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The Power of EMU-Ideas:  
Reforming Central Banks  
in Great Britain, France, and Sweden

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**EUROPEAN UNIVERSITY INSTITUTE, FLORENCE**

**ROBERT SCHUMAN CENTRE**

**The Power of EMU-Ideas:  
Reforming Central Banks in Great Britain,  
France, and Sweden**

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## **Abstract**

This paper attempts to explain central bank reform in Great Britain, France and Sweden with a reference to 'the power of ideas'. It is argued that European macro-economic elites feel that they belong to an international macro-economic community and that they share a common belief system based on the 'sound policy' concept. The international macro-economic community provides them with a sense of belonging which they will aspire to maintain through 'appropriate' policy discourse and action. If there is a perceived misfit between the ideas on which the European macro-economic organizational field is build and a particular set of domestic structures, macro-economic elites will, as a result of this search for continued international legitimacy, aspire to undertake domestic reforms where and when it was not otherwise expected. However, national macro-economic elites also have a legitimacy game to play at the national level. Through their domestic policy discourse they will have to construct a fit between the domestic institutional context and a set of EMU ideas. The timing of domestic reforms based on EMU ideas, therefore, depends on whether the domestic institutional context is facilitating or constraining such an undertaking.

## **Keywords:**

Central Bank Independence, Domestic Institutions, EMU, Ideas, Legitimacy



## INTRODUCTION<sup>1</sup>

Why was it that French elites granted their central bank independence four years before it was necessary according to the Maastricht Treaty? Why is it that both British and Swedish elites reformed their central banks although there are no formal requirements in the Treaty of Maastricht requiring them to do so?

This is a puzzle which deserves investigation because the reforms were undertaken in periods of low inflation and because the same elites in earlier periods of high inflation categorically refused to reform their central banks, calling independent central banks 'un-french', 'un-British' and 'un-Swedish'.

Expectations based solely on treaty stipulations are that the French authorities would reform the *Banque de France* in the latter months of 1998, just before the coming into force of the third stage of EMU, and that the Swedish and British authorities had waited to reform their central banks until membership of the third stage constituted a viable option at some point in the future.

Expectations based on macro-economic arguments are that elites would reform their central banks in order to fight high inflation and with a view to create a reputation of credibility on the financial markets. However, these reforms were undertaken in periods of low inflation, and in all three cases they were accompanied by actions which were *not primarily* undertaken with a view to enhance the credibility of the respective economies on the financial markets. French authorities argued for a political counter-weight to the European Central Bank (ECB)<sup>2</sup>, and British and Swedish authorities explicitly argued that membership of EMU was not on the agenda because they, due to a set of specific economic conditions, preferred to maintain the option of letting their currencies float in cases of asymmetric shocks. In short, legal and economic explanations *cannot entirely* help us to understand why national elites in France, Great Britain and Sweden changed their opinion drastically and reformed their central banks in the 90s. Therefore, to better understand this puzzle this paper suggests that we investigate the social consequences of the causal ideas which form the 'glue' of the European macro-economic organizational field. The argument proceeds in two steps.

In the first step, it is argued that by constructing the Economic and Monetary Union on a set of 'sound policy' ideas elites within the European macro-economic organizational field have consolidated their 'in-group' and clearly defined an 'out-group'. 'In-group' membership is considered to be a prerequisite for any elite within the European macro-economic organizational field in order to be accepted as an 'appropriate' partner on European macro-



economic matters. 'Sound policy' ideas have provided European elites with a terminology so that they are able to communicate in a meaningful way, and they have defined particular sets of problems and solutions that European elites can legitimately communicate about. Seen in this perspective, macro-economic elites in France, Great Britain and Sweden were at great pains not to violate the social norms established by the reigning ideational consensus within the European macro-economic organizational field - even if this meant that they had to reformulate domestic norms and principles that have reigned for decades.

However, the second step of the argument is a question of outlining the specific national contexts within which organizational reforms are being presented, discussed, adopted and implemented. The specific domestic institutional context has an impact on the way in which the macro-economic elites can frame the organizational reforms based on a European ideational consensus. Apart from depending on legitimacy on the European political scene, any elite in a democratic society depends on domestic legitimacy (Schimmelfennig, 1999a, 1999b). This means that the same causal idea is presented and framed in different ways in the various domestic institutional contexts. Furthermore, apart from the fact that the domestic institutional context can help us understand why the same policy reforms are promoted in country specific ways in France, Great Britain and Sweden, domestic institutions can help us understand why reforms were first undertaken in France, and only with a time-lag in Great Britain and Sweden. As a result, in order to investigate the 'power of international ideas' it becomes important to investigate the degree to which these ideas resonate with domestic institutions.

In the first section of the paper the concept of 'European macro-economic organizational field' is presented in order to better grasp the group-dynamics among European macro-economic elites. In section two the above-mentioned puzzle is presented in more detail. In section three and four the idea of central bank independence and the domestic institutional contexts which are of relevance for the diffusion of macro-economic causal ideas within France, Great Britain and Sweden are discussed. In section five, the parliamentary debates in the three countries are analysed in order to see how policy elites manage to actively construct a 'fit' between one specific international idea - central bank independence - and the domestic institutional context. The argument is that both pro- and anti-independence speakers meticulously use the domestic institutional context to either legitimize or delegitimize the internationally based ideational discourse on central bank independence. In the final section, it is concluded that national macro-economic elites are in the dilemma of simultaneously belonging to two social groups - the European macro-economic organizational field and the domestic organizational field. In cases of misfits between the ideas underlying the European macro-economic organizational field and the domestic



institutional context, national elites will have to actively construct such a fit in order to not be expelled from one of the two social communities.<sup>3</sup>

## **The European Macro-Economic Organizational Field**

Within new institutionalist theory an 'organizational field' is a recognized area of institutional life which comprises the totality of relevant actors involved in a common enterprise and who have developed a mutual awareness between them (DiMaggio and Powell, 1991: 64-65).<sup>4</sup> According to Scott, a precondition for the existence of an organizational field is that the members that it includes take one another into account, and he argues that organizational fields are made up of both cultural and behavioural elements:

'... the former refers to the meaning systems and symbolic frameworks that define and give coherence to a set of behaviors, together with the constitutive rules that define the utilities and capabilities of actors and the normative rules that specify appropriate forms of conduct: the rules of the game ... Behavioral elements within fields refer to the activities and interactions carried out by societal actors, both individual and collective. These actors select from, enact and reproduce cultural beliefs and meaning systems, but, at the same time, they also challenge and change them' (Scott, 1994: 207, see also Scott, 1995: 56).

In other words, organizational fields are established on a set of social beliefs, norms and meaning systems which define the scope of the organizational field and delimit it from actors outside the field. They also constitute the 'rules of the game' within the field, that is, they outline a set of appropriate activities which can be undertaken by the members of the organizational field. In doing so, the members reproduce and consolidate the beliefs on which the organizational field was originally constructed. In short, 'organizational fields are defined and shaped by the presence of particular beliefs systems that guide and orient the behaviour of field participants ... they are complex systems of presuppositions, knowledge and beliefs, norms and rules that identify and distinguish among sectors or arenas of contemporary social life' (Scott, 1994: 208).

One could argue that a shared belief system within the European macro-economic organizational field provide European elites with a sense of belonging. They start to categorize, simplify and systematize the social world in similar ways while using the same language; they perceive they have something in common on the basis of which they form an imagined community (Anderson, 1983).

If one part of the existence of a European macro-economic organizational field is that the participating elites tend to form an increasingly coherent 'in-

group' based upon a set of ideas, then the other part is that this social identity is formed in juxtaposition to one or several 'out-groups'. The 'out-group' is thus defined by its perceived difference to the 'in-group', that is, it is perceived to be based on a set of competing ideas. This is clearly a powerful mechanism of inclusion and exclusion which tend to become difficult to alter once the 'in-group' - 'out-group' dichotomy has been established and consolidated in formal procedures, organizations and rules.

Apart from splitting the macro-economic actors on the European scene in 'in-groups' and 'out-groups', ideas furthermore provide European elites with a language in which to communicate with one another. Ideas provide them with a set of topics that they should communicate about and they define the roles elites should play while they are communicating. In a sense, ideas not only constitute the discourse and the political agenda, but they also empower actors by organizing them in different roles. For instance, in order to become an integrated member of the 'in-group' one must argue according to a specific causal logic, one must discuss the themes that are considered relevant, and one must avoid speaking about themes which are considered irrelevant. This has already been discussed above, however, once ideas have been adopted by the members of the 'in-group', they tend to create hierarchies between 'in-group' members. If a sound policy discourse is internalized consensually, the central banker - who is supposed to maintain or create low inflation - can with full legitimacy argue for his/her autonomy from political influence. On the other hand, a representative from the labor market will not be able, legitimately, to forward a claim in favor of automatic wage indexation mechanisms that serve the purpose of automatically regulating the wages according to a set of stipulated criteria. The point is that once a set of causal ideas have laid down a set of causal logics, then different actors in the policy-game will be placed in different roles with varying degrees of room for maneuver. Therefore, ideas seem to constitute policy-actors in a role-game.

A point of departure for the claims made in this paper is that a 'Europe-wide macro-economic organizational field' exists and it consists of national and supranational elites. Among the national elites who feel a belonging to the European macro-economic organizational field one is likely to find central-bankers, members of the economic ministries, members of the private productive and financial capital, and members of the main trade unions. On the supranational level, one is likely to find the personnel within the Council Secretariat, the Commission, the European Parliament, the European Central Bank which deal full time with the coordination of macro-economic policies, monetary governance, and Economic and Monetary Union.



It seems as if basic issues such as the overall purpose of the ESCB (price stability), the constitutional status of the ECB and the national central banks (independence) and the definition of the convergence criteria (sound finances and money) to a large extent were uncontroversial issues in the elite bargains over the EMU set-up.<sup>5</sup> Erik Hoffmeyer, for instance, holds that the 'negotiations about EMU by the end of the decade showed that a broad political consensus existed about a series of fundamental monetary principles which in the preceding decades had caused tensions and considerable disagreements. This concerns the objective of price stability, central bank independence, stable exchange rates and disavowal of monetary financing of public deficits' (Hoffmeyer, 1993: 108). Hoffmeyer added that central bankers in the Delors committee 'in reality without resistance accepted, that the stability-oriented German economic policy should be the guiding line, and that the common monetary institution should be modeled from the German central bank'. In other words, according to Hoffmeyer there was not much disagreement among central bankers in the Delors committee when it came to defining objectives and instruments in macro-economic management by the end of the eighties. This might not surprise given that central bankers typically are seen as constituting transnational epistemic communities with shared causal and principled ideas and with a common policy objective (Verdun, 1999). However, Hoffmeyer argues in a similar vein that this macro-economic consensus also could be found on the level of national political elites during the intergovernmental conference on EMU. More specifically, he states that it is 'noteworthy that all twelve countries without much trouble accepted a series of basic principles for the conduct of monetary policy, some of which were widely contested on the national level' (ibid: 107).

Another close observer and participant in the EMU-process, the economist Niels Thygesen, seems to agree with Hoffmeyer. With regard to central bankers in the Delors Committee '[o]pinions were clearly converging ... that the experience of the Bundesbank was useful as a model of mandate, structure and relationship with political authorities' and it is 'surprising that the political authorities, initially the 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 systems. There was no important disagreements on any of the main provisions for the ESCB' (Gros & Thygesen, 1992: 320).

These observations have been reiterated by academic scholars as well. Stephen F. Overturf has argued that there was 'an intellectual consensus over most of the main issues surrounding EMU' and that 'the areas of agreement in the ... Delors report provided the broad basis for consensus and allowed for

further development' (Overturf, 1997: 89, 103). Stephen Gill held in a similar vein that behind EMU was a 'gradual convergence in the policy stances of the major governments of the European union ... premised upon tight monetary and fiscal policies, giving greater autonomy to central banks to make monetary policy' (Gill, 1997: 209-210). Finally, Wayne Sandholtz demonstrated how a broad consensus on EMU fundamentals existed by the end of the 80s and beginning of the 90s so that the 'most basic issues - central bank independence, the mandate for price stability - simply were not contested' (Sandholtz, 1993: 126).

Like any other organizational field, the European macro-economic organizational field is based upon a set of beliefs, norms and meaning systems which define the scope of field membership and the range of appropriate actions to be undertaken by field members. At this stage I will not go into a discussion about how this field was created from the end 70s and during the 80s (see Marcussen, 1998; 1999; in preparation) but simply assume that its foundational beliefs and norms are best described by the term 'causal ideas'. This term basically concerns how field members tend to describe the causal relationship between macro-economic variables and how they tend to prioritize macro-economic objectives. Thus defined, the causal ideas which structure and inform the discourse and policy actions of European elites consist of three simple elements: 'sound finances', 'sound money' and 'independent central bankers'. The belief in 'sound finances' is the conviction that national macro-economic policy-makers' basic objective is to convince the actors on the financial markets that they are 'credible' and 'responsible'. This can be achieved by keeping the annual budgetary deficits and the external debt at a low level. The logic is that a so-called sustainable fiscal stance characterized by long-term planning and stability is one way in which a national policy-maker can signal to the financial market that there will be no attempts what so ever to adjust the economy during electoral campaigns and economic slopes. This is closely related to the concept of 'sound money' which means that low inflation and monetary stability are considered to be macro-economic objectives in themselves. By elevating the internal (inflation) and the external (exchange rates) value of money to be the primary objective of national macro-economic policy-making, a signal is sent to the actors on the financial markets that their investments are safe and that they do not need to reconsider their portfolios. Finally, national policy-makers reassure financial markets against elected politicians' policy discretion by granting national monetary authorities 'independence'. According to this philosophy this strategy also assures the financial markets about the 'responsibility' of the government in power. If there is, despite the attempts of elected politicians to avoid it, a tendency for the national currency to rise or fall in value, then it is the responsibility of the national central bank to work against such tendencies.



In short, the argument is that these causal beliefs constitute the core of the value system on which the European macro-economic organizational field is based. It is clear, that if this particular version of a shared causal idea is characterized by 'low inflation', 'low deficits', 'low debt', 'stable exchange rates' and 'independent central banks', then there is no clear specification of what 'low', 'stable' and 'independent' actually means in practice. However, there is a tendency for causal ideas to become 'stickier' if they are firmly institutionalized in a set of formal organizations, rules and procedures. It is exactly in this light that the Economic and Monetary Union with its ESCB, ECB and convergence criteria can be seen; EMU is the final stage in an ideational life-cycle in which 'sound policy ideas' have become firmly consolidated in a European Treaty. In other words, if the European macro-economic organizational field during the 80s became organized around a set of 'sound policy ideas', then these ideas have now been replicated in a concrete institutional set-up which makes them very resistant to competing causal ideas and which makes them highly constraining for future elites within the European macro-economic organizational field.

