Economic and Monetary Integration in the European Union:
The Role of Experts in Creating an 'Asymmetrical EMU'

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all comments welcome

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Economic and monetary integration in the European Union: The role of experts in creating an 'asymmetrical' EMU

Amy VERDUN[1] Paper prepared for the May 1995 ECSA conference

ABSTRACT

This paper examines why policy-makers (experts in central banks, ministries of finance, employers' organizations and trade unions) of Britain, France and Germany have accepted an 'asymmetrical' Economic and Monetary Union (EMU) which incorporates a developed monetary component, yet a relatively underdeveloped economic component To that end the paper examines the following hypothesis the *monetary implications of EMU* have been the primary influence in the process of creating an EMU in Europe Policy-makers did not scrutinize the potential effects of EMU on other policy areas, e g on national fiscal and social policies, or the distribution of wealth across regions The paper shows that this 'asymmetrical' focus results from a consensus among policy-makers that further integration in the early 1990s would only be feasible in the realm of *monetary* policy-making However, it has also become clear that the actors specifically did not want to develop the contents of the 'Economic Union' Actors perceived that harmonization of fiscal and social policies was best left to national choices and market forces for it was politically too sensitive to tackle these questions at the supranational level, and too costly for the individual politicians in their respective member states Moreover, as it was believed that national welfare systems were too rigid and expensive it was considered helpful that market forces could make a useful contribution to the restructuring of domestic economies Indeed, if the member states are to remain internationally competitive the latter was considered a necessity The paper concludes that all actors had specific interests which could have been served only by accepting an 'asymmetrical EMU' In the monetary field the EMU institutionalizes and legitimates German monetary policies within a European framework, whilst in the economic and social field the EMU offers political legitimation for restructuring the welfare state

1. Introduction

Several scholars have wondered why the Economic and Monetary Union (EMU) was negotiated and incorporated relatively easily into the 1992 Treaty on European Union (EU) signed at

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[1] While writing this paper the author benefitted from discussions with Andrew Moravcsik, Roger Morgan, Alec Stone and Susan Strange The author also gratefully acknowledges comments on earlier versions by Jonathan Golub, Beatrijs de Hartogh, Julia Lindley-French, Roger Morgan, Markus Schulte and Annemarie Sprokkereef All remaining errors, of course, are mine

Maastricht (Maastricht Treaty)[2], even though it is clear that it strongly restricts the room for manoeuvre in for national policy-making (e g Sandholtz, 1993; Lange, 1993)[3] When answering this question a distinction is often made between 'neo-functionalist' and 'intergovernmentalist' arguments[4] In the view of the former the step forward on the road to complete European integration is seen as automatically resulting from decisions taken in other fields of policy-making ('spill-over') In the view of the latter further integration only occurs when the actors involved believe it serves their direct interests[5] These various approaches each identify elements which determine the progress or standstill of European integration

It is not the main purpose of this paper to examine the validity of the various approaches Instead, it offers an eclectic view of European integration based on a case study of the EMU Rather than taking theory-testing as its point of departure, it is inspired by observation and poses one central question Furthermore, it tries to identify which type of arguments are used by the 'functional' and 'governmental' actors to favour or oppose further economic and monetary

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[2] The Treaty on European Union came into force on 1 November 1993 The European Community or European Communities were thus given a new name 'European Union' The EU contained the previous three European Communities, and was extended with two new 'pillars', i e , a common foreign policy and defense pillar, and an internal policies and justice pillar

[3] In the economic and political science literature on regional integration the concept 'monetary union' implies that a single monetary policy is conducted for the whole region When monetary policies are fixed, this affects the 'policy-mix' of monetary and fiscal policies When economic adjustments have to be made for a part of the region (i e country) the monetary policy instruments -- changes in interest rates or exchange rates -- cannot be used The regional or national government can only utilise fiscal policies Hence, indirectly fiscal policies are affected as well

Due to the diversity of the 'policy mix' in Europe the 'low inflation countries', especially Germany, were concerned that in EMU inflation and interest rates would rise as a result of the average performance of the member states Hence, a clause calling for limits on budgets was put in the Delors Report The Maastricht treaty specified these limits a budgetary deficit of not higher than 3 per cent of GDP and a public debt not higher than 60 per cent of GDP These two criteria are part of the so-called 'convergence criteria' which have to be met before a country meets the requirements to join the third stage of EMU The other criteria refer to low inflation and interest rate performance, and exchange rate stability

