Robert Schuman Centre

Central Bankers, the Ideational Life-Cycle and the Social Construction of EMU

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Abstract*

The paper considers the Economic and Monetary Union as being the very last stage in an ideational life-cycle. It is argued that in order to understand what impact European central bankers had on the construction of the EMU, it is necessary to study the relationship between them, the commission president and national policy elites in the medium term. The finding will then be that European central bankers helped to diffuse 'sound policy' ideas already by the end of the 70s and the beginning of the 80s as a result of which the entire European policy elite basically agreed about a whole series of macro-economic causal ideas at the end of the 80s. In other words, central bankers in the Delors Committee in 1988 and 1989 did not produce anything which fundamentally conflicted with prevailing ideas among national policy elites.

It is argued that the theory of the ideational life-cycle is relevant both for cases where ideas in critical junctures compete with each other for prominence, and for cases where one idea constitutes prevalent and uncontested knowledge at the elite level. Firstly, the ideational life-cycle can help us to understand why one idea rather than another ends up as being adopted in elite discourse and action in the fairly short periods of ideational vacuum where policy-elites are searching around for guidance for legitimate behavior. Secondly, it can help us to understand cases where 'the dog does not bark', i.e. cases where policy-elites tend to agree about issues which in other periods of time would have caused severe conflict.

Key words:

Economic and Monetary Union (EMU), Institutionalization, Neo-Institutionalism (Ideas, Knowledge, Social Constructivism)

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1. Introduction

Over recent years it has been argued that the EMU is institutionalizing a certain way of organizing and implementing macro-economic policies in Europe (Gros & Thygesen, 1992; Gill, 1992, 1997). It has also been argued that European central bankers have had a crucial say in the construction of this model and that transnational relations should therefore be 'brought back in' (Cameron, 1995b). Underlying such claims is the assumption that causal ideas about macro-economic policy-making serve to structure and inform the way European policy-makers think about themselves, their priorities and the increasingly complex world in which they act. Ideas are assumed to regulate the behavior, as well as to constitute the identities, of these policy elites. This paper will support these claims but will try to go one step further. Rather than assuming that ideas play a constraining, permissive and constitutive role, this paper attempts to investigate *how* these ideas make a difference. It will do so by developing a model which can help (i) to define the precise content of these ideas about macro-economic cause-effect relationships; (ii) to study the circumstances under which old ideas die away; (iii) to identify the mechanisms which help to transfer some ideas rather than others into concrete ideational discourse and policy action; and, finally, (iv) to investigate how some ideas are transformed into hard institutions becoming particularly resistant and taken-for-granted norms. The model will be referred to as the 'ideational life-cycle' and is presented in the first section of the paper.

In section two it is concluded that the ideational role of central bankers varies along the ideational life-cycle. On the one hand, central bankers *continuously* use their transnational central bank fora to 'invent', test and discuss new causal ideas. While some of these ideas might be promoted and successfully adopted in concrete policy discourse and action, others slowly die away. On the other, it is only over *fairly short periods of time* that central bankers are likely to successfully alter consensual knowledge at the broader elite level. These periods are formed by so-called 'critical junctures' resulting from external shocks which challenge the shared knowledge structure within the macro-economic organizational field, and it is during them that elites start to look around for new knowledge to structure, inform and legitimate their discourse and action. These periods of ideational flux and vacuum can be compared with a window of opportunity which central bankers, like other ideational promoters, can exploit to diffuse a particular set of central bank ideas and thereby construct a specific version of economic reality. However, once the window of opportunity has been closed, central bankers - like everyone else in the macro-economic organizational field - are 'caught' by the reigning consensual knowledge. An ideational equilibrium has been reached

and central bankers will have to accept the dominant ideas about what constitutes legitimate policy discourse and action.

Once such an ideational equilibrium has been reached many parties invest psychological and material capital in its persistence. For this reason, the reigning consensual ideas are maybe even institutionalized in formal and informal procedures, rules and organizations so as to be more resistant to competing ideas in the future. The institutionalization or formalization of ideas consequently also informs the knowledge structures of *future* elites within the macro-economic organizational field. If this happens, it will take a new external shock to undermine the shared and relatively uncontested knowledge structures at the elite level, and the ideational cycle can start all over again.

The ideational set-up of the EMU can be seen as the very last stage of the ideational life-cycle where somebody attempts to institutionalize a certain set of ideas about how one can think about macro-economic policy in Europe. The last and longest section of this paper will argue that the logic derived from the ideational life-cycle can help us to understand the EMU set-up as being a product of a mutually constitutive relationship between central bankers, national elites and the Commission. In other words, those who attempt to explain why the EMU looks the way it does by referring to either central bankers, or national policy elites or the European Commission will not find support in this paper. In order to understand the EMU set-up it must be studied in the *medium term* as a result of a continuos interaction between these three sets of actors, rather than as a result of a short-term bargaining process. A study with focus on the medium term will help us to understand why there in fact were no major disagreements about such important issues as central bank independence, low inflation and sound money.

2. The Ideational Life-Cycle

For present purposes, ideas are defined as being *prevalent, relatively uncontested, but changeable knowledge structures which help to inform and legitimate the elite policy discourse about macro-economic cause-effect relationships within the macro-economic organizational field.* We are talking about *elites* which are dealing full-time with macro-economic policy-making at the national or transnational level and about what these elites think they *know* about the causal relationships between macro-economic variables. This knowledge is *prevalent* in the sense that it is shared by the elites within the macro-economic organizational field and it is uncontested in the sense that these elites do not frequently question what they commonly perceive as being

ordinary knowledge. This specific knowledge structure *inform* elites about what they can *legitimately* say and do in all kinds of situations where they are dealing with macro-economic problematics. As a consequence, causal ideas are taken to be a relatively strong social mechanism which excludes people with illegitimate ideational discourses from the power circles.

Berger & Luckmann (1966: 15 & 26) define the *Sociology of Knowledge* as the analysis of the social construction of reality and argue that the sociology of knowledge must concern itself with everything which passes for 'knowledge' in society. This is exactly what the dynamics of ideas are all about: what, at any given point of time, is considered to be relatively uncontested and consensual knowledge which structures and informs the way policy actors behave within a specific organizational field?

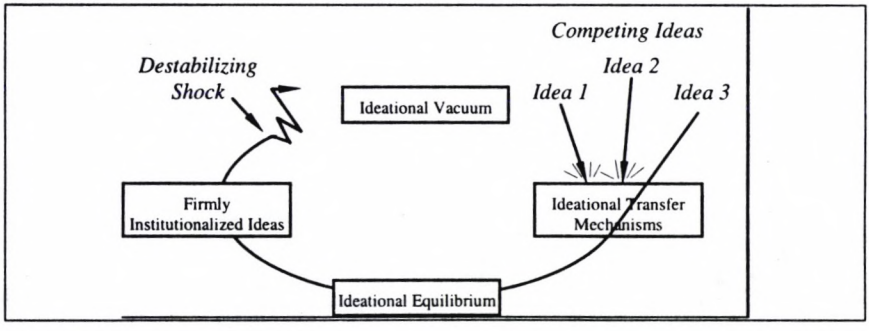
When it comes to consensual knowledge within the European macro-economic organizational field,[1] this is not a trivial question. Whereas policy-elites everywhere in the OECD countries were convinced until the mid-seventies that fine-tuning of the economy was possible even in the short term; that 'five per cent inflation is better then five percent unemployment' (German Chancellor Helmut Schmidt in the beginning of the '70s); and that it was worth the price that had to be paid in terms of foreign debt, public deficits and balance of payments deficits to fight conjunctural downturns, the policy-elites everywhere have been convinced since the beginning of the 80s that 'inflation is not the solution but part of the problem' (Bundesbank Governor Karl Otto Pöhl at the end of the '70s); in other words, they now believe that labor-markets and wage-formation are typically inflexible; that public deficits and debt give the wrong signals to the financial markets; and that monetary policy should be isolated from political discretion. Such waves in transnational ideational discourse cannot be explained by the ideological affinities of the governments in power. Nowadays, both social-democratic and bourgeois governments adhere to what Stephen Gill (1992, 1997) terms 'new constitutionalism'. Nor can the increasingly liberalized financial markets account completely for the convergence in macro-economic discourse in

[1] DiMaggio & Powell (1991 [1983]: 64-65) defines the term 'organizational field' as 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products. The virtue of this unit of analysis is that it directs our attention to ... the totality of relevant actors'. For the present purposes the macro-economic organizational field is simply defined as being those elites which full-time deal with macro-economy. This includes both policy-analysts and -makers in the national economic ministries, on the labor market, in the private banks, in the central banks and in international organizations.

Europe. Without going into the abundant literature on 'the power of markets', suffice it to say that the ongoing academic literature is highly indeterminate as to whether nation-states have any degree of autonomy or not. Some argue that the common statement that 'there is no alternative' is highly exaggerated, others that it is indeed the case that particularly small open economies are flying by wind.[2] This indeterminacy has led a group of ideational scholars to study supplementary explanations of why and how ideas about macro-economic cause-effect relationships develop over time. It is within this light that this light should be seen.

The theoretical argument of this paper can be best illustrated by the following figure.

The Ideational Life-Cycle - The Theoretical Argument in Outline



1. A set of firmly institutionalized causal ideas is at some point destabilized by an external shock, as a result of which elites within the macro-economic organizational field suddenly find themselves in the unlucky situation of not possessing legitimate answers to increasingly difficult questions. Goals are ambiguous and macro-economic cause-effect relationships are poorly understood. Because it is assumed that people need some level of cognitive coherence and stability, these elites are now starting to look around for new ideas which can inform and structure their discourse and action.

[2] For an interesting discussion which illustrates these two positions, see the debate between Notermans (1993, 1994) and Moses (1994).

2. In this fairly short period, mechanisms which help elites to sort out between a series of competing and sometimes conflicting ideas become decisive. As a result of the workings of these ideational transfer mechanisms, a set of specific ideas are finally accepted as being legitimate knowledge about how the economy works. A priori there is nothing inevitable about adopting one set of ideas rather than another, so in order to understand why specific ideas are internalized it becomes crucial to identify these ideational transfer mechanisms. As we will see, central bankers become decisive in this process.

3. Once a set of new ideas has been internalized, a new ideational equilibrium is established across the elite level within the macro-economic organizational field. A well-defined and relatively uncontested relationship between macro-economic variables helps these elites to speak and act legitimately. At some point, they have invested so much psychological and material capital in the reigning state of affairs that they will strive to institutionalize the consensual knowledge in formal and informal rules, procedures and organizations. At this very late stage, central bankers, national-politicians and supranational officials formulate together a concrete institutional set-up which in the future will serve to bind the next generation of elites to a particular set of causal ideas.

2.1. Old Ideas Die Away

Basically, I would argue that old ideas die as a result of an external shock of some kind. Kowert & Legro (1996: 469) propose that norms have at least three sources: ecological processes (external shocks), social processes (interaction between groups of people), and internal processes. I would propose that these three sources *do not exclude each other*, but instead supplement each other. When actors confront a *radical changing environment* (military, political, economic, social or other crises), this tends to challenge prevailing norms and ideas. Goldstein (1993: 12) speaks about a period of policy deligitimation where a policy window opens because exogenous shocks or endogenous political changes render old causal beliefs incapable of meeting the requirements of political entrepreneurs.

After this period of deconstruction, a process of *social interaction* begins, where policy-makers are in search of alternative policy strategies. During this period they are particularly sensitive to mechanisms (for instance, transnational advocacy networks) which help policy-makers redefine reality and constitute identity and interests.

Then, finally, a process *internal to the policy-maker* begins, where he experiments with the new policy ideas and instruments and, eventually,

completely identifies with them and incorporates them into existing belief systems.[3] In short, I operate with Kowert & Legro's three sources of ideational change in the following order: external shock, relational processes, and internal processes.

The process of ideational shift has been dealt with on many occasions[4] but these discussions always concern the phenomenon where an ideational consensus is challenged in a crisis-situation and, after a shorter or longer period of ideational-vacuum, is replaced by a rivaling ideational consensus.

That such a period of ideational vacuum, i.e. a period in which policy-makers do not know how to prioritize policy objectives and in which they are ignorant about how to achieve policy objectives in general, is bound to be relatively short is explained in more detail by the abundant social-psychological literature. The broad group of social cognition theories, consistency and dissonance theories view people as consistency seekers motivated by perceived discrepancies among their cognitions. We deal here with perceived inconsistency and not "objective" inconsistency and 'once inconsistency is perceived, the person is presumed to feel uncomfortable and to be motivated to reduce the inconsistency' (Fiske & Taylor, 1991: 11). In other words, when policy-makers have been exposed to an external shock which is perceived to have undermined stable and consistent beliefs about causal relationships, they find themselves in a state of cognitive dissonance which the policy-maker seeks to reduce as a result of which cognitions are rearranged. Equally valid but incompatible cognitions are available and drive the policy-

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[3] Hall (1993: 280, 284-286, 291), applying a Kuhnian terminology, argues that 'an ideational shift', 'a third-order change' or 'a change in policy paradigm' goes through at least five stages: (1) an event is proven anomalous according to the prevailing ideas; (2) this gives rise to a series of policy failures; (3) and a search for policy alternatives and policy experimentation; (4) which shifts the locus of authority over policy by enlarging the market for policy ideas; and, finally, (5) through a political decision, after electoral competition and broad societal debate, a new idea is established for policy-making. The final decision is *not* based on technical reasoning because rational arguments in favor of a paradigm shift are never fully commensurable within existing discourse. Rather, the decision is political and likely to be controversial.

[4] For a broad selection of notions which come close to what I have called 'ideational shifts' (Marcussen, 1997; Marcussen, 1998), one can mention Gill's (1995: 400) 'organic crisis', Ryner's (1996) 'formative events', Krasner's (1984) 'punctuated equilibrium', Florini's (1996: 378) 'horizontal reproduction', Gourevitch's (1986) 'critical junctures', Hall's (1993: 279) 'third-order change', Blyth's (1997: 245) 'creedal periods' and 'liminal moments of history', Czarniawska & Joerges's (1996: 29)'ideational disruption', Sahlin-Andersson's (1996: 75) 'identity crisis' and Røvik's (1996: 141) 'de-institutionalization'.

maker to search for some clarity and cognitive consistency and thereby psychological relief.

2.2. New Ideas are Promoted

Why is it that one causal idea rather than another suddenly constitutes consensual knowledge for the policy-elite within the macro-economic organizational field? In order to answer this question, it is necessary to understand that a situation with an ideational vacuum in fact constitutes a window of opportunity (Kingdon, 1984). As mentioned, in these kinds of situations of knowledge-insecurity, elites are sensitive to impressions from outside sources in a way that they were not before, when macro-economic causal ideas were taken for granted. This is a crucial period, where the adoption of some ideas rather than others tends to depend on a set of *ideational transfer mechanisms*. Innumerable causal ideas flow around "out-there", and the macro-economic elites are unable a priori to define either the content or consequences of these ideas, so it is the argument of this paper that they need some help in this process of transferring diffuse causal ideas into coherent and legitimate policy discourse.

Before spelling out what these transfer-mechanisms might be, it is maybe worth underlining that there is nothing in the ideas-approach which claims that only 'good' ideas are transferred down into real policy discourse and action. Czarniawska & Joerges (1996: 25) also discuss the factors which influence whether an idea is transformed into institutionalized practice, and conclude that the answer to the question 'does not lie ... in inherent properties of ideas, but in the success of their presentation ... the perceived attributes of an idea, the perceived characteristics of a problem and the match between them are all created, negotiated or imposed during the collective translation process ... it is therefore the process of translation that should become our concern, not the properties of ideas'. That the qualities or properties of the ideas are less important for their success need not be reflected in the memory and discourse of people, where new ideas are typically functionally tied to problems: 'Often there is an attempt to portray the process as functional: this particular idea was spotted and adopted because it served well in resolving a specific difficulty or in creating a new opportunity in situations of stagnation' (ibid: 27). The point is also emphasized by Sahlin-Andersson (1996: 78-79) who argues that organizations rarely experiment with new ideas before they are adopted and imitated in practices and structures: 'What spreads are not experiences or practices *per se*, but standardized models and presentations of such practices. The distance between the supposed source of the model - a practice, or an action pattern - and the imitating organization forms a space for translating,

filling in and interpreting the model in various ways'. In short, if it is not the quality or prior experience of and with the new idea which are important for its diffusion, then the focus should be directed more at the processes through which the idea is disseminated among politicians, officials, economists and social groupings, injected into the policy process, and represented in discourse.

That being said, I can now return to the question of how certain diffuse ideas are transferred into consensual policy discourse. At the most general level, social rules are learned by both direct instruction ('doing as I say') and/or by social learning or imitation ('doing as I do') (Burns & Dietz, 1992: 263). In both cases, there is an 'I' which in different accounts have been termed 'norm entrepreneur' (Checkel, 1997, 1998a-c; Florini, 1996: 375; Finnemore & Sikkink, forthcoming: 17), 'political entrepreneur' (Goldstein & Keohane, 1993: 13; Goldstein, 1993: 3; Sikkink, 1993: 142), 'teacher' (Finnemore, 1996a: 112) or 'ideas' advocate' (Ikenberry, 1993)[5]. The transfer process is important in theoretical terms because 'ideas do not float freely' (Risse-Kappen, 1994), unencumbered by any physical reality. According to Czarniawska & Joerges (1996: 23), 'it is people, whether we see them as users or creators, who energize an idea any time they translate it for their own or somebody else's use. Ideas left on shelves do not travel ... Watching ideas travel, we observe a process of translation'. Norms are attached to real physical environments and are promoted by real human agents (Kowert & Legro, 1996: 490). There will always be someone or something which works as 'ideational promoter'. In fact, without someone or something to promote the idea, ideas do take on any importance at all.

Concerning the problem of locating the ideational transfer mechanisms, DiMaggio & Powell (1983 [1991]) distinguish between three analytically different kinds of transfer mechanisms which I will adopt in the present paper: coercive transfer mechanisms that stem from political influence and the problem of legitimacy; mimetic transfer mechanisms resulting from standard responses to uncertainty; and normative transfer mechanisms, associated with professionalization.

Firstly, the transfer of ideas from a diffuse level into concrete political discourse might be a *coercive* process which 'results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent' (ibid: 67). Therefore, the greater the dependence of one

[5] Furthermore, notions such as ideational 'editor' (Sahlin-Andersson, 1996: 82) and ideational 'translator' (Czarniawska & Joerges, 1996: 23; Sevón, 1996: 51) and ideational 'Others' (Meyer, 1996: 244) have been applied.

organization on another, the more similar and isomorphic it will become to that organization with regard to structure, climate, and behavioral focus (ibid: 74).

