EUROPEAN UNION STUDIES ASSOCIATION
Vol. 18, No.1 ISSN 1535-7031
Winter 2005 www.eustudies.org

EUSA REVIEW

EUSA Review Forum

The EMU Stability and Growth Pact: Is it Dead? If So, Does it Matter ?

IN DECEMBER 2004, the new Barroso Commission brought the saga of the French and German infringements of the Stability and Growth Pact to a close by lifting the "excessive deficit" procedure launched in 2003. That same month, the Commission launched infringement proceedings against Greece that has been providing inaccurate public deficit statistics since the creation of the Pact in 1997. The new head of the Commission also declared that there would be no major overhaul of the Pact. In the November 2003 crisis, when the Council suspended the implementation of the Pact at a time France and Germany overshot its deficit ceiling, most observers called the Pact dead and many rejoiced since the Stability and Growth Pact had come under heavy criticism for some time.

A year after, we asked four leading scholars that have studied monetary integration: have news of the death of the Stability and Growth pact been grossly exaggerated? Should it be resuscitated? Why or why not? Amy Verdun and Nicolas Jabko argue that the Pact will survive for lack of an alternative able to gather the support of a large bipartisan cross-national coalition. Henrik Enderlein then argues that the pact should not be fixed but broken. Finally, Andrew Martin explains why the real problem does not so much lie with the Pact per se, but instead with the philosophy behind the EMU policy mix (restrictive fiscal and monetary policies). It creates vicious circles: By keeping economic growth too low the European central bank retarded the expansion of public revenue, making it more difficult to meet the Pact requirements.

-Virginie Guiraudon, EUSA Forum Editor

The Rise and Rise of the Stability and Growth Pact

Amy Verdun

DURING THE CREATION OF ECONOMIC AND MONETARY UNION (EMU) in the European Union (EU) it was prophesized many times that the single currency would never happen, and if it did, that it was doomed to fail (the "rise and fall" of EMU). It has often been argued that the Stability and Growth Pact (SGP) will likely lead a similar life. However, it is my view that the SGP might lead the same life as the euro: strengthening when many believe it will not be a success. Hence: the rise and rise of the SGP.

First conceived in 1995 by Theo Waigel, the SGP was eventually agreed to at the June 1997 Amsterdam Summit by all fifteen Member States (in the form of two Council regulations 1466/97 and 1467/97 and a European Council resolution 97/C 236/01). The main idea was to make sure that Member States would continue keeping their budgetary deficits under control after having entered EMU. The Treaty on European Union (TEU) or Maastricht Treaty (1992) stipulates that Member States should avoid excessive deficits which are defined in a protocol to the Treaty as budgetary deficits not exceeding three per cent of Gross Domestic Product (GDP). Yet, the Treaty does not spell out in detail how this aim is to be achieved or what to do if these excessive deficits exist. In fact, it speaks about possible sanctions, but contains only a very rudimentary version of the excessive deficit procedure.

The SGP was created in the wake of the Maastricht Treaty. It should come as no surprise that the Germans were the most concerned about possible fiscal profligacy once the euro would have been introduced. It was the Germans who were leading the pack in the two decades prior to the signing of the Maastricht Treaty that spelled out the road to EMU. They were also the ones who would lose the most if EMU turned out to be less successful than they hoped for. The Germans saw their stable and strong deutschmark as a point of national pride, indeed national culture (referred to as 'stability culture') which secured low inflation following currency insecurity in Germany in the first half of the 20th

century and indeed in the rest of Europe throughout the 1980s and 1990s. They were the trendsetters in monetary policy – a policy that was followed unquestioned by the national central banks of the other countries that participated in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). The Germans were most concerned about possible increases in inflation once the euro was introduced and the risk of 'free riding' when some Member States would run high budgetary deficits.

