speech to the European Parliament in January 1988. And even Finance Minister Gerhard Stoltenberg, despite his outspoken skepticism on the short-term prospects of EMU, considered that the EMS was valuable for Germany (see Stoltenberg 1997: 327–9). On the German discussions of EMU in early 1988, see Schönfelder and Thiel 1994: 27–38.

20 Henning (1994) argues that the German preference for exchange rate stability reflects private preferences that stem from particularly strong ties between bank and industry (see especially chapters 2 and 5). See also Hefeker 1996.

21 For example, French Prime Minister Jacques Chirac declared that unless the EMS was strengthened, ‘it would be better to abolish it.’ See: ‘M. Chirac annonce qu’il prendra des initiatives dans le domaine monétaire’, Le Monde, 9 January 1988.

22 Delors apparently did not fully realize the success of his own strategy of parallelism until the spring of 1988. He recalls that, at the time, he was reluctant to push too strongly for EMU because he thought it was dangerous to overload an already crowded EC agenda (Delors 1994: 229). According to Charles Grant, it was Padoa-Schioppa who convinced Delors that the time had come to again champion the idea of EMU (Grant 1994: 118–19).

23 According to Peter Katzenstein, ‘The Bundesbank’s pursuit of monetary stability has been the most constant element in West Germany’s economic policy to the chagrin of the Christian Democrats and the Social Democrats alike’ (Katzenstein 1987: 97). See also Fritz Scharpf’s account of the conflict between Chancellor Helmut Schmidt and the Bundesbank in the early 1980s (Scharpf 1991: 150–7).

24 This is very well explained in Shonfield 1969: 133ff. A recent assessment of France’s 1980s’ and 1990s’ deflationary policy by two French economists considers that the ‘implicit framework [of policy-makers] was a neo-Keynesian model under fixed exchange rates, in which disinflation automatically translates into real exchange rate depreciation, gains in market shares, and growth’ (Boissieu and Pisanni-Ferry 1998).

25 At the time of the Hanover summit, the Financial Times reported Kohl’s belief that ‘some form of monetary union is 90 per cent certain by the end of the century’: ‘Beaming Kohl glories in Summit euphoria’, Financial Times, 29 June 1988. Kohl did not openly champion EMU until late 1989, however, and it is difficult to know exactly what he was thinking on this subject in 1988–9. He apparently adopted the role of referee in the German cabinet’s internal debate between his pro-EMU foreign minister Hans-Dietrich Genscher and his more skeptical finance minister Gerhard Stoltenberg.

26 Interview with member of the Delors Committee.

27 On the well-publicized opposition of the German central bank to the creation of the EMS, see Ludlow 1982.

28 The press echoed the strong German flavor of the Report: ‘One committee member said the document contained “a lot of German thinking”’. Another said Mr Pöhl “had good reason to look happy”’ (‘Bankers agree on EC route to unity’, Financial Times, 13 April 1989). One committee member was reported as saying that ‘Karl Otto got everything he wanted’ (Institutional Investor, May 1989).

29 On the ill-fated British proposal, see Colchester and Buchan 1990: 174.

30 David Cameron argues that many provisions of the Delors Report closely reflected the collective preferences of the central bankers who made up the majority of the Delors Committee (see Cameron 1994).
Following the publication of the Report, Pöhl tried to minimize its impact by saying that ‘we can live very well with the status quo’. In a later interview with Charles Grant, Pöhl expressed regrets about his decision to participate in a Committee where he ‘couldn’t defend German interests’ (Grant 1994: 121). David Marsh gives the following overall appraisal of the Bundesbank’s attitude toward EMU: ‘Up until the last moment, the Bundesbank did not realize that, to release themselves from the grip of the D-mark, the French and the Italians were ready to promise almost anything’ (Marsh 1992: 215).

Delors’ unmitigated support of German reunification – in contrast to Mitterrand’s and especially Thatcher’s colder reception of the event – apparently contributed to the reinvigoration of Kohl’s support of EMU. A senior adviser to Kohl reports that Delors was the first foreign political leader to be informed of the Chancellor’s decision to push for immediate German reunification; Kohl also assured Delors that German reunification would occur within the framework of the European Community (see Teltschik 1991: 144). On the relationship between Kohl and Delors, see also Grant 1994: 139–42.

Increasingly, Mitterrand viewed EMU as a critical way to ‘anchor’ Germany to the EC (see Favier and Martin-Rolland 1996: 201–5, 243–6).

Thatcher (who cannot be suspected of being overoptimistic on the prospects of EMU) summarized the results of the Madrid process as follows: ‘The heart of the matter is that the European Community has just passed a watershed in its political history... The Madrid summit is likely to prove the most important decision point since the signing of the Rome Treaty’ (interview to the Financial Times, 29 June 1989).

Interview with Commission official.

For analyses of the politics of central banking in Germany as compared to other countries, see Goodman 1992 and Henning 1994.