Second, the transfer of ideas into concrete elite discourse on macro-economic policy-making might be a *mimetic* process. As DiMaggio & Powell (ibid: 70) argue 'uncertainty is also a powerful force that encourages imitation. When organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations'. Ideational modeling as a response to uncertainty has the advantage that it is an easy and cheap way to find quick solutions to immediate problems. This does not necessarily have anything to do with the exercise of deliberate power by the modeled part: 'The modeled organization may be unaware of the modeling or may have no desire to be copied; it merely serves as a convenient source of practices that the borrowing organization may use. Models may be diffused unintentionally, ... indirectly ... or explicitly' (ibid: 69). In any case, however, the organization which models another organization only models an organization which is 'considered to be more legitimate or successful' (ibid: 70). One could argue then that the 'more uncertain the relationship between means and ends, the greater the extent an organization will model itself after organizations it perceives as successful' (ibid: 75), and that the 'fewer the number of visible alternative organizational models in a field, the faster the rate of isomorphism in that field' (ibid: 76).

Thirdly, the ideational transfer process might be successful as a result of *normative* pressures stemming primarily from professionalization, which is 'the collective struggle of members of an occupation to define the conditions and methods of their work, to control the productions of producers, and to establish a cognitive base and legitimization for their occupational autonomy' (ibid: 70). The professionalization of an organizational sector generally takes place when actors within that sector share common notions of validity; this is frequently the case if they have the same educational background. Within the organizational field, however, it is in particular 'the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly' which might have consequences for the process of ideational diffusion (ibid: 71). It can therefore be posited that the higher the extent of professionalization is in a field, the greater is the likelihood of successful ideational diffusion. Among the economists dominating the macro-economic organizational field which I have chosen to study, the central bank profession is particularly interesting. Given its position bridging international financial markets and the national government, given its national and transnational organization in tight networks, and given its extended influence in the

European context, the central bank profession might well be precisely the kind of an actor of which one might expect a certain deliberate undertaking of activity to inject certain ideas about macro-economic cause-effect relationships into elite policy discourse and action. I will return to this last point in the next section, which goes into some depth about the situation, roles and powers of European central bankers.

2.3. Ideas are Institutionalized For the Future

Once the ideational transfer process has been brought to a successful conclusion, that is, once a new ideational equilibrium has been established, the new consensual knowledge can be very difficult to change de facto. Ideational change will be resisted by those who benefit from this particular new system of norms, and a considerable amount of psychological, political and other kinds of capital is invested in these systems which will give them a path-dependent character. The final question to be dealt with in the study of the ideational life-cycle is to study *how certain ideas are institutionalized in more or less formal organizations and procedures so as to resist new external challenges and pressures.*

In an analysis of state intervention in Britain and France, Hall (1986: 280) argues that when it comes to 'ideas', they are particularly important when they are firmly institutionalized: 'Most ideas have some power of their own ... But the social power of any set of ideas is magnified when those ideas are taken up by a powerful political organization, integrated with other ideological appeals, and widely disseminated'. Similarly, Goldstein (1993: 12) argues that ideas which have appeared after a process of policy-delegitimation and policy-search, and have survived a period of policy-experimentation, end up as becoming institutionalized. Ideational institutionalization simply means that a diffuse idea becomes embedded in formal and informal organizational rules, norms and procedures. That is, it either becomes a rule or a procedure, or even an organization with stipulated objectives, powers and instruments. This can take place at both the local, the national, the transnational and the international level. The empirical challenge at this stage is to locate these ideational expressions in new institutions or in old - but reformed - institutions.

Meyer & Rowan (1977 [1991]: 42) argue that institutionalization 'involves the processes by which social processes, obligations, or actualities come to take on a rulelike status in social thought and action'. They ask 'why do formal organizations, new or old, adapt to the prescriptions of powerful ideas?' And they seem to answer that *not to do so would be illegitimate* in society at large and could severely threaten the stability of the organization:

'Organizations that incorporate societally legitimated rationalized elements in their normative structures maximize their legitimacy and increase resources and survival capabilities' (ibid: 53) and the more the structure of an organization is derived from powerful ideas, 'the more it maintains elaborate displays of confidence, satisfaction, and good faith, internally and externally' (ibid: 59).

This is one way of looking at the process of ideational institutionalization, organizations adapt to ideas in order to survive and gain legitimacy. Another, and complementary, way of studying ideational institutionalization is to look at the process of ideational institutionalization as a political struggle where nowadays builders of organizations link future policy elites to certain ideas about what is legitimate and appropriate in any given situation. Powell (1991) also deals with the process of ideational institutionalization and asks why institutions are sticky. To answer this question, he argues that we need to understand that once particular sets of social arrangements are in place, they embody psychological sunk costs. Shared expectations that have arisen from an established social arrangement provide actors with psychological security and efforts to change are often resisted precisely because they threaten the individual's sense of security and disrupt routines (ibid: 194).

Although people are generally assumed to resist change which implies some sort of perceived insecurity, practices and structures also often endure through the active support of those who benefit directly or indirectly from them: 'it is clear that elite intervention may play a critical role in institutional formation. And once established and in place, practices and programs are supported and promulgated by those organizations that benefit from prevailing conventions. In this way, elites may be both the architects and products of the rules and expectations they have helped devise' (ibid: 191). Finally, a practice or structure might persist because it is so deeply embedded in a network of practices and procedures that changes in any one aspect will require changes in many others, and as a result of the complex interdependencies between different organizational fields and the ideas they express, 'organizational procedures and forms may persevere because of path-dependent patterns of development in which initial choices preclude future options, including those that would have been more effective in the long run' (ibid: 193).

In summary, the process of ideational institutionalization might imply that when constructing new organizations and procedures within an organizational field such as the European macro-economic field, it may, firstly, be illegitimate not to incorporate existing powerful ideas within these structures and, secondly, it may be a deliberate strategy undertaken by existing policy elites to

bind future elites to a path-dependent process where institutions get increasingly sticky.

In short, the dying away of old ideas, the promotion of new ones and their consequent institutionalization is here called the ideational life-cycle. But how does the ideational life-cycle help us to better grasp the role of European central-bankers in the EMU-process? In order to answer this question I will now discuss what I call the ideational roles of these central bankers.

3. The Ideational Roles of Central Bankers

I argue in this section that European central bankers, being one group of several very important actors in the European macro-economic organizational field, play at least three different ideational roles. At one level, central bankers are the sources of policy ideas - they simply invent new ideas; at another, they actively promote specific ideas in the policy process so that these become adopted in concrete policy-making and discourse; and, at a final level, central bankers are working within a normative ideational-context which constitutes both their identity and their interests, that is, they are themselves targets for other policy actors' intended or unintended promotion of ideas. It is argued that central bankers play different roles at different stages of the ideational life-cycle and that an assessment of the overall role of central bankers in the social construction of the EMU must take this into account.

3.1. Central-Bankers as Targets for Ideas

Let us begin by studying the role of central-bankers in those periods during which macro-economic causal ideas are very well established and consolidated in long-time stable organizations and procedures. One such period could be the decades (1950-1970) in which the Bretton Woods framework basically functioned as it was supposed to function, that is, to support the postwar ideational consensus as expressed in the notion embedded liberalism (Ruggie, 1982; Keohane, 1984). The role of central bankers in this period basically consisted in keeping the value of the national currency within one percent of the par value of the dollar; using capital controls to insulate domestic financial markets (but also beginning to liberalize capital movements in due respect for OECD standards); and intervening in the national bond markets to off-set losses in exchange-reserves and to restore the liquidity of domestic banks (McKinnon, 1993: 16). In other words, national central banks had many internal and external obligations could easily be conciliated which in periods of growth.

Another period of ideational stability was the hay-days of the EMS (1982-1992). It created a widely perceived monetary stability around the principles of 'sound money' (stable exchange-rates and low inflation) and 'sound finances' (low public deficits and debt). The role of national central banks, other than that of the German Bundesbank, began to be one of intervention on the financial markets to stabilize the currency of each in relation to the D-mark; in addition, they began to help liberalizing capital controls fully; and to support the process of increasingly converging national macro-economic policies (ibid: 36-37). In other words, European central bankers could turn their attention

toward the external dimension of monetary stability - that of exchange-rate stability - whereas the German Bundesbank, as the anchor currency, turned its attention to the internal aspect of monetary stability, that of domestic inflation.

Formulated in ideational terms, in these two periods - which are characterized by a firmly institutionalized ideational consensus - central bankers acted within the normative structures of the time and were therefore also constrained by them. Like any other elites in the macro-economic organizational field, the perception central bankers have of the world around them and about their own role in it is clearly constituted and regulated by this consensual knowledge about how the economy works and about how one can act most appropriately within the macro-economic organizational field.

The former Danish central bank governor, Erik Hoffmeyer, knows about the role of ideas in politics. One important lesson he has drawn from his 30 years as Danish central bank governor (1965-1995) is that 'if you are not in, then you are definitely out'! (cited from Andersen, 1994: 11, 21, 115 & 205), meaning that there can be catastrophic consequences for everybody who considers themselves as part of the policy-making elite if they either ignore that there is such a thing as a powerful idea which structures elite-discourse according to some criteria which commonly are accepted as legitimate, or deliberately reject this ideational consensus. In short, 'one had to follow the reigning consensus' (Hoffmeyer, 1993: 83).

Just as Hoffmeyer recognizes that there exists such a thing as a reigning ideational consensus in relation to macro-economic cause-effect relationships which develops over time, he apparently also sees himself as subsumed by the reigning monetary paradigm, which makes it difficult for him to study it from distance. Before retirement he invited the Group of Thirty to Copenhagen on May 6, 1994, where, in his last speech, he argued that 'it is difficult for me to draw worthwhile conclusions because my position has made me, to some extent, the *prisoner of conventional wisdom*. It would be wonderful if I could break free by yelling like the boy, Oskar, in Günter Grass' *Tin Drum* or write like one of the favorite authors of my youth, Voltaire, who so effectively demolished the hypocrisy and stupidity of the conventional wisdom of his age in the four days it took him to write *Candide*. But I can do neither' (Hoffmeyer, 1994: 3, my italics).

With this limitation in mind, Hoffmeyer goes on to describe three frames of reference, within which central bankers have been working with regard to prevailing macroeconomic policy objectives and institutions. In the old post-war macro-economic framework 'there was no doubt that our first priority was

a high and stable level of employment ... it was generally believed that fiscal policy could be used as a fine-tuning instrument to determine the optimum level of employment ... Cheap financing was a dogma: you were almost considered a traitor if you doubted it' (ibid: 4). From the early 1970s a transition began which 'was characterized by uncertainty. Politicians were bewildered ... Nothing worked ... It was a dark time when leaders were grouping for consistent policy instruments ... The old policy prescriptions were attacked' (ibid: 4-5). However, at some point a new coherent framework developed: 'Roles have been reversed: monetary policy has moved from a subsidiary role supporting employment goals to become the centerpiece of macroeconomic policy. Today, many take the view that independent central banks are better and more reliable policy makers ... than governments ... But I am not so sure we central bankers know enough to do the job expected of us ... [the new framework] is - to my mind - also based on a shaken foundation' (ibid. 6-7). In short, what the former governor of the Danish central bank, Erik Hoffmeyer, illustrates in these citations, is a clear perception of the *existence* of conventional wisdom, the *power* of that consensual knowledge, and the *development* of these causal ideas.

3.2. Central Bankers as Promoters of Ideas

A period of ideational stability is followed by a period of ideational vacuum which is a relatively short period in which policy-makers desperately search for alternative ways to conceptualize the reality in which they must act in. Such liminal periods of ideational insecurity are, so the argument goes, provoked by an external shock. In the case of the Bretton Woods framework I am talking about World War II, and in the case of the EMS I am of course referring to the two oil crises of the seventies. These external shocks - which profoundly challenged established consensual knowledge within the macro-economic organizational field - opened the above-mentioned window of opportunity and in these historically short periods European central bankers - together with other organized and homogenized groups of actors - began to play the very important role as ideational transfer mechanisms.

Of the three transfer mechanisms identified by DiMaggio & Powell (1983 [1991]) - mimetic, coercive and normative mechanisms - I refer to the latter because central bankers can be said to constitute an epistemic community (Verdun, 1996, 1997), defined as a "network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area" (Haas, 1992: 3). Four points distinguish an epistemic community from other groups such as interest-groups, social movements, disciplines and professions and one can

argue that many of the transnational central bank fora in the 80s and 90s, such as BIS and the Committee of Central Bank Governors (renamed the EMI since 1st January 1994) do indeed fulfill the criteria which constitute an epistemic community. Firstly, for example, central bankers seem to share a set of *normative beliefs* about how the economy should be organized. For instance, most central bankers agree that the economic polity should be organized with a central bank which is 100% independent of political influence. Secondly, central bankers believe in a precise set of *causal relationships*. They seem never to disagree about which policy-actions will lead to the desired outcome. For instance, if independent central banks pursue the objective of monetary stability they see themselves as contributing to creating a healthy basis for a growing and stable economy. In other words, inflation and currency unrest is seen as being detrimental to growth and employment creation. Inflation is seen as the cause of unemployment and one cannot trade-off inflation for employment it is typically argued. Monetary growth, surplus demand and wage developments are all seen by central bankers as potential trickers of inflation. Thirdly, central bankers have a shared notion of *validity*. They agree on the judgment about when something is wrong and when it is right. For central bankers, the economy is well-functioning if financial markets trust national policy-makers. In other words, national policy-strategies need to be credible. One way of enhancing credibility, according to the current central bank culture, is for national policy-makers to keep budget deficits at a so-called 'sustainable' level, which assures investors that taxes will not be increased, that capital controls will not be introduced, and that devaluations are not considered to constitute a valid policy-instrument. Signs of enhanced credibility are low long-term interest rates and consequently low risk-premiums on bonds nominated in the national currency. Finally, central bankers manage a common set of *policy actions* and practices which lead to what they understand by enhanced welfare. The common policy enterprise of the central bank community is that they consider themselves as being the counterweight of short-term thinking politicians. Popularly elected politicians, they seem to reason, have tendencies to inflate the economy before elections and they are occupied with broader macro-economic policy objectives - such as trade and employment preoccupations - which make them potentially 'unreliable' when it comes to monetary stability. Thus it can indeed be said that central bank governors share most of the characteristics of an epistemic community.

Furthermore, in conceptualizing the dynamics of epistemic communities Haas emphasizes three key words: uncertainty, interpretation and institutionalization. In economic policy, the forms of *uncertainty* that tend to stimulate policy-makers' demand for information are those which arise from

the strong dependence of states on each other's policy choices for success in obtaining economic policy goals, and those which arise from the ever increasing domestic demands for policy solutions. Central bankers can provide that information. They *interpret* information and inform policy-makers about causal relations which they can apply when making policy-decisions. A central banker can therefore influence a state's economic policy by directly or indirectly outlining what he considers to be in the interest of the state.

Similarly, central bankers can influence the *institutionalization* of policy practices. Consensual knowledge is in this regard the interesting term. Before policy-makers know whether or how to deal with specific problems which have cast their prior causal beliefs into doubt, they must reach consensus about the nature and scope of the problem. The dynamics of central bankers in epistemic communities helps us to specify the process by which the views of specialists are accepted and acted upon by decision-makers. According to the epistemic community literature (Adler & Haas, 1992: 373-385), the consequences of this should therefore be that central bankers help to *innovate* policy and to *diffuse* new policy, they help policy makers to *select* policy when there are several competing options, and they help to assure the persistence of certain policies through a process of *institutionalization*. In short, it would seem as if the epistemic community literature is capable of explaining most of the puzzles related to central bankers as ideational transfer mechanisms.

The question now becomes why central bankers suddenly were decisive for the ideational shift at the end of the 70s. Why did central bankers make a difference to the promotion of ideas in the ideational vacuum at the end of the seventies and not before? In order to answer this question, I should first underline that central bankers were *not the only* mechanisms which helped one kind of ideas rather than other kinds of ideas on its way. Two supplementary ideational transfer mechanisms pointed in the same direction towards 'sound finances' and 'sound money' - these can be associated with the mechanisms which DiMaggio & Powell called coercive processes and mimetic processes. Firstly, it can be argued that, in particular, the so-called weak currencies in the initial years of the existence of the European Monetary System (1979-1982) came under an increasing pressure to adopt certain macro-economic domestic policies according to the sound policy line. It is well known (Hayes-Renshaw & Wallace, 1997: 31-32, 275-279; Westlake, 1996: 253-265) that the EMS system of the ECOFIN, the Monetary Committee and the Committee of Central Bank Governors is a very efficient *socialization mechanism*, and it cannot be excluded that the EMS therefore amounted to what one could call a 'coercive ideational transfer mechanisms' because these weak currencies had no other choice than to adapt domestic fiscal and monetary policy strategies to the

norms which were then reigning in the strong currency countries (particularly Germany and the Netherlands).[6] The argument therefore goes that the EMS, contrary to stated objectives, *de facto* came to consist of a set of 'rules of the game' and 'bargaining structures' which consolidated the asymmetric relationships between the strong and the weak currencies and forcefully 'helped' the latter currencies to realize that they had to adapt to the reigning logic of 'sound policy' (Dyson, 1994: 177-230). Already by 1982-83, indeed all the EMS countries had agreed consensually upon the rules of the game of the European monetary system.