The governments these Member States would be borrowing funds in a market that was now open to all and not paying the same price for these funds as they would have had they stayed outside EMU. The excessive borrowing could bring about inflation and interest rates which would be covered by all Member States, but could be benefiting only the countries that were borrowing excessively (or running an excessive deficit). Without the corrective mechanisms of devaluations or significantly higher interest rates for national governments with higher debt or deficit ratios, the cost would be carried by all. It was clear that if the Germans were dissatisfied with the EMU regime, the move to stage three of EMU, and thereby the eventual introduction of the euro, might be at risk.

The Germans did, however, voice a concern that others shared, although no one was clear from the outset how to go about arranging a good system to avoid excessive deficits. The German government was keen to have strict rules and, for the sake of credibility, have sanctions be applied automatically. They did not trust politicians to be able to take this decision as they would succumb to time inconsistency. The French by contrast were not keen on automatic rules but rather wanted Member State governments to retain political control over the process. The other Member States acquiesced to having the Germans and the French sort out their differences between themselves as they represented the two dominant views among the Member States. The end-result was a compromise package that had some degree of automaticity but still left a few moments of decision-making to the Member States (Ecofin).

When the SGP was first created the general feeling was that it was a rather strange policy. It was the first that would penalize Member States that badly if they indeed went overboard (as stated in the Council regulation No 1467/97, the sanction would be equal to 0.2 % of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3 % of GDP). Though it had preventive measures as well (surveillance, economic coordination of policies, and an early warning mechanism) the SGP was generally seen as a stick (as opposed to a 'carrot') or as some daringly said 'an atomic bomb'. It was to scare governments away from certain deviant behavior (fiscal profligacy), but it did not offer many real carrots (incentives/rewards/encouragement) for 'good behavior'. The stick-no-carrot problem is at the heart of the problems surrounding the SGP. Another problem was that it assumed the longevity of government. In fact, many of the national governments in office in the late 1990s should have made some cut-backs when the times were good, in order to be in a good position to spend more (or collect fewer taxes) when the times were bad. This behavior did not occur, notably in France and Germany during the upturn of 1999/2000. Furthermore, the SGP was aimed at simple rules that could be understood by all. So rather than complicated calculations about how to calculate an excessive deficit based on what the government might be spending the money on (e.g. investment versus consumptive expenditures) was not taken into account. The aim, again, was clarity, not necessarily any other indicator.[1]

The SGP came under attack when it became clear that if the excessive deficit procedure (EDP) were to be applied it would require that governments, of France and Germany for example, pursue 'counter-cyclical' policies; they would have to tax more and spend less in an economic downturn. An economic adviser would recommend that governments do exactly the opposite. This phenomenon then drew criticism to the SGP. The clashing point came when France and Germany managed to hold the Pact in abeyance when the Ecofin Council of 25 November 2003 decided not to move to the next stage of the excessive deficit procedure (there was no 'qualified majority' to carry through that decision). At this point most newspapers declared the SGP dead.

Today, a year later, we find that the SGP is still on the agenda. Noises are being made about making the SGP more intelligent, trying to increase the number of carrots, possibly examining the golden rule of finance or the question of whether deficits are being used to pay for investment rather than consumptive expenditures. All these suggestions of reform have not been settled, but various options are being considered.

What will happen? The official parlance is that the implementation of the Pact should be improved while keeping legal changes to a necessary minimum. In my view, EU leaders will find a compromise that keeps the spirit of the SGP intact, but that gives the Member States more incentives to perform well in the run up to creating a possible deficit (hence avoiding their creation). Why would they do that? First, no one is against the idea that one should constrain fiscal profligacy. Second,