[4] This dichotomy is often extended to two larger categories, i e , the neofunctionalists and supranationalists on the one hand, versus intergovernmentalists/neo-realists on the other

[5] The neo-functionalist thought was originally voiced by Haas (1958 and 1964) For a contemporary survey see Tranholm-Mikklesen (1991) An intergovernmentalist view is expressed by Hoffmann (1966), and more recently, for example by, Moravcsik (1993) An approach which would still be categorized as intergovernmentalist, but focusing on the actors within countries in explaining the process, is the 'domestic politics' approach Bulmer (1983) See for a survey of the various theories Webb (1983) Again others, analysing the process of integration in various sectors, have offered other tools for analysis by using the conceptual framework of a 'policy network', see for example Mazey and Richardson (1993), and Peterson (1995)

integration Four categories of motives are identified. They are labelled 'monetary', 'economic', 'domestic politics' and 'geopolitical' With regard to the theory of European integration some concluding remarks are drawn only after examining the data The perceptions on EMU are collected by interviewing experts responsible for EMU policies of their respective organizations [6]

The above-mentioned central observation is that there was an apparent consensus on the desirability of the EMU among policy experts and the political elite during the 1991 intergovernmental conferences which were aimed at amending the Rome Treaty to incorporate the EMU [7] This triggered the following central question why and how did actors in the policy-making process (i e , experts in central banks, ministries of finance, employers' organizations and trade unions) in three major EU countries -- Britain, France and Germany -- perceive EMU to serve or frustrate their interests? More specifically what are the motives and priorities of these actors in proceeding with EMU? How do these perceptions vary according to the actor's nationality or to the institution to which he belongs? What are the factors that bring about these variations? Finally, what does the case study teach us about the theory of European integration? After having answered these questions the following hypothesis is examined *monetary implications of EMU* have primarily influenced the process of creating an EMU in Europe Policy-makers did not scrutinize the potential effects of EMU on other policy areas, e g on national fiscal and social policies, or the distribution of wealth across regions

The policy-makers focused on are experts in central banks, ministries of finance, employers' organizations and trade unions The central bank and ministry of finance are chosen

[6] The reader may recognize that a qualitative method is used often referred to as an inductive method using a case study -- more specifically a pilot study See for a discussion of these methods the 'grounded theory' approach Glazer and Strauss (1967) and Corbin and Strauss (1990) On the 'comparative method see Ragin (1987) A review on the usage of the 'case study' is found in Platt (1992)

This paper draws on in-depth semi-structured interviews with monetary experts in central banks, ministries of finance, employers' organizations and trade unions in Britain, France and Germany All respondents were interviewed twice Once in the spring of 1991, when the IGCs were still taking place The second time was in the autumn of 1992, when the treaty had been signed, but not yet ratified

[7] At the Dublin Summit of Heads of States and Governments, in June 1990, it was decided that two parallel intergovernmental conferences (IGCs) were to be convened in order to amend the Rome Treaty One IGC centred on how to reach EMU (the so-called EMU-IGC), the other on how to achieve Political Union (the PU-IGC)

because at present they conduct monetary policies, and the officials of the latter as they were the negotiators for their respective national governments in the intergovernmental conference on the EMU The employers' organizations and trade unions are focused on to represent organized business and labour These actors are very rarely examined within the context of studying EMU Scholars have been inclined to study the attitudes and policies of governments and central banks rather than social partners[8] It is argued here, however, that in an 'asymmetrical' EMU much of the adjustment burden will fall on social partners 'Asymmetrical' EMU is defined here as an EMU with transfer of sovereignty in monetary policy-making to the European level, but very limited transfer of sovereignty in economic policy-making The Delors Report recognized that economic adjustment will take place via the labour market Moreover, the functioning of the system would also depend on the social partners

> 'As regards wage formulation and industrial relations, the autonomous negotiating process would need to be preserved, but efforts would have to be made to *convince European management and labour of the advantages of gearing wage policies largely to improvements in productivity* Governments, for their part, would refrain from direct intervention in the wage and price formation process '(Delors Report, 1989 24)[9]

