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## **Political Aspects of European Monetary Integration**

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## **The European Policy Unit**

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# Political Aspects of European Monetary Integration\*

HORST UNGERER\*\*

## 1.

From the beginning, European economic cooperation and monetary integration after World War II were politically motivated: to eliminate for the future the risk of war between European countries – which twice in this century spread to the whole world – by tying them together in an institutional framework of cooperation and by rebuilding their economies to avoid large-scale social misery, the breeding ground for extreme nationalism and mutual antagonism. As time went on and as the cold war started to unfold, another important reason was to strengthen resistance to communism in Western Europe. Yet, the history of European economic cooperation and monetary integration is most frequently described and analyzed in strictly economic terms. This is understandable because the liberalization of trade and the abolition of custom tariffs, the elimination of payment restrictions and the granting of credit lines can more easily be described and their effects be measured in quantitative terms. Improved political cooperation and stability and the overcoming of political rivalry eludes precise analysis.

The efforts after World War II to rebuild the shattered economies of European countries concentrated on the one hand on constructing a world-wide economic order by the establishment of the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), as a stand-in for the never realized International Trade Organization, and the International Bank for Reconstruction and

\* Based on a Lecture at the European University Institute, Florence, November 3, 1992.

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Development (the World Bank) which initially was mainly intended to assist in the rebuilding of the European economies. On the other hand, the US-financed European Recovery Program (ERP), the Marshall Plan, was to give a strong initial boost to countries in Western Europe, thus providing a basis for the liberalization of trade and the multilateralization of payments within Europe in the framework of the Organization for European Economic Cooperation (OEEC; established 1947) and the European Payments Union (EPU; established 1950). The policies pursued through these institutions were successful beyond reasonable expectations, and it can be stated with confidence that without their success, one could not have seriously thought of creating the European Economic Community (EEC).<sup>1</sup>

The OEEC also promoted greatly political cooperation among its member countries and strengthened the feeling of mutual political interdependence. That the creation of OEEC and EPU was in large part motivated by the political objective of fostering cooperation among former enemies in rebuilding their economies was exemplified by the inclusion of the western parts of Germany in the work of the ERP and the OEEC even before the foundation of the Federal Republic of Germany in 1949 – a striking contrast to the policies of the victorious countries after World War I. At the same time, the refusal of the Soviet Union (and its satellites in Eastern Europe) to participate in the ERP and to join the OEEC was foreshadowing the cold war, and also barred East Germany, the future German Democratic Republic, from the unfolding effort to overcome the consequences of the war. This development greatly contributed to the disparate evolution of the economies and societies in the two parts of Germany, a fact which came to the open with the difficulties associated with German unification in 1990.

## 2.

The foundation of the European Communities was even more than the OEEC a political undertaking, moving in the economic field from cooperation to integration and reaching in its ultimate objectives beyond the economic sphere. In aiming at integration for the heart of Europe – the six countries which in Western Europe were most deeply affected by the war –, the aim was to make war between those countries impossible and to reconcile the “arch enemies” Germany and France. It was therefore no accident that the first objective of integration was coal and steel, the availability of which was at that time the precondition for the possibility to wage war. Germany was to be tied into a community of



nations in Western Europe. For Germany, European integration promised to liberate the country of the legacy of World War II and of its fateful central position in Europe where for centuries it was torn between east and west, between alliances and cooperation on the one hand, and isolation and confrontation on the other hand.

Even if in its main part – the EEC – , the European Community did not commit itself to much more than the establishment of a customs union, the ultimately political objective of European integration was clearly in the mind of such people as Jean Monnet, Robert Schuman, Konrad Adenauer, Alcide de Gasperi and statesmen in Belgium, Luxembourg and the Netherlands.

It was seen less in this way in the United Kingdom. This was one reason why in 1957 – after agreement on the creation of the EEC had been reached – the UK proposed a large European free trade area, which would have encompassed and thus absorbed the EEC.

What matters in this context are not the technical differences between a free trade area and a customs union but the difference between purely economic objectives and objectives which ultimately were political.