25 November 2003 was not a pretty day for EU integration. It seemed a clear case of larger Member States getting their way whereas smaller Member States could never have pulled the same stunt. The question of equality and respect for the rules (the same for all) was at stake. If at all possible, the Member States will try to get rid of the impression that larger Member States are able to 'bully' the smaller ones. Third, not having any rules at all might undermine EMU – which is an important economic and politically crucial symbol of successful European integration. No one wants to risk the collapse of EMU. Fourth, avoiding excessive deficits also implicitly means creating a buffer that can be used to deal with the issue of shortages in some Member States' government savings that need to be filled to pay out an annually larger amount of pensions as a result of demographic changes. Fifth, every Finance Minister has an interest in a constraint that can be instrumental in her interaction with the spending ministries at the national and subnational levels. Thus for all these reasons it seems to me that the SGP is here to stay – regardless of what the critics say. We will not see the rise and fall of the SGP, but rather the rise and rise of the Pact.

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No Immediate Death, but More Headaches to Come

Nicolas Jabko

AS THE NEW EUROPEAN COMMISSION and the recently appointed chair of the group of euro area finance ministers get down to work, the reform of the Stability and Growth Pact is once again the talk of the town in Brussels. This a sensitive political issue because of the bruising memories of the November 2003 crisis, when Germany and France overshot the budget deficit ceiling of the Pact and the Council agreed to suspend its implementation against the opinion of the Commission. EU officials are now scrambling to come up with a way to mend the Pact, so as to avoid a repetition of this kind of crisis in the near future. Contrary to what many observers said a year ago, nobody in official EU circles seems ready to pronounce the Pact dead. Yet nobody has a miracle reform solution either.

At first glance, it is not easy to grasp why the task of reforming the Pact should be so difficult. The Pact was established in 1997 in order to ensure a certain level of fiscal discipline in the European Union and thus buttress the credibility of Europe's new currency. It was supposed to prevent member states from free riding on their neighbors by running high budget deficits. In a monetary union, fiscal profligacy entails a collective risk of inflationary pressures, higher interest rates, or even the demise of the new currency. Everybody in the EU agrees that this kind of behavior should not be allowed. Everybody also agrees that a reasonable balance must be found between the need for commonly agreed rules and member states' understandable reluctance to run economic policies on automatic pilot. What is the big fuss about reforming the Pact, then?

The fact is that a reform of the Pact raises much bigger issues than the technical problem of improving the current set of rules. At stake in this reform is a fundamental tension between two opposite sets of motivations upon which the euro was built.[2] For a first group of actors, the euro meant carried the promise of more *orthodoxy* in economic policy-making. This neo-liberal dimension of EMU has been described as a delayed European reaction to the inflationary economic recession of the 1970s.[3] From this perspective, it is important to see that the Pact was more than just a way of dealing with the free rider problem. It was also the last piece in a framework of Economic and Monetary Union that essentially enshrined Germany's stability-oriented model in EU law. Before the Pact was adopted in 1997, the 1992 Maastricht Treaty already provided for an independent European Central Bank focused on the fight against inflation and for an elaborate mechanism of multilateral surveillance designed to check governments' tendencies to overspend. This orthodox vision of Economic and Monetary Union (EMU) had a strong political support. A Europe-wide elite coalition fought for an EMU that would prioritize the fight against inflation and rein in government spending. In particular, German central bankers and government officials accepted to sacrifice the deutsche mark on the altar of European unity only on condition that the ECB look as much as possible like the German Bundesbank. The Germans were not alone, since many politicians and officials outside Germany were also in favor of more discipline in public spending. On the whole, the partisan preferences of fiscal conservatives in Germany and in other European governments converged with the bureaucratic preferences of central bankers and financial officials all across the EU.

Today, this coalition is still very much alive and has even become stronger, in a sense, with the institutionalization of the orthodox vision behind the euro. The flag-bearers of economic orthodoxy are not always the same as in the mid-1990s – they are less likely these days to hold a German than a Dutch or even a Spanish passport. But orthodoxy has many natural supporters. The European Central Bank

is a vocal opponent of any weakening of the Pact. All other things being equal, this is also often the case for conservative politicians as well as finance ministry officials. For ideological or bureaucratic reasons, both groups would generally like to see more discipline in government spending and consider the Pact as a last line of defense against government profligacy.