At this stage of the argument the hypothesis is that European elites are at great pains to fulfill their social obligations at the European level which are outlined by the causal ideas forming the basis of the European macro-economic organizational field. Sound policy ideas define what it is appropriate to do and say in many different situations; in a so forceful way that they tend to regulate behavior. In this case we are, of course, talking about norm-regulated behavior and not rule-regulated behavior; ideas do not establish well-defined rules for behavior nor do they define formal sanctions, which are applied if a norm is violated. The function of ideas is that they frame the range of actions which policy-makers perceive to be appropriate. Therefore, what policy-makers are left with is a *European* level-playing field where it is legitimate to play the game, and where the norms that define the game are indicative rather than definite.

Apart from the European level-playing field, however, macro-economic elites also play very specific roles in the *domestic* level-playing field. The domestic organizational field is different from the European macro-economic organizational field in the sense that the ideas on which it is based are much broader in scope and not only relate to macro-economic issues. In order to be considered legitimate at the domestic level, national elites will have to take account of a broad variety of factors ranging from nation-state identities, political cultures and institutions, and public sentiments. As Max Weber argued, there is a universal incentive for policy-makers to govern in a way that preserves the legitimacy of government institutions and decision-making. In Weber's experience no organization 'voluntarily limits itself to the appeal to material or affectual motives as a basis for guaranteeing its continuance. In addition, every such system attempts to establish and to cultivate the belief in its "legitimacy"'.

In other words, legitimate power is normatively regulated power (Weber, 1947 translated: 325, cited in Scott, 1987: 286-287). Jürgen Habermas (1975) also argues that the legitimate exercise of power is based on whether the values elites espouse resonate with the national community's shared beliefs in a specific normative order. Therefore, in order to be able to diffuse a set of international ideas at the national level, macro-economic elites will have to actively construct a 'fit' between these international ideas about central bank independence and the domestic institutional context. This will primarily be done through their political discourse which, as a result, will be the main focus of this paper. *The question becomes to investigate how macro-economic elites manage to construct a 'fit' between Europe-wide ideas about central bank independence and a set of domestic institutions.*

In this regard, Schimmelfennig's concept of 'rhetorical action' which is the instrumental use of arguments to persuade others of the validity of one's selfish claims' (Schimmelfennig, 1999a: 29) becomes particularly relevant. Through public statements, such as those investigated in this paper, the speakers, be they 'pro-independence' or 'anti-independence' speakers, will try to link their own beliefs to a broad set of constitutive beliefs and practices at the domestic level with a view to gain legitimacy and to persuade others about own claims. In the words of Teun A. van Dijk, 'the act of legitimation entails that an institutional actor believes or claims to respect official norms, and hence to remain within the prevalent moral order ... Legitimation discourses presuppose norms and values. They implicitly or explicitly state that some course of action, decision or policy is 'just' within the given legal or political system, or more broadly within the moral order of society' (van Dijk, 1998: 256). As will become clear in the empirical sections to follow, the interesting aspects in this regard is to investigate how the speakers within a very short time-span (three to four years) manage to argue both in favor of central bank independence and against!

In summary, in the 1980s and 1990s elites within the European macro-economic organizational field can best be described by their common belief-system circling around a particular notion of 'sound policy'. These ideas do indeed influence what European elites do and refrain from doing, and how they define themselves in social roles on the European macro-economic level-playing field. Ideas provide them with a social identity that helps them both to include people *and* to exclude people from the 'in-group'. This is a powerful mechanism which decisively determines who gains access to political resources. If macro-economic elites need to belong to the European macro-economic organizational field in order to be considered legitimate European partners, then these same elites will have to reformulate or translate the idea about central bank independence at the domestic level in order to increase its resonance with the domestic institutional context.



## The Puzzle Restated

In 1988 when the UDF in France placed central bank reform as a central element in their election program, nothing was actually changed, since there was no general political backing for it in the *Assemblée nationale*. In 1993, however, the *Banque de France* underwent a profound reform after a heated debate in the French parliament.

Similarly, when the British Chancellor of the Exchequer, Nigel Lawson, proposed in November 1988 to grant more independence to the Bank of England, this was flatly rejected by Prime Minister Margaret Thatcher who argued that 'it would be seen as an abdication by the Chancellor when he is at his most vulnerable' (Thatcher, 1993: 706). However, when Tony Blair was elected Prime Minister in Spring 1997 and Gordon Brown was nominated Chancellor of the Exchequer, the first thing they did was to grant more independence to the Bank of England.

Finally, when the Moderate Party in Sweden in 1989 proposed to grant more independence to the *Riksbank*, nothing happened in the Swedish Parliament. Such a move did not obtain any support in the Swedish political landscape and it never made its way onto the political agenda. However, when the question came up again in 1998, the Swedish *Riksbank* was reformed profoundly with broad support in the *Riksdag*.

The puzzle is the following: In 1988 and 1989 when the Delors Report proposed to establish a European System of Central Banks consisting of national central banks which 'would have to be given the full status of an autonomous Community institution' and which 'should be independent of instructions from national governments and Community authorities' (paragraph 32), none of these three countries had an independent central bank and there was apparently no political backing for a reform in that direction despite political attempts to put the subject on the political agenda. The situation changed in 1993 once the Maastricht Treaty was formally ratified since it required that countries who aspired to participate in the third stage of EMU should reform their national central banks so that they could be said to be formally independent. France obviously wanted to be a member of the third stage of EMU, but this did *not* necessarily require that France take the controversial step to fundamentally reform its central bank *four years before* this would have been strictly required, that is, by the end of the second stage of EMU at the latest. Why did France not wait until 1998 to undertake a contested reform?

Great Britain and Sweden have, contrary to France, a special relationship with the EMU. Great Britain managed to negotiate a protocol into the Treaty

text which states that it does not need to prepare for the third stage of EMU before it so wishes. Thus, there are no *formal* requirements which can be said to push British policy-makers toward a central bank reform. Nevertheless, as mentioned above, the Bank of England underwent a thorough reform in May 1997. Why was this so when both Labour and Conservative politicians tended to see such a move as profoundly against the British "way of doing things" on many earlier occasions?

Sweden did not participate in the negotiations on the Maastricht Treaty, as a result of which it does not have an EMU-protocol like that of the British. However, the social democratic government has officially stated that it does *not* consider full membership of EMU to be relevant for Sweden 'for the time being'. Even if Sweden came to fulfill all of the convergence criteria, the Swedish government has chosen to voluntarily opt-out of EMU.

The situation in which a member state *without* a special EMU protocol chooses *not* to participate in the EMU is certainly *not* foreseen in the Treaty. The signing parties seem to have assumed that all member states who did not have a protocol really *desired* to become full members of the EMU. Sides & (1998: 12) argues that since there is no Treaty provision providing a general exception for Member States to opt-out of the EMU, a Member State has no legal right to do so unilaterally. If the Member States of the EU had the competence to decide on the question of joining the EMU, he argues, there would have been no reason to negotiate a protocol for Denmark and Great Britain. In other words, since only the Commission has the power to declare and to abrogate 'a member state with a derogation', the Swedish government's voluntary opt-out of the EMU is tantamount to a voluntary opt-out of the Treaty itself.

At this stage I will not argue that the EU Treaty can only be interpreted in one specific way and that the Swedish government has violated the Treaty by voluntarily choosing not to join the EMU. I will simply argue that the Swedish decision 'to wait for the time being' is unforeseen by the initial signatories of the Maastricht Treaty and that there seems to be space for discretionary interpretation when it comes to establishing Sweden's obligations with regard to fulfilling the EMU's convergence criteria - including the one which concerns national central bank independence. It is simply not clear from the outset whether Sweden can be said to be legally required to fulfill the convergence criteria when it does not want to become a full member of the EMU.

The Swedish government has chosen to exploit the space for legal interpretation as best suits it. On the one hand, it has recognized in a governmental bill that *it does not make any difference for the practical working*



of the ECB whether the Swedish central bank is independent or not. It argues that outside the third stage Sweden will automatically be considered as a 'Member State with a derogation' which retains responsibility for its monetary policy, which does not participate in the operational framework of the ESCB, which does not transfer the right to issue banknotes to the ECB, which is not subject to the legal provisions of the ECB, which neither participates in any external exchange rate system nor is subject to any general exchange rate policy orientations, which is unable to appoint members of the Executive Board of the ECB, and whose central bank governor cannot be a member of the Governing Council of the ECB (1997/98: 25; 2 October 1997, 24).

On the other hand, the Swedish government also wrote that *the goal for Swedish economic policy strategy is to fulfill the economic convergence criteria* (ibid: 5), and that it considers *the adaptation of the status of the Swedish central bank as being mandatory* (ibid: 36). Thus the Swedish government has *chosen* to interpret the Treaty in a way which allows it to opt-out voluntarily from the EMU, it has *chosen* to interpret the financial and monetary convergence criteria to be desirable in themselves and, therefore, at the heart of the Swedish macro-economic strategy, and it has *chosen* to interpret the institutional convergence criteria concerning the status of the central bank as being mandatory whether or not Sweden participates in the monetary union.

Therefore, if there is a legal void which enables the Swedish government to make free interpretations of the Treaty and if it does not make any practical difference for the workings of the ECB whether Sweden grants its central bank independence or not, it would indeed have been possible for the Swedish government to interpret the EMU's convergence criteria - including central bank independence - as criteria to be fulfilled only *if* Sweden wanted to participate in the third stage of EMU. However, the Swedish government chose *not* to interpret the situation in this way. Therefore, the puzzle in the Swedish case is: Why did the Swedish government choose to interpret an unresolved legal question in a way which forced it to grant the *Riksbank* independence?

These puzzles cannot be answered by referring to the economic situation in which these countries found themselves when the decisions were made. All of these countries had low inflation and falling long-term interest rates during the national decision-making procedures, so it does not make sense to refer to a necessity of improving these indicators when explaining the puzzles. Neither does it make sense to explain the central bank reforms by the respective governments' wishes to enhance the credibility of their economies on the financial markets in the future. France, for instance, has continuously argued in favor of a political counter-weight for the ECB and against a too dogmatic interpretation of the convergence criteria and the Stability Pact. Thus the overall puzzle remains the same:

Why did France reform the *Banque de France* before it was formally required to do so by the Treaty on European Union, why did Great Britain reform its central bank when there is no formal pressure to do so at all, and why did Sweden choose to interpret the central bank stipulations restrictively while other more fundamental matters - such as the violation of the *acquis communautaire* by voluntarily opting-out of the EMU - were brushed aside?

The answers to these questions are that there indeed *was* a lot of pressure on these three countries to reform their central banks. However, the pressure was neither economic nor legal in nature, but rather *ideational*. In short, once a causal idea about the positive relationship between central bank independence and low inflation performance has become safely institutionalized in formal treaties it starts to become difficult to avoid its constraining impact because *any* deviance from this norm will be considered to be illegitimate. In other words, in order *not to be excluded* from the 'in-group' of European elites, Swedish, French and British policy-makers felt a considerable normative pressure for central bank reform.

Such a major shift in policy-attitude in the three countries in question from complete rejection of reform in 1988 to complete acceptance in 1993 and 1997/98 respectively - of course needs to be 'rationally' explained by the policy making elites themselves. This is, for instance, done in the parliamentary debates in which these reforms are discussed. What we witness, therefore, is a radical development of discourse over a relatively short time period - something which can be illustrated by studying consecutive parliamentary debates on the central bank issue. It will be argued in the next section that because there is a perceived misfit between reigning institutionalized ideas and domestic policy praxis and discourse, the latter will at some point undergo some kind of reform. In this regard, apart from explaining why these countries reformed their central banks, it is interesting to understand why France was faster to reform its domestic structures than both Sweden and Great Britain.

In short, the argument will be that if there is a perceived 'misfit' or discrepancy between institutionalized ideas and domestic political structures, then an ideational pressure will at some point result in the reform of these structures. If reform is not undertaken, the national policy-elites risk being excluded from the European policy-elite. Ideational pressure would, therefore, result in reforms where and when they are, seen from a legalistic point of view, not otherwise expected. The impact of this ideational pressure will depend on whether existing domestic institutions facilitate or constrain reform. The fact that a country like France actually undertook a central bank reform before Great Britain and Sweden might depend on the way the French financial system, its administrative and political culture, its experiences with monetary policy, and its general European approach is framed. A discussion of these country-specific



institutions, and the way these either constrain or facilitate central bank reform, will be the subject of a later section, but first the 'idea of central independence' needs to be discussed in more detail.

## The Idea of Central Bank Independence

In order to qualify for membership of the final stage of EMU, the member states of the EU must not only fulfill a set of fiscal and monetary convergence criteria, they must also converge in institutional terms to a certain extent. Most notably, articles 107 and 108 of the Treaty on European Union and article 14 of the Statute of the European Central Bank (ECB) require that national central banks be fully independent from any kind of political influence when they execute operations within the framework of the European System of Central Banks (ESCB).

Various factors have been underlined in order to explain the increasing interest in the status of national central banks, ranging from the increasing importance of *structural developments* on the market for capital (i.e., the Break Down of Bretton Woods and the liberalization and globalization of financial markets), via landslide developments within *political economy* research (i.e., the death of the Philips curve and the time-inconsistency problem) and broad shifts in *mass beliefs* and values (i.e., from collectivism and materialism to individualism and post-materialism), to *normative arguments* based on the problem of democratic accountability versus efficiency in the management of monetary policy. One thing which is common for the cases investigated in this paper is that the immediate trigger for the discussions in the national parliaments about the status of the central bank is European integration and the above-mentioned stipulations in the Treaty on European Union. The background factors which made European integration such a powerful trigger cannot, of course, be neglected in this regard and, as will become clear later when analyzing the national parliamentary debates about central bank independence, they play a role which is just as important as is European integration.

Four themes are recurrent under the heading 'central bank independence'. The first concerns the *definition* of the term itself and how it relates to similar notions, and the second relates to the question of what independence looks like in praxis and whether it is *possible* at all. The third theme regards the *desirability* in regard to independence, that is, the question of the possible trade-off between accountability and efficiency, and in particular the question of legitimacy. Fourthly, there is the question of whether independence makes any difference with regard to *policy outputs*.

A central question is from what central bankers are taken to be independent. Is it independence from political institutions, such as national parliaments and executives, or is it in relation to institutions in the broader polity such as the private banks that it is supposed to regulate?<sup>6</sup> As defined by the European Monetary Institute (1998: 12), national central banks should be seen as independent from both national governments and national parliaments. In this regard, the notion of independence should not be confused with the notion of 'autonomy', which concerns whether the central bank is able to do its job effectively or not. I have argued on another occasion (Marcussen, 1998) that despite the fact that many central banks have been granted independence in the 90s, their autonomy to use their instruments to achieve their objectives has been weakened by the globalization and liberalization of financial markets. In addition, it was also argued that in order to evaluate the degree of a central bank's autonomy it is equally crucial to study the institutional context in which it operates.