### 3.

The EEC Treaty envisaged in essence only a customs union, to be supplemented by a common trade policy and a common agricultural policy (CAP). In the treaty, not much is said about cooperation in the field of economic and monetary policies. Art.103 to 109 evoke some general principles, call for the coordination of economic and monetary policies and provide for mutual assistance in case of balance of payments problems of member states. Even the liberalization of capital movements is required only “to the extent necessary to ensure the proper functioning of the common market” (Art.67).

But if we look deeper, we discover political dimensions and ambitions. The EC Treaties set up a political institutional structure: in addition to the executive Commissions (in the case of the Community for Steel and Coal (ECSC), the High Authority; later on, all three bodies were merged into one Commission) and the representation of the member states, the Council of Ministers, there are the European Parliament and the European Court of Justice.

The preamble to the ECSC Treaty refers to safeguarding world peace; substituting for age-old rivalries the merging of their essential interests; creating “the basis for a broader and deeper community



among peoples long divided by bloody conflicts". The preamble to the EEC Treaty emphasizes the determination "to lay the foundations of an ever closer union among the peoples of Europe" and the pooling of their resources "to preserve and strengthen peace and liberty".

There are a number of reasons why the EEC Treaty did not go much beyond establishing a customs union and does not provide for a close, leave alone binding cooperation in economic and monetary policies:

- the realization that such a binding cooperation and, even more, the establishment of an economic and monetary union (EMU) would deeply affect national sovereignty;
- the European countries were aiming at (and achieved in 1958) the convertibility of their currencies in the framework of the EPU, an important step in monetary integration;
- the existence of a world-wide monetary system under the auspices of the IMF that did not require detailed provisions for the coordination of monetary and exchange rate policies: the Bretton Woods system was functioning and the US dollar met its responsibilities as the key currency of the international monetary system; there was the belief that fixed exchange rates would prevail and would only need to be safeguarded by escape clauses and provisions for mutual assistance in case of emergency (Art.73, 108 and 109 EEC Treaty).

In the Sixties, the situation in the EC was mainly characterized by the energy consuming tasks of completing the customs union and implementing the CAP. This had also an important political background: President de Gaulle was hostile toward a truly supranational EC. He wanted to preserve the traditional nation states and safeguard their vitality, and therefore aimed at a "Europe of nations", with emphasis on national sovereignty.

Yet, it was Charles de Gaulle who – together with Konrad Adenauer – brought about the reconciliation of France and Germany which was and has remained the linchpin of European integration. In this, he showed vision and proved to be a great statesman.

#### 4.

At the end of the Sixties, the EC was marked by two events: the successful completion of the customs union and the implementation of the CAP; and the currency crises of 1968/69 which led to a significant



devaluation of the French franc in August 1969 and a revaluation of the Deutschmark in November 1969.

These realignments proved to be highly disruptive for the CAP (which had been based on the assumption of stable exchange rates) and even posed risks to the customs union. The system of "monetary compensation amounts", installed to preserve the unity of agricultural prices throughout the EC, was a makeshift device and bound to lead to frictions in the future.

With de Gaulle off the stage, politicians aimed at two things: the widening of the EC by allowing the four countries that had applied for membership (UK, Ireland, Denmark and Norway) to join the EC (a move which had been vigorously opposed by de Gaulle); and the deepening of the EC by establishing EMU.

It is interesting to note that at the time, those objectives were not regarded as mutually exclusive.

The first conference of the heads of state and government of the EC countries (later named European Council) in The Hague in December 1969 dealt with these issues. The communiqué of the conference pointed clearly to the political significance of these initiatives. It spoke of preparing the path for a united Europe and of confirming the leaders' belief in the political objectives which gave the Community its purpose.

Following the conference, in early 1970 a special committee was set up to study the realization of EMU by stages. Significantly, the committee was chaired by a politician, the Prime Minister of Luxembourg, Pierre Werner. Among its other six members, there were only two central bankers; the remaining members were senior government officials and a high ranking representative of the EC Commission. In its report, the Werner Committee proposed to create EMU with a single currency and a European central bank in three stages over 10 years. It also recommended a common decision-making institution for economic policy and far-reaching rules for the coordination of fiscal policies.