On the other side of the fence, a second group of actors ascribes a completely different meaning to the euro. Even though this is sometimes forgotten today, the appeal of *sovereignty* played an important role in the late 1980s and early 1990s and, in a sense, it remains powerful today. Even at the time when EMU and the Stability Pact were introduced, not everyone in Europe had fallen in love with fiscal conservatism and low inflation. Many actors simply agreed to at least pay lip service to these policies. They accepted the stick of orthodox policies only because it came alongside the carrot of the euro. With the growing international mobility of capital, the European Monetary System of quasi-fixed exchange rates had become politically very problematic for countries like France and Italy. In effect, the Bundesbank was making monetary policy for the entire European continent, and government policies were subject to the enormous pressure of currency speculators.

Just like there was a coalition in favor of orthodoxy behind the drive for the euro, then, there was also a coalition in favor of EMU as a way to reassert sovereignty. For this second coalition, the euro opened the way for governments to regain some degree of freedom in an increasingly global economy. The actors who pushed for monetary union, especially in France and Italy, saw it as a way to challenge the hegemony of the German central bank and of the markets. Many politicians – and their voters – saw the status quo as politically unacceptable because it involved an obvious subordination to Germany and to the markets. Unless we take into account this category of motivations, it is impossible to understand why EMU became such a high political priority for these countries in the late 1980s.

This sovereignty-oriented vision of EMU still has some currency today. Of course, sovereignty in a strict sense is now somewhat beside the point with the advent of the euro. The management of the new currency has been delegated to the European Central Bank at the EU level. But this has not meant the disappearance of the old sovereignty-seeking political coalition altogether. The euro now serves as a shield for member government policies against currency crises. While governments are constrained by the rules of the Pact, they are in a much better position to assert their prerogatives over fiscal policy today than when they faced the threat of market speculation within the European Monetary System. Now that the euro exists and that it can no longer be seen as a carrot, governments are understandably reluctant to accept the rigid stick of the Growth and Stability Pact.

In sum, the contradictory political aspirations that motivated the creation of the euro are resurfacing today in the context of the debate on the Stability and Growth Pact. The political vision that fuelled the euro in the 1980s-90s was successful because it offered something to everybody – to the Germans and to the French, to the Right and to the Left, to the bankers and to the politicians. Today, the successors of these two coalitions support the two opposite political agendas of budget consolidation and national fiscal autonomy. In reforming the Pact, therefore, the difficulty today is not merely to strike a "reasonable" balance between two legitimate concerns. Perhaps more importantly, any reform of the Pact has to strike a *political* balance between two coalitions and their agendas. Yet the problem is that the EU is not an electoral arena where two coalitions could clearly articulate their preferred reforms and let the people have the last word. So for the time being, the most likely outcome is a dilatory reform that will keep the lid over the dispute without really addressing it. EU officials may find a way to patch up the Stability and Growth Pact, but the underlying contest between political visions will undoubtedly resurface in the future.

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The Stability and Growth Pact is Broken? Don't Fix it!

Henrik Enderlein

The discussion on the SGP raises two types of problems: one of economic effectiveness and one of democratic legitimacy. As I will argue, both aspects are closely linked and their combination implies that the EU might be best advised to completely abolish the SGP.[4] From the perspective of economic effectiveness, the conduct of domestic fiscal policies in a monetary union is subject to two largely opposite requirements.

First, there are good reasons to limit member states' freedom of action. Since monetary policy in a currency union cannot react to inappropriate fiscal policies in single member states by 'punishing' individual governments through an increase of interest rates, some countries might try to free-ride on the stability-oriented policy of their peers. Such free-riding is generally looked at from the perspective of deficits: countries might be tempted to run higher deficits, knowing

that they will still benefit from relatively low interests. There is however a second perspective, which is often overlooked: countries with high inflation rates and high growth rates may be tempted to free-ride on low inflation rates in low growth countries by limiting their efforts to cool down the domestic economy. The discussion on Ireland's unwillingness to run a sufficiently large surplus in 1999/2000 nicely illustrates that point. In sum: there is an important rationale in a monetary union to constrain domestic fiscal choices in order to prevent collective action problems.