An equally central question concerns 'independence to do what'? Does the central bank have the freedom to set goals of monetary policy or are we only talking about freedom with regard to the central bank's choice of instruments to achieve these goals? The TEU leaves this to interpretation to a certain degree because it simply stipulates that the main objective of the ESCB is to maintain price stability (art. 105). As a second objective - if this does not prejudice the objective of price stability - the ESCB is supposed to support the general economic policies in the union. However, there is no direct indication of what low inflation means in praxis. At the national level, such precise indications might be decided by law in the national parliaments (Great Britain and Sweden) or internally in the national central bank (France), but price stability has always to be the main preoccupation of the central bank. In other words, the national central banks are not able to define the goal they want, but sometimes have freedom to decide what price stability means in praxis.

Independence does not concern the choice of monetary regime either. Most central bank laws and national constitutions leave such decisions for the national parliaments to make. This is also the case within the EMU, where the ECOFIN rather than the ESCB concludes formal agreements on exchange rate systems between the Euro and third-country currencies (art. 109). What the ECB and the national central banks are supposed to do, however, is to define and implement the monetary policy of the Community along these broad lines.

However, this is not all that can be said about independence. Maxfield (1997: 20-21) includes in her definition of central bank independence that the central bank 'has the authority to shape decisions tangential to, but nonetheless affecting, its discretion over the goals or tools of monetary policy'. This is an



important element. Because monetary policy cannot be seen as completely isolated from policy action on other policy areas, policy-makers might, through their actions in other economic issue areas, be able directly or indirectly to influence the way the national central banks work. By stipulating now and again that the ECB shall be consulted on any proposed Community act in its field of competence (art.105, 4), the Treaty gives the ECB legal authority on areas *other than* monetary policy. This does not mean that national central banks should also be given the same authority, because there is nothing in the Treaty which indicates that national parliaments and governments must consult their national central banks just as intensively.

However, one thing is what the legal stipulations are about the national central banks' institutional, personnel and financial independence. Another thing might be how laws about central bank independence fit into the general political context.

The second question is therefore whether independence for national central banks is possible everywhere, taking the various national policy traditions into account?<sup>7</sup> The issue has already been dealt with in brief, by asking whether formal independence makes a difference if the autonomy of the central bank is markedly reduced. However, the problem can be widened even further: in order to remain powerful, would the central bank not need a firm basis of popular legitimacy? Hall & Francese (1996, 1998) have pointed to the relationship between the Bundesbank and the social partners on the German labor market in order to underline this point. Similarly, Sturm (1994), Heisenberg (1999) and Loedel (1999) have focused on the relationship between the Federal government and the Bundesbank, and Marsh (1992) and Kennedy (1991) have repeatedly emphasized the importance of popular support with the same conclusion.<sup>8</sup> Capie et al (1994: 36) are very precise on this point in arguing that 'the establishment of an independent central bank will largely succeed, or fail, depending on its "political" skills in holding together a low inflation constituency'. It seems, therefore, to be the case that a central bank, not withstanding how independent it is in legal terms, cannot aspire to fulfill its policy objectives effectively to any significant degree if a broad understanding and acceptance of central bank strategy, style, status and objectives is not existent. Bowles & White (1994: 240) emphasize in this regard that political units such as central banks 'do not exist above or outside politics but are embedded in a complex matrix of political forces which transcends the conventional divide between polity and economy'.

Seen in terms of political and administrative culture, it becomes necessary to investigate to what degree there is general support for independent state institutions among the political elites and the population. In other words, how do

the elite and the population prioritize policy objectives, which strategy do they favor to reach these objectives, and what style of governance is considered to be the one with which both the national elite and the population feel comfortable? An answer to these questions might provide us with an understanding of whether central bank independence is really possible in the first place.

This broad theme relates to the last two issues which are raised in the national debates. Is central bank independence desirable and what does it imply in terms of policy outcome? In terms of desirability, Stephen Gill (1997) has argued that accountability has come to mean something different than the capacity of the population to hold politicians responsible for their actions. Accountability with regard to central bank independence concerns the relationship between central bankers and politicians, on the one hand, and the so-called financial markets on the other. In this understanding of accountability, financial markets punish central bankers and national politicians if they are unable to act "credibly" for one reason or another. As Layna Mosley (1998) has shown, by adopting the convergence criteria in the EMU framework, European politicians and central bank governors have voluntarily suggested a series of focal points in relation to which the actors in the international houses of finance can evaluate policy-outcome. As a result, national policy actors are now obliged to keep inflation below 2%, public deficits below 3% of the GDP and foreign debt close to or under 60% of GDP in order to "keep markets happy". In other words, national policy actors have, like Odysseus, bound themselves to the mast of fiscal and nominal convergence criteria in order to avoid the temptation of boosting domestic demand in times of crisis (Dyson et al., 1995).

Another question which concerns the desirability of independent central banking is that of the power and distribution of means in society. In this regard one should be aware that the specific institutional set-up of the economy always empowers some actors rather than others, and that this also goes for the world-wide trend to grant national central banks independence. If central bankers are generally granted more power as a political actor, the constituencies which are primarily interested in low inflation will be favored, rather than those which are interested in economic growth and employment. Among the first is the so-called rentier group, which already has property and financial capital which it wants to protect. In the other camp are those who do not have any property and whose welfare depends on the growth of the national economy - this is said to be the large group of unemployed and workers from below the middle-class who have nothing to protect from degradation through inflation. In short, when it comes to the skeptical normative arguments which are raised with regard to central bank independence, these concern the question of democratic accountability, as well as questions regarding political power and the distribution of means in society - central bank independence seems to capture it all.



Finally, there is an unresolved dispute between academics and politicians concerning whether central bank independence has proven to result in low inflation or not, and whether it has positive or negative effects on economic growth. Bowles & White (1994: 238), for instance, argue that 'the empirical evidence in support of the proposition that greater central bank independence results in lower inflationary outcomes is not, in fact, overwhelming'. This concerns both the way 'independence is measured in these empirical studies' and the methods which are applied; the latter largely tend to see central banks and inflation performance in complete isolation from the rest of the economy. Within central banking circles, a widely shared view is that low inflation is indeed a precondition for better performance on other macro-economic variables and that independent central banks should have price stability as objective number one, but it is also recognized that this objective cannot be achieved by central bankers alone. This point of view is exemplified by Japanese central bank governor Yasushi Mieno who, on the one hand, argues that 'to us central bankers, it is self-evident that the primary macro-policy objective of a central bank is price stability ... our belief in price stability is unshakable' (cited in Capie et al. 1994: 250), while on the other, he also argues that 'I do not have a panacea for price stability. However ... what is absolutely necessary is the general public's understanding of price stability and their quiet but firm support of the central bank's objectives' (ibid: 251).

Cukierman et al. (1992) argue that there might be a reverse causation between independence and inflation performance. If a country is already inflation averse, then it will tend more easily to render the central bank independent and it will have low inflation whatever the legal status of the central bank. On the other hand, if the country is not inflation averse, then the political system will always be able to get round the legal status of the central bank. In other words, the problem is whether people and actors in the polity feel inflation to be a salient issue with which it is worth dealing. Hall (1994) underlines a similar point when pointing to the role of IG Metal for the low inflation performance in Germany and the point is anecdotally summarized by the former central bank governor Erik Hoffmeyer (1994: 7):

In 1977, there was a big party to honor Karl Klasen who retired as President of the Bundesbank. Helmut Schmidt, the Chancellor, gave a speech in honor of Mr. Klasen and finished by stating, that if a [Hollywood] Oscar ... for German stability had to be presented, Mr. Klasen deserved it. Responsibility for German price stability was handed from the government to the central bank ... Mr. Klasen responded that in all fairness, however, he would pass the Oscar on to Mr. Vetter, the leader of the trade unions. Mr. Vetter, sitting just opposite me, seemed somewhat embarrassed to be commended by the central bank'.

In sum, there is indeed a series of questions, ranging from the definition of the term independence to its consequences and desirability, all of which we expect to show up in the national debates about central bank independence. As argued earlier, depending on the national institutional contexts, some arguments will be more prominent than others. Therefore, the next section will go on to study the specificities of the national institutions in France, Great Britain and Sweden.

## The Domestic Institutional Contexts of Central Bank Debates

Although France, Great Britain and Sweden together have the oldest central bank institutions in the world,<sup>9</sup> they are generally considered to be rather different in terms of political institutions, cultures and styles. Therefore, in this section I will shortly outline how these three countries distinguish themselves from each other in terms of (i) type of financial system, (ii) specificity of the administrative and political culture, (iii) experiences with monetary policy, and (iv) general European approach. An institutionalist approach which focuses solely on the importance of national institutions for policy output would lead us to expect quite different decisions from country to country with regard to central bank independence. However, this is not the case. What we have instead are three rather different parliamentary debates about the subject, but in all countries the national parliamentarians have ended up by granting their national central banks considerable levels of legal independence. The differences in debates might be ascribed to the specificity of the three national models whereas the similarity in output could be seen as underlining Sandholtz's (1996) point that 'EU-membership matters'. The interesting aspect in this regard is to study how causal ideas about macro-economic management - such as those represented in the TEU on economic and institutional convergence - are translated into national discourses so that they are perceived to 'fit' or correlate with specific national styles, institutions and cultures. This is the purpose of the analysis in the following section.

All three countries have quite different *financial systems*. As Zysman (1983) and Story & Walter (1997) have demonstrated, financial systems are crucial parameters for influencing monetary policy output in general. The institutional set-up of the *French* financial system includes a fairly strong role for the government through the ownership of banks and corporations. Furthermore, although private business is given access to finance both through bank loans and stock markets, commercial banks influence business through direct ownership to a considerable degree. Compared to this, the *British* financial system is characterized by an arms-length relationship between the government, banks and industry where the capital markets are the main sources of finance for industry. In neither the French nor the British case do trade unions



have any significant role to play in the formulation of general macro-economic policy strategies.

The *Swedish* system is again something very different. Major banks and private companies own considerable shares of each others' capital and, therefore, sit in on each others' boards. Investment capital is provided by private banks and the role of the government is basically one of easing these transactions but not intervening directly or controlling them. Labor is heavily organized and, compared to the two other countries, it has a very large say in how the financial system should function and in the general formulation of macro-economic policy strategies.

In terms of central banking, Epstein (1992) has pointed to the fact that central bank power depends to a decisive degree on the organization of the financial system. In cases such as the *French* one, where the government directly controls large parts of the financial system, there are relatively few possibilities for national central banks to build coalitions or to run a specific central bank strategy. On the other hand, because labor is seen as a fairly insignificant factor in this regard, central bankers are free to focus on monetary stability rather than on growth and employment. In cases such as the *Swedish* one, where the link between banks and industry tend to be symbiotic and where labor is strong, central bankers are in the worst of all situations. On the one hand, they cannot create coalitions with private banks because these will always be preoccupied by broader growth and trade objectives on behalf of their stakes in productive capital. In addition, labor in Sweden will always resist a unidirectional strategy directed towards low inflation, thereby forcing state institutions to pursue broader macro-economic objectives. As a consequence, the Swedish Riksbank has had little room to manoeuvre. In contrast to this, the best situation for national central bankers is one in which there is an arms-length relationship between banks, industry and government, coupled with a weak labor union, such as is the case in *Great Britain*. Because commercial banks will be primarily interested in monetary stability, and only secondarily in the fate of national industries, such a system should theoretically lead to the possibility that central bankers and commercial banks can form a coherent and powerful coalition in the making of overall macro-economic policy. The City and the Bank of England, despite the fact that the latter only recently has been granted legal independence, can, therefore, be hypothesized to exercise more influence on the British economy than is the case in Sweden and in France.

In short, in countries where politicians are used to have a large say in financial matters, such as it is the case with France and Sweden, one would expect that central bank autonomy is less easily swallowed in the parliamentary debates as a new guiding monetary principle.

The three countries also play very different roles in the European integration process and have very different national perceptions of and attitudes towards Europe in general. This is bound to have consequences on the way that pressure for domestic adaptation resulting from European integration is debated. *Great Britain* is often seen as the 'semi-detached' and 'awkward partner' in European integration (George, 1990, 1992; Buller, 1995) where Europe has been a highly contested theme in both the Labour Party (Daniels, 1998) and the Conservative Party (Baker et al., 1993a, 1993b) for decades. This tension is further accentuated when the discussion is narrowed down to the issue of EMU (Hovaguimian, 1997). A similar situation can be found in *Sweden*. A glance at the regular Eurobarometer and Elite Surveys from the European Union illustrates that British and Swedes are the most suspicious members of the EU. Twenty-six percent of the British and forty-one percent of the Swedes think that membership of the European Union overall is 'a bad thing',<sup>10</sup> and sixty-one percent of the British and fifty-three of the Swedes say 'No' to a single currency.<sup>11</sup> This pattern is also reflected at the level of top decision-makers where only thirty percent of the British elites and twenty-nine percent of the Swedish elites are 'very much for the single currency' compared to the EU average of fifty-one percent in favor.<sup>12</sup>

Despite the weak elite support for the EMU project in Sweden, it has most recently been argued that pressure for EU membership came particularly from both political (Moses, 1997) and business (Fioritis, 1997) elites rather than from the population. This may help to explain why the present Swedish social democratic government has felt it necessary to issue a government bill of 'Sweden and Economic and Monetary Union' (1997/98: 25, p.69) where it explicitly proposes that Sweden not participate in the third stage of EMU and that this decision can only be overturned by a general referendum. While *Great Britain* has a regular opt-out from the TEU, which allows it the possibility of joining the third stage of EMU when the time is considered appropriate, the Swedish elites - without any regard for the TEU - has a 'pact' with the Swedish population which de facto amounts to an opt-out. *France* in this respect is, of course, completely different. As Vivien Schmidt (1997: 183) argues, 'Criticism of the overall project of European integration and, in particular, of the EMU ... has remained largely taboo. "La Pensée Unique" ... has stymied any thoroughgoing, open discussion of the problems involved'. Although this is probably an overly caricatured conclusion, it is, however, true that compared to *Great Britain* and *Sweden*, the question of membership of the EU is simply not a contested issue in the political debates and the EMU-issue is only occasionally on the agenda. Such debates have most recently concerned the 'stability pact'<sup>13</sup> and the nomination of the governor for the ECB.<sup>14</sup> As long as it does not significantly threaten French participation in the third stage of EMU, one might find symbolic statements from the opposition which evoke the



government's overall EMU strategy. Such a case is exemplified by the Gaullist party's non-vote in April 1998 on the issue of participation in the third stage.<sup>15</sup>

It is important to understand that these issues do not at any point indicate that France is a reluctant member of the EU or that it is hesitating to take part in the EMU. Although the population is, to a large degree, skeptical toward the EMU, the political and business elites almost consensually agree that European monetary integration is in France's interest. As Risse et al. argue, the French socialist party has seen monetary integration since their U-turn in 1983 'as part and parcel of their political vision of Europe' (Risse et al, 1998: 21) and the French socialists began to argue that the future is to be found in Europe (*L'Europe est notre avenir, la France est notre patrie*). Similarly, although the Gaullist party (RPR) still formally subscribes to a model of "Europe des Nations", the RPR as a whole considers the European Community to be a question of identity where French exceptionalism can be reaffirmed (ibid: 22; see also Marcussen et al, 1999). Overall, therefore, considering the attitudes and perceptions of Europe in Great Britain, France and Sweden one would expect that pressure from European integration to adapt domestic political structures would be a much more contentious affair in Sweden and Great Britain than in France.