Secondly, in precisely the same period of time, Helmut Schmidt in Germany returned to a policy of 'sound money' and 'sound finances' which he himself had initiated with his *wende* in 1974. In 1978 he had been convinced to expand the German economy within the G7 framework; this, combined with the oil price shock the following year, resulted in macro-economic fundamentals which were unusual according to German standards. Schmidt himself felt that he had fallen into a 'Keynesian trap' and wanted, particularly when the American Governor of the FED, Paul Volcker, at the same time decided to tighten monetary policy, to emphasize that the central pillar of German policy-making was *stability*. Clearly, such a turn in macro-economic policies in Germany by the end of the 70s also had direct consequences on the policy-making of Germany's neighboring countries who at that time found themselves in an ideational vacuum and were looking desperately around for *models of stability to imitate at home*. In other words, they were in the process of searching for examples of success which could inspire them in their own management efforts, and Germany was for most European countries *the* symbol of success. German rates of inflation and budget deficits might have been considered to be unusually high by the German elites, but - seen from the neighbors' perspective - German performance was considered to be ideal. The transfer mechanism we are talking about here is the 'mimetic' one, in which the German dominance manifests itself not so much because it coerced the neighboring countries in to doing something they would otherwise not have done (the realist hegemonic model), but because the German model was

[6] See Cameron (1995a and 1996) for an account of how the French negotiators in the beginning of the 80s (i.e. Jacques Delors) actually had to convince the French macro-economic elite about the virtues of *rigeur* in order to obtain consecutive devaluations of the French Franc in the ERM. See Marcussen (1998) for a similar account about Danish negotiators at the beginning of the 80s.

deliberately and voluntarily adopted everywhere as a recipe for success (the Gramscian hegemonic model).[7]

If at the end of the 70s central bankers supplemented these two ideational transfer mechanisms (the EMS as ideational socialization mechanism and Germany as ideational model) this can be better understood if we take a brief look at the changed situation of central bankers between governments and financial markets and at the modified power relationships which such changes imply. I would argue that the *power*[8] of central bankers has been influenced by at least three factors during the last two or three decades (Deane & Pringle, 1994): the liberalization of financial markets, European monetary integration, and the development of a transnational central bank culture. Others would argue that the combined effect of these three trends means that 'central bankers are the masters now' (Stephens, 1998: 12).

On the one hand, the *liberalization of financial markets* has weakened central bankers in relation to the markets. The liberalization of capital movements, both internally in the EU and more globally, has made it considerably more difficult for central bankers to control monetary policy. This applies to central banks in general since they have no resources to protect the external value of their currencies in the case of serious financial speculation. It also applies to the Bundesbank which has become one of the most important reserve currencies next to the US dollar, the Swiss Franc and the Japanese Yen (Marsh, 1992; Kennedy, 1991; Spahn, 1989; Notermans, 1991). On the other hand, the liberalization of the financial markets has strengthened the central banks in relation to the government. When Bretton Woods broke down, governments lost one of their means of exerting some form of control over financial markets, and because central bankers are central actors on the markets, governments have been forced to increasingly rely on them for welfare reasons, particularly during financial crises (Kapstein, 1992: 285). Dean & Pringle (1994: 26) argue that given 'these market realities, governments were dependent on central banks to tell them both how to safeguard financial stability in the new market environment and how to conduct monetary policy'.

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[7] I have discussed elsewhere (Marcussen, 1997, 1998) that the German model was in fact only adopted very selectively in Germany's neighbor countries despite the fact the German model by all European policy-elites of the time in terms of both policy and polity was taken to be an example of 'how to do things if you want to be successful'.

[8] The notion of 'power' in this framework simply denotes an ability to diffuse ones own ideas either actively or passively.

The power of central bankers' ideas was furthermore strengthened because these exchange-rate crises provided central bankers with the evidence of the importance of 'sound money' as the primary goal of economic policy. '"Irresponsible" governments' use of fiscal policy, particularly reflected in the accumulation of public debt, was increasingly identified as the source of economic problems; the remedies were identified in the realm of monetary policy' (Dyson et al., 1995: 481-482). Overall price stability was established as the overriding objective of central banks and 'in that pursuit, many countries were to commit their central banks to a degree of independence in the running of monetary policy. It was a turning point in economic management of enormous significance' (Dean & Pringle, 1994: 109).

Secondly, *European monetary integration*, as it is expressed in the Snake, the ERM, the Basel-Nyborg Agreement and the EMU, has limited the margin of maneuver of central bankers in relation to the markets. In principle, they cannot decide individually when to intervene directly or indirectly on the financial markets and when not to do so. Most European central banks can set domestic targets (inflation, interest rates, monetary expansion) as they like, but they have become increasingly unable to respect these formal targets in practice. By attempting to control markets through monetary integration, governments try to regain control at the regional or interstate level. Through cooperative action, the counterpart of central bankers, the ministers of Finance and Economic Affairs can make policies which they were unable to make on the national level, or were clearly dependent on the national central banks to make. In this regard Dean & Pringle (1994: 214) cite a Japanese central bank official, who said that 'obviously we are against international coordination - it reduces the independence of the central bank'. However, European monetary integration has also strengthened central bankers. Through European integration, central bankers have become closely integrated in the policy-making process. They have a decisive say at almost all levels of decision-making and almost all stages of the decision-making procedure (Cameron, 1995b). If monetary integration forces central bankers to do something they would otherwise not have done, then it also serves to include central bankers in the most intimate spheres of policy-making.

Finally, the development of a *coherent and transnational central bank culture* can also be said to have influenced the power-relationship between governments and their respective central bank governors. In international meetings where both parties are represented - IMF, OECD, ECOFIN etc. - it is obvious that central bankers have generally been in office for longer periods of time than their governmental counterparts, if central bankers, furthermore, have developed a mutual and coherent understanding, language and culture,

this will serve to strengthen their positions in bargains on monetary policy issues. Commenting on the efforts of central bankers in the Delors Committee to produce an outline for EMU, Deane & Pringle (1994: 7) conclude: 'That European central bankers were able to agree ... on the shape of an institution that would inevitably make almost redundant the ones they were running shows a remarkable meeting of minds'.[9]

Central bankers themselves are the first to admit that they tend to take very many potentially politicized issues for granted. Apart from of course arguing in favor of their own independence from political influence, the transnational central bank community has hailed price stability as being the basis for all policy making. This is most clearly expressed by Japanese Central Bank Governor Yasushi Mieno who argued that 'to us central bankers, it is self-evident that the primary macro-policy objective of a central bank is 'price stability'. Even if the central bank law of a country does not explicitly state this, our belief in price stability is unshakable' (cited in Capie, 1994: 250). He furthermore underlines that 'what is absolutely necessary is the general public's understanding of price stability and their quiet but firm support of the central bank's objective' and that central banks, individually and collectively, have a duty to efficiently diffuse the idea of 'price stability' as being the basis objective for all macro-economic strategies (ibid: 251).

Former Central Bank Governor of the FED, Paul Volcker, adds to the analysis that only recently does the ideational consensus at the broad political level encompass the concept 'that price stability is to be treasured and enshrined as the prime policy priority ... The intellectual climate was very different when I entered the world of central banking. Then, academic, and certainly political, thinking tended to denigrate the significance of monetary policy as an operational matter and the sanctity of price stability as an objective' (ibid: 343). Seen in retrospect, Paul Volcker warns that central bankers, because they today tend to agree unanimously on all basic issues, run the risk 'of reinforcing our tribal prejudices ... we cannot be oblivious of the fact that, after a decade or more of increasing emphasis on price stability, a truly satisfactory measure of success has still eluded us' (ibid: 342-343). If the now retired FED governor encourages the central bank community to develop new ideas, the current - and newly independent - Swedish central bank governor, Urban Bäckström, on the contrary finds it commendable that politicians now seem to recognize 'the limits of politics' when it comes to

[9] On other occasions Dean & Pringle (1994) speak about 'extraordinary solidarity', 'monkishness' and 'tribalism' (p.33) when describing the central bank culture. They also refer to a surprising degree of consensus among central bankers (p.97).

devaluations, high inflation and public deficits: 'That this is important for a good economic development is obvious' (Svenska Dagbladet, 28.06.1998).

In short, what is argued here is that central bankers might have undergone a three-dimensional change since the breakdown of the Bretton Woods framework: in relation to governments, they have become more powerful; in relation to markets, they have become less powerful; and in relation to each other, they have developed a coherent central bank culture around the principles of low inflation, sound finances and central bank independence. I would argue that this changed power-relationship, combined with the fact that by the end 70s policy-makers were very sensitive to new ideas which could structure, inform and legitimate their discourse and action, was the main reason behind the success of central bankers' promotion of causal ideas.

3.3. Central Bankers as Inventors of Ideas

At the most abstract ideational level, central bankers are *artists* in the sense that they play around with many policy-ideas at the same time. In their peer-group communities central bankers test policy ideas on each other and the first place where central bankers would think of discussing central bank affairs would naturally be in fora where such affairs are understood and where problems are shared. Central bankers cab therefore be expected to use these central bank fora as useful testing grounds. Sometimes new ideas are strong enough to carry the day, on other occasions they fall along the way-side.

Helleiner (1994: 98-99) describes the mutual constitutive nature of the meetings of Central Bank Governors in the Bank of International Settlements (BIS) in the following way:

> 'These various ... financing networks were important not just because they counteracted speculative pressures but also because they encouraged the building of closer international linkages between financial officials in the finance ministries, central banks, and international organizations such as the OECD, IMF, the World Bank, and the BIS... The meetings held in the 1960s, ..., created friendships of an enduring nature among key financial policy-makers in the G-10 countries and led to common sense of mission and camaraderie among the regulars. ... Financial officials came to see themselves as carrying a very special and important, if arcane, responsibility to protect the stability of the international monetary system. Like high priests, or perhaps stateless princes, they were schooled in arts with which few were familiar, arts that required both a certain amount a secrecy and mutual confidence. ... They had an unusual sense of commitment and common purpose, and they build up a reserve of mutual trust that paid off later in an ability to reach quick decisions'.

Although Helleiner's description relates to the 60s, there is no reason to expect that much has changed. Marsh (1992: 78-79),[10] for instance, when describing the differences between the hierarchical relationships inside the Bundesbank and the fraternal relationship between the members of the BIS, clearly underlines the cordiality and the close personal friendship of central bankers at the international level:

> 'Compared with the sense of hierarchy and formality of the Bundesbank, Pöhl much preferred the easier, first-name-terms style of his monthly meetings with fellow central bank governors at the Bank for International Settlements in Basle. Never able to shake off completely his lowly origins, in a curious way Pöhl felt slightly elevated by the company of patricians. Old Etonian landowner Robin Leigh-Pemberton, or Jacques de Larosière of the Bank de France - who entertains guests for angling weekends in his wife's castle in Picardy - were a cut above the gray functionaries he would meet in the Bundesbank corridors'.

Solomon (1995: 112-113) argues that the meetings in the BIS almost are group therapy sessions providing a quiet testing ground for new ideas and approaches, and he cites the general BIS manager, Alexander Lamfalussy, who argues that:

> 'The greatest part of our work is the exchange of information of one [central banker] to the other so they can hammer out understandings on what is going on in other countries and can adapt their postures accordingly ... two full days each month, twenty working days a years, with four full meals permits an exchange of an enormous amount of knowledge ... [it is] monetary cooperation by intellectual osmosis ...'

This ideational role of central bankers is analytically different from the two roles identified above, because it is one which they play *continuously* without it necessarily having any consequences on the way in which reality is constructed by actors in the European macro-economic organizational field.

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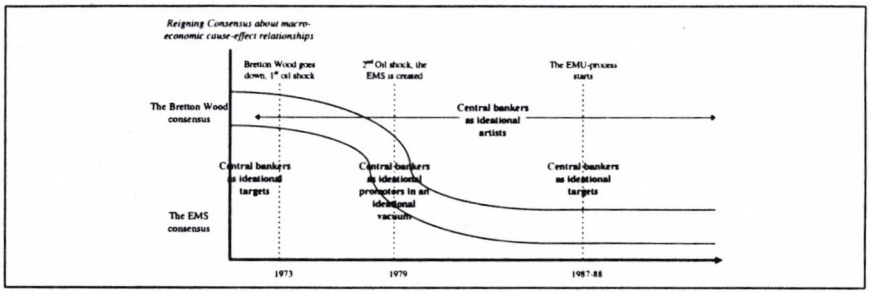
[10] See also Solomon (1995: 113): 'Many European central banks and the BIS even fielded sports teams against one another in competitions ranging from soccer to badminton to chess. At Basel, the governors talk about their families. They are almost a family club. Fritz Leutweiler of Switzerland and the Bundesbank's Karl Otto Pöhl took skiing holidays together. Bank of Italy Governor Carlo Azeglio Ciampi spent weekends with Pöhl, Bank of France Governor Jacques de Larosière, and Bank of Spain Governor Mariano Rubio. Alan Greenspan and Satoshi Sumita of the BOJ golfed together; so did Fed Vice Chairman Manley Johnson and Pöhl'.

The relationship between these three ideational roles played by European central bankers can be illustrated in the following figure which depicts the life-cycle of European ideas about macro-economic cause-effect relationships since the breakdown of the Bretton-Woods framework.

The Roles of Central Bankers in the Ideational Life-Cycle



According to the framework developed here, the first conclusion that can be drawn is that central bankers are only important as constructors of economic reality in the relatively short periods of ideational vacuum. In other words, during these periods they are in a situation where they can actively influence how reality will be defined in the years to come.

The second conclusion is that central bankers are in this favorable position only because in the preceding years they have undergone a process in which they have achieved a power-position in relation to governments. Through the development of financial markets, European integration and a transnational central bank culture, central bankers have become the legitimate promoters of "sound" policy ideas; for example that low inflation should be an overarching policy objective and that credibility could be enhanced on the financial markets through low budget deficits and public debt levels.

The third conclusion in this regard is that central bankers were not the only mechanisms to have promoted sound policy ideas at this critical juncture. European policy elites underwent a process of ideational socialization during the first four years of the functioning of the EMS in which a set of clear but informal rules of the game were established; and European policy elites were in all likelihood tempted to emulate what was commonly perceived to be the successful German model in terms of low inflation and an independent central bank. In order to fully understand the role of central bankers in the

construction of economic reality, the relative importance of these supplementary mechanisms must be studied closer.

Overall, this discussion of different central bank roles in the ideational life-cycle has served to underline the fact that the ideas represented in the EMU were actually promoted by central bankers, although *not* in what can be called the EMU-process which started with the establishment of and deliberations in the Delors committee. When starting to think about the EMU in the late 80s, the elites within the European macro-economic organizational field *already* shared a knowledge structure about how sound policy should be defined in practice. The argument of the next section will therefore be that if the EMU represents an institutionalization of the reigning knowledge about macro-economic cause-effect relationships, then this is precisely because that is what the elites wanted it to be. That is to say, central bankers in the Delors Committee did *not* force European policy-makers to do something that they would otherwise not have done. They simply could not imagine an EMU which prioritized other objectives than low inflation, deficits and debt.

4. Central Bankers and the EMU

Did central bankers thus play the most crucial role in the process of formulating the EMU-setup? Is the EMU a central bank project? The answers to these questions are that the EMU indeed is an institutionalization of a set of reigning ideas which can be associated with central bank norms, but that central bankers in the preparation of the EMU did only what they were expected to do. I argue that central bankers were crucial in the promotion of 'sound policy' ideas at the end of the 70s and the beginning of the 80s, that they continue to be important and powerful actors in the ongoing and continuous policy-game, both nationally and transnationally, but also that they did not have to 'pursuade' or 'force' central policy leaders at the end 80s and the beginning of the 90s to adopt certain ideas about macro-economic policy-making because these European policy elites had already agreed to these norms and had long since adopted them as their own.

It is highly plausible, therefore, that central European policy elites chose central bankers as members of the Delors committee precisely because they knew what they could expect in terms of output from these central bankers. That is to say, if you choose central bankers to work for you, then you will get a central bank project. Thus the question is *not*, as the epistemic community literature would have it, how central bank governors managed to influence the ideational agenda, through the ad hoc Delors Committee and the permanent monetary committee and European central bank committee, so that one agenda rather than another came to dominate the intergovernmental negotiations. Such a question implies that central bankers obliged central policy makers to do something that they would otherwise not have done. Rather, the central question is why European policy-makers chose to compose the Delors committee the way they did in the first place, and why they in general accepted the opinions of the central bank governors in the EMU-process to such a large extent. This question implies that at the time when the EMU got on its way, there was *already* a broad and well-consolidated consensus about what problems to be dealt with, what could be done and what should be done. In other words, during the EMU-process, elites in the European macro-economic organizational field already shared a common understanding and knowledge of the macro-economic reality, and that these consensual ideas were not created by central bankers in that period.

I will go into more detail with this argument in the following section. First, I will very briefly outline of what kind of ideas the EMU is an expression; second, I will discuss the relationship between three different and mutually constituting sets of actors in the setting up of the EMU, the European

Commission, the European central bankers and the policy-elites of France, Great Britain and Germany.

4.1. The EMU and Causal Ideas

The EMU has typically been associated with a certain way of thinking about how the economy works. Explicitly comparing the EMU with the Werner Report, Gros & Thygesen, for instance, argue that although they are very similar in the way in which they prepare the way for economic and monetary union in Europe, they differ to a considerable degree along two axes. One of these differences relates to their ideational content, the other to the procedures by which they were prepared and launched.

The focus of the *Werner report* on the centralization of certain elements of national demand-management policies in order to achieve the convergence of national economic performances reveals that 'sound money' was understood as being stable currencies and that it was believed that it could be very well combined with active fiscal policies, preferably undertaken at the supranational level with the help of a considerably increased EEC budget:

> 'The Werner Report paid less attention to achieving convergence and low inflation ... It was, in contrast, concerned about the longer-run risk of divergence in economic performance and policies and hence made more radically constraining proposals to put the EC authority over budgetary policies and even introduced some potential scope for a joint incomes policy.
>
> The differences in emphasis and ambition closely reflect the rather different view of how economics work and interact which prevailed twenty years ago. The price level was seen as moving only rather sluggishly with wage negotiations and cost push playing central roles in its evolution. External balances were attributed primarily to differences in the stance of national demand management policies, in particular public budgets; hence the need to centralize authority over them' (Gros & Thygesen, 1992: 13).

The *Delors report*, to which Niels Thygesen actively contributed, expressed another vision of the economy. There was no mention of a radically increased EU budget and it took a fairly positive view of price flexibility and factor mobility as mechanisms to handle adjustment problems in the EU and 'nor was the confidence of the [Werner report] in the virtues of activist and discretionary use of budgetary policy shared by the authors of the Delors report, which stressed instead the need for strengthening convergence through medium-term guidelines for budgetary policies' (ibid: 318). Furthermore, when it came to the structure of the ESCB, 'opinions were clearly converging among

the governors that the experience of the Bundesbank was useful as a model of mandate, structure and relationship with political authorities' (ibid: 320). In other words, what was proposed was a central bank system organized federally, with full constitutionally endowed autonomy and with 'sound money' as its basic objective. Contrary to the Werner report, policy-makers now understood 'sound policy' as being rigid budgetary policies, low inflation and stable currencies.

Interestingly, and this is a point to which I will return later, Gros & Thygesen argue that although there were issues from the Delors Report which were discussed fervently in the ECOFIN meetings preparing the EMU, *the explicit modeling of the German monetary polity did not meet any objections among national ministers of finance and economics*: 'Participants in the ECOFIN council ... did not object to a proposal to give the ESCB more independence than they had been prepared to give their own central banks within their respective national system. There was no important disagreement on any of the main provisions for the ESCB' (ibid: 320).