Second, there are good arguments to grant member states full discretion over their domestic fiscal choices. The main reason is that in a monetary union the importance of the use of fiscal policies as stabilizing instruments increases. The ECB has decided to derive its interest rates from average data of the euro area as a whole ('one size fits all'). It follows that the single interest rate does not necessarily correspond to the needs of every domestic economy: real interest rates may be too high for some countries (e.g. Germany) but too low for others (e.g. Ireland, Spain, and the Netherlands). Against this background, domestic fiscal policies can become key instruments in cyclical stabilization. High real interest countries should run deficits to offset the dampening effect of the ECB's policy, whereas low interest countries should run surpluses to prevent cyclical overheating.

When the SGP was initially discussed in 1996, the focus was almost exclusively on the deficit aspect of the collective action problem. Neither inflationary free-riding by high-growth countries nor domestic stabilization was given much attention. At that time, most economists argued that growth and inflation differentials across EMU would disappear automatically as a consequence of increased trade: low inflation countries facing relatively high real interest rates would become more competitive and thus benefit from growth through trade. Unfortunately, this mechanism (which focuses on the so-called real exchange rate effect) has not worked in practice. As recent studies indicate (see for example Chapter 4 in this fall's *World Economic Outlook* of the IMF), the destabilizing real interest rate effect is dominant in comparison to the stabilizing real exchange rate effect. The reason is that large parts of growth in European economies are still generated by non-traded goods.

Today, an ideal framework for fiscal policy-making in EMU should seek to incorporate all elements of economic effectiveness: it should prevent collective action problems while allowing for appropriate fiscal stabilization in the domestic economies. While it might be technically possible to devise such frameworks, they would however suffer from a considerable lack of democratic legitimacy.

A first approach could be to fully transfer the decision-making authority over domestic fiscal stances to the European level. This would amount to establishing prescriptive and binding fiscal targets for each member state. It is straightforward to see why such an approach would face a problem of democratic legitimacy. Decisions on national fiscal stances, their financing, and their inter-temporal implications (e.g. inter-generational distribution) are at the very core of government's prerogatives and should only in very extreme cases be separated from direct electoral choice. It is unlikely that voters would accept binding fiscal prescriptions from EU bodies – they might remember the aphorism 'no taxation without representation'. Moreover, the enforcement of such rules would certainly prove difficult.

A second approach could be a shift to a full-fledged system of fiscal federalism. The EU budget, which currently amounts to roughly one percent of the EU Gross Domestic Product, would have to grow dramatically and would have to include some redistributive mechanism that would ensure that surplus-money from the fastest growing Member States be used to compensate low inflation and low growth countries. This solution, which to some extent exists in the US and also in Germany, might have some appeal but looks unrealistic at the present juncture (or could you imagine Ireland wiring money to Germany?). Fiscal federalism in Europe could be a long-term target but not a short-term solution.

Against this background a third approach might work best. It would be based on the assumption that the euro area would be better off in a framework without sanctions and enforcement, i.e. without a rule-based approach to fiscal discipline. Authority over domestic fiscal choices would be fully returned to the Member States.

What could such a solution look like? The present Article 104 on the Excessive Deficit Procedure would have to be amended, as well as secondary legislation on the SGP. In principle, both sets of instruments could be scrapped. Article 99 on the Broad Economic Policy Guidelines would remain in place. Its soft provisions, based on the clause that 'Member States shall treat their economic policies as a matter of common concern', would continue to set out non-binding requirements on the appropriate conduct of fiscal policies. Yet Member States would ultimately retain their full autonomy to go against such recommendations. The framework would fully rely upon peer and public pressure.