Thirdly, the three countries investigated have very different *experiences with monetary policy* - something which can also be expected to influence the debates on the role of national central banks. *Sweden* is not at present a member of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) and according to both the Lindbeck Commission (Lindbeck et al., 1994: 33) and the so-called Calmfors Report (SOU 1996: 158) - which both recommended that it is in Sweden's interest to stay outside any kind of fixed exchange-rate regime 'for the time being' - there is no support in Sweden for changing this state of affairs in the near future.

In a government bill (1997/98: 25, p. 68) it is argued that although Sweden, in accordance with art. 109m, will consider its exchange-rate policy as a matter of common interest, it has no intention of participating in either the ERM, the ERM2, or the third stage of EMU because 'Sweden in recent years, has had a negative experience with different fixed rate arrangements'. This does not mean, however, that the Swedish elite does not adhere to the reigning sound policy framework expressed by the EMU - on the contrary. In the same government bill (ibid: 63) it is emphasized that 'outside the monetary union Sweden will have to demonstrate at least as clearly its efforts both to maintain stable prices and to establish a long-term surplus in the public finances'. Furthermore, that the Swedish Krone is not member of a fixed exchange-rate regime does not mean that it is allowed to 'fly by the wind': 'The Swedish

position is that the economic policy is oriented towards stability, so that excessive exchange rate fluctuations can be avoided ... a stable exchange rate cannot be maintained unless it is supported by economic fundamentals' (ibid: 39-40). As Moses (1998) argues, Sweden has, on the one hand, been historically committed to fixed exchange-rate regimes, but, on the other, it has also used exchange rate changes effectively to defend its full employment objectives throughout most of the 70s. During the 80s, however, a consensus grew in Sweden that fixed rates of exchange with the rest of Europe were both a political and economic necessity as a result of which the Swedish Krone had been fixed from 1982 - after a sixteen percent devaluation - until the ERM crisis in 1992.<sup>16</sup>

Like Sweden, *Great Britain* has not been a member of the ERM since September 1992<sup>17</sup> and not until the Labour Party came to power in May 1997 did the press start to speculate about a possible British re-entry into the system. Tony Blair did not commit himself to EMU or ERM during his election campaign but together with his Chancellor of Exchequer, Gordon Brown, he rapidly granted the Bank of England independence and called for a broad, public debate about EMU membership.<sup>18</sup> However, already during the Labour Party's Congress in Brighton on 30 September 1997, Prime Minister Tony Blair underlined that his position was still to 'wait and see when the time was right' and, at the end of October 1997, Gordon Brown ruled out membership until the next election. He argued that 'If, in the end, a single currency is successful, and the economic case is clear and unambiguous, then the Government believes Britain should be part of it'.<sup>19</sup> Adding Walsh's (1997: 36) conclusion to this - that successive 'British governments did not support the development of European monetary regimes' and 'British officials frequently changed their macro-economic policy paradigms' - one would *a priori* expect a rather pragmatic, ideologically de-coupled attitude toward monetary policy within a European framework. However, this does not mean a denial of the causal ideas expressed in the EMU. Hall (1993: 284) has demonstrated that a paradigmatic shift from Keynesianism to monetarism has taken place since around 1976, when 'inflation replaced unemployment as the preeminent concern of policy-makers. Macro-economic efforts to reduce unemployment were rejected in favor of balanced budgets ... and monetary policy replaced fiscal policy as the principal macro-economic instrument'. In short, in Britain, as in Sweden, the national elites do not reject the ideas expressed by the convergence criteria, although successive governments have adopted a somewhat pragmatic attitude towards the EMU.

Finally, *France's* experiences with monetary integration have clearly been shaped by the so-called U-turn in 1983, during which one fraction of the Socialist party managed to convince François Mitterrand that a *franc fort* policy and *rigueur fiscale* was the only way by which he could achieve the higher



political objective of European unification with France at the center. When, upon taking office, the Socialist government in 1981 had the choice of devaluing the overvalued currency, it deliberately chose not to do so. Already in October of the same year, however, it was forced to ask for a realignment within the framework of the ERM which, nevertheless, limited only half of the over-valuation (Cameron, 1995: 130). In June 1982 the Socialist government had to present a *plan de rigueur* in the ECOFIN in order to get a second devaluation - something which was finally consolidated with yet another plan in March 1983, when a third devaluation marked the definitive end of the Socialist Party's macro-economic experiment. Since then, despite two realignments effectuated during the first co-habitation from 1986-1988, French elites have been fully committed to the ERM and the EMU.

In short, failures and successes of the three countries with monetary policy in a European context can help us to predict how the different national parliaments will tend to debate the issue of central bank independence. Great Britain and Sweden, for example, will tend to be more pragmatic and less ideologically committed to preparing for EMU than will France. In 1983 France took a decision which has remained uncontested ever since - a decision which prescribes that monetary policy should take place within Europe. On the contrary, in Sweden and Great Britain no such decision was ever made, and both states have adopted a wait-and-see attitude with regards to EMU. The decision to grant autonomy to a central bank will, therefore, tend to be a much more contentious affair in Great Britain and Sweden than in France.

Finally, the three countries differ when it comes to administrative styles and cultures. France is typically seen as being the proto-type of an executive-centered administrative system, but as Vivien Schmidt (1997: 169) argues in a comparison between France, Great Britain and Germany, 'France has changed the most in response to the pressures of Europeanization'. Firstly, it has had to abandon its traditional *dirigiste*, or interventionist, approach to economic policy-making. Secondly, the country's 'unitary structure - in which the central government has always been strong, sub-national authorities have always been weak, and the executive has always had overarching authority over the legislature and the judiciary - has been undermined by the EU's quasi-federal structure' (ibid: 175). However, this does not mean that we should cease to think of the French administration as centered around the state-executives because, as Smith argues, if the French government has lost power relative to sub-national and supranational authorities, to the judiciary, and to social groups, the French national parliament has lost even more power and the French parliament 'has become little more than a rubber stamp for directives developed in the EU Commission and agreed to by the French executive in the Council of Ministers' (op.cit.). In short, it is clear that the French state has been forced to operate in a

transnational and sub-national context, but relative to the French parliament, the executive remains the locus of power.

*Britain* has not adapted its political system and administrative cultures to the pressures of European integration to the same extent as has been the case in France. The British governmental system can be characterized as unitary and state-centered. However, British governments have never been able to impose whatever it wanted on the British parliament and judiciary. Furthermore, contrary to France, the British administrative culture has traditionally been characterized by flexibility - in that the parliament has left the practical details of implementation to be handled at the decentral level - and by easy access in terms of lobbying.

The *Swedish* administrative system of social-corporatism and openness, which both allow the public to hold civil servants accountable for their actions and social movements to participate actively in the preparatory stages of policy making, is very different from the British and French systems. In the post-War period, none of the three countries had a tradition for independent state institutions, apart from the judicial system in Sweden and Great Britain. Because of these differences in administrative styles, one could immediately hypothesize that there is less toleration in Sweden for de-coupling state-authorities, such as the central bank, from public and parliamentary scrutiny than would be the case in the power-concentrated systems in France and Great Britain. On the other hand, if there is a difference between France and Great Britain on the issue of how 'independence' fits administrative cultures, British parliamentarians would probably more likely accept the concept than would the French parliamentarians precisely because the British are used to dealing with independent institutions within the judiciary.

The national characteristics (i.e. the type of financial system, European approach, experience with monetary policy, and administrative culture) which might be expected to have an impact on the national debates about central bank independence and the ease with which ideas about independent central banking can trigger the reform of domestic structures are listed in the following table, together with indications of what the accumulated effects of these characteristics *might* turn out to be.



## Constraining and Facilitating Institutions for EMU-Ideas

	<i>France</i>	<i>Great Britain</i>	<i>Sweden</i>
Financial System	State-centered. Politicians used to having influence over capital.  ÷÷	Market-centered. Politicians not used to having influence over capital.  +++	Coalition centered. Politicians used to creating facilitating conditions for capital.  ÷÷÷
European Integration	Relatively uncontested. Europe is a question of French exceptionalism and power.  +++	Generally contested.  ÷÷	Highly contested at the popular level.  ÷÷÷
Monetary Policy Experience	Highly dedicated to the ERM and EMU.  +++	Pragmatic 'wait and see' attitude.  ÷÷	Pragmatic 'wait and see' attitude.  ÷÷
Administrative Cultures	Executive-centered and closed. No experience with independent institutions.  ÷	State centered and flexible. Experience with independent institutions.  +++	Corporatist and open. Experience with independent institutions.  +
Expectations about parliamentary debates on central bank independence and about the impact of ideas on domestic structural reform	Main arguments in favor of independence will be based on European integration and monetary experience. Particularly the financial system speaks out against independence.	Main arguments in favor of independence will be based on financial systems and administrative cultures. Everything 'European' speaks against independence.	Difficult to find arguments in favor of independence. Very few factors ease a central bank reform.

+++ This issue facilitates the penetration of ideas about central bank independence.

÷÷÷ This issue constrains the penetration of ideas about central bank independence.

In all three countries parliamentary decisions were made in order to grant the three national central banks more independence. But which arguments were applied in order to justify or to criticize these acts? How did national policy-makers manage to construct a 'fit' or a 'mis-fit' between central bank independence and domestic institutions? These are the questions for the next section, where it will become clear that national elites, both those who were

against the idea of granting the national central bank more independence and those who were in favor, clearly had to adapt their discourse to the domestic institutional structures described above. As mentioned above, I will in this regard study two consecutive national debates in each country in order to see just how fast anti-independence speakers turn 'pro-independent' as a result of "the power of EMU-ideas".

## Central Bank Reform and the Discursive Construction of 'Fits' and 'Misfits'

### *French Reforms in 1993*

Six months after the general referendum on the Maastricht Treaty, the Prime Minister Edouard Balladur (RPR) argued in his general political statement on 8<sup>th</sup> April 1993 that a reform of the *Banque de France* was one of the most urgent projects needing to be treated in the near future. As a result, Rapporteur Philippe Auberger (RPR) and the Minister of Economic Affairs Edmond Alphandéry (UDF) presented the RPR/UDF *cohabitation* government's proposal for a central bank reform for a first reading in the French National Assembly on 8<sup>th</sup> June 1993. The reform contained essentially three elements: Firstly, the new central bank law stipulated that the *Banque de France* should implement monetary policies with the aim of assuring price stability and, in so doing, that it should keep an eye on the general economic policies of the government. Secondly, a Council for Monetary Policy which consists of three central bank governors and six external members was established in order to run the monetary policy in practice. Finally, the law stated that the members of the Council for Monetary Policy, in exercising their duties, must not take or receive instructions from anybody.

Three sets of explanations for the proposed reform were given by the government: one referring to past experiences and macro-economic logic, a second inspired by EMS cooperation and the EMU project, and a third referring to international financial markets and the need for credibility.

Firstly, it was argued that in the past France had been exposed to a series of financial crises and that, as a result of these experiences, inflation was now broadly considered to be the most central objective of macro-economic management:

'Nous avons connu une série de crises, avec un ralentissement de l'activité ... [il est] évident que la croissance ne peut être durable sans une maîtrise sérieuse de l'inflation ... en France même, où pendant longtemps il paraissait de bon ton d'accepter une légère dose d'inflation pour faciliter la croissance, cette volonté de maîtriser l'inflation



est désormais largement partagée par toutes les couches de la population' (Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1105).<sup>20</sup>

Because inflation had reached the status of macro-economic objective number one it was important, it was argued, that the general economic policy strategy, as well as the economic institutions such as the central bank, be adapted to achieve this objective:

'Puisqu'il est clair qu'il vaut mieux poursuivre un objectif de faible inflation plutôt que d'opérer de manière permanente des arbitrages entre inflation et croissance, le choix d'une banque centrale indépendante va de soi' (Charles de Courson, UDF, Ass. nat., 8 juin 1993, 1172).<sup>21</sup>

Stable exchange rates were often mentioned as a close second priority of macro-economic policy together with the objectives of price stability and central bank independence:

'la leçon de l'expérience ... [est] très claire. En effet, si l'on prend comme critère la stabilité de prix et des taux de change, il est évident que les pays à politique monétaire indépendante ont connu, et de loin, les meilleures performances' (Valéry Giscard d'Estaing, UDF, Ass. nat., 9 juin 1993, 1206).

All the pro-independence politicians saw these objectives as best achieved within the framework of European monetary integration which, in general, was seen as having provided France with more advantages than disadvantages.<sup>22</sup>

The second reason for central bank reform was based on the political exigencies emanating from European integration. As a consequence of European monetary cooperation generally, and as a consequence of the recently ratified Maastricht Treaty specifically, there was a need and a requirement, it was argued, for France to adapt its monetary institutions:

'ce projet répond à une ... exigence politique ... L'exigence politique est évidemment celle de la construction européenne' (Jacques Barrot, UDF, Ass. nat., 8 juin 1993, 1129).<sup>23</sup>

Therefore, the ideational content of the government's proposal for central bank reform was identical to the causal ideas expressed in the Maastricht Treaty:

'les orientations en matière monétaire du Traité de Maastricht et du projet de loi qui nous est présenté ... semblent reposer au moins sur deux hypothèses: d'une part, une dépendance étroite et primordiale de la stabilité des prix à l'égard de la politique monétaire plus que de tout autre facteur - d'où l'objectif de stabilité de prix donnés aux banques centrales; d'autre part, l'idée que la politique monétaire peut, et même doit être séparée du reste de la politique économique - d'où l'indépendance des banques centrales à l'égard des autres autorités qui ont en charge la politique

économique' (Michel Hannoun, RPR, Ass. nat., 9 juin 1993, 1214).