Stephen Gill (1992: 165, 1997: 205) associates the EMU with what he terms 'new constitutionalism'. More concretely, Gill considers the EMU as being one further step in the consolidation of 'new constitutionalism' at a global level because the EMU institutionalizes 'the separation of monetary policy ... from the pressures of domestic politics and accountability' (Gill, 1997: 216). Particularly, the European System of Central Banks is, according to the Delors report, supposed to be independent of instructions from national governments and community authorities and to be uniquely committed to the objective of price stability. Such a gesture on the part of national policy elites would enhance their credibility towards financial markets and following the consensus discourse of 'new constitutionalism' it would promote a certain kind of accountability in that central bankers would have to explain to the public, and other interested parties, why they deviate from monetary or inflation targets. A governance system which relies on politicians and their discretion in monetary matters is not considered to be viable, so accountability in 'new constitutionalism' does not refer to the capacity of an electorate to replace politicians or of politicians to replace civil servants, but rather to that of financial markets to strap central bankers to the mast of price stability.

Another reason why the EMU was simply one more step toward the global institutionalization of a certain way of organizing governance systems is that governments need to be bound to keeping budget deficits and foreign debt 'sustainable' (Gill, 1997: 218-219). Again, in terms of the discourse of 'new constitutionalism', this concerns the credibility of policy-makers in relation to

the financial markets. By imposing 'discipline' on themselves, governments can apparently convince financial markets that they will take a non-accommodative stance to all potential tendencies to price and wage inflation. That is to say, governments want to assure the financial markets that they will not allow burdens related to ordinary demand management, transfers or interest payments to become unsustainable and the proof that this self-imposed discipline has convinced the financial markets that they really do mean 'low inflation' might be that risk-premiums on bonds and on other placements in national currencies can be reduced. In other words, politicians do not control long-term interests rates directly, but by binding themselves to a mast of 'sound finances', they can be lucky to influence long-term interest rates indirectly. The convergence criteria in the Delors report, therefore, aims at partly decoupling politicians from the dimension of macro-economic policy-making which concerns spending and financing. In Gill's words: 'These 'new constitutionalist' initiatives will have the effect of lessening short-run political pressures on the formulation of economic policy. They tend to give more weight to 'technocratic', neo-classical economists, financial administrators and central bankers - individuals who tend to have a shared framework of thought with respect to the processes of social and economic policy and the meaning of democracy relative to such policies' (ibid: 220).

In short, the EMU - apart from being the final stage in complete and irreversible currency stability in Europe (the external aspect of 'sound money') - institutionalizes the priority of low inflation (the internal aspect of 'sound money') by making both central bankers and national macro-economic policy-makers accountable to the financial markets - the former by making them independent from policy discretion and the latter by binding them to explicit rules which define the concept of 'sound finances'.

4.2. Three Groups of Mutually Constituting Actors

As we saw in the preceding section, the ideas expressed in the Werner report of 1970 were of a very different kind than those expressed in the Delors report. A second difference between the Werner report and the EMU set-up was the way in which they were prepared (Gros & Thygesen, 1992: 44).

The *Werner report* was launched from the 'top'. At the beginning of 1968, the Prime Minister of Luxembourg, Pierre Werner, issued an action plan which contained a proposal for the irrevocable fixing of exchange-rates. As a result of this initiative the vice-president of the European Commission, Raymond Barre, proposed a set of rules to coordinate and support monetary policies at the EEC level (the first 'Barre plan'). Two years after the initial

Werner initiative, German Chancellor Willy Brandt, at the European Summit of the Hague on 1st and 2nd December 1969, launched a fresh proposal for economic and monetary union which lucky enough hit what was later called the 'spirit of the Hague' - a special momentum were there is both the willingness and capacity among the Heads of State and Government to make commitments (Dyson, 1994: 76). In January 1970, the ECOFIN consequently adopted almost the entire and un-amended Barre plan which had been presented a year earlier. In order to solve the conflict between the so-called 'monetarist' and 'economist' views on how to proceed to EMU, a working group chaired by Pierre Werner was established in February 1970 charged with presenting a report to the finance ministers already in June 1970. The group, apart from Werner, consisted of the chairmen of the monetary committee, the Committee of governors, the medium-term economic policy committee, the short-term economic policy committee, the budget policy committee and a representative from the Commission. In short, the initiative was taken openly and agreed on at the European Council level and the relevant committees were included immediately in the working process.

As to the procedures which led to the establishment of the *EMS*, these were different to those preceding the Werner plan in that they were more or less secret in the beginning. The initiative was taken in January or February 1978 by Helmut Schmidt personally and he only shared his ideas with a small group of entrusted persons in his cabinet.[11] After having convinced Giscard d'Estaing about the need to reform the European monetary system, the two prepared a common initiative in a closed Franco-German council meeting on 2nd of April 1978 in order to *coup* the European Council meeting in Copenhagen following shortly on its heels. This was duly done and having agreed to the basic principles of the Franco-German requests, the summit agreed to study the matter further and asked the Monetary Committee and the Committee of Central Bank Governors to prepare a report for its next meeting in Bremen on 6th and 7th July 1978. In the meantime, a secret and closed group of three personally entrusted policy advisers was established to develop the real agenda which would later be adopted at the Bremen summit. It was only after this summit, when the agenda had been adopted, that the expert committees began to be involved systematically in the process of deliberation. In short, Helmut Schmidt and Giscard d'Estaing worked on the premises that progress in preparation would be achieved only if the relevant fora were kept as small and closed as possible.

[11] On the role of the Commission President of the time, see Jenkins (1991: 456-490).

The procedure to establish the *EMU* was again different from the two preceding ones. This time it was launched at the overall level by Eduard Balladur in a memorandum to his ECOFIN colleagues in January 1988,[12] by the Italian Finance Minister Giuliano Amato in a memorandum to the same group in February 1988,[13] as well as by the German Minister of Foreign Affairs Hans Dietrich-Genscher in a memorandum to the General Affairs Council a few days after. Genscher proposed that at the forthcoming Hanover summit, a group of 5-7 independent experts should be convened to investigate the possibilities for creating a European currency area. As Germany held the Presidency at the time such an appeal could not be ignored, and the German Finance Minister Gerhard Stoltenberg, on 15th March 1988,[14] distributed a memorandum to the ECOFIN, clearly underlining that a European monetary polity should resemble the German monetary polity with federalism, price stability and independence being the main ingredients.

If we add to this list of official memoranda concerning the EMU, a selection of unofficial papers by, for instance, the duo Helmut Schmidt and Giscard d'Estaing,[15] the Association for Monetary Union in Europe (AMUE),[16] and from academics such as Daniel Gros and Niels Thygesen,[17] then it was obvious that the subject would be at the center of the Hanover summit on the 27th and 28th June 1988. Once it became clear that such were the tendencies, European central bank governors, 'were anxious ... to be left out, as had happened in the initial stages of the EMS negotiations' (Gros & Thygesen, 1992: 316). Some of the central bank governors considered the proposals to be divisive and even dangerous but the 'central bank governors became aware that overdue caution and skepticism could lead to their exclusion from the early negotiations' (Dyson, 1994: 128). The decision made at the summit was that a committee would be established under the chairmanship of Delors and consisting of twelve central bank governors acting in a personal capacity, one

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[12] Balladur, Eduard (1988), 'Europe's Monetary Construction', Memorandum to the ECOFIN, Paris, 8th January.

[13] Amato, Giuliano (1988), 'Memorandum to the ECOFIN', Rome, 23rd February.

[14] Stoltenberg, Gerhard (1988), 'The further development of monetary cooperation in Europe', memorandum to the ECOFIN, Bonn: Ministry of Finance, 15th March.

[15] Committee for the Monetary Union of Europe (1988), *A Program for Action*, Paris: Crédit National

[16] See http://amue.lf.net/ for more information on the Association for Monetary Union in Europe

[17] Gros, Daniel & Niels Thygesen (1988), 'The EMS: Achievements, Current Issues and Directions for the Future', Centre for European Policy Studies, *CEPS Paper*, no.35.

additional member of the Commission and three independent experts. The Delors Committee was asked explicitly not to deal with the question of the desirability of the EMU but rather, before the European Council summit in Madrid June 1989, to examine how such a construction could be achieved. In short, the initiative was clearly taken at the top level, but the concrete preliminary discussions took place in a relatively closed fora in eight meetings between September 1988 and April 1989 when the Delors Report was submitted to a meeting of ECOFIN.

I will now turn my focus to the roles of three groups of actors who played an important role in the establishment of the EMU, the then President of the European Commission, the central bankers' community, and the Heads of State and Government in France, Great Britain and Germany.

4.2.1. Delors and his Three Pillar Strategy

In investigating the dynamics of ideational institutionalization with regard to the EMU process, it is possible and indeed plausible to attribute to the Commission of the European Community considerable explanatory value. One of the main tasks of the Commission is, as a policy entrepreneur, to set the agenda for intergovernmental bargains and to actively promote solutions through a brokering function. This particular story of agenda-setting can be described as a 'three-pillar strategy', which was initiated with Jacques Delors taking the presidency of the European Commission in January 1985.

Jacques Delors is a specialist in financial and monetary affairs. He started his carrier in the *Banque de France* in 1944, the moved in to the private banking sector and, in the 60s, to the *Commissariat au Plan*. Delors was elected MEP at the first-ever direct elections for the European Parliament in June 1979 and subsequently as chairman of the Parliament's Economic and Monetary Affairs Committee in which he became *rapporteur* on a report on the European Monetary System. Shortly afterwards, with the election of François Mitterrand to president in 1981, Delors was nominated Finance Minister and, in 1983, Minister for Economic and Financial Affairs where he became the incarnation, despite his repeated travels to Brussels asking for realignments, of the *franc fort* and *rigeur*. Lastly, Delors, as president of the Commission, held the EMU portfolio from 1985 until 1995 (Grant, 1994; Ross, 1995). An investigation of the Commission's role in the EMU process therefore naturally begins with a discussion of the European integration strategy of the president himself.

It was in autumn 1984 that Delors began his search for the project with which he would be able to relaunch Europe and according to Grant (1994: 66), Delors considered 'institutional reform, monetary union, closer cooperation on defense and an economic revival based on the completion of the internal market'. Having made a 'tour d'Europe' Delors began to work on the completion of the internal market, as the first pragmatic step in a series. The Commission white paper - *Completing the Internal Market* - presented at the Milan Summit on June 1985, among many other subjects, contained a section which later proved to be crucial for the launching of the EMU-project, a promise to liberalize capital movements and financial services. At the time, this section reflected the argument in favor of Prime Minister Thatcher's support of the internal market, but later it would become the mainstay of Delors' argument in favor of a monetary union. The Internal Market program was closely followed up by the Single European Act which entered into force on 1st July 1987 and contained a stipulation arguing that the next logical step in European monetary integration would be to engage in European Economic and Monetary Union. At the time, the SEA was widely considered to be a technical device for the successful completion of the Internal Market; in reality, however, Delors had been applying what has elsewhere been called a 'Russian doll' strategy: 'The Russian doll metaphor implied iterated episodes of strategic action to seize upon openings in the political opportunity structure, resource accumulation through success, and reinvestment of these resources in new actions to capitalize on new opportunities' (Ross, 1995: 39).

At the same time, Delors asked the Italian bank official, Tommaso Padoa-Schioppa, to write a report on the implications of the Internal Market program for the future of European integration. The report appeared in April 1987[18] and argued that completely liberalized capital movements in a stable exchange-rate regime do not leave any room for national monetary autonomy. Apart from influencing the Basle-Nyborg reforms of the EMS in September 1987, the report, both then and now, seems to have gained the status of established knowledge about the monetary dynamics of optimal currency areas, and it consequently provided Delors with a clear academic argument in favor of monetary integration. When, as we have seen above, Eduard Balladur in January 1988, Giuliano Amato and Hans Dietrich Genscher in February 1988, and Gerhard Stoltenberg in March 1988, all argued in favor of closer monetary integration during the German presidency, Delors apparently saw a window of opportunity wide open and immediately exploited the occasion to approach the

[18] Padoa-Schioppa, Tommaso (1987), *Efficiency, Stability and Equity. A Strategy for the Evolution of the Economic System of the European Community*, Oxford: Oxford University Press.

German Chancellor Helmut Kohl in order to draw a direct link between capital liberalization and the need for the establishment of a much tighter monetary integration in Europe.

In other words, the *first pillar* of Delors' EMU strategy can best be described as a pragmatic step-by-step approach, which, through the realization of the internal market and the Single European Act with liberalized capital movements and financial services, through the publishing of the influential Padoa-Schioppa report on the 'incompatible triangle', and through the utterances of key actors in the European political landscape on the need for monetary union, would inevitably end up in a self-fulfilling prophecy where the dominant monetary power in Europe, Germany, would realize that EMU is the only logical step forward.

Parallel to this first pillar, was a *second pillar*, which concerned 'the House that Jacques built' (Grant, 1994). According to Grant, 'Delors turned the Commission upside down. He gave it a sense of purpose and taught it to respond to his will. Power and ideas started to flow top-down instead of bottom-up ... Delors brought about this revolution by concentrating power in the presidency' (ibid: 91). In other words, Delors turned a basically horizontally organized organization into a steep vertical one, created a closed network around him with his personal cabinet as center and placed specially trusted persons into particular strategically chosen posts (Ross, 1995: 51-77; Grant: 1994: 91-115). Why? One answer can probably be found in Jacques Delors' French administrative background and consequently in his inheritance of French administrative culture. Apart from being distinguished by its centralization, routinization, and clear vertical commando ways, French administrative culture is also based to a large degree on the political nomination of persons to particularly sensitive administrative posts in the state bureaucracy. This means that Delors managed to create a rather efficient and close network around him when it came to the EMU issue. Dyson & Featherstone (1997: 8-10) describe Delors' EMU network as constituted of three persons from his own cabinet (Pascal Lamy, chief of cabinet, Joly Dixon and François Lamoureux), the Commissioner for Economic and Financial Affairs (Henning Christophersen), this Commissioner's chief of cabinet (Jan Schmidt), the top-three officials of the same DG (Giovanni Ravasio, Director General of DGII, Jean-Pierre Mingasson, Director for Monetary Affairs and his successor, Hervé Carré), the Head of the Commission's Legal service (Jean-Louis Dewost); and finally the Secretary General of the Commission (David Williamson). Ten to eleven persons including Jacques Delors himself! This concentration of power showed itself to be a powerful tool in the hands of Delors when confronted with an entire policy community of central bank

governors and financial ministry officials closely organized in the Committee of Governors and the Monetary Committee.

In other words, in order to act efficiently in relation to this consolidated and closely knit community of top professional experts in the monetary area, Jacques Delors had, apart from his personal skills and intuition, to rely on a small and extremely efficient back-up group of officials. In order to be prepared for the 'great and decisive battle', because 'EMU, more than anything else, was Delors' baby' (Ross, 1995: 80), the second pillar in Delors' overall strategy for European monetary integration, was to streamline (i.e. centralize) the Commission so that it constituted an appropriate tool in the confrontation with the entire European financial community.

The *third and final pillar* of Delors' strategy can be found in his personal relationships with key personalities in the European political landscape. In particular, his relationship with Helmut Kohl was cordial (Grant, 1994: 139-142). Delors, for instance, was one of the first to welcome German unification, which apparently helped to turn Kohl's initial skepticism about EMU into support.[19] Grant (ibid: 121) furthermore cites the then President of the Bundesbank, Karl Otto Pöhl, as saying that both Kohl, Delors and Mitterrand believed in a moral drive for European integration, derived from World War II and which helped them to communicate on the same visionary premises. In any case, having established a Russian doll strategy of nested games for European integration and having streamlined the Commission according to French administrative ideals, Delors perceived the opportunity which presented itself in spring 1988 and approached his close friend and ally on European integration issues, Helmut Kohl, who fortunately also held power at the time as the President of the European Council. This approach, which materialized in a meeting between Delors, his chief of cabinet, Pascal Lamy, Helmut Kohl and his foreign policy adviser, Joachim Bitterlich (who, together with Lamy, had been one of Delors' students at the ENA), ended in an agreement between the two parties that 'Hanover should establish a committee to study the technical design of EMU. More particularly, they agreed the composition of the new committee (the twelve central bank governors plus three independent figures) and that Delors should chair it' (Featherstone & Dyson, 1997: 14).

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[19] Delors (1994: 256) was in an interview with Dominique Wolton asked: 'Vous avez toujours été favorable à l'unification allemande. Pourquoi'? He answered: 'J'y ai toujours été favorable, donc je n'ai eu aucune hésitation à marquer mon appui total à cette réunification. J'ai d'ailleurs été le premier à le faire et c'est pour cette raison que l'on m'a invité, le 3 octobre 1990, à la cérémonie officielle d'unification'.

The reason why Delors proposed constituting the group of central bank governors and external experts, rather than following Genscher's proposal of five wise men, was, firstly, that Delors knew many of the central bank governors to be skeptic of the EMU and by co-opting them into the preparatory group much of the criticism would be paralyzed. Secondly, Delors also thought that the technical expertise and economic orthodoxy of central bank governors would add weight to whatever they could agree on. Thirdly, by proposing to appoint Padoa-Schioppa as the rapporteur who would draft the text and by proposing to let three external allies such as Ciampi, de Larosière and Thygesen sit in and speak on his behalf, Delors hoped to have created an intellectual counterweight to the skeptical central bank governors. Bundesbank President Karl Otto Pöhl objected that Padoa-Schioppa was too committed to the EMU and insisted on Gunter Baer, a German official within the BIS, sharing the job as rapporteur.

Grant (1994: 120-121) describes the Hanover summit and the establishment of the Delors Committee in great detail:

> 'On the first evening of the summit, 27 June, Kohl hosted a dinner in Schloss Hernhausen. The commission president introduced a discussion on EMU, which ended with Kohl proposing that Delors should chair a committee. Neither Thatcher, caught on guard, nor anyone else opposed the proposal outright. Kohl asked Delors to prepare some formal conclusions for the following day.
>
> Most of Delors' text got through, although Thatcher cut out references to a single currency and a central bank ... Thatcher declared at her press conference that there was no prospects of EMU in her lifetime. According to Charles Powell, her diplomatic adviser, she swallowed the conclusions because
>
> > *we thought the Delors Committee was a good way of sidelining the idea. We expected the governors to be skeptical and to keep the wide-eyed commission officials out. They disappointed. Kohl told us it was just a committee. We underestimated the other side.*
>
> On hearing about the Delors Committee, Pöhl raged that his government had, he thought, reneged on an agreed policy.
>
> > *My first instincts were, I won't sit on this heterogeneous committee. Why is Delors in the chair? He's not an expert, the Rome Treaty gives the commission no competence in monetary policy - I was against two commission guys in the committee.*
>
> ... Pöhl says he thought about resigning from the Bundesbank, but did not because he had just been reappointed. Pöhl now judges it

a mistake to take part in the Delors Committee, I couldn't defend German interests. If I had boycotted it I could not have stopped the process, but I could have slowed it down. I would have been freer to criticize the Delors report.