While adhering to their objective of creating EMU, some member states when faced with the recommendations of the Werner Committee, in particular in view of the implied loss of sovereignty which could extend substantially beyond the monetary sphere, felt somewhat uncomfortable. It was therefore not surprising that the resolution of the Council of Ministers of March 22, 1971 was somewhat timid; it was long on general objectives and short on concrete measures. Nevertheless, by embarking on a move toward the creation of a monetary union when worldwide the trend was in the opposite direction, namely toward flexible exchange rates, underlined its political significance.<sup>2</sup> Dealing only with the first stage, the resolution included the following measures:



- the narrowing of fluctuation margins between EC currencies, aiming at their eventual elimination;
- a better coordination of short-term economic and of monetary policies;
- the speeding up of the liberalization of capital movements which had largely stagnated since the early Sixties;
- a request for a report on the establishment of a European Fund for Monetary Cooperation.

The Fund was eventually established in April 1973, however without real competences. The most significant outcome of the Werner Report was the agreement of the EC central banks in April 1971 to set up an arrangement for narrower fluctuation margins between EC currencies as of June 1971.

But other events intervened. Because of the pronounced weakness of the US-dollar and under heavy speculative pressure, the Deutschmark and the Dutch guilder started to float in May 1971, after efforts to agree on a common response to the crisis in international financial markets were unsuccessful. In August 1971, the gold convertibility of the US dollar was suspended, and the dollar floated freely against other currencies. The Smithsonian Agreement of December 1971 which attempted to restore the system of fixed exchange rates by realigning the major currencies (including a devaluation of the US-dollar by about 10 percent) and by establishing wider fluctuation margins of 2.25 percent (instead of 1 percent) in order to add more flexibility to the international exchange rate system, ultimately failed. In March 1973, the Bretton Woods system of stable but adjustable exchange rates collapsed and was replaced by world-wide floating.<sup>3</sup>

To avoid the floating of EC currencies against each other and in order to limit the impact of the wider margins agreement on intra-EC exchange rates, the European common margins arrangement (the "snake") was established in April 1972. Originally, under the blue print of the Werner Plan, such an arrangement was seen as a first step to monetary union. Now, it was a device to hold the EC together by a common exchange rate system. Even in this, it was not very successful as over time all major EC currencies but the Deutschmark left the arrangement. One important reason for this development was the aftermath of the first oil price crisis in 1973. But more important than the oil crisis itself was the lack of political will on the part of the EC countries to formulate a common response to the oil crisis. The Werner Plan became its victim.



Thus, it was not only that there was no progress in monetary integration which in turn could lead to more political integration but the lack of political cooperation even undermined economic objectives and achievements.

## 5.

The Seventies were a time of stagnation and unhappiness in the EC. Initiatives on a political level for closer cooperation in the field of exchange rate and monetary policies (Fourcade and Duisenberg proposals) and the idea of a European parallel currency proposed by a number of academics (All Saints' Day Manifesto and OPTICA Reports<sup>4</sup>) did not find acceptance. It was with a speech at the European University Institute in October 1977 that EC Commission President Roy Jenkins tried to jumpstart the process of European integration by reviving the idea of EMU.<sup>5</sup> There was no immediate positive response but it is known that some leading politicians discussed matters informally with Jenkins.