The remaining part of this paper is divided into four sections The second section sets out the aim of the research and the third section presents the data The fourth analyses and compares the motives of the various actors and offers four categories of motives favouring EMU In the final section the paper concludes why there was consensus among the elite on the desirability of EMU in 1991 and 1992 In addition some preliminary conclusions are drawn on how the results of the paper may contribute to evaluating the various theories of integration

The main findings indicate that all actors were convinced that progress in European integration was necessary in order to compensate for the loss of autonomy in national policy-making It was believed that the room for manoeuvre of national policy-making had already been

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[8] Scholars interested in the national bargaining process which led to the Maastricht treaty predominantly focus on governments as primary actors, e g Andrews (1993), Lange (1993), and Sandholtz (1993a) Exceptions are Moravcsik (1994) and Sandholtz (1993b)

[9] My italics

strongly limited *de facto* both by external factors (e g increased international competitiveness and globalization) and by factors related to earlier decisions about European integration (the decision in the 1980s to maintain close to fixed exchange rates in the context of the ERM,[10] the start of the Single Market, capital liberalization, increasing openness of the domestic economies, and subsequent interdependence) Thus, the cost of giving up *formal* sovereignty was lower than the benefit from regaining influence at the European level The paper concludes that the four actors in three countries each had their own motives to join EMU, for example institutionalizing anti-inflationary, 'German-type', monetary policies -- thereby simultaneously restricting German monetary dominance --, the need to find legitimacy for restructuring the domestic economy, and strengthening the Single Market and the role of the EU in the global economy through the use of the Ecu Moreover, it was considered desirable by monetary authorities and employers' organizations that European member states be exposed to market pressures, it would result in more efficient welfare systems Increasing global competition makes the restructuring necessary Politically it is difficult to address this issue Hence, 'EMU + 1992' would provide political legitimacy for the restructuring process

2. A case study of elite perceptions on EMU

The Economic and Monetary Union was re-launched in the mid-1980s to accompany the establishment of the Single Market [11] The Delors Report (1989),[12] written by central bank presidents, three independent experts and headed by the President of the EC Commission, Jacques

[10] The interviews were conducted in 1991, and the autumn 1992 -- well before the widening of the ERM bands in August 1993

[11] European Council of 27-28 June 1988 at Hanover Bulletin of the EC (6/1988)

[12] Committee for the study of Economic and Monetary Union (1989)

Delors, proposed a three-stage plan to establish the EMU in the European Union That the EU's monetary union is named *Economic and* Monetary Union[13] results from a political compromise that had been made in the early 1970s

Its name derives from the late 1960s and was incorporated in the Werner Report (1970) which originally proposed the three-staged approach [14] At that time the decision as to how to achieve economic and monetary integration within the Community was dominated by a debate between the so-called 'economists' and the 'monetarists' [15] The Werner Report tried to reconcile the two camps by introducing a parallel approach and the goal was named accordingly [16] This original report also envisaged the establishment of *two* new supranational bodies an 'economic' as well as a 'monetary' institution [17] The role of the former was to co-ordinate economic policies of member states, and it was also supposed to have a supranational budgetary mandate [18]

In 1989 the Delors Committee adopted the parallel approach of the Werner Group together with the name 'EMU', but strongly reduced the contents of the 'Economic Union' [19] At that point it was reduced to merely formalizing the arrangements already made by the Community, i e ,

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[13] Ironically, established textbooks of European macro-economics and European economic integration have -- deliberately or not -- misread the abbreviation EMU to mean 'European' Monetary Union, rather than 'Economic' and Monetary Union, e g , Burda and Wyplotz (1994), El-Agraa (1990)

[14] An earlier proposal to create a monetary union in the EC was launched in the 1960s (see Hasse, 1990)

[15] The 'economists', i e the German and the Dutch monetary authorities, favoured economic convergence first -- convergence in policy objectives and economic performance -- before linking currencies together The 'monetarists', i e the French, Belgian and Luxembourg monetary authorities, argued that monetary integration would automatically induce convergence in economic policies and performance

[16] Elsewhere I have argued that the Werner Report and the Delors Report responded to very similar developments in European integration In both cases the initiative to create an EMU in the Community followed the successful completion of an economic (market-) integration project -- i e the Werner Report followed the creation of the Common Market of 1968, whereas the Delors Report responded to the (anticipated) completion of the Single Market ("1992") (Verdun, 1994)