In short, it seems as if Delors and Kohl succeeded in their secret strategy to establish a committee which would fulfill their interests and it seems as if Delors' reasoning concerning the effects of such a composition succeeded. Pöhl - Delors' and Kohl's strongest rival in the matter - seemed to admit that he was co-opted into Delors' Russian doll strategy.

The first step - the establishment of an appropriate committee - was succeeded by a second much more difficult step which consisted in moving the work of the committee forward to something Delors wanted. This should show itself to be a more complicated, though not impossible, challenge for Delors. Grant (ibid: 122-123) argues that Delors' chairing impressed the governors. He cites De Larosière, French central bank governor at the time, for saying:

He summed up debates with extreme skill and objectivity. He did not preside in an authoritarian manner, trying to influence the governors in a particular direction. He became more active when we came down to the details of editing the report.

And Pöhl:

Delors was more flexible than I expected and my concerns did not fully materialize. The substance of the report came from the governors, not Delors. His contribution was small but we made him famous.

Pass that on to Delors, and he exclaims:

I'm delighted Pöhl says that, because if he'd said: 'It's a scandal, Delors wanted to impose his own project', we wouldn't have got the report ... One of the great ways to make progress when your own authority is not unquestioned is to get others to promote your ideas.

And Padoa-Scioppa:

The governors were inherently suspicious of politicians and the commission. But Delors encouraged their professionalism to get the better of their mistrust. By the end they saw themselves as engineers who had been asked to design a car and were keen to make a good job of it.

In other words, it seems as if one of the techniques which Delors applied to involve the central bank governors actively in the deliberations was to allow them to understand that this was basically a technical exercise emptied of political content. However, although Delors was successful in placing the EMU on the agenda, its exact construction did not fully live up to Delors' ideals. Jacques Delors 'favored automaticity to stage 3 (victory), but on relatively soft convergence terms (defeat). [He] supported a strong monetary institution for stage 2 (an "ECB"), on which [he] lost. [He] also advocated a strong role for both the Commission (defeat) and the European parliament (limited victory) in the EMU process' (Featherstone & Dyson, 1997: 25).

In short, the explanation of ideational institutionalization in the EMU process, which places the Commission at the center, consisted of three pillars where the first was a long-term strategy in which initial small integrative steps are supposed to logically lead to more and larger steps and finally end up in a full-fledged EMU. The second pillar of the strategy was the necessary, but not sufficient, streamlining of the Commission in order to be on an equal footing with the tight European financial community in the negotiation on monetary reform and, finally, the third pillar of the overall Commission strategy was to establish backing from political heavyweights such as Helmut Kohl and to ensure that he was ready to invest considerable political capital in the project.

Thus, it is not difficult to find literature within the fields of regime-, negotiation- and integration theory which supports the argument that informal supranational entrepreneurship[20] makes a difference. An opposing argument is presented by Moravcsik (1997: 2) who argues that most of these studies tend to focus on the role of the Commission in only one case and consequently forget to test whether supranational informal entrepreneurship is relevant to understand other, less obvious, cases of EU policy-making. Moravcsik (1997: 5) concludes that claims 'that Jean Monnet, Walter Hallstein, Delors and other celebrated supranational entrepreneurs influenced the course of European integration are greatly exaggerated'. When it comes to the particular case of the role of Commission President Jacques Delors in the Delors Committee, Moravcsik (1997: 35) argues that 'Delors fulfilled a technical secretariat function, acting as coordinator, rapporteur and draftsman; he drafted the compromise texts, as Ross [1994: 80 & 82] notes, but he did not influence their content. Two committee members recalled later [in interviews with Moravcsik]

[20] Moravcsik (1997: 6) defines informal supranational entrepreneurship as being 'the exploitation of the informal power to persuade through the manipulation of ideas and information'. In other words, informal entrepreneurship has in principle nothing to do with direct coercion, provision of material or immaterial incentives or formal agenda control.

that Delors neither proposed nor vetoed any important proposal ... To be sure, Delors' presence lent some prestige to the negotiations, but this was primarily a function of a prior decision by Kohl and Mitterrand to name him to the position precisely for that purpose'. In other words, in order to assess the role of the Commission as agenda-setter in the EMU process, we need to establish a supplementary research question which is: would the 'Report on Economic and Monetary Union in the European Community' (the Delors Report) have existed and included the same content, if Jacques Delors had not acted as informal policy-entrepreneur? Or, slightly reformulated: was Delors and his three-pillar strategy a necessary and sufficient condition for the initiating of the EMU-process?[21]

In order to investigate this question, attention can be directed more specifically towards the question of why the 'window of opportunity' which allowed Delors to play the role of policy entrepreneur presented itself precisely in the spring of 1988. The focus on the 'window of opportunity' directs us not so much toward the policy entrepreneur, ie. the Commission, but more to the two other streams of 'problem definition' and 'policy climate'. In other words, a focus on the Commission is not in itself sufficient to explain the dynamics of ideational institutionalization in the EMU process, and we do not really know whether it is a necessary factor at all. I therefore turn to a second type of explanation, which places European central bankers at the center of the stage.

4.2.2. Central Bankers

Identifying the 'monetarist' versus 'economist' conflict as lying at the heart of an understanding of the EMU process since the 60s, Cameron (1995b: 51-52) argues that 'it was the 'economist' vision of EMU that ultimately triumphed in

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[21] It is worth noting in this regard that even Delors himself (1994: 229-230), in an interview with Dominque Wolton, places himself in a rather ambiguous position with regard to the launching of the EMU-process: 'Non, l'initiative ne vient pas toujours de la Commission. Je vais vous donner un exemple. C'est moi qui ai insisté pour que les questions monétaires soient réintroduites dans le schéma institutionnel, mais ce n'est pas moi qui, le premier, ai lancé l'idée de l'Union économique et monétaire! Ce sont, en 1987, des personnalités, comme le Premier ministre français, Éduard Balladur (alors ministre de l'Économie et des Finances), le ministre des affaires étrangères de l'Allemagne fédérale, Hans-Dietrich Genscher, et bien d'autres, qui ont proposé d'aller vers l'union économique et monétaire. À l'époque, je ne l'avais pas fait car je pensais que la Commission était déjà trop "en avant" et qu'il ne fallait pas "en rajouter". Cela a débouché sur des conversations entre le président du Conseil européen, c'était à l'époque Helmut Kohl, et moi-même. Nous avons pensé, pour préparer une éventuelle décision sur l'Union économique et monétaire, et compte tenu du caractère révolutionnaire et complexe d'une telle démarche, qu'il fallait créer une commission chargée d'éclairer les gouvernements'.

the negotiations that produced the Maastricht Treaty'. However, he believes that this outcome was not a result of intergovernmental negotiations, but that it was already settled in the Delors committee between central bankers. Cameron (ibid: 46-47) argues that in order to gain a full understanding of the process which resulted in the EMU set-up, one must 'understand the role of certain institutionally defined transnational actors - most notably, the central bankers of the Community - in the elaboration of the Balladur initiative'. Otherwise, according to this argument, one can hardly understand why a French initiative to reduce asymmetry in the EMS 'resulted in an agreement that reflects most fully the position of Germany'. Furthermore, if focus is not directed more explicitly on the role of central bankers in the committee, one cannot understand why Delors, as head of the committee and as representative for a supranational institution, seemed to be overruled on important questions concerning the deadlines and convergence criteria associated with the transition period (ibid. 48-49). Cameron represents a theoretical approach where 'transnational relations matter' and should consequently be 'brought back in'. He argues 'that [central bankers] and their policies were present and influential *throughout* the development of the EMU initiative ... [because] ... forums exist either within the Community or coterminous with it ... for transnational actors' (Cameron, 1995b: 73-74). In other words, Cameron seems to argue that the creation of the Delors Committee in some way enhanced the power of the central bankers especially in relation to the member states' governments and the Commission.[22]

Dyson et al. (1995: 480) have argued that if European central bankers actually share a set of ideas, many of these had their source in Germany. They argue that: '[t]he shared beliefs that emerged among EC central bankers, and the practical arrangements put in place for EMU, reflected the structural power of the independent Bundesbank and the hegemony of German ideas in the EMS'. In his inaugural speech as Bundesbank President on 20th December 1979, Pöhl argued that 'the world is being inundated by a new wave of

[22] For a similar point of view, see Westlake (1996: 258-259): '[The] intimate involvement of the central bankers was a perhaps vital element lacking in the earlier Werner Plan negotiations. If the central banks now [1988] subscribed to monetary union, it was a monetary union of their making' and 'Although the Werner-inspired EMU-project failed, the subsequent development of the EMS in 1978-79 strengthened the position of the central bank governors, and their Committee became the routine management agency for intervention within the EMS. All governors now regard their respective national jobs as having a very important European component. It was a striking reflection of this growing stature that when it was decided to relaunch the EMU process at the European Council meeting in Hanover in June 1988 by commissioning the Delors Report, the membership of the committee for the new study was composed almost exclusively of the central bank governors' (ibid: 265).

inflation ... There can be only one answer to the evident signs of danger to stability - to keep money tight' (cited in Marsh, 1992: 47). Twelve years later, leaving the Bundesbank before his term was over, Pöhl concluded with satisfaction that 'price stability' now was accepted as the 'highest objective of monetary policy in Europe and elsewhere' (cited in Marsh, 1992: 46).

There are indications that this export of the German 'Stability Ethos' took place with full German consent. After Helmut Kohl had signed the Treaty on European Union, including its chapters on monetary union and the automatic deadline for transition to the third stage, Horst Kohler (state secretary at the Bonn finance ministry) was by Chancellor Kohl entrusted with the task of informing the German population about the plans for EMU. This Kohler did by arguing in April 1992 that the plan for EMU institutionalized the fight against inflation as the major objective of European monetary policy and outlined the structure of a European central bank which would be similar to the federal structures of the Bundesbank. As a consequence 'a good piece of German identity' was being exported to the rest of Europe (cited from *Der Spiegel*, no.15, 1992 by Marsh, 1992: 253). David Marsh (1992: 16) argues that Bundesbank ideology, *stabilitätspolitik*, has been diffused 'not only through its decision-making rigor, but also through the compulsion of logic and argument ... The Bundesbankers are secure in the knowledge that, by defying inflation, they are pursuing the brightest and most meaningful lodestar in the sky. Their devout wish is that others, too, will follow'.

The fora where such a process of argumentation and persuasion has taken place have, of course, been the various permanent central bank fora such as the Monetary Committee, the Committee of Central Bank Governors, the BIS etc., and it would be a logical consequence if the ad hoc Delors group was considered to have constituted a similar arena for Bundesbank ideational dissemination. Marsh continues that the 'Bundesbank's anti-inflation rectitude has been exported throughout Europe. *Stabilitätspolitik* has become part of the international consensus. Low inflation is hailed worldwide as a prime condition for improving both the quantity and the quality of economic growth" (ibid: 259).

The role of the Bundesbank in the establishment of the EMU can probably be best understood if the point of departure is that it stood to lose considerably by such a deal and therefore - everything else being equal - would have an interest in criticizing the plans with the hope of either bringing the negotiations to a definite halt or of influencing the negotiations in order to soften the EMU's construction. The Bundesbank had, however, learnt some important lessons from the EMS negotiations at the end of the 70s, during

which it was basically excluded from taking part in the initial and most important stage of the negotiations; this was, first, because Chancellor Helmut Schmidt and President Giscard d'Estaing wanted this and, second, because it did not itself ascribe much importance to the plans for EMS. As a result, it was able to present some symbolic but important modifications to the formal construction of the EMS set-up only at a very late stage.

A second lesson which the Bundesbank had apparently learnt from the EMS experience was that while one thing is the formal set-up of a monetary regime in Europe, quite another is its practical way of functioning. This is to say, the Bundesbank had succeeded in turning a formal symmetrical EMS construction into a D-mark zone, and it is possible that it thought that it could do so again through its participation in the Delors Committee.

A third reason why the Bundesbank could not just stand up and criticize the EMU, was that it had the backing of the most important policy leaders in Europe and in particular that of Helmut Kohl. This is an important point as we know today that Helmut Kohl has, during his term in office and in relation to certain critical decisions, chosen to completely ignore the Bundesbank, and not even to inform it, about such issues as creating a fast monetary union between East and West Germany with the conversion rate between East and West Mark being one to one. It is also possible, of course, that Pöhl and the rest of the Bundesbank knew that since Kohl had overall support in the Bundestag and the German population in favor of certain decisions concerning German unity and European monetary integration, then the Bundesbank would be unable to legitimately stand up and seriously criticize the realization of these projects.

Thus, the Bundesbank did indeed stand to loose from the establishing of the EMU, but for the reasons described above it could not halt this process. As Marsh (1992: 235) explains: 'The Bundesbank gave the project [the EMU] its general backing; since the policy had been given the imprimatur of the Bonn government and its most important European partners, the central bank could hardly do otherwise. Its misgivings, however, were plain to see; if EMU ever became a reality, the Bundesbank would become the principal loser'. This does not mean, however, that the Bundesbank did not criticize the project at all - Karl-Otto Pöhl, Helmut Schlesinger, Wilhelm Nölling and Hans Tietmeyer did so on several occasions - and when the Delors Committee was established in Hanover the Bundesbank in addition adopted a two string EMU strategy.

The first string consisted in verbally supporting the attempts to strengthen European monetary integration through an EMU and, consequently, to work constructively and seriously within the framework sat down by the heads of

State and Government. This was done because the Bundesbank realized that the EMU plans had to be taken seriously and because it realized that outright opposition to EMU would be sterile and counter-productive, i.e. it would find itself excluded from the process.[23]

The second string of the Bundesbank's EMU strategy was therefore to fight the EMU from within. If the bank could not bring down the EMU from the outside, it had to try to disable the edifice from within. Marsh (1992: 245-246) explains that the 'Bundesbank's chosen method was to give ostensible backing to the aim of European monetary union, but to seek to obstruct it by posing conditions which would simply not be acceptable to the other countries. It voiced constant concern about the dangers of tampering with the Bundesbank's autonomy. This was backed up by warnings that monetary union could only take place if there were guarantees that the new system would be at last as stable as the one based on the D-Mark'. In short, this means that the Bundesbank tried to condition the realization of the EMU with a set of indigestible convergence criteria and stipulations about central bank autonomy which could not be found stronger in either the German constitution, or in any of the other member states' constitutions or central bank laws.[24]

However, as we now know, the Bundesbank misjudged the situation and in the very last stage of the intergovernmental negotiations it was overruled even by Helmut Kohl who agreed to insert a deadline for the final transition to the third stage. Marsh (1992: 247) comments that after Karl-Otto Pöhl had left the Bundesbank for a job in a private bank, he 'was surprised that the Community's heads of government accepted the Bundesbank-inspired regulations for the independence of the EC central bank. ... Up until the last moment, the Bundesbank did not realize that, to release themselves from the

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[23] Marsh (1992: 245) cites Otmar Issing as arguing for this: 'For a long period, we said nothing will come of EMU. We have the better monetary politics. Why should we take over a worse currency? Then we saw that if we remained on the sidelines, we would be confronted with difficulties. So we decided to advance to the head of the movement, with the aim of making the Bundesbank's position clear at the European level'. Marsh also argues that the Bundesbank made its decision to 'participate constructively' in the monetary union campaign after the EC summit in Hanover in June 1988 had set up the Delors Committee to study the goal of EMU (ibid: endnote 37, p.335).

[24] See also Milward (1996: 61): 'there are those who hint that the central bankers wrote down those criteria under the prompting of the Bundesbank, so that EMU could not happen ... Helmut Schlesinger, the President of the Bundesbank Council who approved the Delors Report in its final stage, thought the wording of the criteria was stiff enough to save the Deutchmark by frightening politicians away'.

grip of the D-Mark, the French and Italians were ready to promise almost anything'.

In short, Pöhl probably took on the role as ideational leader in the Delors Committee and consequently influenced decisively the institutional set-up of the EMU. However, he underestimated the political will to realize the EMU-project at whatever price so he could not just retreat from the deliberations or bring them to a halt. This draws our attention to a caveat of the epistemic community literature in that it treats the relationship between politicians and epistemic communities as being uni-directional. This is to say, epistemic communities are treated as influencing policy-makers' thinking about the political world and consequently their policy-making. The emphasis in the epistemic community literature is *not* placed on how or why the epistemic community is able to influence the policy process in the first place, nor to consider under what conditions it is likely to be successful in innovating, diffusing, selecting and institutionalizing certain ideas about macro-economic policy-making. This point will instead be dealt with in the following section, where it is argued that a study of ideational institutionalization in the EMU process - apart from including role of central bankers in the Delors Committee - must include a discussion of the way in which national policy elites used the Commission and the central bankers to produce a certain document according to clear and specific ideational lines.

4.2.3. European State Leaders

In a discussion of the role of state leaders in the EMU-process, the two largest puzzles are to explain, firstly, how Margaret Thatcher managed to place herself in a relatively unfavorable situation in relation to the her main counterparts, Helmut Kohl and François Mitterrand, and, secondly, to explain why Germany, which *a priori* was in a situation to unilaterally manage European monetary affairs, should have agreed to an EMU deal which at the formal level classifies the German monetary elite as being 'ordinary' members of the European macro-economic organizational field. These two aspects will therefore be dealt with in the most detail in the following. However, for the sake of completeness, I will also briefly discuss the situation of the French elites in the European monetary sphere at the end of the 80s.

4.2.3.1. France

In summarizing the situation of the French elites within European monetary integration at the end of the 80s, one should underline, firstly, that *since the U-turn in French macro-economic policy in 1982 and 1983 there has been no*

serious questioning of France's place within the EMS. Despite the realignments under cohabitation (1986-1988), the *franc fort* dimension in French macro-economic policy has been a stable pillar. However, the experience of Balladur with regard to the 1987 dispute with Germany, where he provoked a unilateral realignment of the German mark and later a limited reform of the EMS - the Basle-Nyborg Agreement, might have given the French political elite at large the feeling that it actually was a feasible strategy to seek to bind Germany within European monetary integration.