Thirdly, it was argued that because barriers to capital mobility have been dismantled and because the markets for financial transactions are global in scope, one way to convince market players that the French macro-economic strategy was credible would be to isolate it from political discretion:

'Enfin, confier l'ensemble de la politique monétaire à une institution autonome, dotée d'une grande autorité et d'un certain prestige, est le gage d'une plus grande crédibilité dans le contexte d'ouverture et de mondialisation des marchés financiers. Elle est aussi le signe d'une politique plus continue, plus cohérente, à l'abri des fluctuations politiques' (Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1106).<sup>24</sup>

Apart from these three themes which concerned the background for the proposed reform, the government also underlined what the reform was not. Firstly, the new *Banque de France* was not a 'Bubette'<sup>25</sup> - that is, it was not a clone of the Bundesbank or 'une Buba bleu, blanc rouge'.<sup>26</sup> Although there were unavoidable similarities between the new *Banque de France* and the Bundesbank, the Minister of Economic Affairs reminded the audience that the French central bank system would continue to be unitary and state-centered whereas the German central bank system was federal: 'la France est un pays unitaire, et non fédéral' (Edmond Alphandéry, UDF, Ass. nat., 9 juin 1993, 1245).<sup>27</sup>

Secondly, the new *Banque de France* was not undemocratic. The fact that the French Assembly and the French Commission for Financial Affairs could call the Central Bank Governor in for public hearings meant, so went the argument, that he would continuously be subject to scrutiny.

'loin d'affaiblir notre démocratie, ce projet la renforce, car l'autonomie de la Banque de France accroîtra la transparence des orientations et des décisions prises en matière de politique monétaire' (Edmond Alphandéry, UDF, Ass. nat., 8 juin 1993, 1114, see also 1246).<sup>28</sup>

Representing the opposition, Jean-Pierre Chevènement (PS- Parti Socialiste) and Henri Emmanelli (PS) were in charge of presenting the counter-argument to the government. Chevènement's response was mainly directed towards the consequences of independent central-banking for the French administrative and political system, for the relationship between economic management and democracy, and for France's approach to international cooperation.

Firstly, it was argued that the entire reform went against the French constitution because it undermined two central features of the French republican sovereignty and the unity of the state:



'C'est un projet contraire à la Constitution parce qu'il porte atteinte à la souveraineté nationale et à l'unité de l'Etat républicain' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1114).<sup>29</sup>

To support his argument, he referred to the founding father of the Fifth Republic; General Charles de Gaulle:

'C'est à votre sens de l'Etat républicain que je fais appel, mes chers collègues. C'est pourquoi, rappelant le principe posé en 1945 par le général de Gaulle: la Banque de France doit être organisée "afin qu'aucun monopole, aucune coalition ne soit en mesure de faire pression sur l'Etat", j'invite l'Ass.Nat. à opposer à ce texte' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1115).

And to Pierre Mendès France:

'Comme le disait Pierre Mendès France à la fin des années 50, il y a deux manières de mettre fin à l'existence de la République: en votant les pleins pouvoirs à un homme providentiel, ou en déléguant ces pouvoirs à une autorité extérieure qui les exercera au nom de la "technique". Déclaration prémonitoire!' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1117).

Only states which France wanted to be protected from needed to be equipped with an independent central bank - one such example is the German state:

'L'indépendance de la banque centrale a généralement été conçue comme un moyen de limiter le pouvoir du gouvernement. C'est dans cet esprit que les alliés avaient favorisé l'indépendance de la Bundesbank au lendemain de la Seconde Guerre mondiale' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1116).

According to Chevènement, granting independence to the *Banque de France* was part of a broader trend in society which was bound to lead to the end of the French republic:

'l'indépendance de la Banque de France ne détruira pas, à elle même, l'unité de la République, mais elle participe de ce mouvement de sapes qui, à travers un fédéralisme rampant, la renaissance des féodalités, l'abaissement du Parlement, une "mediacratie" qui ne compte à rendre qu'au pouvoir de l'argent, la prolifération de hautes autorités indépendantes du suffrage universel, s'inscrit dans un mouvement continu qui tend à vider de leur substance la démocratie et la citoyenneté de notre pays. Ce projet de loi, monsieur le ministre, est une contribution éminente au démantèlement de l'Etat républicain' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1117).<sup>30</sup>

When it came to the economic reasoning, Chevènement briefly questioned whether central bank independence would automatically lead to low inflation outcomes,<sup>31</sup> whether low inflation would always lead to growth and employment,<sup>32</sup> and whether the financial markets only looked at price stability when they judged the 'soundness' of an economy - or if they also used to take

employment levels into account.<sup>33</sup> Emmanuelli furthermore questioned whether it is reasonable to consider price stability as an objective in itself,<sup>34</sup> and Jean-Pierre Thomas (UDF) argued interestingly that although price stability was seen as being a primordial objective today, this might not be the case in the near future:

'Aujourd'hui, nous sommes en majorité d'accord pour considérer que la stabilité de prix est un objectif ... aujourd'hui c'est la règle, mais ... dans deux, trois ou cinq ans ce sera l'inverse' (Jean-Pierre Thomas, UDF, Ass. nat., 9 juin 1993, 1267).

However, Chevènement's main purpose was to discuss the relationship between the concepts of democracy *à la Française* and economic management. The first problem for democracy was the technical nature of monetary policy, which exempted it from public debate.<sup>35</sup> The second problem concerned the election of members for the Council of the *Banque de France*, which was bound to be an elitist rentier group.<sup>36</sup> The third problem concerned the possible policy-priorities which a central bank was likely, according to Chevènement, to implement and the distributive consequences that such a policy is likely to have:

'Si, fidèle à sa vocation, la banque parvient à réduire à zéro l'inflation mais que se multiplient les faillites, quelle sera la valeur de la monnaie?' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1121).<sup>37</sup>

Finally, the fourth problem for democracy was that competitive dis-inflation was stipulated in international treaties outside the reach of popular examination and parliamentary debate. One such example was the Maastricht Treaty where central bank independence was...:

'... une garantie donnée à nos partenaires que nous serons capable de sacrifier, comme depuis dis ans, l'économie et l'emploi à la monnaie' (Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1124).

Concerning France's role in Europe and the world, the pro-independence speakers first of all invoked Maastricht and EMS as factors which required the adaptation of French monetary institutions. Contrary to this, Chevènement underlined the necessity of a Europe in which the French republic remained as it was, and he envisaged an international role for France which was more broadly conceived than just European. The idea of a confederal Europe from the Atlantic to the Orals, with an organization based on variable geometry, and which supplemented other levels of cooperation, was endangered, according to Chevènement, by the rush towards the Europe of Maastricht in which central bank independence could be seen as a crucial element.<sup>38</sup>



Henri Emanuelli, the second main speaker from the PS, initially saw the proposed reform of the *Banque de France* as part of a larger monetarist trend which threatened to undermine the European project:

'Vous êtes prêts, sans état d'âme, à sacrifier l'Europe au libéralisme économique' (Henri Emanuelli, PS, Ass. nat., 8 juin 1993, 1161).<sup>39</sup>

In the end, however, despite the efforts of the socialist speakers, the law for central bank reform was adopted with a large majority in the general assembly and came into force on 4<sup>th</sup> August 1993.

### ***French Reform Debates in 1998***

On the 7<sup>th</sup> and 8<sup>th</sup> April 1998, the mainly socialist government (la majorité plurielle) presented a project for central bank reform for a first reading in the national assembly. The reform was aimed at integrating the *Banque de France* into the ESCB and allowing the ECOFIN to define the general orientations of French exchange-rate policy. In great contrast to the parliamentary debates in 1993, they were now almost entirely devoted to a discussion of France in Europe and of republican values. The Minister of Economic Affairs introduced his speech by arguing that:

'Tout a commencé ... [avec] une volonté d'approfondir la construction européenne' (Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 9).

According to the minister, there was in principle no choice with regards to reforming the central bank, because the Treaty so required:

'le traité exige en effet que le statut des banques centrales soit adopté avant la mise en place du système des banques centrales' (Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 10).

However, it was underlined that it was through EMU that France would regain some of its lost sovereignty:

'l'euro est une chance pour la France, un moyen pour elle de retrouver une bonne part de sa souveraineté monétaire et du poids économique perdu avec l'amplification des échanges mondiaux' (Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 10).

Furthermore, it was through EMU that France would find a place in the world of finance which equaled Germany's:

'Ce projet est la petite parti, technique, d'une grande ambition, vieille de plus de quarante ans, et qui est à l'origine de progrès considérables pour le développement

économique comme pour la place de France dans le monde. Si nous ne voulons plus qu'une seule monnaie, qu'une seule économie domine le monde, si nous voulons au moins équilibrer cette situation, voire contrer cette hégémonie que nous n'avons pas raisons d'accepter, nous devons nous doter d'un instrument monétaire adéquat' (Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 13).

In a speech in the French Senate two weeks later, he extended this part of the argument by adding the United States to the list of economies which, were it not for the EMU, would dominate the French Republic.<sup>40</sup>

Finally, the Minister of Economic Affairs emphasized that France had managed to transfer some of its exceptionalism to the European level because it had influenced the EMU structure so as to better fit French monetary traditions. Firstly, the Euro would not be overvalued in relation to the Dollar - this was good for French trade competitiveness. Secondly, the Euro would be based on as many currencies as possible, so that it avoided being confused with a pseudo-Mark. Thirdly, a protocol had been introduced which focused more attention on employment measures and, finally, a political counter-weight to the ECB had been established in the form of an informal Euro Council in which one country had one vote provided that the country was a member of the third stage of EMU.<sup>41</sup>

The *opposition* to central bank reform was this time mainly represented by Philippe de Villiers (Non Inscrits) who firstly argued that the *Banque de France*, through its independence, was directed by the German Bundesbank:

'la Banque de France est devenue le satellite de la Buba, laquelle pratiquait de taux d'intérêt contraire aux intérêts de notre économie' (Philippe de Villiers, Non Inscrits, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 15).

On this point Philippe de Villiers was supported by Jacques Myard (RPR) who argued that:

'L'abandon du franc c'est l'abandon d'un peu de notre souveraineté, et nous ne retrouvons pas une souveraineté partagée car la Banque centrale européenne sera dominée par les idéologues de la Bundesbank. Le représentant de la Banque de France volera au secours de ce cher Hans et sa taira ... C'est la fin du politique. Ce 7 avril restera le jour de deuil de la démocratie française et européenne' (Jacques Myard, RPR, Compte rendu analytique, 7 avril 1998, 3<sup>ème</sup> séance: 4).

According to Philippe de Villiers, the EMU was largely constructed by copying the German monetary model, and because German monetary values and practices were very different from those to be found in the rest of Europe, it was bound to be an illegitimate enterprise:



'la situation de l'Allemagne en particuliers et celle de l'Europe en général sont profondément différentes. En Allemagne, il existe un fort consensus social pour soutenir la Bundesbank, même lorsqu'elle applique les politiques monétaire les plus rigoureuses. Il n'en va pas de même en Europe où il n'y a ni soutien unanime à la banque centrale européenne, ni unité de l'opinion publique' (Philippe de Villiers, Non Inscrits, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 18).<sup>42</sup>

In fact, the proposed project for central bank reform - and the larger EMU context in which it is seen - was basically contrary to everything in which republicans could possibly believe:

'Mais quels républicains serions-nous si nous devons changer d'avis parce que nous sommes minoritaires? ... Nos principes de souveraineté, de liberté, d'indépendance, il dépend de nous qu'ils vivent ou qu'ils meurent ... Nous oublions l'histoire et la géographie, nos principes séculaires, et le fait que les peuples déjouent souvent les calculs des princes' (Philippe de Villiers, Non Inscrits, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 21-22).

On being accused of neglecting French history and values and, therefore, of not being a true republican, the Minister of Economic Affairs Dominique Strauss-Kahn responded that real republicans first of all aspired to promote French values such as liberty, equality and brotherhood in the broader world:

'entre ceux qui pensent que la France doit aller porter ses valeurs à l'extérieur pour les faire partager et ceux qui considèrent que c'est à l'intérieur qu'elle doit les protéger, je me situe dans la première tradition, celle des armées de la République qui déployaient dans toute l'Europe l'étendard de la liberté, de l'égalité et de la fraternité' (Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance: 23).

If one compares these two sets of debates according to the types of arguments which were invoked by the pro- and anti-independence speakers, it seems as if the anti-independence speakers in both debates launched arguments which concerned the French financial system and French politico-administrative culture, whereas pro-independence speakers referred mainly to monetary experiences and pressure for integration emanating from European integration. In 1998, all the arguments were in one way or another related to the EMU process, which could be expected considering the debates took place in the shadow of the upcoming 1-3 May EMU summit, where the decision to continue to the third stage of EMU was made.

In the table below it is indicated who of the two parties emphasized what. Anti-independence speakers consistently criticized the proposal for central bank reform for copying the German model. This was, however, something which the pro-independence speakers felt it necessary to reject outright. Anti-independence speakers also tended to put more weight on republican values in

their opposition, which forced pro-independence speakers to integrate the subject into their discourse and to assure the counterpart that the French state would continue to be unitary and based on a concept of popular sovereignty.

The pro-independence speakers tended to emphasize the adaptational pressures which were put on France by the Maastricht Treaty and by the liberalized capital markets which required 'credibility' and political de-coupling in monetary affairs. They also tended to emphasize that France could regain *grandeur* in monetary matters through the process of monetary integration and particularly with regards to German and US hegemony.

**Common Lines of Argument in two Consecutive Debates on Central Bank Independence**

	June/July 1993 Balladur <i>cohabitation</i> Government Pro-independence speakers	Anti-Independence speakers	April 1998 Jospin <i>cohabitation</i> Government Pro-independence speakers	Anti-independence speakers
Financial system		The new <i>Banque de France</i> is going to be a 'Buba bleu, blanc, rouge'		Germany is going to dominate the EMU with its fundamentalist monetary conceptions
Monetary Experiences	Low-inflation objective requires independent central banking		France will regain sovereignty through the ESCB and consequently come to balance Germany and USA	
European Approach	The Maastricht Treaty requires institutional convergence		Europe is a political necessity	
Administrative and political culture		Independence undermines unity, sovereignty and republican democratic values		EMU and ESCB dissolve the French unitary state



## ***British Reform Debates in 1993***

In the British House of Commons (HoC), the concept of central bank independence was discussed together with the general debate about 'Monetary Policy and the Establishment of the European System of Central Banks' (HoC, v.221, 24<sup>th</sup> March 1993: 958-1058).<sup>43</sup> Ever since the issue had been brought up with the Delors Report the official position of the Conservative government was that it had no plans of granting the Bank of England independence.<sup>44</sup> Furthermore, the Conservative government had negotiated a protocol which granted Great Britain the possibility to opt-out from the third stage of EMU.<sup>45</sup> Therefore, the question in 1993 was whether Great Britain had an obligation to reform its central bank as part of the second stage of EMU and whether it was desirable to do so.