The main benefit of abolishing the SGP would be to return full political ownership of fiscal decisions to Member States. As explained above, decisions on deficits and sur-

pluses are of a fundamentally political nature. EU institutions should be allowed to issue recommendations and should to defend these in public discourse. However, Member States should be allowed to disagree, giving national politics the last word in the procedure.

I would argue that such a framework could strengthen the democratic legitimacy of fiscal policies in EMU. Should single Member States feel the need to submit themselves to some kind of technocratic guidance, they could still decide to do so at the national level. Belgium, for example, has delegated significant power over the fiscal stance to the independent national *Conseil Supérieur des Finances*.

Experiences in the US and Canada show that such an approach might work. Neither of the two countries has established a rule-based deficit control mechanism for states and provinces, although some US states and Canadian provinces have balanced budget rules. Both federal systems trust market forces to adjust borrowing costs and there are no recent examples of state or provincial government default in either of the two countries. It is true that several states and provinces are accumulating excessive debts, yet as the recent example of California shows, voters might ultimately favor fiscal restraint over the risk of debt default.

It is quite unlikely that any rule-based framework at the European level would succeed in establishing the right incentive structure to cope simultaneously with domestic stabilization and the avoidance of free-riding. Instead of trying to square the circle, the responsible actors in EMU might be better off by scrapping the SGP and putting more emphasis on peer-pressure. This approach might look radical in its formal implications, in practice however it could function more effectively than a badly reformed SGP.

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Blame the ECB, Not the Stability and Growth Pact
Andrew Martin

The Stability and Growth Pact (SGP) isn't the problem in the EMU macroeconomic policy regime, or at least not the main problem. The main problem, from which the SGP controversy distracts attention, is the European Central Bank's (ECB) excessively restrictive policy orientation.[5]

There is plenty wrong with the SGP — the arbitrariness of the 3 percent rule, the consequent pro-cyclical tendencies, and the insufficient room for maneuver it allows to countries, such as Germany, where the one-size-fits all monetary policy is particularly restrictive, etc. — which other Forum contributors will undoubtedly discuss. But the objective of fiscal discipline which the SGP so clumsily and rigidly pursues is not wrong. A good case can be made for budget balances over the cycle, implying surpluses during expansions as well as deficits during recessions, providing that there is ample scope for automatic (and even discretionary) stabilizers and also for public investment (in human as well as physical capital), and, in the EMU context, coordination of national fiscal policies to achieve a eurozone fiscal stance consistent with a growth-promoting eurozone monetary policy.

The catch is that the ECB's monetary policy is not growth-promoting, despite its claim that single-mindedly pursuing price stability, as the ECB unilaterally defines it, is the best, and only, thing the bank can do to promote growth. Even as it stands, the SGP would pose less of a problem if the ECB's monetary policy were not so restrictive. By keeping growth too low — aborting the late 1990s growth spurt and subsequently easing policy too little and too late as world growth slowed — the ECB retarded revenue growth while social policy burdens rose, making it much more difficult to meet the SGP's requirements than it would otherwise be. The SGP can thus be evaluated only as part of the overall EMU policy mix that perversely combines restrictive fiscal policy with restrictive monetary policy.

The proposition that the ECB is excessively restrictive rests partly on the following argument (overlooked in conventional wisdom on the ECB). After an extended period of disinflation like Europe's in which policy has kept growth <u>below</u> its potential and unemployment high, an extended period of economic growth <u>above</u> its long-run potential — a sustained growth spurt — is necessary in order to bring unemployment back down to pre-disinflation levels. Comparison of policies that permitted and prevented such growth spurts in the 1980s and 1990s shows that policies that prevented growth spurts at the cost of continued high unemployment did not achieve lower inflation over the long run (8-10 years) than policies that allowed them and achieved lower unemployment. Although growth spurts were accompanied by increased inflation, it proved temporary, so that lower unemployment was not achieved at the cost of higher inflation over the long run than where monetary policy prevented growth spurts to avert even temporary inflation increases. Thus, the price in unemployment that the ECB exacts for price stability is an unnecessary one. The comparison also shows that it is primarily these differences in macroeconomic policy rather than labor market rigidities, as claimed by the ECB, that explain inter-country variations in unemployment.