Secondly, it is necessary to emphasize that *François Mitterrand had many plans for the European project.* As Hayward argues (1996: 36), 'Mitterrand's remark *La France est notre patrie, Europe est notre avenir* conciliates the national identity and European integration, the past and the future'. On some occasions this vision of Europe lead him to consciously ignore the technical details of monetary integration in order to gain concessions from Germany at a higher political level. Pierre Bérégovoy as finance minister but also on the personal level was - contrary to Mitterrand - preoccupied with the more functional relationship with Germany and with regard to European integration in general. At one point he argued: 'I am not European; ... I believe in my country, because geography does not change' (cited in Cameron, 1996: 78). Furthermore, since 1984 he had strongly believed in the politics of budgetary rigor, stable currency and modest wage developments - *La Pensée Unique* - which led him to resist any sort of realignments in his time as minister of finance (1984-86 and 1988-1993). To him, Germany, rather than constituting a partner in monetary affairs, proved to be a continuous barrier in his attempts to add a growth dimension to his politics of rigor. Therefore, according to Bérégovoy, France should aim for the best possible deal in the negotiations on monetary integration. Maybe because of this clash of visions between Mitterrand and Bérégovoy, Mitterrand chose to exclude Bérégovoy from the agenda-setting stage in the EMU-process. Instead, he opted for the central bankers who would provide him with status quo when it came to the ideational content of monetary policy in Europe, but also with a much desired upward lift from the national to the European level as one more step on the road toward European political unification.

Thirdly, in regard to the EMU two-level game, it is clear that *the relationship between Helmut Kohl and François Mitterrand,* which was consolidated in their continuous private meetings in international fora, proved to be essential both for launching the EMU-project and for launching the Delors committee. Just before the Hanover European Council meeting (which took place on the 27th and 28th June 1988), where the European state leaders would agree on the establishment of the Delors Committee, Helmut Kohl and

François Mitterrand met privately at the G7 meeting in Toronto on 20th June in order to discuss their strategy for placing the EMU on the agenda. Hans-Dietrich Genscher, the German foreign minister, had already proposed to let five wise men investigate the matter and there was also a certain logic in letting those normally concerned with European monetary matters, the ECOFIN, deal with it. Yet, they agreed to let the central bankers do the job because, as Kohl reasoned, this was the only way to co-opt the Bundesbank in the process.

Mitterrand had a supplementary reason for doing so in that 'if you want to make treaties on agricultural policy, then don't let the agricultural ministers do it, and so on ... the ministers of finance would only attempt to guard their monetary prerogatives so that it would be better to trust the dossier to central bankers' (Aeschimann & Riché, 1996: 87). Taken to its logical conclusion, this philosophy would thus imply that *Mitterrand and Kohl chose central bankers as members of the Delors Committee because they already knew what they would get in return from such a committee.* According to this philosophy, agricultural and financial ministers would have been unlikely to agree on a reform of their respective policy areas and the selection of central bankers for the Delors committee therefore meant that Helmut Kohl and François Mitterrand in fact wanted to consolidate the ideas which already reigned in the financial and monetary area - but on a higher European level.

Helmut Kohl also had a game to play at the domestic level, particularly in relation to the Bundesbank, but back in France Mitterrand did not have similar preoccupations because at the time the *Banque de France* was seen as a fully integrated and dependent state-institution under Mitterrand's own rule. Therefore, in the case of EMU, Mitterrand ran the first secret negotiations himself assisted, as always, by his personal political adviser Jacques Attali.

Finally, *economic circumstances were not really important for François Mitterrand when he opted for a committee consisting of central bankers,* because for him the economic dimension of the deal was secondary. In conclusion, there are several reasons, on many levels, relating to ideas, visions, experiences, two-level games and economic fundamentals, which help us to understand why François Mitterrand, prior to the Hanover meeting, should go for a deal with Helmut Kohl on the foundation of the Delors committee.

4.2.3.2. Germany

German politicians and top-officials were initially divided over EMU: 'Genscher was the most enthusiastic supporter of EMU and Bundesbank President Karl Otto Pöhl was the most outspoken skeptic. Chancellor Helmut Kohl seemed closer to the skeptics at first, but later planted himself firmly in the Genscher camp' (Sandholtz, 1993b: 131; see also Sandholtz, 1993a: 31-34). Pöhl's position has already been discussed in an earlier subsection, so at present, the focus will mainly be directed at the experiences and visions of Genscher and Kohl in the two-level EMU-game during 1988.

When Helmut Kohl took power on 1st October 1982 he promised West Germany a *Wende*. He wanted 'to cut taxes, reduce the role of government, and provide stronger incentives for private investment. [He] also questioned the size of West Germany's social welfare system, as well as the impact of this system on competitiveness' (Goodman, 1992: 96-97). He promised a this at a moment where Germany had 'shaken self-confidence' and found itself in a 'Deficit-Recession Trauma' (Henning, 1994: 189). The fiscal measures agreed upon at the G7 Bonn summit (see Putnam & Bayne, 1987: 62-109; Putnam & Henning, 1989) had provided the country with a growth rate of 4.5% in 1979, but with the oil-price shock in the autumn of that year, these stimulative measures turned into 5.5% inflation and 1.8% growth in 1980 and into the first trade deficit since 1965. 'These developments traumatized German policy makers, politicians, and business' (Henning, 1994: 190; see also Scharpf, 1991: 148).

Given this situation, the Bundesbank chose to restore trade competitiveness by letting the D-mark depreciate and, already by February 1981, the D-mark had indeed depreciated by 26% against the dollar. It also decided to finance the current account deficit with capital inflows via an unprecedented monthly money market rate at 12.0% and a discount rate at 7.5%. Chancellor Helmut Schmidt repeatedly urged the Bundesbank Governor Karl Otto Pöhl to lower interest rates and he believed 'that the Bundesbank had more freedom than it acknowledged, [and] the chancellor suspected that members of the central bank Council were trying to undermine his coalition' (Goodman, 1992: 95-96). If this was indeed the plan, then the Bundesbank succeeded. The coalition partner of the SPD for 13 years[25] - the Free Democrats, with Hans-Dietrich Genscher as party chairman - chose in September 1982 to form a new government with the Christian Democrats and its leader, Helmut Kohl, as Chancellor. Within four months, the Bundesbank

[25] On the break between FDP and SPD in September 1982, see Scharpf (1991: 151-157).

had cut interest rates by half and as to cutting budget deficits also Kohl was successful. A new era seemed to have started in the relationship between the Bundesbank and the Chancellor: 'Both the Kohl government and the Bundesbank agreed on the need to cut budget deficits as well as to maintain monetary stability. Upon taking office, Chancellor Kohl set out to reduce the budget deficit. Between 1982 and 1985, the general deficit was cut from DM 65,2 billion to DM 38 billion, or from 4% to 2% of GNP. For its part, the Bundesbank continued to lower interest rates ... [there was] an apparently endless honeymoon between the Social Democratic president of the Bundesbank and the Christian Democratic chancellor' (Goodman, 1992: 98).

However, low inflation rates and renewed trade surplus had their price. GNP oscillated between 2 and 3% in 1983 and 1985 and unemployment remained almost stable at 7%. By 1984 and 1985 Kohl and the Bundesbank had no difficulty in understanding each other but domestic and international pressure mounted up with regard to Germany's seemingly unwillingness to contribute to ignite economic growth. At home, the social democratic opposition and the labor union both wanted a reduction in the working week and increased government spending to stimulate growth, and, at the international level, the dollar rate had reached DM3.47 in February 1985, leading to requests by US Secretary James Baker for Germany to expand domestic demand. However, with the dollar falling rapidly during the rest of 1985, with income tax reductions in 1986 and 1988 (Thiel, 1989: 215) and with GNP and productivity improved after 1986, *Kohl, prior to German unification 2nd and 3rd October 1990, was never seriously challenged in his economic strategy*: 'On the eve of the momentous changes that were to explode in Eastern Europe at the end of 1989 the West German economy was secure and stable: continuity and consensus were still the mainstays of national policy' (Koch, 1995: 133).

Thus, the *Wende* initiated by Helmut Schmidt in 1974 was a much greater turning point in German macro-economic policy strategy than Kohl's *Wende* of 1982, but this really did not affect his popularity to any great extent given that he, together with the Bundesbank, was able to improve the trade surplus and to secure internal and external monetary stability. By 1987 and 1988, journalists and German analysts alike began to ask whether Germany's economic success had bred complacency and contentedness to such a degree that there was no longer a drive for European integration within Germany, either at the elite level or at the public level (*Europamüdigkeit*)[26] (Kirchner, 1989: 429; Kirchner,

[26] There are several opinions on the state of public opinion in 1988. Sandholtz (1993a: 21-23), for instance, argues that public opinion throughout Europe was in favor of more integration

1991: 157). Chancellor Kohl's position on the EC, it was claimed, often lacked clarity or drive, and when the French began to press for a European central bank in 1988 'Chancellor Kohl indicated that this will only happen by the beginning of the next century. The chancellor insisted on certain prerequisites, such as the completion of the internal market, prior economic convergence, and harmonization of tax systems' (Kirchner, 1989: 436).

By the end of the 90s, it is difficult to find literature which describes Germany and German politicians as integrational laggards.[27] In 1987 and 1988, however, German unification was not believed to be an immediate event and therefore did not constitute a factor making European integration salient in Germany. Furthermore, in Germany, the EC was at this time seen by many as a group of countries which had taken their part in convincing Helmut Schmidt to engage in the 'locomotive' strategy in 1978 and which were receiving large transfers from Germany via the Community budget. It has been argued that for a new generation of Germans, the EC was unable to compete with the so-called Model Deutschland, which represented economic efficiency and reinstated confidence in national solutions. As a result, by the end of the 80s, there was no longer a general belief that 'what is good for the EC is good for the FRG' (Kirchner, 1989: 430).

However, it is my claim that *Helmut Kohl and Hans-Dietrich Genscher, rather than sharing this postulated Europamüdigkeit, both were sincere believers in the European cause*. As argues Wayne Sandholtz (1993b: 130), 'the drive for monetary union was not a product of German unification. Indeed the initial French and German proposals for monetary union in early 1988 came well before unification could even be imagined'. German unification could, rather, be seen as accelerating the construction of an EMU which was already on its way.

Helmut Kohl (1990: 199-237) describes, in three speeches[28] all dated 1988, his visions on European order as ones which should be realized in pragmatic incremental steps:

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because the '1992 effect' was at its highest, so Euro-enthusiast politicians did not run any electoral risks by going forward with EMU.

[27] For an exception, see Emma Tucker and Peter Norman in *The Financial Times*, 07.10.1997: 'The EU's bad boy is Germany'. See also Anderson (1997) for an account of what German unification meant for German pre-unification pro-integrationist attitudes in competition policy, trade policy, agricultural policy and structural policy.

[28] The three speeches are reprinted in a volume containing a selection of Helmut Kohl's speeches translated into French: Kohl, Helmut (1990), *L'Europe est notre destin - discours*

'Jean Monnet ... always paid attention to what was realizable rather than to an all-or-everything approach, without loosing sight of the objective. I think that even today this principle constitutes an excellent approach for European politics ... there are lots of areas where we should be ready to compromise. Those who want everything at once suddenly ends up by having obtained nothing for Europe' (p.209, 09.11.1988).

Shared memories and past experiences form the basis of the present efforts in Europe to cooperate and integrate:

'I belong ... to a generation which, as child, has lived the war in a particularly intensive way' (p.199, 09.11.1988).

'François Mitterrand and myself did not go to Verdun to celebrate the war but to commemorate the millions of dead in the Second World War. On this occasion we confirmed our willingness to learn from the past while once again promising: never again! (p.209, 09.11.1988).

'The European idea is born out of the knowledge of a common origin' (p.231, 01.11.1988).

It is a Europe where France and Germany have a responsibility, and a duty, to take the lead:

'The declared intention of the Treaty is that the French and the Germans undertake specific European responsibilities and that they play an activist role on the road to European Union ... For some years now the French and the Germans have played that role. The creation of the EMS was such a new beginning. We should, and we will, continue to progress along that road' (p.225, 22.01.1988).

More precisely, it is a Europe which can be labeled 'the united states of Europe' or 'European Union' but which is based on the Treaty of Rome realized to its fullest and where the Single Market constitutes the core:

'We don't only want some sort of an area with free movements, we want the United Europe of the Rome Treaty kind ... That is the mission which we inherited from Jean Monnet. Let us exploit the time we have, and let us *construct the United States of Europe*' (p.217, 09.11.1988, italics in original).

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actuels, Paris: Editions de Fallois. The first speech was delivered on 22nd January 1988 in relation with the celebration of the 25th anniversary of the Franco-German Treaty. The second speech was delivered on 1st of November 1988 after having received, together with François Mitterrand, the 'Prix internationale Charlemagne de la Ville d'Aix-la-Chapelle' in Aix-la-Chapelle, France. The third speech was delivered in Bonn on 9th November 1988 in relation to a ceremony celebrating the centenary of Jean Monnet's birthday

> 'The knowledge that we [France and Germany] have of these assets [cultural and spiritual] give us the courage and the necessary confidence to accomplish our common European mission: we want United Europe, a political and economic union between free states and peoples' (p.233, 01.11.1988).

> 'We should clearly recognize that we cannot assure our future if we do not create the European Internal Market for 320 million people' (p.202, 09.11.1988).

The EMU should, in this vision of Europe, be seen as the natural and necessary corollary in the completion of the Single Market. Already in January 1988 Kohl listed some conditions which were seen as necessary for the successful completion of EMU: economic convergence and monetary discipline:

> 'The creation of the Economic and Monetary Union also depends crucially on Franco-German cooperation. A decisive step in that direction is the realization of the big internal market in the community before 1992 ... The internal market cannot be fully dynamic if the European states don't coordinate their economic and financial policies more closely. Economic convergence and monetary discipline should be complementary' (p.227, 22.01.1988).

In short, before 1989 Helmut Kohl outlined a pragmatic step-by-step Europe, based - at the symbolic level - on our common memories and - at the technical level - on the Single market, which could lead to an EMU structured around macro-economic convergence and monetary discipline and where the Franco-German axis would play a decisive agenda-setting and implementing role.

Banchoff (1997a and b) has analyzed some of Kohl's major foreign policy statements during and after unification and argues that 'Kohl articulated a strong European identity for the Federal Republic: he situated Germany squarely within an evolving supranational Europe ... [he] identified most strongly with France, the federal republic's closest ally in the EU ... and of two major norms constitutive of the European Union itself - multilateralism and shared sovereignty - Kohl emphasized the centrality of the latter' (1997a: 25). Banchoff furthermore argues that Kohl's identity discourse not only served to constitute German interests in, but also the overall German strategy for, European integration. Banchoff (ibid: 3) concludes that 'Helmut Kohl articulated a European identity for the FRG rooted in a determination to break with Germany's catastrophic national past [and] that this conception of identity informed German practice [and] the priority accorded to EU deepening'.

Risse (1997) goes several steps further and analyzes the discourse of the entire German political elite since the Second World War. He argues that from 'the late 1950s on, a federalist consensus ("United States of Europe") prevailed among the German political elites comprising the main parties from the center-

right to the center-left[29]' (ibid: 23; see also Woolley, 1994: 77; Bulmer & Paterson, 1987: 6-7). Risse also refers to the importance of Germany's past in the national construction of European visions: 'Germany's nationalist and militarist past constitutes the "Other" in the process of "post-national" identity formation whereby *Europeaness* replaces traditional notions of nation-state identity ... For decades, European integration was regarded by German political elites as a sort of substitute for their own defeated, divided and occupied country' (ibid: 24). In addition, Risse argues that the belief that political and economic integration can anchor Germany in Europe clearly spills over to German debates on European integration. For instance, when it comes to the EMU project, 'Kohl framed the single currency as *the* symbol of European integration and he has deeply identified his political fate with the realization of the Euro' (ibid: 26). In other words, Kohl managed to construct a direct link between German European identity based on the past and the EMU as central for European integration. Kohl has, according to Risse, constructed 'an extremely powerful equation linking the Euro to German identity: Support for the Euro = Support for European integration = "good Europeanness" = "Good Germanness" = Rejection of the German militarist and nationalist past' (ibid: 26).

This element of 'self-binding' and '*Westbindung*' in German European identity might or might not be stronger than other, potentially opposing elements of German identity, such as '*Deutsch Mark Patriotismus*', '*Soziale marktwirtschaft*' and '*Rechtstaat*'. In any case, what is being argued here, is that because criticism of the EMU in the German political debate is equated with criticism of European integration in general and consequently taken to be supportive of the German past, there is not much critical debate on the EMU in Germany these days. Where this takes us with regard to the analysis of Helmut Kohl's attitudes toward the EMU is to the point where we can state that *both before and after unification Kohl underlined the importance and even necessity of deeper integration in the economic and monetary field.* Before unification it was linked pragmatically to the development of the Internal Market but was also seen as an integral part of the 'United States of Europe'. After unification, the EMU was turned into something in its own right and constructed as being a major element of German Europeaness. Recently, however, Kohl's rhetoric has changed a little. As he argues in an interview with *Liberation* on 3rd November 1997: 'I was wrong to speak about a United

[29] For slightly dissenting views on the SPD's stand on the EMU issue see Reinhardt (1997: 92) who argues that 'it seems unlikely that the social democrats would in fact be willing to object to EMU from going ahead' and Baun (1997: 18) who argues that 'while Germany's all-party consensus on integration still holds, it can no longer be taken for granted'.

States of Europe and thereby create a (false) association to the United States of America. I don't want a new Leviathan in Brussels but rather respect for the trinity of homeland-nation-Europe. Each one with its competencies'.[30] But as Risse and Banchoff argue above, the identity elements in his EMU discourse are now in the forefront, replacing the more pragmatic visions expressed before unification.

When it comes to the Foreign Minister Hans-Dietrich Genscher, there *cannot be any doubt that he was at the absolute forefront of European federalists both before and after unification,* taking such steps as the Genscher Colombo initiative of 1981, calling for greater movement towards European unity, and as the Stuttgart 'Solemn declaration on European Union' of June 1983, calling for a reinforcement of the EMS. The last declaration was issued while Germany held the Presidency of the EC and was therefore very similar to the initiative he had taken in February 1988 on 'A European Currency Area and a European Central Bank', proposing directly to set up a committee of five to seven independent experts to work out detailed proposals. Already in January 1988, Genscher had declared, in a speech to the European parliament that 'a European central bank was essential and logical for the EC and implied that EMU would be on the Council of Ministers' agenda during Germany's presidency' (Sandholtz, 1993a: 31-32); in this he was supported by the German Bundestag which, in February 1988, had voted a resolution which stated that 'the longer term goal is economic and monetary union in Europe, in which an independent European Central Bank, committed to maintain price stability, will be able to lend effective support to a common economic and monetary policy' (Story & De Cecco, 1993: 346).