In 1993, very few members of the House of Commons supported the idea of giving the Bank of England independence. Those who did, however, referred firstly to the possibility of enhancing British influence in Europe by letting the Bank of England participate fully in the ESCB:

'Already with the United Kingdom opt-outs in the Maastricht Treaty, Britain's inability to stay within the ERM and the underlying weakness of the British economy, the United Kingdom is being marginalised and is losing opportunities to shape important events. The government's positions on the European system of central banks and the position on the Bank of England could well reinforce those already very damaging signals, locking Britain out and depriving us of the influence that we need over the evolution of Community monetary policy ... it is the choice between influence through the Community and precious little influence at all' (Smith, Labour, HoC, 24 March 1993, 962).

Secondly, the pro-independence speakers tried to redefine the way in which the concept of 'political accountability' had traditionally been defined in Great Britain:

'accountability ... is not the same as the day-to-day control of the Bank ... One of the specific difficulties which many in Britain, and especially in England, have with the concept of an independent central bank is grappling with the concept of pluralism in political and economic institutions. We need to recognize that there can be democratically determined public institutions working within a framework of law which have an obligation to pursue defined objectives of public interest in ways which are accountable but which are free from day-to-day control of the government' (Smith, Labour, HoC, 24 March 1993: 964 & 966).<sup>46</sup>

Thirdly, pro-independence speakers invoked so-called scientific evidence in order to support a claim for central bank reform. Specifically, it is argued that independent central banks would automatically lead to an improved inflation

performance:

'The evidence shows that independent banks are effective in reducing inflation. A study published in 1991 by Vittorio Grilli expressed that graphically. It said: "central bank independence is tantamount to free lunch: it delivers low inflation with no apparent costs to the real economy's macro-economic performance"' (Malcolm Bruce, Liberal Democrats, HoC, 24 March 1993, 1007).<sup>47</sup>

Finally, according to this line of argument, central bank independence should be considered one further element in the constant improvement of the single market:

'We are trying to build a mechanism in Europe that will make the single market work and develop the Community so that its past successes can be build upon. That is the purpose of the proposals' (Malcolm Bruce, Liberal Democrats, HoC, 24 March 1993, 1008).

The *anti-independence speakers*, who were clearly in the majority, basically questioned whether Europe was the place for Great Britain to regain influence. In reality, it was argued, British sovereignty was threatened by continental financial centers and multinational business, and the Maastricht Treaty and central bank independence were taken to be indications of this.

'The continental financial centres have always been intensely jealous of London's primacy and will, certainly, use the provisions of the Maastricht Treaty to reduce it ... In other words, European and monetary union will remove all the characteristics of sovereignty which characterize a proud and independent nation, and which still today give to the British one of the few binding characteristics of discipline that entitle us to call ourselves a great nation' (Peter Tapsell, Conservative, HoC, 24 March 1993, 967-68).

'International capital is not controlled by handing it over to the archbishop and the bishops of international capital - the independent central bankers ... No one should think that the Maastricht will liberate us from world market forces ... I came to realise that the European Community is the instrument of multinational capital' (Tony Benn, Labour, HoC, 24 March 1993, 984).<sup>48</sup>

The anti-independence speakers blamed the pro-independence speakers of being the victims of fashion and of reigning international norms for good behavior in macro-economic management:

'they are victims of fashion. I can do no better than quote from "General Theory of Employment, Interest and Money" by Keynes who said: "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist"' (Diane Abbott, Labour, HoC, 28 January 1994, v.236, 558-9).<sup>49</sup>



More specifically, anti-independence speakers tended to associate contemporary monetary integration in Europe - and specifically the clauses about central bank independence and the tendency to ascribe to price stability the status of a primordial macro-economic objective - with the reigning conventional wisdom of the day, monetarism.<sup>50</sup>

They also rejected notions of accountability which were not based on the direct relationship between the British people and the institutions of the British state:

'Pessimism, defeatism, and the failure to represent the people whom we were elected to serve is what happened. If I were not such a moderate man, I would call it a massive betrayal by Parliament of the people who puts us here' (Tony Benn, Labour, HoC, 24 March 1993, 986).<sup>51</sup>

The anti-independence speakers seem to refer to the continental member states as being fundamentally different from Great Britain. For instance, it was suggested that the representatives of the Mediterranean member states who British negotiators met in Brussels were corrupted and that one could not trust them in money matters:

'Would any German banker in his senses, or, for that matter, any German citizen or saver, want to have the value of his money ... determined by a secret compromise with the Greek, Italian and Portuguese directors of the European central bank, whose main interest in the Community is to receive handouts from the richer countries and to protect themselves from their own politicians, for whom they have the utmost contempt?' (Peter Tapsell, Conservative, 24 March 1993, 977).<sup>52</sup>

As exemplified by the citations above, Germans were depicted as being very cautious when it comes to the value of their savings, but more often than not it was argued that the EMU and the ESCB was basically a German attempt to dominate Great Britain:

'Sometimes I lie there [in the bath] and wonder how we can be prepared to hand over the control of our central bank to a group of foreigners under German domination. I wonder what King William III would have thought about that when he drew up the original charter for the Bank of England' (Peter Tapsell, Conservative, HoC, 24 March 1993, 977).<sup>53</sup>

In this regard, there was even an attempt to explicitly construct a direct link between the plans for monetary union, Nazism and former Bundesbank governors:

'monetary union was the brainchild of the rather less nice Herr Walter Funk ... [who] was the president of the Reichsbank ... from 1939 to 1945 ... [and] who was a drunken, homosexual Nazi toady and was subsequently sentenced to life imprisonment by the Nuremberg tribunal ... I have to say that the wording of the Maastricht Treaty in

certain sections follow almost word for word the documents circulated inside the Reichsbank in 1940' (Peter Tapsell, Conservative, HoC, 24 March 1993, 978).

Because the British system was believed to be exceptional and because it had developed over many centuries to fit the needs of the British people, it was argued that no other system could replace it and do as well:

'Our democracy is much older than any of the democracies of the 11 nations which compromise the European Community. Our democracy has evolved. It may not be the perfect democracy, but it suits the British people' (Christopher Gill, Conservative, HoC, 24 March 1993, 1002).<sup>54</sup>

Therefore, to defend the British financial system against central bank independence also became a defense of the British people against the German people:

'If the Germans were able to achieve their aspirations, it would preclude English people from achieving any of theirs' (Christopher Gill, Conservative, HoC, 24 March 1993, 1003).

Together with Germany and the Mediterranean countries, members of the House were also told to be wary about trusting the banking community:

'[Monetarism] is a view promoted by bankers ... who tell us that it is best to take monetary policy out of democratic control and to put it in their good care' (Roger Berry, Labour, HoC, 24 March 1993, 991).<sup>55</sup>

Finally, the anti-independence speakers associated the Bank of England Act from 1946 with an attempt to start anew after World War II - to change it would, therefore, be the same as recognizing defeat in war. No Labour member would ever do that it was argued:

'Can anyone envisage the circumstances in which the next Labour government would come before the House and, in its first Bill, repeal the Bank of England Act 1946 and formally renounce the power to control this country's monetary system? We would die of shame' (Peter Shore, Labour, HoC, 24 March 1993, 1040).

Whereas the Maastricht Treaty was adopted in the House of Commons, the private bill on central bank independence was rejected and the Conservative government's position on the issue continued to be that it did not 'envisage that happening in the foreseeable future'.<sup>56</sup>



## ***British Reform Debates in 1997***

On the 6 May 1997, four days after being nominated Labour Chancellor of the Exchequer, Gordon Brown publicly announced a major reform of the Bank of England.<sup>57</sup> Only two weeks later, he made a statement in the House of Commons<sup>58</sup> to the same effect underlining that central bank reform was part of Labour's election manifesto and that the reforms reflected British needs:

'The reforms that I propose represent a British solution to meet British needs ... The bank's monetary policy objective will be to deliver price stability and, without prejudice to that objective, to support the government's economic policy' (Gordon Brown, Labour, HoC, 20 May 1997, 508).

Most members of parliament were taken by surprise by this initiative. Some - particularly the Liberal Democrats - were happy:

'I congratulate [the Chancellor] on adopting a policy that was a central component of the Liberal Democratic manifesto. May I extend an invitation to him and his colleagues to come round to my office for tea any time, to discover other aspects of policy that he might usefully implement?' (Malcolm Bruce, Liberal Party, HoC, 20 May 1997, 515).

And some - particularly Labour members - were worried:

'I cannot understand why ... the first thing a Labour Government does ... is hand over one of the most important financial levers to the enemy' (Dennis Skinner, Labour, 20 May 1997, 518).

Being asked directly whether this step towards central bank reform was also a step towards monetary union, the pro-independence speakers answered No:

'I wonder whether this is the first step towards European monetary union ... Is that the hidden agenda?' (Andrew Mackay, Conservative, HoL, 20 May 1997, v.580: 307).  
'The noble Lord asked whether this is a first step towards EMU. That is not the case. We put this measure forward on the basis of the merits of the argument' (Clinton-Davis, Labour, HoL, 20 May 1997, v.580, 312).<sup>59</sup>

Pro-independence speakers supported their claim for a reform of the Bank of England with the need for stability:

'The Bill [about central bank independence] underpins our economic approach, which is to secure long-term stability' (Alistair Darling, Labour, HoC, 11 November 1997, v.300, 711).<sup>60</sup>

And the Labour government clearly saw low inflation as a precondition for better economic performance in general:

'Low inflation is an essential precondition to achieving the government's objectives of high and sustainable levels of economic growth and employment' (Alistair Darling, Labour, HoC, 11 November 1997, v.300, 713). 'no one is in any doubt about the Government's policy and our commitment to low inflation' (ibid: 714).

In short, central bank independence should be seen in conjunction with a commitment to stability, low inflation, sustainable public finances, open markets, and Europe - all of which are basic elements of Labour's strategy to modernize the British economy:

'we are committed to economic stability and low inflation ... We need to achieve stability in public finances ... we are committed to open markets and to constructive engagement in Europe ... The Bill marks another milestone in our determination to modernise Britain's economy' (Alistair Darling, Labour, HoC, 11 November 1997, v.300, 715).<sup>61</sup>

The *anti-independence speakers*, on their side, referred to academic research to support an argument which said that central bank independence alone would not lead to lower inflation:

'Academic research suggests that, although there may be a statistical relationship between central bank independence and low inflation, no causal relationship can be established' (Diane Abbott, Labour, HoC, 11 June 1997, v.295: 1055). 'I maintain ... that ... an independent central bank does not create a culture of low inflation, but is a reflection of a culture of low inflation' (ibid: 1057).<sup>62</sup>

It worried anti-independence speakers that economic policies would be removed from politics and that the political elite would cease to be directly responsible to the people who had trusted them with their money:

'if we tell [the public] that they cannot trust us with their money, of all things, we cannot expect them to take us seriously' (Denzil Davies, Labour, HoC, v.295, 11 June 1997, 1068).<sup>63</sup>

Anti-independence speakers generally criticized pro-independence speakers for being seduced by fashionable ideas in macro-economic management:

'There can be no doubt that independent central banks are the fashionable thing ... there is no doubt that the Chancellor is in the vanguard of fashion' (Diane Abbott, Labour, HoC, 11 June 1997, v.295: 1055). 'If we forget the siren voices of fashion - nothing is more pernicious in economic management than fashionable ideas - the academic basis for independence is not as sound as people say' (ibid: 1060).<sup>64</sup>

Finally, anti-independence speakers consistently referred to the dangers of deflation:



'The Bank has always overestimated the likely upside inflation risk ... it has a deflationary bias. The Bank always fears the worst and reacts accordingly, which is what will cause damage. That is what I fear' (Kenneth Clarke, Conservative, HoC, 11 November 1997, v.300, 738). 'The Monetary Policy Committee is already demonstrating that tendency to go for overkill. There have already been five interest rate increases since the general election' (ibid: 740).<sup>65</sup>

At the same time, the anti-independence faction was very concerned to underline that it, like everyone else in the House, was indeed supportive of the objective of low inflation:

'I do not want anything I have said to be perceived as meaning that I do not regard the pursuit of stable prices as being exceedingly important' (Peter Tapsell, Conservative, HoC, 11 November 1997, v.300, 760).<sup>66</sup>

In summary, rather different types of argument were promoted by the anti- and pro-independence speakers in 1993 and 1997 respectively. In 1993, pro-independence speakers invoked Europe both in order for Great Britain to regain its lost sovereignty in monetary affairs and with a view of improving the internal market with European monetary integration, whereby central bank independence is an integrated element. This was definitely not the case in 1997. Pro-independence proponents in 1997 were very much aware that it did not work in their favor to legitimize their proposal for central bank independence through reference to European integration. Now it was instead a question of maximizing British utilities and meeting British needs.

The reference to scientific evidence was also inverted. Whereas scientific evidence in 1993 served to support the case for central bank independence, anti-independence speakers could invoke a series of studies to the opposite effect in 1997.

In 1993, anti-independence speakers could feel free to stereotype German bankers and Mediterranean politicians. The first were said to be power-seeking panzer-troops, the last were accused of being corrupted. These arguments were almost non-existent in the debate in 1997.

An argument which was introduced in 1997 by the pro-independence speakers was the need to modernize the British financial system through a reform of the Bank of England. Contrary to this, the anti-independence speakers in 1993 referred to British uniqueness with arguments such as: 'it might not be the best, but this is how it has developed over the centuries and this is how we like it'. In 1997 they further argued that the British people expected the elected politicians to deal with economic policy and that one, therefore, could not separate monetary policy from politics.