In 1978, the German Chancellor Helmut Schmidt and the French President Valéry Giscard d'Estaing took the initiative for the creation of the European Monetary System (EMS) which came into being in March 1979. While this initiative was much less ambitious than the Werner Plan, it had a clear political motivation: to shield the EC from monetary disturbances, originating mainly from the US-dollar, and to give a new impetus to integration.<sup>6</sup> It is interesting to note that in launching the EMS, the regular EC channels and bodies, such as the Monetary Committee, were bypassed. In the end, the EMS was not created by a decision of the Council of Ministers but, on the basis of the resolution of the European Council of December 5, 1978, by an agreement of the EC central banks. The relevant texts concentrate very much on monetary and exchange rate policies, and there is no explicit mention of the EMS being a step toward EMU. In the conclusions of the presidency of the European Council meeting in Brussels in December 1978, it is only mentioned that "[the EMS will] give fresh impetus to the progress of European union".<sup>7</sup> Obviously, while politically motivated, one did not want to overreach as in the case of the Werner Plan.<sup>8</sup>

Any evaluation of EMS has to be conducted in monetary policy and operational terms.<sup>9</sup> But is also clear that the consolidation of the EMS in 1982/83 was based on the political determination of a core of EC countries to move on with economic integration. At that time, serious



exchange rate and balance payments problems were overcome by a combination of comprehensive realignments with domestic stabilization programs, particularly in France.<sup>10</sup> The continued existence and the success of the EMS were considered essential for the EC as a whole as well as for its individual member countries. The emerging consensus on stability-oriented monetary and economic policies among a number of EC countries allowed the EMS to become the rallying point for intensified integration efforts, and its achievements provided the basis for the single market program, as incorporated in the Single European Act of 1986.

In a later phase, the EMS displayed again a political dimension, although less solidly based on economic realities. From January 1987 on, there was no general realignment in the EMS for more than 5½ years. This reflected in large part the degree of economic convergence which had been achieved by nearly all EC countries which participated in the exchange rate mechanism of the EMS (ERM) from the beginning. At the same time, the EMS was increasingly seen as a forerunner to EMU. There was a tendency, in anticipation of EMU and far ahead of reality, to regard exchange rates as more or less permanently fixed and to expect that this could be sustained by convergence efforts which would result from the need to prepare and qualify for participation in EMU. This image of the EMS as a quasi-monetary union was shattered by the events of late summer and autumn of 1992, in particular in September. The unexpected difficulties experienced in the referenda on the Maastricht Treaty in Denmark in June and perhaps even more in France in September 1992 put into question the notion of nearly automatic progress in convergence and toward EMU and brought to light that a number of ERM countries – those who had joined the ERM more recently (Spain, UK, Portugal) and/or made use of the wider fluctuation margins of 6 percent (in the case of Italy until January 1990) – lived on “borrowed stability”, based on large interest rate differentials and overly optimistic market expectations. As a result of the crisis, the pound sterling and the Italian lira left the ERM and the Spanish peseta and the Portuguese escudo had to be devalued. The disturbances also extended to some non-EC countries. Ironically, Finland, Norway and Sweden who had hoped to strengthen their ties with the EC by linking their currencies to the ECU, had to sever those links.



In early 1988, a big debate started about asymmetry in the design and the operation of the EMS. This debate was only on the surface about technical issues such as intervention practices, financing of intramarginal intervention or interest rate developments. In examining those problems, economists had a field day.<sup>11</sup> In economic terms, the key issue was the relative roles of financing and adjustment in balancing an exchange rate system. Politically, it was by no small measure also a debate about two closely related issues: the role of the Deutsche Bundesbank in European monetary policies, or – to put in more abstract terms – the function of an anchor currency in an exchange rate system; and more generally, the role of central banks in economic policies, i.e., the independence of central banks.

This debate was conducted on a political level by politicians such as the (then) Finance Ministers of France and Italy, Balladur and Amato, and the (then) German Foreign Minister Genscher and Finance Minister Stoltenberg. It brought the political aspects of monetary and exchange rate management into the center. Insofar, it was a conspicuous precursor to important issues which later on were intensely discussed in connection with the Delors Report and during the Intergovernmental Conference on EMU which began in December 1990.

In addition, the single market program gave rise to two interrelated questions. Was the single market feasible without a common monetary policy and a common currency? Was a single currency needed for the optimal realization of a single market?