[17] The economic body was called 'Centre of decision for economic policy' The name of the monetary body is almost identical to the one chosen in the Delors Report 'Community system for central banks'

[18] Its responsibility needed to be extended to 'other domains of economic and social policy which will have been transferred to the community level' (Werner Report, 1970 13)

[19] Economists have emphasized that monetary unions throughout the world have a federal authority with budgetary powers to address regional imbalances that appear in the monetary union (Eichengreen, 1990, Masera, 1994 and Sachs and Sala-i-Martin, 1990)

fulfilling the Single Market and capital liberalization.[20] This reduction of the role of the 'Economic Union' -- leading to what was defined above as an 'asymmetrical EMU' -- was not contested during the intergovernmental conferences of 1991 [21] The resulting formulation in the treaty was even less far-reaching than the proposals in the Delors Report (Italianer, 1993)

Surprisingly though, the presentation of the Delors Report in April 1989 did not provoke much public or expert debate in the immediate aftermath It would be understandable if the public had not yet grasped what Delors Report and the IGCs implied,[22] but one would have imagined that experts would have been widely debating the proposals [23] Indeed, for if EMU was to be created according to the purposes of the Delors Report, it would have implied a transfer of sovereignty in monetary policy-making to the European level In addition, a restriction of autonomy in national budgetary and fiscal policy-making was envisaged. Finally, the EMU might have caused a stronger need for increased harmonization in other fields of policy-making for, if not decided by the European member states, it could well have resulted in increased competition between the economies of the member states

It was this apparent lack of reaction by the European elites to the Delors Report which prompted the above-mentioned research question, i e what are the perceptions of policy-makers in

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[20] The aim to complete the Single Market by 31 December 1992 and liberalize capital markets by 1 July 1990 had already been approved before the Delors Report was written

[21] The French IGC negotiators were the most outspoken in their desire to institutionalize some kind of economic counter-weight to the monetary supranational authority The French draft Treaty proposed a larger role for the European Council Furthermore it wanted to give the right of initiative in economic policy to the Commission, the president of the Council and to the member states

[22] The public debate in many countries only took place in 1992-3, after the closing of the 1991 IGC negotiations, i e , when the implications of the treaty became clear

[23] This was the reason for a Dutch political science student to conduct a pilot study focusing on the perceptions of policy-makers in the Netherlands towards EMU (Verdun, 1990) The policy-makers interviewed were officials responsible for their organization's policy formulation towards EMU The Dutch organizations and institutions chosen were the central bank, the finance ministry, five political parties, an employers' organization and a trade union organization The study revealed that national policy-makers considered a small country in the late 1980s to be *de facto* restricted in its freedom to conduct autonomous monetary policies by monetary policy decisions of the dominant country -- at present Germany Thus, institutionalizing the dominant monetary regime offers the option of regaining some influence at the supranational level Because the Dutch monetary authorities over the last two decades had coordinated their policies towards those of Germany, it was argued that the necessary policy adjustments had already been made Hence the transition period -- considered by some the most costly period -- would not cost the country much However, the 'cost' of EMU which the Dutch actors perceived was the risk of increased tax competition and social dumping

major EC member states towards the EMU? More specifically. do the policy-makers in central banks, finance ministries, employers' organizations and trade unions perceive EMU as a means to serve or frustrate their interests? How and why do they perceive EMU as a means to serve or frustrate their interests? Did these interests change after the Maastricht Treaty was signed?

The method chosen to address these questions was conducting in-depth interviews with monetary experts in the four above-mentioned organizations and institutions in Britain, France and Germany The interviews were held twice [24] once in the spring of 1991, during the IGCs, and repeated in the autumn of 1992, when the Maastricht treaty had been signed but ratification was still in jeopardy [25] The respondent was asked what his[26] 'model' was of the EMU, how/why EMU served or frustrated the interests of his organization, under which conditions he thought EMU was desirable, what he thought the effect of EMU would be on several policy areas, such as monetary, budgetary, fiscal, social policies, as well as, more generally, the effects of EMU on unemployment, economic growth and the competitive position of his country [27]