Although Kohl apparently had no problems with Genscher's visions as we have seen (indeed he shared many of them at the time on the condition that the EMU was linked to economic convergence and monetary discipline, and Kohl probably also wanted to make the best out of the EC presidency in spring 1988), Kohl also was aware, of course, that after the general election in January 1987, the CDU/CSU had dropped four points in comparison to the 1983 result, which made him more dependent on the FDP and Hans-Dietrich Genscher. Moreover, Kohl had, in relation with the signing of the SEA, promised Mitterrand to engage in EMU if France liberalized its capital movements. If Kohl wanted to give the Franco-German relationship a new

[30] 'On a eu tort - moi aussi, de parler d'états unis d'Europe et de créer ainsi une (fausse) association d'idée avec les Etats-Unis d'Amérique. Je ne veux pas d'un nouveau Léviathan à Bruxelles mais du respect de la trinité terre natale-nation-Europe. A chacun ses compétences' (Libération, 3rd November 1997).

impetus in January 1988 via the creation of a Franco-German Economic and Financial Council, then it was not the appropriate moment for Kohl to criticize Genscher's initiatives on EMU.

This does not mean that we can completely outrule the idea that Kohl and Genscher also had some pragmatic thoughts about the EMU-project. According to Garret (1994: 54), there are indeed some economic incentives for Germany to support EMU. Garret particularly refers to an article in the *Financial Times* on 27th February 1988 which argues that the main factor behind the Genscher memorandum was that the '[German] government believed that the stability of the EMS would be prejudiced within Europe by the removal of capital controls in the EC, as mandated by the SEA, and stability in the external environment is very important to the exporters and multinationals that form the base of the German economy'. In addition, Garret continues, with respect to the rest of the world, the government believed at the time that the creation of a single European currency (dominated by Germany) would create a counterweight to the US dollar and the yen, which in turn would lessen the effects of US and Japanese policy choices on Germany.

Thirdly, we should remember that a precondition for German support for the EMU project, and this was stated explicitly by both Genscher and Kohl long before 1988, was that membership should be limited to countries whose economic policies and outcomes mirrored those of Germany and that the operating rules for EMU should generate policies wholly consonant with the preeminence of price stability.

Finally, Wolf & Zangl (1996: 372) argue that Genscher and Kohl, with the EMU, would give something away they never really possessed, that is, monetary sovereignty, since monetary power in Germany lay safely in the hands of the Bundesbank. One view is that Kohl and Genscher might have thought that now that there was backing for the causal ideas expressed in German macro-economic policy all over Europe, it was time to institutionalize it (see Sandholtz, 1993a: 34-35). This not only helps us to understand Germany's backing of the EMU, but also all the others' backing of the EMU plans. It also created a permissive environment for German hyper-activity during the presidency.

In summary, when it comes to German experiences with their own economic performance and with their participation in the EMS, they could hardly be anything but satisfied with the status quo. Despite a stable level of unemployment at 7%, the German economy was widely perceived in Germany as a success story with trade surplus, low inflation and a stable currency, and

within the framework of the EMS the D-Mark was widely considered as being the anchor to which everyone else should adapt and where the 'only' preoccupation of the Bundesbank was to take the monetary relations with the large international currencies into account at the same time as sending signals to agents at the domestic level with regard to its desired level of inflation (Hall & Franzese, 1996; Hall, 1994). In other words, *in 1988 the German authorities knew 'what they had' and there were no guarantees that an EMU would reproduce the 'stabilitätspolitik' which was so highly valued in the German society. It is therefore a puzzle why German authorities should have taken the lead in the construction of EMU in the first place* (see Risse-Kappen et al. 1997: 106-107; Dyson & Featherstone, 1996: 338-339). If one adds to this, the outright hostility to the EMU articulated by the Bundesbank, an institution with which Kohl had otherwise had no problems, then the puzzle gets even bigger.

However, if one takes a broader perspective, it is maybe possible to come to an understanding by studying Helmut Kohl's and Hans-Dietrich Genscher's long-time visions of European order; the broad consensus in the German society and at the elite level for European integration in general; as well as the close relationship that existed between Helmut Kohl and François Mitterrand. In spring 1988, Germany had the presidency of the EC and both Kohl and Genscher clearly wanted to give a good impression and some content to the newly refreshed Franco-German agreement which stipulated that France and Germany had a particular responsibility for taking the lead in European integration. The EMU was an issue which Genscher had taken up on other occasions, and he had considerable freedom to do so again, both because he was supported by the Bundestag on the issue and because, after the 1987 election, Kohl had become dependent on the FDP to maintain the coalition.

At first, that is during 1988, Kohl mainly saw the EMU as a way to exploit the dynamic advantages of the Internal Market. Thus, it was not until later - during and after unification - that the EMU was equated with the overall purpose of European integration in general and with the binding of Germany within the Community, so as to finally break the link with its militarist and nationalist past. Banchoff (1997b: 67) argues that Kohl's discourse in that period had both a signaling effect on Germany's neighbors in reassuring them about unified Germany's intentions in the new Europe, and a legitimization effect domestically so as to be able to proceed along the EMU path after unification. Part of this legitimization effect, it must be added, consisted of the continuous emphasis on the criteria to be fulfilled by future members of the EMU.

Both before and after reunification, Kohl clearly linked further economic and monetary integration to increased economic convergence and monetary discipline. In other words, Kohl and Genscher had some fairly clear visions about what an EMU should look like and which functions it should have; one condition for the EMU project was, however, always very clear, that is, it should be consistent with Germany's European identity, i.e. the way in which German leaders viewed Germany in regard to other European states. Particularly, it was important that one aspect of German European identity, the 'Europeanized Germany through EMU', should not contradict any other aspect of Germany's European identity such as 'the *stabilitätspolitik* and the social market economy'. If the EMU could be closely linked to a set of convergence criteria, 'Europeanization' would indeed be consistent with the German 'stability ethos' and would therefore, in the eyes of Kohl and Genscher, not constitute an obstacle. In short, *it is argued here that the drive for the Delors committee on the part of the Germans might well be found at the identity level of the two most important German politicians on the matter, Helmut Kohl and Hans-Dietrich Genscher.* Central bankers would contribute to creating cognitive consistency by conditioning Europeanization with macro-economic stability.

4.3.3.3. Great Britain

Prior to the Hanover Summit, which would take place on 27th and 28th June 1988, Helmut Kohl and Margaret Thatcher met privately for an hour at the G7 meeting in Toronto on 20th June. On that very day, Kohl and Mitterrand had also privately coordinated their strategies with regard to the establishment of a committee of central bankers which should 'report on EMU', and it is possible that Thatcher realized that this had indeed happened and that she could do nothing about it. However, what she could do was to underline what she thought the committee should or should not do: 'By now I was having to recognize that the chance of stopping the committee being set up at all was ebbing away; but I was determined to try to minimize the harm that it would do ... there was nothing I could do to stop the committee being set up' (Thatcher, 1993: 740). But what was her room for maneuver and what strategy did she plan with regard to that room? What possibilities did she see in the Delors Committee?

At the symbolic level, Jacques Delors, François Mitterrand and Helmut Kohl referred during the Hanover meeting to two texts which both viewed the EMU as being the overall objective of European monetary cooperation and which had both been signed by consecutive British governments, including Thatcher herself. As a future member of the EEC, Edward Heath's government

had signed a communiqué at a Summit in Paris October 1972 which reaffirmed 'the resolve of the member states of the enlarged community to move irrevocably [towards] Economic and Monetary Union, by confirming all the details of the acts passed by the Council and by the member states' representatives on 22nd March 1971 and 21st March 1972' (cited in Thatcher, 1993: 741). Thatcher had, for her part, signed the SEA on 17th and 28th February 1986 in Luxembourg and the Hague with a paragraph 20 which contained references to EMU. After the summit in Luxembourg, Thatcher said at her press conference that the SEA's references to 'EMU did not mean anything and if they did she would not have agreed to them' (Grant, 1994: 74). However, at Hanover in June 1988 and later at Madrid in 1989, the official communiqués consistently referred back to the SEA's 'objective of progressive realization of economic and monetary union'. So, at the symbolic level, Thatcher was handicapped in her opposition to further monetary integration.

However, this was also the case at the more technical level. Together with the Danish and the Greek state representatives, Thatcher had on an earlier occasion been downvoted at the European Council meeting in Milan June 1985 concerning the initiation of an Intergovernmental Conference on Treaty reform. For the first time ever, the then Council president, Italian Prime Minister Bettino Craxi had called for a vote on the issue and it split the participants by seven to three. After the conference, Thatcher told the press: 'We came here with high hopes. We were prepared to take decisions on practical steps forward on the internal market, and on how best to co-operate politically. We have not made the progress we sought' (cited in George, 1990: 181). Thatcher probably did not want to experience that again at the Hanover meeting: 'My problem throughout these discussions of EMU ... was the fact that I had so few allies; only Denmark, a small country with plenty of spirit but less weight, was with me' (Thatcher, 1993: 741). So within these symbolic and technical limits her room for maneuver was reduced.

On top of this came the pressure exerted from three fronts: her own cabinet, the City, and the other member states. Both Nigel Lawson, her Chancellor of the Exchequer and Geoffrey Howe, her Foreign Secretary and Chancellor of the Exchequer in her first government, pressed her to accept further monetary cooperation, although for two different reasons: 'For Geoffrey membership of the ERM would be a demonstration of our European credentials. For Nigel it would provide stability in the turbulent and confusing world in which decisions about interest rates and monetary policy had to be made' (Thatcher, 1993: 698). It was not only a case of political or technical disagreement between Thatcher and her ministers, there was also a personal flavor to the bad relationship in the period: 'From this time on [May 1988] it

became clear to me that Nigel and he [Geoffrey Howe] - by no means on friendly terms in earlier years when there was a good deal of jealousy between them - were in cahoots, and that of the two Geoffrey was the more ill-disposed to me personally' (Thatcher, 1993: 704). In her cabinet, then, Thatcher saw herself as supported only by her private secretary on foreign affairs, Charles Powell (ibid: 747), her private economic adviser Alan Walters (Stephens, 1996: 129-130) and her press secretary Bernard Ingham: 'they were much closer to their mistress than most of her ministers ... [they] had long since ceased to be conventional civil servants' (ibid: 102). At some point, on 26th October 1989, Nigel Lawson, for instance, presented Thatcher with an ultimatum: Either Thathcer sacked Alan Walters or he, Chancellor of the Exchequer, would go: 'At first I could hardly take him seriously. I told him not to be ridiculous. He was holder of a great office of state. He was demeaning himself even by talking in such terms. As for Alan ... there was no question of my sacking him' (Thatcher, 1993: 716).

On the part of the City, pressure for closer monetary cooperation had been mounting up since spring 1985 where the dollar came close to sterling. This was a particularly tricky question to deal with for Margaret Thatcher. Thompson (1996) demonstrates how the free market rhetoric, which was a constant element of Conservative discourse throughout the entire Thatcher era, was attached only to the manufacturing sector, which was largely left alone by the government and fully exposed to competition and the free market: 'ministers tended not to consider the question of industrial competitiveness in managing the exchange-rate ... Thatcher and her Chancellor were always prepared to engineer an appreciation in sterling when it suited them, whatever the consequences for the competitiveness of British goods' (ibid: 171). When it came to the City and financial services, however, there was no such thing as free markets and competition. On the contrary, Thatcher's governments systematically provided them with subsidies and protection: 'In this climate the service sector's share of GDP increased by 2.1% as a proportion of GDP between 1979 and 1984, and by 6.8% between 1984 and 1989 ... By 1989 the broad financial service sector was the engine of growth of the UK economy, employing 2.6 million people' (ibid: 170). In other words, one of Thatcher's most stable constituencies was to be found in the City; as a result, when the City began to express wishes for European monetary integration, it is likely that Thatcher felt that she, as well as that of her ministers, had lost support from her most loyal business faction.

When it comes to the pressure exerted by the other member states, this probably had *less* of an impact on her decisions in that period. On several occasions during 1988, Helmut Kohl invited her to visit him at his home near

Ludwigshafen in the Rhineland-Palatinate. Together they paid a visit to the Cathedral of Speyer, on the border with France, in whose crypt are to be found at least four Holy Roman Emperors and upon entering the cathedral the organ struck up a Bach fugue. The symbolism was clear, also to Thatcher, that Kohl wanted her to understand that he was as much a European as a German. However, it did not impress her particularly:

> 'I liked him for it. But I had to doubt his reasoning. This desire among modern German politicians to merge their national identity in a wider European one is understandable enough but it presents great difficulties to self-conscious nation-states in Europe. In effect, the Germans, because they are nervous of governing themselves, want to establish a European system in which no nation will govern itself ... Obsession with a European Germany risks producing a German Europe' (Thatcher, 1993: 748).

Thatcher's relationship with prime minister Jacques Chirac was more straightforward and less symbolic. He had on one occasion in Brussels in February 1988 called Thatcher a 'housewife'. 'But I generally found him somewhat easier to deal with than President Mitterrand, because he said what he thought' (Thatcher, 1993: 730). This also worked the other way round. In January 1988 Chirac apparently threatened Thatcher with isolation from the Franco-German talks on community matters and Thatcher replied that if 'he thought that ganging up with the Germans to isolate "Mrs. T" was going to work, he was sadly mistaken' (ibid: 734).

The point being made here, then, is that Thatcher, apart from having a limited room for maneuver for symbolic and technical reasons, also was subject to internal and external pressure on the issue of European monetary integration, of which the domestic pressure probably could be considered to be most decisive. Her hope in this environment was therefore to trust that Leigh-Pemberton, the British Central Bank Governor, and Pöhl, his Bundesbank colleague, would water the EMU down. However, she also seems to have underestimated the dynamics of the Delors Committee. The reason why she relied on Pöhl was, as we have seen earlier, because the Bundesbank had made no secret of its distaste for the monetary plans of particularly the French politicians. As the committee's work progressed, Pöhl did indeed express reservations: 'Once or twice he threatened not to attend further meetings unless the minutes of their deliberations, drafted by Delors, reflected the actual proceedings rather than the chairman's personal views. However, he decided not to obstruct the work and signed the final blueprint on the basis that it had been the central banker's task only to describe how a single currency might be achieved. The Bundesbank doubted whether the ambition could or should be realized, but that was a matter for the politicians to decide' (Stephens, 1996: 111).

When it comes to Robin Leigh-Pemberton's contribution, Thatcher had never considered that he might take a view different from her own. She was vigorously against any form of central bank independence so when in November 1988 Nigel Lawson proposed exactly that, she dismissed the idea totally. As she told Lawson: 'it would be seen as an abdication by the Chancellor when he is at his most vulnerable. I added that it would be an admission of a failure of resolve on our part' (Thatcher, 1993: 706). Therefore, she had no reservations about attempting to exert control over the governor of the Bank of England at several meetings towards the end of 1988 and at the beginning of 1989. She explained to him in detail what she would like to be included in the Delors Report and she 'urged him to make all these points in the discussions on the text which ensued' (ibid: 708). However, she realized that she had failed on this account too: 'Whatever the Governor have done proved ineffective. When the Delors Report finally appeared in April 1989 it confirmed our worst fears' (ibid: 708). Leigh-Pemberton, who had been chosen to replace Gordon Richardson in 1983 in order to weaken the central bank institution (Stephens, 1996: 32) apparently resisted pressure from Thatcher and Lawson to submit dissenting reports and, after a discussion with Pöhl at the beginning of April 1989, he endorsed the report on the same basis as his German colleague. 'The prime minister was never told that the final text of the report was 'polished' by officials in the Bank of England. For much of his first term Leigh-Pemberton had chosen to do the government's bidding. Once re-appointed in 1988 for a second term his confidence grew, and with it his intense distaste for the prime minister's view of Europe ... Thatcher was appalled' (ibid: 112).

Thatcher's strategy of undermining the workings of the Delors committee being flawed, she had in 1989 to plan within the narrow framework which was left her. In other words, recognizing that she could not do the fight alone, she had to accept the strategies of Geoffrey Howe and Nigel Lawson which Thatcher (1993: 709) calls 'the ambush before Madrid'. On Sunday 25th June 1989 at 8.15, the day before the Madrid Council where the Delors Report was going to be discussed, the two men met Margaret Thatcher at their own request. They argued that if, at the beginning of the Madrid Summit, she declared that the pound would go into the ERM, which they considered to be the first stage of EMU, she would bring the EMU process to a halt. She expressed doubt about their reasoning at this point but they repeated 'that if I did this I would stop the whole Delors process from going to stages 2 and 3. And if I did not agree to their terms and their formulation they would both resign ... And so the nasty little meeting ended' (Thatcher, 1993: 712). Consequently, in Madrid, she sat out the conditions in which the pound would go into the ERM and she did not oppose starting an IGC on the EMU question:

'We could not stop an IGC because all it needed was a simple majority vote, but its outcome had been left open and its timing was unclear' (ibid: 752).

Coming under increasing external and internal pressure, and having largely underestimated the power of the Delors Report, Thatcher was forced to agree to an IGC on the EMU question. As Sandholtz (1993b: 127) argues: 'The most striking feature of the Madrid Summit was the solid consensus of eleven states in favor of monetary integration along the views of the Delors plan. Indeed, the consensus was so strong that Thatcher recognized that obstructing progress on EMU would only induce the other states to proceed without Britain'. Her last possibility of getting her way was now to threaten to veto every step of treaty modification which did not fit her vision of Europe. Ratification in the case of Great Britain meant a signature from herself and a positive vote by the British parliament. If everything else failed, she seemed to reason, after Madrid she would at last be able to block the EMU in a final vote on the Treaty amendment. However, as we know today, Thatcher was soon to be replaced by John Major as Prime Minister and the EMU vote did indeed take place with British backing.