In June 1988, at its meeting in Hannover, the European Council charged a special committee to study ways to establish EMU. It was chaired by Jacques Delors, President of the EC Commission, and in addition consisted of the governors and presidents of the central banks of the twelve EC countries, one other member of the EC Commission and three independent experts. The decision to have top central bankers form the core of the committee was significant and in large determined not only the results of the committee's work but also the future discussions and negotiations about the nature of the intended monetary union.

The Delors Report was published in April 1989. It is of interest to note that the Delors Committee – in contrast to the Werner Committee – did not recommend the setting up of a common decision-making institution for economic policy, assigning this task mainly to the Council of Ministers, i.e. the representatives of the member states. In the same vein, its recommendations regarding the coordination of fiscal policies



fell noticeably short of the recommendations of the Werner Committee. While the Werner Report did not discuss in any detail institutional aspects of the proposed European central bank, the Delors Committee made the independence of such a central bank one of its major recommendations. Its proposals for the institutional setup of the bank were closely modelled after the Deutsche Bundesbank – an aspect of economic as well as political importance.

In June 1989, the European Council accepted the Delors Report as basis for further work on EMU and agreed that the first stage toward the realization of EMU would begin on July 1, 1990, coinciding with the deadline for the liberalization of capital movements for most EC countries, a cornerstone of the single market program. In early 1990, Chancellor Kohl and President Mitterand called for the formation of a political union, however without giving a clear indication of the meaning of this term. It was decided that intergovernmental conferences on EMU and political union would start in December 1990.

## 7.

Instead of dealing in detail with the discussions surrounding the Delors Report, this paper will consider a few problems which were widely and intensely discussed, in particular by the Intergovernmental Conference, and which are of special interest when we explore political aspects of EMU.

The first problem is that of the independence of a European Central Bank (ECB). In the EC, there are widely differing arrangements for the relations between the political authorities and the central bank. They range from situations where the government is in charge of monetary policy decisions and where the central bank is not much more than a department of the treasury, with the task of implementing government decisions, to a situation where the central bank formulates and implements monetary policy without direct interference from the political authorities.

The reasons are not simply that one country may be more fearful of inflation than others (although experience shows that countries with highly independent central banks are less prone to inflation). Also, it does not necessarily mean that there is a stronger belief in an effective trade-off between inflation and unemployment in one country than in another. The reasons go deeper. Obviously, there is a desire on part of politicians to yield as much power as possible in the economic field. In this way, they hope to influence elections and to shape economic devel-



opments according to their political beliefs. Behind this stands the more general concept that all aspects of economic policy, including monetary policy, should be subject to a unified approach. It was the government – so goes the argument – which through parliament was answerable to the electorate. Therefore, the principle of democratic accountability called for monetary policy powers to be in the hand of politicians.

Another view sees great risks emanating from the short-term policy interests and instincts of politicians for a consistent monetary policy oriented towards the longer-term needs of a country. It is believed that price stability is a precondition for longer-term stability and growth. Indeed, more recent economic theory and empirical research rejects the notion of a trade-off between inflation and unemployment except in the short-term. Inflation-free money – or non-political money – is considered an essential prerequisite for a functioning market economy. Price stability is thus seen as a quasi-constitutional element of a free economic order, together with market economy principles, private property and free competition. It is argued that only an independent central bank could ensure price stability. Democratic accountability was provided by a clear legal mandate for the central bank, appropriate appointment procedures for central bank leaders, and the requirement to justify policy to the public. It is interesting to note that independent central banks exist in such countries with well-established democratic traditions as USA, the Netherlands and Switzerland; and that there is or was no country with an authoritarian rule which had an independent central bank.

The Maastricht Treaty unequivocally provides for an independent central bank and for price stability as the primary objective of monetary policy (Art.107 and 105,1 respectively). It also requires that national central banks be granted independence prior to the transition to EMU (Art.108).

## 8.

Related to the issue of functional or instrumental independence of a central bank is the question who should be in charge of exchange rate policy – the central bank or the political authorities. There is the view and actual experience that monetary policy can be eroded from the external side, and that therefore the central bank should be fully in charge of exchange rate policy. Another view sees the exchange rate as a powerful instrument which exercises great influence on the economy,



in particular investment, growth and employment. Therefore, responsibility for exchange rate policy should rest with the political authorities.