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[24] Thirty-seven interviews were conducted with monetary specialists responsible for the EMU policy formulation of their respective national organization In most interviews the working language was the mother tongue of the respondent, in order to facilitate the free expression of his views In almost all cases the second interview was conducted with the same official approximately 18 months later, if he was still in charge of monetary policy, otherwise his successor was interviewed A total of 75 interviews were conducted Half of them were with national officials, the other half with policy-makers at the European level This paper focuses only on the interviews conducted with the former group The policy-makers in the latter group were located in the European Commission (DG 2, and the Delors Cabinet), the Economic and Social Committee, UNICE (the European employers' organization) and the ETUC (the European Trade Union Confederation), and the Association for the Monetary Union of Europe (AMUE)

[25] Pessimism about the Maastricht treaty ever being ratified was fuelled by the outcomes of two referenda The Danish population rejected the treaty in June 1992, and the French had only narrowly (50 8%) accepted the treaty in September In the run up to the French referendum, large speculation forced the Italian lira and British pound sterling out of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) The so-called narrow bands of plus or minus 2 25 per cent were widened to plus or minus 15 per cent in August 1993 after a turbulent year of exchange rate speculations

[26] For simplicity's sake the respondent will be referred to as masculine, though in fact two women were interviewed

[27] These questions (and others) were posed in a semi-structured questionnaire The respondent was sent the list of questions before the interview, which gave her/him the opportunity to 'prepare' the questions The full results of the research are provided in Verdun (1995) Ph D dissertation (forthcoming)

3. Presentation of the data

Respondents in three countries from four organizations were asked during two interviews to elaborate on their perceptions of EMU.[28] What is presented below is a very brief summary of the findings.[29] The general gist of the attitudes towards EMU was favourable. All actors had accepted the 1989 Delors Report as a workable blueprint, and considered it to be an satisfactory way to move ahead towards economic and monetary integration in Europe. In the 1992 interview all respondents reflected on the EMU as set out in the Maastricht treaty. What follows below discusses four categories of issues on how EMU was perceived to frustrate or serve the interests of the respondent's organization. First, the attitudes of monetary authorities are discussed, next employers' organizations and finally trade unions. The data collected in 1991 is presented first followed by outcome of the 1992 interviews.

The 'model' of EMU that all actors had adopted was, indeed, the three-staged approach as set out in the Delors Report. Some actors had partial objections, for example, in 1991 the British monetary authorities and the *Confederation of British Industry* (CBI), the British employers' organization, opposed the rules on budgets.[30] In their view the EMU needed to encourage rather than restrict national fiscal flexibility *precisely because* the EMU would *not* be a fiscal union: the Community budget would not play a larger role in EMU,[31] hence fiscal freedom was needed in

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[28] The actors interviewed were experts dealing with the EMU in the following institutions and confederations in Britain France and Germany respectively. The three central banks: the *Bank of England, Banque de France* and the *Bundesbank*, the three *Ministries of Finance* (in Britain known as the *Treasury*), three national employers' confederations: *Confederation of British Industry* (CBI), the French *Confédération Nationale du Patronat Français* (CNPF), and the German *Bundesverband der Deutschen Industrie* (BDI), and three national trade union confederations in the three countries, i.e. in Britain the *Trades Union Congress* (TUC), in France *Confédération Française Démocratique du Travail* (CFDT), in Germany *Deutscher Gewerkschaftsbund* (DGB).

[29] Due to limited space it is not possible to give a detailed survey of the precise attitudes of the various actors on separate issues, or the exact change in perceptions over time.

[30] The British Hard Ecu Plan was an alternative 'second' stage approach, rather than an alternative to the Delors Report.

[31] The MacDougall Report (1977) calculated that for an EMU to operate satisfactorily a Community budget of 7 per cent was needed. In 1991 the EC Commission (DG 2) was asked to update this report. It concluded that it was not necessary to increase the Community budget to more than 2 per cent (European Commission, 1993). Thus far its size has been around 1 per cent of Community GDP.

order to conduct adjustment policies in the various member states [32] In the 1992 series of interviews the British respondents dropped their opposition to the budgetary rules for two reasons First, they claimed that the figures chosen (3 per cent budgetary deficit, and 60 per cent public debt) were very close to those the British monetary authorities were trying to achieve in Britain anyway -- with or without the EMU. Secondly, they stressed that countries would need to have achieved economic and monetary convergence before entering EMU Indeed, if all countries were to be allowed to join without prior adjustment, the British actors feared that participation in EMU would give rise to great disruptions in various European regions expressed in rising unemployment This, in turn, would have put strong political pressure on the EU and the wealthier countries to make transfer payments to the worst hit regions [33]