So the main thing wrong with the EMU policy regime is the ECB's failure to pursue growth-promoting monetary policy. Fixing that would make it easier to fix what's wrong with the SGP. The single monetary policy is inevitably too tight for some countries and too loose for others, which is why they need fiscal policy flexibility to adjust the policy mix to their diverse conditions. In countries for which the single monetary policy is too tight, it is especially difficult politically, possibly suicidal, to comply with fiscal discipline rules. This could often be true even if the rules were made more flexible, as would most SGP reform proposals, as long as fiscal policy was left to accelerate growth while monetary policy kept the brakes on. With the brakes off, or pressed more lightly, fiscal discipline would be as or more necessary but also more compatible with growth and thus more politically sustainable.

This more rational policy mix requires that the ECB accept responsibility for growth and employment as well as price stability, as in the American Federal Reserve Bank's dual mandate. It is difficult to give the ECB a similar mandate by changing the Treaty because of the need for unanimity. But it seems legally unnecessary. Free to interpret its mandate as it sees fit, the ECB could easily set a less restrictive inflation target and more genuinely "support" the other Community economic goals including a "high level of employment," as Articles 2 and 105 prescribe.

Fiscal discipline would then have to be reconfigured. While member states would get more scope for adjustment to their diverse conditions, their fiscal policies would have to be coordinated so that they add up to an overall euro zone fiscal stance that, combined with a more expansionary monetary stance, gives the euro zone a macroeconomic policy mix aimed at growth as well as reasonably low inflation. At a minimum, such coordination would require shifting the focus of the Broad Economic Policy Guidelines to the euro zone policy mix, including monetary as well as fiscal policy. This would, in turn, require the ECB to negotiate with the Commission and the Euro Group in Ecofin about the respective policy stances to be implemented. In other words, the ECB would have to abandon its insistence that even discussion of monetary policy by such other bodies, not to speak of "*ex ante* coordination of macroeconomic policy between other bodies and the ECB," is an unacceptable infringement on its independence.

This would be a step toward the *gouvernment économique* the French have called for, although further steps might well be necessary. All this is doable without difficult Treaty revision. But changing the ECB's policy orientation and operating mode would probably be as difficult. It might not be possible to fix the SGP and the EMU macroeconomic policy regime of which it is a part in the absence of an economic crisis severe enough to make Treaty revision politically possible. But then it might be too late.

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Endnotes

[1] Martin Heipertz and Amy Verdun (2004) "The Dog that Would Never Bite? On the Origins of the Stability and Growth Pact" *Journal of European Public Policy* 11(5): 773-88.

[2] For a detailed historical account of EMU, see Kenneth Dyson and Kevin Featherstone, *The Road to Maastricht* (Oxford: Oxford University Press, 1999). For more details on the two broad political coalitions that fuelled EMU, I refer to my 1999 article "In the name of the market" *Journal of European Public Policy* 6 (3): 475 – 495.

[3] See especially Kathleen R. McNamara, *The Currency of Ideas* (Ithaca: Cornell University Press, 1998).

[4] This article is based on Henrik Enderlein (2004) "Break It, Don't Fix It!" *Journal of Common Market Policy*, 42(5): 1309-1046.

[5] I spell out the argument in chapter 2 of Andrew Martin and George Ross, eds., *Euros and Europeans: Monetary Integration and the European Model of Society* (Cambridge: Cambridge University Press, 2004).