The negotiations at the Intergovernmental Conference on this issue were not easy. The outcome was that the ECB will be in charge of all exchange transactions (Art.105,2). That implies that in a world of floating currencies, the ECB is de facto in charge of exchange rate policy. The Council of Ministers may, however, acting by a qualified majority, formulate "general orientations". Such general orientations "shall be without prejudice to the primary objective of the ESCB to maintain price stability" (Art.109,2). Furthermore, when it comes to possible agreements for an exchange rate system with non-community countries, consistency with the objective of price stability remains an important consideration. Decisions by the Council in this respect must be unanimous; for the setting of parities in any such system, a qualified majority is required (Art.109,1).

A third subject of great interest is the field of budgetary policies. It is here where the question could be asked whether monetary union will be viable in the longer term without a political authority determining in a community framework fiscal policies of member countries. Such power would constitute an important element of a political union.

Experience shows that a stability-oriented monetary policy cannot be successful in the longer run if not supported by appropriate budgetary policies. The turmoil in international financial markets in September 1992 was in part related to the problem of compatibility between monetary and fiscal policies within as well as between a number of countries such as the USA, Germany, Italy and the UK.

For the Werner Committee of 1970, the challenge and the answer were clear. Common decisions were to be taken on the size of deficits and their financing as well as with regard to the main elements of budgets such as revenue and expenditure and the distribution of the latter between investment and consumption. In 1990, such a far-reaching solution was considered as neither politically acceptable nor as economically necessary.

While the Delors Report did not go as far as the Werner Report, it called for binding rules on budget deficits and their financing. This raised the question of national sovereignty. Budget authority is one of the main prerogatives of any parliament. Limiting this prerogative is tantamount to reducing national sovereignty.

The Maastricht Treaty does not mandate binding rules for fiscal policy. But it contains fairly strict provisions which aim at responsible fiscal policies:



- no bail-out (Art.104b);
- no central bank financing of budget deficits (Art.104,1);
- the avoidance of excessive budget deficits, as defined by quantitative criteria, relating to the size of government deficit and debt (Art.104c,1 and 2);
- the possible application of gradually more severe sanctions (Art.104c,11).

To many, it was obvious that market forces are not enough to enforce discipline in fiscal matters, although they may exert some pressure; therefore the need for rules. However, given the political interplay between government, parliament, pressure groups and the public at large, fiscal policy cannot be separated from other policies such as social policy, industrial policy, subsidies for various purposes or from social developments in general. Therefore, one can have legitimate doubts whether the rules of the Maastricht Treaty will be sufficient to ensure responsible fiscal behavior or to prevent policy paralysis due to protracted discussions and tensions over national fiscal policies.

At the opposite ends of a wide range of views on the relationship between fiscal policies and political union, one could formulate two answers:

- To all those who see a link between EMU and political union, a common monetary policy requires and eventually leads to common decision-making on budget matters.
- In the other view, any move toward political union and hence to the surrender of national sovereignty in fiscal matters is not wanted; therefore a full-fledged monetary union, because it requires some binding coordination of fiscal policies, is not possible or desirable either.

## 10.

Another area where economic and political considerations will have to be brought into balance, is the role of the European Council and the Council of Ministers in the decision-making process in EMU. The French government put particular emphasis on what it called "gouvernement économique".<sup>12</sup> This would allow a parallelism, a dialogue between the "pôle monétaire" represented by the ECB – and a "pôle économique". The independence of the ECB could only be understood in the interdependence with a strong economic government. With the



latter, the French did, however, not have in mind a central decision-making institution for economic policy but rather a strong involvement of the European Council and the Council of Ministers in decisions concerning EMU.

This idea was again apparent in an interview President Mitterand gave before the French referendum of September 20, 1992.<sup>13</sup> He said: "[La future Banque Centrale] ne décide pas la politique économique [dont la politique monétaire sera l'application]. C'est le Conseil Européen, ce sont les douze Chefs d'Etat et de Gouvernement, c'est-à-dire les politiques élus au suffrage universel qui décideront." However, this interpretation of the Maastricht Treaty is not consistent with its actual provisions, and reflects more the French position at the start of the negotiations than the eventual outcome.