Trade unions in both periods were concerned at the prospect of a 'monetaristic EMU'[34], by which was meant the monetary policy regime ruling economic policy without any provisions to counter-balance possible regional or social distortions or country-specific shocks Nevertheless, they too accepted the Delors Report as a workable document However, their aim in 1991 was to try to influence the outcome of the IGCs by placing their issues on the agenda These included the Social Chapter, 'economic and social cohesion', environmental protection, and regional issues Several trade union officials, when interviewed, emphasized in both 1991 and 1992 that they were more willing to co-operate now than ever before because they had great confidence that trade unions were finally going to be listened to, now that Jacques Delors was the Commission president [35]

With regard to how EMU served or frustrated the interests of their respective

[32] This 'British' argument is expressed eloquently by Goodhart (1990) In a monetary union, national governments cannot use monetary tools for adjustment (i e , the ability to set exchange and inflation rates) Hence, the advocates of fiscal freedom claim that fiscal policy should be used when otherwise monetary policy adjustments would be made, e g in case of a country-specific shock

[33] Treasury, Bank of England, and CBI officials 1991 and 1992, interviews with the author

[34] CFDT official, 1991, interview with the author

[35] TUC, and CFDT officials, 1991 and 1992, interviews with the author

organizations, most respondents replied that they valued 'price stability' as the most important aim of the EMU, whilst their responses to the question 'how does EMU relate to the interest of your organization' in 1991 and 1992 were as follows

All actors saw the EMU as a way to lower inflation and to maintain price stability For the Bundesbank this was the central aim of EMU The monetary authorities and employers' organizations in all three countries favoured EMU in order to strengthen the Single Market Trade unions wanted EMU to be flanked by policies aiming at greater economic and social cohesion The French monetary authorities thought EMU had *automatically* become a necessity because of the Single Market and the capital liberalization [36]

For the French monetary authorities and the employers' organizations in all three countries the single currency as such was *the* central aim of EMU, whilst the British and German monetary authorities only desired the single currency under certain conditions [37] Many respondents in all three countries welcomed exchange rate stability as an important effect of EMU Others, especially employers' organizations, stressed that they hoped that the European single currency in time would partially substitute the dollar as an international trade and reserve currency

The French and German finance ministries and the employers' organizations in those countries thought that the EMU was an excellent way to embed their countries in Europe The German respondents explained that, given the changed geopolitical situation in Europe, it was of the utmost importance to signal to the other EU member states that Germany would integrate in Europe rather than become an independent hegemon The French officials stressed that they had come to terms with the fact that France was merely a medium-sized country Thus it would be beneficial to the country if France was strongly integrated into Europe Moreover, Europe as a whole needed to strengthen its role as a world player Respondents in Britain and France

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[36] A Banque de France official mentioned that 'EMU really constitutes part of the logic of economic integration ' (interview with the author)

[37] The German monetary authorities stressed the need for convergence before adopting the single currency Their British counterparts pointed to the fact that they were not convinced they wanted to join the single currency at all

emphasized that the EMU provided a way to restrict German dominance Many underlined that without EMU Germany would become increasingly dominant in Europe [38] In 1991 both the French finance ministry and the British Treasury voiced that the EMU would produce growth and employment whereas in 1992 the latter was much more doubtful about the EMU having this positive effect

The trade unions stressed that their interests lay in ensuring employment as well as social and regional equality Officials of all trade unions claimed that EMU could worsen what was already a difficult situation for trade unions in trying to secure their goals Indeed, the interdependent global economy, deregulation and privatization, the Single Market and capital liberalization had already made it very difficult for trade unions to fight for their aims Their view was that all national actors increasingly had had to take competitiveness into account when evaluating and assessing the implications of national policy decisions Thus the creation of policy-making objectives at the European level could possibly compensate for the *de facto* loss of policy-making autonomy These objectives ought to include employment, regional and social policies