Putting to one side the two-level game dynamics, what were Thatcher's and Lawson's respective visions for European integration in that period? As has been convincingly illustrated elsewhere (Hovaguimian, 1997: 79-102; Baker, Gamble & Ludlam, 1993a, 1993b), there is no such thing as a coherent and homogeneous Conservative vision about European order. Despite this, it is possible, at a very general level, to stipulate some of the characteristics of Margaret Thatcher's own visions at this time. A good indicator of her European visions in the period is the so-called Bruges speech, given at the College of Europe in September 1988. The speech was, substantially, a reaction to two speeches given by Jacques Delors in July and September 1988. In the first of these, in July 1988 the newly re-appointed president of the Commission told the members of the European Parliament that 'In ten years, 80 per cent of economic legislation - and perhaps tax and social legislation - will be directed from the Community' (cited in Georges, 1990: 193). This was clearly viewed by Margaret Thatcher as being excessive, but her reaction to it was low key compared to her reaction, in the second case, when Delors argued in favor of a social dimension in the EU with European-wide collective bargaining, at the Annual conference of the TUC in Bournemouth on 8th September 1988:

> 'The more I considered all this, the greater my frustration and the deeper my anger became. Were British democracy, parliamentary sovereignty, the common law, our traditional sense of fairness, our ability to run our own affairs in our own way to be

subordinated to the demands of a remote European bureaucracy, resting on very different traditions'? (Thatcher, 1993: 743).

The Europe that Thatcher envisgaed, as expressed in the Bruges speech[31], was one with a minimal and decentralized state:

> 'It is ironic that just when those countries, such as the Soviet Union, which have tried to run everything from the centre, are learning that success depends on dispersing power and decisions away from the centre, some in the community seem to want to move in the opposite direction. We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level, with a European superstate exercising a new dominance from Brussels'.

It was one in which states were considered sovereign, independent and diverse:

> 'Willing and active cooperation between independent sovereign states is the best way to build a successful European Community ... Europe will be stronger precisely because it has France as France, Spain as Spain, Britain as Britain, each with its own customs, traditions and identity. It would be folly to try to fit them into some sort of identikit European personality'.

And it was a Europe which reached beyond the present EC territory, with a role to play at the global level:

> 'Let Europe be a family of nations, understanding each other better, appreciating each other more, doing more together, but relishing our national identity no less than our common European endeavour. Let us have a Europe which plays its full part in the wider world, which looks outward not inward, and which preserves that Atlantic Community - That Europe on both sides of the Atlantic - which is our noblest inheritance and our greatest strength'.

In that Europe, the ERM and the EMU were seen by Margaret Thatcher as a question of relinquishing sovereignty: 'Economic and Monetary Europe ... was the issue of sovereignty ... [it was] a way of abdicating control over our monetary policy, in order to have it determined by the German Bundesbank ... EMU itself ... means the end of a country's economic independence and thus for increasing irrelevance of its parliamentary democracy' (Thatcher, 1993: 690-691).

On this point Margaret Thatcher and Nigel Lawson were basically in agreement in their strong opposition to the EMU. However, whereas Thatcher also opposed the ERM, Lawson perceived, from January 1985 onwards when

[31] The Bruges speech is reprinted in Holmes (1996: 88-96).

he realized that monetary targets were taking him nowhere, the ERM as a mechanism which would enable him to achieve the overall goal of macro-economic policy - the objective of low inflation. The relationship between Prime Minister and Chancellor in Great Britain thus resembled the relationship between François Mitterrand and Pierre Bérégovoy in France. *Both Thatcher and Mitterrand had political visions for their country and Europe which were clearly prior to more technical and economic questions about monetary affairs. In contrast, both Bérégovoy and Lawson were technicians - this meant that, for them, European monetary integration provided solutions to their immediate problems in managing monetary affairs. In their view, technical details came prior to political visions of Europe.*

In order to summarize the situation with regard to the experience, ideas and place of British elite policy-makers in the two-level game and with regard to the general economic context, the following points - which give us a better understanding of the British unwillingness to proceed with monetary integration in 1988 - can be emphasized. First, as we have seen, Thatcher was not a trained economist, but she had enthusiastically embraced 'the monetarist theory which had become fashionable during the early 1970s. This prime minister took her anti-statist philosophy from the teachings of Friedrich von Hayek, and her economics from the monetarism of Milton Friedman' (Stephens, 1996: 7). As a major element in controlling the money supply in the economy, money targets were established. However, this turned out to completely contradict the other main objective of the government - the liberalization of capital. As a result, already in 1981 - before Lawson took office as Chancellor - the exchange-rate was de-facto taken into consideration when lowering and raising interest rates. In other words, the "clean" version of monetarism was de facto left behind because it was unpracticable and because its price in terms of recession and unemployment was too high. However, in concrete political discourse, monetarism was still extremely fashionable. This conflict led to a basic contradiction in British monetary policy, which was reflected in Lawson's behavior from the day he took office in 1983 to the day he resigned in 1989 - one the one hand he could not allow the pound to float around and, on the other, he was never allowed to officially link the pound to the D-mark nor to move the sterling into the ERM. *Confused British monetary policy, therefore, also spilled over into British attitudes with regard to European monetary integration.*

Secondly, *at the domestic level as well as on the intergovernmental level, Thatcher found that she was increasingly isolated.* At some point she was only supported by three personal civil servants while deliberately excluding ministers from essential planing and decision-making. Furthermore, at the

international level, she was excluded from what she called the Franco-German axis: 'The Franco-German axis always seemed to re-form in time to dominate the proceedings' (Thatcher, 1993: 760). Maybe as a result of this, she definitely preferred international fora which had a transatlantic, contrary to a Eurocentric, dimension such as the G7: 'To get away from the often parochial atmosphere of the over-frequent European Councils to a meeting of the G7 was always a relief' (ibid: 763).

In addition to her isolated distinctiveness come Thatcher's visions about European order, which never could be reconciled with what she saw as a supranational, un-controlable, protectionist, centralist and anti-market bureaucracy in Brussels, highly inspired by French elitism and German corporatist social market economy and federalism. *The EC as it was and the form it took as it developed, went against everything she believed in.* Thus, the viewed the Community as a Franco-German complot which received support only in so far as direct black mailing pay-offs were involved:

> 'The Franco-German federalist project was wholeheartedly supported by a variety of different elements within the community - by poorer southern countries who expected a substantial pay-off in exchange for its accomplishment; by northern business which hoped to foist their own high costs on to their competitors; by socialists because of the scope it offered for state intervention; by Christian Democrats whose political tradition was firmly corporatist; and, of course, by the Commission which saw itself as the nucleus of a supranational government' (Thatcher, 1993: 727-728).

At some point she realized what kind of project the EMU was, but at that time *she had marginalized herself by failing to seek allies and by misjudging the dynamics of the Delors Committee.* Her final card could have been to block the entire IGC in Maastricht on the EMU issue, but by then she had long since been replaced as Prime Minister.

Summing up the situation in 1988 concerning national policy-making elites' experiences, visions, and places in the two-level game of the EMU process, the following table can help us to make a cross-country comparison.

British Elites	*French Elites*	*German Elites*
Monetary Experiences In 1987-1988 Lawson had just been 'caught' by Thatcher in his attempt to shadow the D-mark and he was seen as responsible for economic overheating, high inflation, unemployment and interest rates. Thatcher's response was clear: 'One can't buck the market'!	In 1988, upon taking office, Bérégovoy attempted to lower interest rates, which turned out to be a fiasco and he was obliged to tighten fiscal and monetary policy even more in order to stabilize the franc. Neither Mitterrand nor Bérégovoy, at any point, questioned the politics of *rigeur* and *franc fort*.	In 1987 Kohl and his central bank governor were working well together. However, in 1988 the latter was raising interest rates to manage inflationary pressures as a result of which their relationship became more complicated.
European Visions Thatcher had a clear political vision for Europe. It should be intergovernmental, decentralized and based on voluntary cooperation between sovereign and free states and peoples. Lawson, instead, had a pragmatic view of EMS which he considered to be a potential solution to his immediate management problems in a world of free-floating capital.	Mitterrand had a clear political vision for Europe. In his view, the Franco-German axis played the central role and formed the center of a concentric construction which would bind Germany to France and extend the French political room ofor maneuver in Europe and the world. Bérégovoy saw Europe as a bargaining space where one would be able to get a good or a bad deal, but also as a place where a finance minister could find solutions to immediate domestic management problems	Kohl had a clear political vision for Europe. In his view, the Franco-German axis had the possibility and an obligation to take the lead in the construction of Europe along federal lines. However, Kohl did not want that such a process would violate basic elements in German European identity, such as *stabilitätspolitik*. Europe yes, but under certain conditions. Genscher too had a clear political vision for Europe, but much less focused on the conditions attached to it.
Two-level Game Dynamics Thatcher became increasingly isolated at home in her cabinet and in Europe. She failed consistently to find influential allies for her ideas on monetary and European policies. Her strategy, at home and abroad became increasingly reactionary and based on her perceived right to say 'No'.	Mitterrand and Kohl and their respective cabinets were almost inadvisable on most aspects concerning Europe. For them, the most important thing was not monetary affairs, but to create an institutionalized coming-together at all levels. They did this informally (in the margin of G7 meetings), formally at the bi-lateral level (the Franco-German Councils) and formally within the framework of the European Summits. They both considered it to be their obligation to take the lead in European integration.	

5. Conclusions

It is necessary to explain the ideational content of the EMU because it serves to inform, structure and legitimate elite discourse and action within the European macro-economic organizational field. The simple reference to a set of institutionalized guidelines for managing and organizing the national economies - i.e. the convergence criteria and stipulations about central bank autonomy - have armed national policy-makers with credibility on the financial markets and it has legitimated profound reforms of national policy strategies and labor markets.[32]

Some argue that we are talking about a central bank project. Central bankers have, of course, been the first to argue in favor of their independence from political influence, and the transnational central bank community has hailed price stability as the basis for all policy-making. This has been most clearly expressed by Japanese Central Bank Governor Yasushi Mieno: 'To us central bankers, it is self-evident that the primary macro-policy objective of a central bank is 'price stability'. Even if the central bank law of a country does not explicitly state this, our belief in price stability is unshakeable' (cited in Capie, 1994: 250). He has furthermore underlined that 'what is absolutely necessary is the general public's understanding of price stability and their quiet but firm support of the central bank's objective' and that central banks, individually and collectively, have a duty to efficiently diffuse the idea of 'price stability' as the basis objective for all macro-economic strategies (ibid: 251). Former Central Bank Governor of the FED, Paul Volcker, has added to the analysis that only recently has the ideational consensus at the broad political level encompassed the concept 'that price stability is to be treasured and enshrined as the prime policy priority ... The intellectual climate was very different when I entered the world of central banking. Then, academic, and certainly political, thinking tended to denigrate the significance of monetary policy as an operational matter and the sanctity of price stability as an objective' (ibid: 343). Seen in retrospect, Paul Volcker warns that central bankers, because they today tend to agree unanimously on all basic issues, run the risk 'of reinforcing our tribal prejudices ... we cannot be oblivious of the fact that, after a decade or more of increasing emphasis on price stability, a truly satisfactory measure of success has still eluded us' (ibid: 342-343).

This paper has attempted to shed light on the role of central bankers in the construction of economic reality by taking a point of departure in the

[32] See for instance Sbragia (1998) in the case of Italy.

'ideational life-cycle'. In doing so it has *not* simply restated that central bankers have been decisive in the construction of EMU because in 1988 and 1989 they were members of the Delors Committee which produced the Report out-lining the ideational set-up of the EMU. Rather, it is concluded that already by the end of the 70s and beginning of the 80s central bankers had promoted sound policy ideas. They were able to do so because two preconditions were fulfilled. The first precondition was that they in relative terms had gained power in relation to national governments since the break down of the Bretton Woods framework. The globalization of financial capital, European integration, and the development of a transnational central bank culture served to place central bankers at the center of national and transnational macro-economic policy-making. The second precondition was that national policy-makers, as a result of a severe economic crisis, found themselves in an ideational vacuum where macro-economic objectives were ambiguous and the working of the national economy was poorly understood. As a consequence, national policy-makers looked around for clear ideas which would be able to inform, structure and legitimate their policy actions and discourse and in that search central bankers were more than willing to be of assistance. The first conclusion is therefore that central bankers served as decisive constructors of the economic reality, but that they did so only at a rather short critical juncture and that they did so long before the EMU was envisaged.

Secondly, it is argued that central bankers were not the only mechanisms proving decisive for the construction of economic reality at the end of the 70s and the beginning of the 80s. National policy-makers also emulated to a large degree what they perceived to be the success of the German model. The stability of this model was considered to be historically proven and something which most policy-makers in charge of macro-economic policy aimed at during this period.

In addition, national policy-makers 'learned' what 'sound policy' meant by direct socialization processes in the newly established EMS. During the first four years of its functioning, clear rules of the game developed out-ruling competitive devaluations and all re-alignments in the ERM which were not simultaneously followed by strict plans for domestic structural reforms. These informal rules of the game also consolidated the intended or unintended asymmetry in the EMS which allowed Germany to preoccupy itself with the dollar-rate and internal monetary stability, while others had to intervene on the currency markets and raise interest rates in order to maintain the parities and hopefully to inherit Germany's stability ethos. In short, if central bankers actively constructed the knowledge which national policy elites made use of for the economy, this was done in parallel with at least two other mechanisms.

Thirdly, it is concluded that at the end of the 80s an ideational equilibrium had long since been established at the elite level within the European macro-economic organizational field. This equilibrium was mainly based on 'sound money' (stable exchange rates and low inflation) and 'sound finances' (low deficit and debt levels). When talks at the European level moved to the subject of EMU nobody therefore envisaged a structure which would not institutionalize this reigning knowledge. As Sandholtz (1993b: 126) concludes: 'The most basic issues - central bank independence, the mandate for price stability - simply were not contested'! What national policy-making elites therefore did was to nominate a group of people they could trust in this regard - a group of people who would help them to institutionalize 'sound policy' ideas so as to bind future elites in the macro-economic organizational field. Therefore, for elite policy-makers it came as no surprise that this was exactly what the central bank committee did.

Fourthly, it is proposed that in order to gain a more complete understanding the process of ideational institutionalization (i.e. to understand why the EMU came to look as it did), it is useful to study the very special relationship between three groups of actors - central bankers, the Commission and state leaders in France, Germany and Great Britain. By studying only one of these actor groups or by studying them as separate actors - which is typically the case in neo-functional or intergovernmentalist analyses of this object - one might well miss some important dynamics and effects.

In particular, the leaders of two countries, François Mitterrand and Helmut Kohl, had, on the one hand, coinciding visions about European order and, on the other, shared a set of causal ideas about macro-economic policy. The project for EMU seemed for them to consolidate both their visions about European political order and their ideas about macro-economic cause-effect relationships; they simply needed (i) somebody who shared the same ideas about macro-economic policy-making and who would be able to present concrete plans for their institutionalization; and (ii) somebody who shared their visions about European order and could guarantee an institutionalization of these causal ideas at the European level.

Central bankers both invent ideas and participate in a political struggle to establish these on the political agenda, in the mind-sets of other political elites, and in organizations and procedures. They formed what can be said to be a highly homogeneous epistemic community which could help policy-makers to innovate, diffuse, select and institutionalize causal ideas. It was obvious for both Mitterrand and Kohl what they could expect from central bankers if this particular group of actors within the European monetary organizational field

were asked to present concrete plans for the operationalization of the EMU. Central bankers' ideas are not secret, as mentioned above they were at the time widely shared not only in France and Germany but also all around Europe. It was a logical choice for both state leaders to choose central bankers to form the Delors Committee.[33] In short, I argue here that it is plausible that central bankers were chosen for the preparatory work for the EMU, because they were expected to *deliver* an EMU framework according to precise ideational lines. This does not mean that this was a principle-agent relationship between state-leaders and central bankers. As we have seen in an earlier section, central bankers are indeed important ideational transfer mechanisms, that is, they played a role during the end of the 70s and beginning of the 80s in launching 'sound policy' ideas and safely establishing these ideas on the political agenda so as to become consensual knowledge. Thus, what is clear here, is that there is a chicken and egg problem: who took the initiative for the ideational institutionalization of 'sound policy ideas' in the EMU, was it the central bankers or the state leaders? *Central bankers,* because they have, over a longer period of time, contributed to constituting the knowledge of the policy-making elite so that this elite would be more likely to turn to central bankers for policy advice and guidance, or *policy leaders,* who actually made the concrete decision to appoint central bankers as advisors, expecting them to produce a very specific institutional framework which would be in agreement with the ideational consensus shared at the elite level.

Jacques Delors was the guarantee for Kohl and Mitterrand to harmoniously combine a set of shared visions for European political order with the established consensual knowledge about macro-economic cause-effect relationships. Jacques Delors was able to assure them that specific causal ideas

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[33] A parallel can be noted to the episode where Giscard d'Estaing and Helmut Schmidt planned the European Monetary System in 1977-1978. At this point central bankers were *not* asked to develop the overall framework for EMS, precisely because it was expected that they would not be able to 'deliver' what the French and the German Heads of State and Government primarily wanted. At the Copenhagen European Council meeting, 7-8 April, a so-called 'gang of three' of specially chosen confidants and advisors were nominated in secret by the German, French and British Heads of Government and State in order to prepare the overall lines of the EMS. Central bankers were *not* involved systematically with a clear political mandate before after the Bremen summit 6 and 7 July 1978 and even then, the German Chancellor remained the most important figure. The EMS was, as is the EMU, at one and the same time an act of political imagination, and an expression of a growing consensus in Western Europe about the priorities of economic policy. There are special emphases from country to country, but the Schmidt government in Bonn, the Giscard-Barre administration in Paris, the Andreotti-Pandolfi regime in Italy and the Callaghan-Healy partnership in London spoke essentially the same language at the end of the 70s and shared the same objectives in economic matters.

could be institutionalized at the *European* level. While central bankers could provide an institutionalization of causal ideas, they had a priori no particular European visions connected to that process. Contrary to this, Delors could help Mitterrand and Kohl to realize the Europe they wanted. Without Delors, they would have had no European guarantees. Therefore, Delors was the obvious choice as chairman for the study group on EMU.

Again, this does not mean that there was a principle-agent relationship between the two state leaders and Delors. The latter had, through his Russian doll strategy, his reform of the Commission structure, and his personal relationships with Helmut Kohl and François Mitterrand, carefully, over a long period of time, contributed to forming their mind sets with regard to the possibility and potentiality of using the European arena actively in a political strategy. One might even say that Delors had prepared the way for his nomination as chairman for quite a while.

At the most general level, what this paper attempts to show is that the role of central bankers in the construction of economic reality in Europe can be analyzed within a dynamic historical perspective highlighting that central bankers play various ideational roles along the ideational life-cycle.

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