The French proposal for an EMU treaty<sup>14</sup> envisaged that the European Council, on the basis of reports of the Council of Ministers, would define broad orientations for EMU and for the economic policy of the Community. Within such orientations, the Council of Ministers would coordinate the policies of member states and make recommendations to individual governments.

These ideas, although somewhat weakened, are reflected in the Maastricht Treaty. The Council of Ministers shall draft broad guidelines for the economic policies of member states, to be discussed by the European Council. On this basis, the Council of Ministers adopts, with qualified majority, a "recommendation" setting out these broad guidelines (Art.103,2).

With regard to exchange rate policy, the French proposal envisaged that the Council of Ministers would define the orientations of exchange rate policy. The Maastricht Treaty says that the Council of Ministers *may* formulate "general orientations" which, however, shall be without prejudice to the primary objective of monetary policy to maintain price stability.

On monetary policy, the French treaty proposal provided for the possibility that the Council of Ministers could submit motions for discussion by the Governing Council of the European System of Central Banks (ESCB). This idea did not become part of the treaty.

## 11.

The last area of interest I want to discuss are the provisions for the transition to the final stage of EMU. Here, the European Council will play an important role (Art.109j,2, 3 and 4). On the basis of findings of



the Council of Ministers, it will be up to the European Council to decide when the final stage should begin, somewhere between January 1, 1997 and January 1, 1999, and which countries would qualify for participation. The treaty contains a number of qualification criteria with regard to price stability, public finances, interest rate levels and exchange rate sustainability. But in application of these criteria, a certain degree of discretion is allowed, and other aspects of economic performance, such as the balance of payments and unit labor costs, are to be taken into account (Art.109j,1 and 2).

It is this element of discretion that triggered a lot of criticism. Would the Council not be tempted for political reasons to dilute the economic criteria for participation and thus endanger the viability of EMU from the start? Would there not be the danger of compromises and even of horse-trading? Would certain general policy objectives, such as avoiding a multi-tiered Community, be not in conflict with sound economic principles?

All such questions can finally be answered only in the future. However, one would expect or hope that the politicians in charge at that time would realize that establishing EMU is a serious undertaking which in the longer run will determine the future of the Community and should not be seen from a short-term perspective of political convenience. Otherwise, the whole enterprise of EMU and the hope for further progress in economic and political integration would be at risk.

## 12.

Until now, I mainly commented on the political implications and consequences of certain economic aspects of European monetary integration. Let me add a few comments on the relationship between the concepts of EMU and political union. The concept of EMU has been much more clearly defined than the concept of political union. Already the Werner Report presented a precise definition of EMU.

As already mentioned, Chancellor Kohl and President Mitterand established a link between EMU and political union in early 1990. It was in particular Kohl who felt, in connection with German unification, that – as a corollary to the creation of EMU and the future abandonment of the Deutschmark – Germany should be more firmly anchored in Europe not only in economic but also in political terms. He was in particular concerned about a more democratic rule for the Community and therefore in favor of more power for the European Parliament. Such expectations were only partially met by the Maastricht Treaty. It



does not envisage a political union in the sense of central institutions and majority voting with regard to political issues. The treaty mainly provides for intensified cooperation between member states in such areas as foreign and defense policies. Also, the European Parliament will only gain a limited extension of its responsibilities. In the Maastricht Treaty, the concept of national sovereignty has not been given up in favor of community responsibility.

Whether with regard to the question of national sovereignty versus community responsibility, the treaty went far enough or too far, the debate in various EC countries led to different conclusions. One view strongly rejects any community role in matters of foreign, defense and social policies. There is even strong resistance to the concept of EMU. In this category seem to fall countries like Denmark and the United Kingdom.