Bérégovoy was very clear about this in the course of a French parliamentary debate on the constitutional revision required by the Maastricht Treaty (9 May 1992): ‘If I came over to the idea of central bank independence, which Germany considered a *sine qua non* [for EMU], it is because it appeared to me that the central bank would be counter-balanced by a strong and democratic economic authority who would determine the most important things: the general orientation of economic policy and exchange rate policy’ (my translation). The problem, of course, is that in a regime of capital mobility, exchange rate policy is hard to distinguish from monetary policy.

Already in the Delors Report, it is stated that ‘subsidiarity’ would be the rule, except insofar as ‘uncoordinated and divergent national budgetary policies would undermine monetary stability and generate imbalances in the real and financial sectors of the community’.

For a discussion of the make-up of the German negotiating position at Maastricht, see Henning 1994: 228–37.

The most scathing critique of Delors’ EMU strategy came from a former senior monetary official within the European Commission. His narrative is too polemical to be treated as fact, but indicates a certain diversity of opinions on EMU within the Commission (see Connolly 1995).

The Commission’s drafts, as well as the main provisions of the Maastricht Treaty regarding EMU, are discussed in detail by Italianer 1993. See also Sandholtz 1993; Dyson 1994; Dyson and Featherstone 1997.

The criteria (setting numerical targets for inflation, budget deficits, public debts, exchange rate fluctuation margins, and long-term interest rates) are detailed in Protocol 21 of the Maastricht Treaty, and their utilization is defined in Articles 104c and 109j of the Maastricht Treaty.

Professional economists were often among the most vocal critics of the criteria. For an example of a neo-Keynesian critique of the convergence criteria, see De Grauwe 1992, 1993. For an American and monetarist version of the critique, see Martin Feldstein ‘Europe’s monetary union’, The Economist, 13 June 1992.
On Kohl’s domestic political problems in Germany, see Schönfelder and Thiel 1994: 157.


Following the successful recipe of the Cechinacci Report on the ‘costs of non-Europe’ in the ‘1992’ campaign, the Commission published in the fall of 1990 a study on the costs and benefits of EMU (Commission of the European Communities 1990). While the Report was on the whole favorable to the idea of EMU, the broad community of professional and academic economists remained rather divided on the feasibility and desirability of EMU from a strictly economic standpoint. For a critical assessment, see Eichengreen 1996.

When Commissioner de Silguy launched this initiative, even Commission insiders were skeptical. According to one interview: ‘The idea was to go ahead as if nothing bad had happened and to outline the concrete steps that had to be taken to get there. And it worked!’

‘Traders are warming to EMU’, Financial Times, 9 April 1996.

This view is advanced in Frieden 1991. For a useful critique, see McNamara 1998: 32–40.

Interview with Commission official.


In the course of an interview, this choice was starkly presented to me by a French government official in the following terms: ‘Assuming that we sacrificed one percentage point of growth [in the early 1990s] and in the end we obtain EMU, then the balance sheet will be positive.’

On 3 September 1992, Mitterrand appeared to renege on central bank independence by saying that monetary policy was part of economic policy, which itself was primarily in the hands of the Council of Ministers. This immediately provoked a series of articles in Auszüge aus Presseartikeln, the Bundesbank’s weekly publication, titled ‘Paris calls ECB independence into question’. As late as November 1996, Premier Alain Juppé blundered by saying that the ‘economic government’ favored by the French government would ‘control interest rates’.

Thus, when the Bundesbank raised interest rates in 1992, many speculated that this move was aimed at forcing a realignment within the EMS, or even an indefinite postponement of EMU (see Henning 1994: 236–7). Paul De Grauwe argues that, from the standpoint of German policy-makers, the convergence criteria conveniently served the political purpose of excluding weak-currency countries and thus preserve Germany’s ‘dominating position in the monetary policy-making process’ (De Grauwe 1993: 660).


According to an interview with a French official, the government’s decision to levy a special contribution from France Telecom to round off the 1996 budget was directly detrimental to that country’s bargaining position. Conversely, when the German government indicated its intention to reevaluate the Bundesbank’s gold reserves in the spring of 1997, the German advocacy of strict monetary orthodoxy was considerably weakened. That immediately boosted the chances of ‘Club Med’ countries, especially Italy, to enter the euro club.


For example, before the Council of Ministers settled the definition of ‘exceptional circumstances’ (under which a member state would be allowed to have a deficit-to-
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GDP ratio higher than 3 percent) as a negative growth rate of –0.75 percent, the Commission was internally considering the more restrictive figure of –1.5 percent. See ‘Ministers to seek pact on EMU budget deficit rules,’ Financial Times, 11 November 1996.

59 During the Stability Pact negotiations, Germany stepped up its demands for more intergovernmentalism and more automaticity of sanctions and the official line of the European Monetary Institute was quite restrictive. See ‘Stark home truths of a Stability Pact’, Financial Times, 4 December 1996; ‘EMI chief takes hard Maastricht line,’ Financial Times, 20 November 1996.

60 Italian Commissioner Emma Bonino publicly clashed with Commissioner de Silguy on the treatment of Italy’s deficits in Commission forecasts of economic convergence: ‘EU battle against deficit forecast,’ Financial Times, 22 April 1997.

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