## **Common Lines of Argument in two Consecutive Debates on Central Bank Independence**

	1993/94 Conservative Government		1997 Labour Government	
	Pro- independence speakers	Anti- Independence speakers	Pro- independence speakers	Anti- independence speakers
Financial system	Scientific evidence supports independence	Narrow-minded bankers cannot be left unaccountable	Independence is an attempt to modernize an old-fashioned system	Scientific evidence contradicts independence
Monetary Experiences	One must regain lost monetary sovereignty in monetary matters by making central bankers independent and enhancing credibility on the financial markets		Independent central banks will be obliged to assure low inflation which is a precondition for monetary stability	
European Approach	Independence is a means to improve the internal market	Watch out for German dominance and Mediterranean fraud in the European context!		The hidden agenda of the independence Bill is British preparation for EMU
Administrative and political culture		The British system with political accountability is unique and fits the British people		With central bank independence economic policy will be taken out of politics

### **Swedish Reform Debates in 1993**

Contrary to most other central banks, the Swedish *Riksbank* has had competencies not only to intervene on the currency markets in order to decide the level of the Swedish krona within the ERM, but also to decide on the type of exchange-rate regime. Therefore, when the Swedish krona left the ERM on 19<sup>th</sup>



November 1992 it was a formal decision made by the central bank.<sup>67</sup>

The decision to leave the ERM and the publication of the so-called Lindbeck Report sparked a debate in Sweden about the institutional structure of the Swedish *Riksbank*. In 1993, the government published a report entitled "the *Riksbank* and Price stability" (SOU 1993: 20) which proposed granting the *Riksbank* independence to pursue an inflation objective upon approval in the Swedish parliament. This particular report did not propose to transfer competencies for the choice of exchange rate regime to the government - this was done only in a second report four years later (SOU 1997: 10). During the first semester of 1997, a working group comprised of the five major parties in the Swedish parliament discussed the subject of central bank independence and presented their final report in July 1997 (Ds1997: 50) with an intent to discuss the issue more widely.

On the basis of this report and the hearing results, the social-democratic government finally presented a concrete proposal for law on central bank independence on 13<sup>th</sup> November 1997. This proposal was first discussed in the parliamentary committee for financial affairs (1997/98: FiU1y), then in the constitutional committee (1997/98: KU15) and, finally, in the Swedish parliament on 4<sup>th</sup> March 1998.

The main argument for a reform of the central bank structure in Sweden was in 1993 a preoccupation with inflation. In the SOU (1993: 20)<sup>68</sup> it was affirmed that the various attempts during the last two decades to maintain price stability at a low level had failed. Inflation levels were too high and they had not been compensated by high levels of growth and employment:

'During the last two decades, efforts in Sweden to achieve a stable level of low inflation have not been successful. This has not been compensated by improvements in other areas such as stable and high levels of employment or fast growth' (sammanfattning, SOU 1993: 20).<sup>69</sup>

A precondition for any 'successful' macro-economic policy was that it was generally taken to be 'credible' - that is, it should be clear for everyone which objectives policy-makers actually wanted to pursue and it should be generally believed that policy-makers realistically possessed the capacity and willingness to achieve these. It was argued that political short-term strategies had to give way to more technical long-term considerations.

In this regard, the report pointed to academic research which suggested that there was a close correlation between central bank independence and low inflation performance:

'Studies of the relationship between central bank independence and stability support the idea of granting the central bank independence in order to improve the possibilities of achieving the overall macro-economic objectives' (SOU 1993, 20).

The report underlined that the proposals for central bank reform were made only with concrete *Swedish* conditions in mind and *not* because such reforms would also be in accordance with what was expected from EU member states in the second stage of EMU. The report further stated that if Sweden for some reason did not become a member of the EU, the notion of credibility would become even more important:

'The report has chosen to formulate its propositions with a view to actual conditions in Sweden ... The need for credibility-enhancing actions, and among them institutional adaptation, will be larger for Sweden outside the EMU than inside' (sammanfattning, SOU 1993, 20).

'What is at stake here is not the Maastricht Treaty. If Sweden does not become a member of the European Union ... it will become even more important to have national institutions which can function as an anchor in the monetary policy' (Carl B. Hamilton, Folkepartiet Liberalerna, *Riksdagen*, 10 March 1993, anf. 60).

However, while there was a deliberate attempt to decouple the discussion of central bank independence from the process of European integration, this failed because, parallel to talks about central bank reform, the government had started membership negotiations with the EU. Thus, EU opponents in the Swedish parliament on various occasions drew a direct line between EMU and the domestic debates about central bank independence:

'But is it not the case that we as EU members are forcing ourselves to work for the third stage of EMU with the Maastricht Treaty's requirement to fighting inflation and with the proposition about the *Riksbank's* independence from both the *Riksdag* and the government? The fact that the government now says that it wants to freeze the proposition about central bank independence, is this not a tactical game which aims to keep the Yes-to-EU majority together?' (Johan Lönnroth, Vänsterpartiet, *Riksdagen*, 10 November 1993, anf. 26).<sup>70</sup>

'We join the Union without realizing that we no longer have a *Riksbank* which is controlled by the *Riksdag*' (Birgitta Hambræus, Centerpartiet, *Riksdagen*, 2 May 1994, anf. 12).<sup>71</sup>

Anti-independence speakers furthermore pointed to the problem of democracy and accountability which was involved in a central bank reform - this kind of reform was simply taken to be un-Swedish:

'It is possible that one can apply efficiency arguments to exclude politicians from democratic politics. But I think this is wrong. It is undemocratic and it does not



converge with our way of doing things' (Hans Gustafsson, Socialdemokraterna, *Riksdagen*, 19 March 1993, anf. 57)

'We move the competence to make decisions about economic policy from this parliament - the Swedish *Riksdag* - to a *Riksbank* which is supposed to be unaccountable from and uncontrollable by elected organs - a separation of the economy from politics. The question about accountability means a lot to many people in Sweden' (Gudrun Schyman, Vänsterpartiet, *Riksdagen*, 2 March 1994, anf 8).<sup>72</sup>

Whereas the Swedish social-democrats were - just like their French and British counterparts - generally opposed to central bank reform when the conservative government led by Carl Bildt was in power in 1993 and 1994, it was a social-democratic government who presented concrete law proposals in that direction in 1997 and 1998.

### *Swedish Reform Debates in 1997/98*

The social-democratic government's proposal for a central bank reform contained five elements: i) that the *Riksbank* should have responsibility for monetary policy and that it should pursue stable prices and, if this did not prejudice the first objective, it should support the general economic policy of the government; ii) that decisions concerning the choice of exchange-rate regime should be taken by the government after having consulted the *Riksbank*; iii) that the Executive Board of the *Riksbank* should be elected by the Bank's Governing Council rather than directly by the parliament; iv) that the Executive Board of the *Riksbank* must not take or ask for instructions from anyone; and v) that the *Riksbank* should inform the parliament about monetary policy and publish a semi-annual report on the matter which should then be discussed in parliament.

Contrary to the line of argumentation in 1993, two arguments in support of central bank reform were now forwarded with the same weight. Firstly, central bank independence was a direct attempt to make Swedish monetary policy credible. Second, as a consequence of Swedish membership of the EU, Sweden was legally required to adapt its central bank institution as part of the second stage of EMU:

'Firstly, by delegating the responsibility for monetary policy to an independent *Riksbank* with a clear inflation objective, the policy strategy can be given the long-term perspective which creates the precondition for credibility ... Secondly, as a result of EU membership, Sweden is required to strengthen the independence of the *Riksbank*' (prop. 1997/98, 40, 48).

According to social-democratic pro-independence speakers, the reform of the central bank should be seen as a step into a new phase in a new world - transnational rather than nationalized and closed:

'Many of us think that it is incredibly positive that we are in a new era, a new world. New resources and new instruments are needed in policy-making, and they particularly need to be transnational ... You [the anti-independence speakers] must describe whether the alternative - a nationalized or isolated economy - is credible in a new world, a new era' (Pär-Axel Sahlberg, Socialdemokraterna, *Riksdagen*, 4 March 1998, anf.16). 'It is the new history to which we can relate this proposition' (ibid: anf. 20).

Similarly, the pro-independence speakers from the Liberal Peoples' Party saw the reform as a definitive break with past administrative and political traditions in Sweden and as a recognition of the fact that the world had changed:

'The reform is both a welcome and clear break with past manipulative traditions which have reigned in Swedish economic policy for 50 years' (Carl B. Hamilton, Folketpartiet Liberalerna, *Riksdagen*, 4 March 1997, anf.47).<sup>73</sup>

Pro-independence speakers from the Moderate Party see the reform of the central bank as a step towards Sweden's full membership of the EMU and one more step towards the unification of Europe:

'I see the economy and the rest as a means to realize what the European peoples have sought to achieve for half a century, the unification of Europe' (Birger Hagård, Moderata Samlingspartiet, *Riksdagen*, 4 March 1998, anf.21).

Alternatively, they saw it in purely ideological terms in the sense that the principle of central bank independence was derived from the economic philosophy of Milton Friedman and Monetarism:

'It was with inspiration from Milton Friedman and monetarism that we asked for more independence for the *Riksbank*' (Lars Tobisson, Moderata Samlingspartiet, *Riksdagen*, 4 March 1998, anf.37).

In the end, the social-democratic government's proposition for a law was broadly supported in the parliamentary committee on financial affairs, as well as in the constitutional committee, and in the Swedish parliament.

However, four arguments were promoted against central bank reform. Firstly, it was argued that EU membership did not require central bank reform because Sweden did not intend to participate in the third stage of EMU - at least not before a general referendum in its favor had been held:

'If we do not intend to participate in the third stage it is difficult to understand why we already in the second stage have to adapt to the conditions which are binding for the participants in the third stage of EMU' (Peter Eriksson, Miljöpartiet, Bengt Hurtig, Vänsterpartiet, 1997/98 KU15).



'We think it is illogical and unfortunate to adapt the law of the *Riksbank* when we do not follow EU law when it comes to EMU' (Bengt-Ola Rytta m.fl., socialdemokraterna, Motion 1997/87, K4).<sup>74</sup>

Secondly, to separate monetary policy from political debates in the parliament was basically considered to be undemocratic, and some saw a tendency in European monetary integration that politics had become increasingly elitist and based on a market logic:

'The EU has produced an elitization of politics ... One example of this is the EMU where parts of the economic policy - the monetary policy - shall be isolated from political accountability' (Gudrun Schyman m.fl., Vänsterpartiet, Motion 1997/98, K6).<sup>75</sup>

'Democracy is undermined by forcing the *Riksbank* to follow the dictates of the market' (Birgitta Hambraeus, Centerpartiet, *Riksdagen*, 4 March 1998, anf.34).

Thirdly, it was argued that it might have deflationary effects in the short and medium term to focus only on price stability rather than on employment levels:

'We do not share the government's belief in norm policy. In country after country where it has been implemented it has caused increased injustice and unemployment. The government underrates the inconsistency which exists - at least in the short and the medium term - between full employment and inflation ... Full employment has to be priority number one for economic policy' (Gudrun Schyman m.fl., Vänsterpartiet, Motion 1997/98, K6).

In this regard it was argued that the basic principles of central bank independence and low inflation had obtained an almost religious, unquestionable status in the debate about macro-economic management:

'Economism has become a religion ... When the majority of the *Riksdag* today adopts an absolute objective for the *Riksbank* which stands above everything else, we do as we are told by the Old Testament where it is written: Thou shall not have other Gods than me ... we have chosen economism rather than popular democracy' (Peter Eriksson, Miljöpartiet, *Riksdagen*, 4 March 1998, anf.2).

Fourthly, there was no evidence, the anti-independence speakers argued, to support the argument that independent central banks have served to provide more stable prices:

'As far as we know, nobody has been able to demonstrate a clear and general relationship between central bank independence and the outcome of the stability policy' (Bengt-Ola Rytta m.fl., socialdemokraterna, Motion 1997/87, K4).

It was argued that a precondition for the success of central banks was a broad popular support for the central bank philosophy. This could be seen from the German example:

'The basis for credibility is created through a broad societal acceptance of low inflation. One simply cannot regulate low inflation away. The Bundesbank is not credible only because it is legally independent, but mainly because of the unique popular support for low inflation in Germany' (Bengt-Ola Rytter m.fl., socialdemokraterna, Motion 1997/87: K4).<sup>76</sup>

In sum, whereas pro-independence speakers in 1993 and 1994 had invoked scientific evidence to support a claim for independent central banks, it is the anti-independence speakers who in 1998 could document that there was no clear correlation between low inflation and central bank independence.

In 1993, anti-independence speakers could forcefully accuse the government in power of hiding the relationship between a central bank reform and Sweden's position in the EMU. In contrast, during the 1998 debates, they constantly referred to the constraining effects of EU membership in order to explain their preoccupation with the status of the Swedish *Riksbank*.

In both 1993 and 1998, pro-independence speakers invoked the need for Sweden to create credibility with regard to their macro-economic strategies. In contrast to this, the anti-independence speakers spoke of religious dogmatism and deflationary consequences resulting from an overly narrow focus on the low inflation objective.

Finally, in both 1993 and 1998, anti-independence speakers emphasized the undemocratic nature of the reform which was fundamentally seen as being un-Swedish.



**Common Lines of Argument in two Consecutive Debates on Central Bank Independence**

	1993/94 Conservative Government		1997 Social-democratic Government	
	Pro-independence speakers	Anti-Independence speakers	Pro-independence speakers	Anti-independence speakers
Financial system	Scientific evidence supports independence		Independence is a step into a new phase in a new world for Swedish finance	Scientific evidence contradicts independence
Monetary Experiences	The low inflation objective can only be achieved by making monetary policy strategies credible on the financial markets through central bank independence		The low inflation objective can only be achieved by making monetary policy strategies credible on the financial markets through central bank independence	The inflation objective is becoming a religious obsession and it has deflationary consequences.
European Approach		Central bank reform is a strategy to sneak Sweden into the EMU without public debate	Central bank reform is required as a result of EU membership	
Administrative and political culture		An unaccountable central bank outside parliamentary control is un-Swedish		Monetary policy is becoming elitist and undemocratic

## Conclusion: The Power of EMU-Ideas

France reformed the *Banque de France* four years before it was required by EU law to do so, Great Britain reformed the Bank of England although it was not legally required by EU law to do so, and Sweden disregarded EU law when it came to its general position towards the EMU but was at pains to fulfill it when it came to reforming the *Riksbank*.

A simple reference to macro-economic performance cannot explain this rush toward central bank reform - in all countries inflation was low and long-term interest rates were falling at the time of reform - so how can we best deal with these puzzles?

I would maintain that what we see at stake here is the 'power of ideas'. In a previous section I argued that one very powerful effect of ideas is to define who is part of the 'in-group' and who is part of the 'out-group'. Once ideas - such as the causal idea that national central banks should be isolated from political influence in order to be better able to promote the objective of low inflation - have been safely institutionalized in formal organizations and procedures, they become very powerful and very difficult to either disregard or change. The concept of central bank independence was indeed institutionalized with the EMU project and this had immediate consequences for how Swedish, British and French policy-elites saw themselves within the European macro-economic organizational field and how they were looked at by the other elites within that field. With EMU, outside-expectations for central bank reform in Sweden, Great Britain and France rose to what was perceived as being unsustainable levels and national elites started to see their own national institutions as anomalous. Before EMU, national elites generally saw central bank independence as being completely un-Swedish, un-British and un-French but, as we have seen above, EMU ideas turned out to be so powerful that they managed to decisively transform the elite discourse within just a few years.