Another view shows strong attachment to national sovereignty in such "classical" areas as foreign and defense policies. However, EMU is strongly favored, in part because it is hoped to compensate for a loss in national autonomy in the monetary field by shared responsibility. France is an example.

A third view, mainly found in Germany, all along seriously doubted the feasibility of a single currency unless supported by strict economic rules and built on a foundation of closer political union. Similar views seem to be held in the Netherlands and in Luxembourg.

In some countries, however, EMU is considered not only a worthy objective in itself but also as an important step toward political union. A political union is seen as providing some protection against a possible hegemony of any of the larger countries or a coalition of larger countries. One could mention in this category countries like Italy, Belgium, Luxembourg and the Netherlands.

### 13.

In order to sum up, it can be observed that from the very beginning, after World War II, the economic and monetary integration of Europe had a strong political motivation. Integration in the economic field was not only seen as a way to overcome the destruction of the war and to improve the standard of living for the people of Europe but also as a means to leave behind century-old rivalries and to eliminate the risk of wars in Europe.

Political objectives time and again helped to overcome difficulties in the economic field and to move forward to higher levels of integration.



But it must also be noted that there was a strong adherence to concepts of national sovereignty and to nationally defined, often short-term economic interests. This undermined until now attempts in the EC to create an economic and monetary union that would combine the institutional elements of a common monetary order and a high degree of economic policy interaction and convergence, which is widely considered an indispensable precondition for any monetary union. There was even more difficulty to agree on meaningful elements of a political union which in the view of many would have to provide a solid foundation for EMU and which would justify the substitution of national currencies – powerful symbols of sovereignty and independence, and in some countries such as Germany also of political, economic and social achievements after a disastrous war – by an untested single European currency. These are the questions which are at the heart of the debate about the Maastricht Treaty. The answers will decide the fate of the vision embodied in this treaty.

## Notes

1. For a history of the EPU, see Kaplan, Jacob J. and Günther Schleiminger, *The European Payments Union*, Oxford-New York 1989.
2. Solomon, Robert, *The International Monetary System, 1945-1981*, New York 1982, p. 174.
3. For more details, see Solomon, Chapters XI-XIII.
4. Basevi, Giorgio et al., The All Saints' Day Manifesto for European Monetary Union, *The Economist*, November 1, 1975; Commission of the European Communities, *Optica Report* 1975, Brussels 1976, and *Optica Report* 1977, Brussels 1977.
5. Jenkins, Roy, Europe's Present Challenge and Future Opportunity, *First Jean Monnet Lecture*, European University Institute, Florence 1977.
6. Horst Schulmann who was instrumental in drafting an outline for the EMS ( the 'Bremen Annex' of July 1978 ) observed that the creation of the EMS "was a very political act and certainly not a matter of translating a textbook of monetary economics". Deutsche Bundesbank, *Auszüge aus Presseartikeln*, December 9, 1992, p. 6.
7. Monetary Committee of the European Communities, *Compendium of Community Monetary Texts*, Brussels-Luxembourg 1986, p. 42.
8. For a history of the EMS negotiations, see Ludlow, Peter, *The Making of the European Monetary System*, London 1982.
9. For a concise history of the EMS, see Ungerer, Horst, The EMS - The First Ten Years: Policies - Developments - Evolution, *EUI Working Paper ECO* No. 90/2, Florence 1990; also published in *Konjunkturpolitik*, Berlin, Sechstes Heft 1990. See also Gros, Daniel and Niels Thygesen, *European Monetary Integration*, London-New York 1992.
10. See Ungerer, Horst et al., The European Monetary System: Recent Developments, International Monetary Fund, *Occasional Paper* No. 48, Washington 1986, p. 12 and p. 6.
11. For a summary of the economic aspects of the debate, see Gros and Thygesen, Chapters 4-5.
12. Communiqué du Conseil des Ministres, December 5, 1990.
13. See Deutsche Bundesbank, *Auszüge aus Presseartikeln*, September 9, 1992, pp. 1-2.



14. Reprinted in *Revue Financière Internationale – aujourd'hui l'écu*, Numéro spécial, June 1991.







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