Why then was France the first of these three countries to give in to the ideational pressure for reform? If the misfit between EMU ideas about central bank independence and national ways of doing things was equally wide in all three countries, why did Sweden and Great Britain manage to sustain that pressure for three extra years? My argument is that this difference can be explained by differences in domestic institutions broadly defined. In France, the European vocation is much more powerful as a political tool to implement major domestic reforms than is the case in Great Britain and Sweden.<sup>77</sup> In Sweden and Great Britain it simply does not convince many people that European integration objectives require national reforms. As we saw above in the analysis of the elite discourse in 1993 and 1998, pro-independence speakers in Great Britain chose



to refer to modernization, sovereignty, and the low inflation objective rather than to refer to the objective of placing Great Britain in Europe. At the same time, anti-independence speakers used Europe actively to find arguments *against* central bank reform.

In Sweden, we note a somewhat similar situation. Anti-independence speakers tried to make a direct link between central bank reform and Sweden's EMU stand, whereas pro-independence speakers tried to refer to modernization, low inflation objectives and legal requirements from EU law. The last argument was used repeatedly by the government but it failed to convince many people because the government at the same time - disregarding the *acquis communautaire* - had declared that it believed it did not have any formal obligations with regard to the third stage of EMU. In contrast to the Swedish and British elites, French elite policy-makers constantly referred to European integration as a supporting argument for central bank reform. In this regard it was often mentioned that France had a very specific role or mission at the European level which consisted of diffusing traditional French values such as equality, liberty and fraternity. The strongest argument against reform was a reference to the values inherent in the French republic such as state unitarism and respect for elected elites. In short, I argue that all countries from the outset had national institutions which did not fit with the ideas of central bank independence, but where France differs from the other two countries is in its European vocation. In other words, the penetration of EMU-ideas in France is considerably eased because a generalized pro-EU attitude reigned - at least at the elite level.

In summary, what I argue here is, firstly, that one direct impact of ideas is to exclude and include people from the elite circles and that it is this 'fear of being excluded' that triggered the reform of domestic structures in France, Great Britain and Sweden - a reform which just a few years earlier was considered to be completely unrealistic. Secondly, I argue that the speed with which transnational ideas are diffused at the national level depends on specific national institutions. In this case it made a difference that 'everything European' meets less resistance in France than in Great Britain and Sweden. That ideas really are powerful can be determined by the fact that EMU-ideas of central bank independence - although with a time-lack - were diffused even in Sweden and Great Britain where 'everything European' is used by anti-independence elites against reform. Thirdly, I argue that both anti-independence and pro-independence elites move surprisingly fast to adapt their discourse to reigning ideas. This illustrates that policy-elites need to make arguments which are both considered legitimate within the specific national contexts *and* within the EMU context. As a result, one reads three very different types of discourse in the three countries - but in the end all the sequences of discourse did lead to the same outcome - more central bank independence.

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## ENDNOTES

<sup>1</sup>This paper has benefited from comments and suggestions made by Torben Beck Jørgensen, Henrik Larsen, Frank Schimmelfennig, Mette Zølner and two anonymous referees at the Robert Schuman Centre, EUI, Florence. The empirical research was undertaken within the framework of Thomas Risse's research project on 'Institutions, Ideas, and Domestic Change', European University Institute, Florence, with grant no. 9900246 from the Danish Social Science Research Council.

<sup>2</sup>On the French concept *gouvernement économique*, see Howarth (1999).

<sup>3</sup>As will become clear later, the argument of this paper has many similarities with the argument forwarded by Frank Schimmelfennig - we both talk about 'Rhetorical action' which is the instrumental use of arguments to persuade others of the validity of one's selfish claims' (Schimmelfennig, 1999a: 28). However, there is one main difference which relates to the fact that we are dealing with two substantially different empirical cases. Whereas Schimmelfennig mainly investigates how national elites, for strategic reasons, internalize a set of *international* constitutive beliefs and practices with a view to obtain international legitimacy and consequent membership of the international elite community, this paper takes its point of departure in the fact that national elites are *already* members of the international elite community; although it is a membership that they want to maintain through adaptive behaviour. As a result, the main problem for the elites investigated in this paper is to make their claims credible on the *domestic* scene, that is, to strategically 'construct' a fit between international norms of central bank independence and domestic constitutive beliefs and practices. One can, therefore, argue that while both Schimmelfennig and I recognize that international diplomacy is 'double-edged' (Evans et al., 1993), our focus is directed at different aspects of the 'two-level game' (Putnam, 1988). Schimmelfennig's approach is a 'second-image' approach in which the strategy of national diplomats at the international level is at the centre of the analysis, whereas the approach adopted in the present paper is a 'second-image reversed' in which the international sources for domestic politics - particularly ideational sources - are investigated (Gourevitch, 1978).

<sup>4</sup>For a related term, see Ove K. Pedersen's (1993) 'Communicative Arena'.

<sup>5</sup>For an account of the major issues actually dealt with during the Intergovernmental Conference on EMU in terms of strategic bargaining, see for instance Mazzucelli (1997), Moravcsik (1998) and Overturf (1997).

<sup>6</sup>Bowles & White (1994: 247), for instance, argue that central banks run the risk of being 'captured' by commercial banks when central bankers fulfill their function as lenders of last resort. In other words, although commercial banks, because they know that they will most likely be rescued by the central bank, are tempted to act in a morally hazardous way in their investment activities, central banks can hardly be said to act out of their own will.

<sup>7</sup>For a study of central bank corporate cultures and of the national institutions in which central banking in Germany and United States is taking place, see Johnson (1998).

<sup>8</sup>For a discussion of the importance of popular support for the so-called 'Becket effect', i.e. the phenomenon that new members of the Bundesbank Bank Council seem to be immediately socialized into the straight-and-narrow principles of *stabilitätspolitik*, see Kaltenthaler (1998).

<sup>9</sup> *Sveriges Riksbank* (established 1668), Bank of England (established 1694) and *Banque de France*, (established 1800), Capie et al. (1994, 123-35).

<sup>10</sup> Standard Eurobarometer, Commission of the European Communities, October 1997, no. 47, p. 5, fig.1.5.

<sup>11</sup> Standard Eurobarometer, Commission of the European Communities, October 1997, no. 47, p. 28, fig.2.3.

<sup>12</sup> Top Decision Makers Survey, Commission of the European Communities, Feb-May 1996, fig.6.

<sup>13</sup> 'Jospin fait tousser l'Europe - La France veut repousser la signature du pacte de stabilité', *Libération*, Mardi 10 Juin 1997.

<sup>14</sup> 'Un trouble-fête français pour la banque de l'Euro - Jean-Claude Trichet présenté contre l'ultrafavori Wim Duisenberg', *Libération*, 5 novembre 1997.

<sup>15</sup> 'Le RPR ne prend pas part au vote sur l'euro et va déposer une motion de censure', *Le Monde*, 23 avril 1998.

<sup>16</sup> For a detailed account of how the Swedish elites handled the exchange-rate crisis at the end of November 1992 which - after having defended the Krone against speculative transaction with overnight interest rates reaching 500% - led to Swedish withdrawal from the ERM, see *Dagens Nyheter*, 1,3 & 4 November 1996.

<sup>17</sup> See Harmon (1994) for an analysis of the British record vis-à-vis the ERM framework of non-participation, membership, crisis, and unilateral withdrawal.

<sup>18</sup> 'UK looks to early EMU entry', *Financial Times*, September 26, 1997, p. 1; 'UK support boosts EMU plan', *Financial Times*, September 29, 1997, p.1.

<sup>19</sup> 'We will join EMU but not before election', *Electronic Telegraph*, 28 October 1997. 'UK will not join EMU before 2002', *Financial Times*, 28 October 1997. See Gordon Brown's complete statement on Britain's relationship to the EMU in: Parliamentary Debates, HoC, 27 October, v.299, 583-8.

<sup>20</sup> See also Edmond Alphandéry, UDF, Ass. nat., Débats, 9 juin 1993, 1244.

<sup>21</sup> See also Philippe Auberger, RPR, Ass. nat., Débats, 8 juin 1993, 1105.

<sup>22</sup> Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1105-6.

<sup>23</sup> See also Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1106, and Eric Duboc, UDF, Ass. nat., 9 juin 1993, 1219.



- <sup>24</sup> See also Jacques Barrot, UDF, Ass. nat., 8 juin 1993, 1130.
- <sup>25</sup> Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1108.
- <sup>26</sup> Henri Emmanuelli, PS, Ass. nat., 8 juin 1993, 1166
- <sup>27</sup> See also Edmond Alphandéry, UDF, Ass. nat., 8 juin 1993, 1111.
- <sup>28</sup> See also Philippe Auberger, RPR, Ass. nat., 8 juin 1993, 1108.
- <sup>29</sup> See also Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1116.
- <sup>30</sup> See also Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1122.
- <sup>31</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1115.
- <sup>32</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1116.
- <sup>33</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1122.
- <sup>34</sup> Henri Emmanuelli, PS, Ass. nat., 9 juin 1993, 1248.
- <sup>35</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1119.
- <sup>36</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1119.
- <sup>37</sup> See also Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1119-20.
- <sup>38</sup> Jean-Pierre Chevènement, PS, Ass. nat., 8 juin 1993, 1125.
- <sup>39</sup> See also Henri Emmanuelli, PS, Ass. nat., Débats, 8 juin 1993, 1166 and Henri Emmanuelli, PS, Ass. nat., Débats, 8 juin 1993, 1132-33.
- <sup>40</sup> Dominique Strauss-Kahn, PS, Sénat, Compte rendu intégral, 22 avril 1998.
- <sup>41</sup> Dominique Strauss-Kahn, PS, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance, 11-2.
- <sup>42</sup> See also Philippe de Villiers, Non Inscrits, Compte rendu analytique, 7 avril 1998, 2<sup>ème</sup> séance, 20.
- <sup>43</sup> In addition to this debate, the issue of granting independence to the Bank of England was more directly, but less extensively, discussed in the House of Commons (HoC) on 28 January 1994 (official report, v.236: 520-586), following the presentation of a private Bill presented by Nicholas Budgen, 16 December 1993, 1297-8.
- <sup>44</sup> See oral responses to questions about the conservative government's plans for the status of the Bank of England: Official Report, House of Lords (HoL), 15 January 1990, 411-2; 10 May 1990, 1467-8.

- <sup>45</sup> Protocol 11, paragraph 1/TEU: Unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so.
- <sup>46</sup> See also Alistair Darling, Labour, HoC, 28 January 1994, 569.
- <sup>47</sup> See also Quentin Davies, Conservative, HoC, 28 January 1994, 561.
- <sup>48</sup> See also Peter Tapsell, Conservative, HoC, 24 March 1993, 967-8.
- <sup>49</sup> See also Quentin Davies, Conservative, HoC, 28 January 1994, v.236, 560.
- <sup>50</sup> Roger Berry, Labour, HoC, 24 March 1993, 993.
- <sup>51</sup> See also Teddy Taylor, Conservative, HoC, 24 March 1993, 1022.
- <sup>52</sup> See also Peter Tapsell, Conservative, HoC, 24 March 1993, 968.
- <sup>53</sup> See also Peter Shore, Labour, HoC, 24 March 1993, 1030.
- <sup>54</sup> See also Peter Tapsell, Conservative, HoC, 28 January 1994, 541-2.
- <sup>55</sup> See also Ken Livingstone, Labour, HoC, 28 January 1994: 579 and 583.
- <sup>56</sup> Stephen Dorrell, Conservative, HoC, 28 January 1994: 575. See also Official Report, House of Lords, Parliamentary debates, 2 February 1994, 1265-9.
- <sup>57</sup> Electronic Telegraph: 'Brown Shocks City with Radical Reform', 7 May 1997.
- <sup>58</sup> The same statement was made two hours later the same day in the House of Lords (HoL). This time by the Minister of State, Department and Industry, Lord Clinton-Davis, as a substitute for Gordon Brown (HoL, v. 580, 20 May 1997, 303-17).
- <sup>59</sup> See also Alistair Darling, Labour, HoC, 11 November 1997, v.300: 733, and Helen Liddell, Labour, HoC, 11 November 1997, v.300, 801 & 805.
- <sup>60</sup> See also Stephen C. Timms, Labour, HoC, 11 June 1997, v.295: 1065 and Ivor Caplin, Labour, HoC, 11 June 1997, v.295, 1067.
- <sup>61</sup> Malcolm Bruce, Liberal Democrat, HoC, 11 November 1997, v.300, 749.
- <sup>62</sup> See also Peter Lilley, Conservative, HoC, 11 November 1997, v.300, 729.
- <sup>63</sup> See also Diane Abbott, Labour, HoC, v.295, 11 June 1997, 1059 and Denzil Davies, Labour, HoC, v.300, 11 November 1997, 734.
- <sup>64</sup> See also Diane Abbott, Labour, HoC, 11 November 1997, v.300, 763.
- <sup>65</sup> See also Peter Tapsell, Conservative, HoC, 11 November 1997, v.300, 759 and Austin Mitchell, Labour, HoC, 11 November 1997, v.300, 784.



<sup>66</sup> See also Kenneth Clarke, Conservative, HoC, 11 November 1997, v.300, 739-740 and Diane Abbott, Labour, HoC, 11 November 1997, v.300, 763.

<sup>67</sup> In practice, such major decisions are only made after consultation with the government in power. See *Dagens Nyheter*, 1, 3 & 4 November 1996 for an account of the events in Autumn 1992.

<sup>68</sup> SOU: Statens Offentliga Utredningar.

<sup>69</sup> This and the following citations have been translated from Swedish by the author.

<sup>70</sup> See also Johan Lönnroth (Vänsterpartiet, *Riksdagen*, 2 March 1994, anf. 13).

<sup>71</sup> See also Birgitta Hambreaus (Centerpartiet, *Riksdagen*, 16 May 1994, anf. 41) and Anne Wibbe (Folkpartiet Liberalerna, *ibid*, anf. 44).

<sup>72</sup> See also Birgitta Hambreaus (Centerpartiet, 17 November 1994, *Riksdagen*, anf. 36 and anf. 40).

<sup>73</sup> See also Carl B. Hamilton (Folketpartiet Liberalerna, *Riksdagen*, 4 March 1997, anf.57).

<sup>74</sup> See also Gudrun Schyman m.fl. (Vänsterpartiet, Motion 1997/98, K6).

<sup>75</sup> See also Peter Eriksson (Miljöpartiet) and Bengt Hurtig (Vänsterpartiet, 1997/98 KU15).

<sup>76</sup> See also Bengt-Ola Rytting (Socialdemokraterna, *Riksdagen*, 4 March 1998, anf.58).

<sup>77</sup> See Sbragia (1998) for a similar argument with regard to Italian domestic reforms in the EMU process.







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