An interview question directed at identifying the priorities of the respondent's organization disclosed two aims in 1991 almost all respondents from monetary authorities and employers' organizations considered either 'price stability' or 'a single currency' to be the most important aim of EMU When the question was re-phrased in 1992, referring to 'the most important aim of the Maastricht treaty', the respondents of all employers' organizations, and five of the six monetary authorities, answered that 'having achieved an arrangement on Monetary Union' was the most important aim The exception was the British Treasury, which considered its opt-out clause the most important achievement Their main motive for welcoming the Monetary Union was that it would create price stability for this was considered necessary pre-requisite for growth, employment and prosperity in the EU A single currency, it was argued, would additionally benefit the

[38] A French CNPF official claimed that without EMU not only German monetary authorities would set policies for Europe, but also German firms would be the 'winners' (interview with the author)

operation of the Single Market

Trade unions held very different views from the other three groups of actors As far as employment improvement was concerned, they did not trust the monetary regime, nor were they confident of fair distribution of the gains from integration Hence, they stressed the need for the monetary provisions to be accompanied by non-monetary provisions, i e 'the social chapter', the 'economic union' (or 'common economic policy-making'), 'economic and social cohesion', 'regional and environmental provisions', 'policies aimed at full employment and regional equality', 'political union', and 'democratic accountability'

Respondents were also asked how the EMU was perceived to affect other policy areas (fiscal and social policies and national social security systems) and general macro-economic indicators (employment, economic growth and competitiveness) The results were striking All actors, including trade unions, predicted that fiscal and social policies would undergo a process of harmonization via the market. Fiscal policies would give way to market pressures, in the first place, in the battle of trying to attract investment Social policies were perceived as likely to take longer to concede to market pressures, as they have proved to be more politically sensitive than budgetary and fiscal policies Even more remarkable was that the monetary authorities and employers' organizations stressed that it was *precisely this restructuring process through market principles* that was attractive about the present EMU construction In their view, it would be impossible and undesirable to regulate fiscal and social policies at the supranational level However, for countries to remain competitive it would be crucial to restructure their domestic economies in order to get rid of inefficiencies in their national welfare states

Like monetary authorities and employers' organizations, trade unions anticipated this side-effect of EMU, and accepted the need to restructure national economies Not surprisingly though, they voiced concern about leaving the maintenance of the welfare state to market players Consequently, they stressed the importance of the 'Social Dimension', the enlargement of the structural funds, and the need for more powers to be given to the European Parliament

From this reserved attitude on the part of trade unions, and the presentation of the data more generally, it becomes clear that the different actors saw various advantages of EMU which would serve their interests They were also asked what the *'costs'* of EMU were Their answers can be summarized below as follows

The main 'cost' of EMU which all respondents identified was the loss of sovereignty in monetary policy in general and the loss of the exchange rate instrument in particular They perceived this loss to be most worrying if a country suffered a country-specific shock[39] or an external shock, which would affect some countries worse than others However, the British and French respondents explained that *de facto* sovereignty was already lost Since German monetary policies were setting the trend for monetary policies in the ERM, which had become a Deutsche Mark zone Even the British monetary authorities explained that to be part of the ERM implied having to accept German monetary policies

The German respondents viewed the EMU as institutionalizing the anti-inflationary monetary policies which the Bundesbank had been conducting successfully for some decades Their worry, shared by the British monetary authorities, was that the 'cost' would be great if it was started too soon, i e , with economies that were not sufficiently convergent The risk in that case was that a repetition of what had happened in Germany after reunification, i e , large transfer payments from former 'West Germany' to former 'East Germany' would take place It was this concern which troubled the German respondents more than the formal transfer of sovereignty

4. Comparing the motives of the actors

The previous section has shown that the respondents in the four organizations in the three countries favoured the EMU very much indeed For analytical reasons the arguments favouring the EMU

[39] The classic example is the oil crisis or the German reunification When a natural disaster is the cause of a shock the country is eligible for EU funding

plan can be divided into two main categories labelled 'economic' and 'political' motives[40] Within the first a separation can be made between those aims related directly to the 'Monetary Union', and those related to the 'Economic Union'-- mainly the strengthening of the Single Market Within the 'political' category a distinction can be made between arguments in the realm of domestic politics, and those aimed at strengthening the position of Europe in the global economy Hence four categories of motives are identified 'monetary', 'economic', 'domestic political' and 'geopolitical' This is illustrated in the following table

Table 1 The motives for adopting EMU mentioned by the majority of the respondents

ECONOMIC MOTIVES	
related to Monetary Union	*related to Economic Union (strengthening the Single Market)*
- price stability	- reducing transactions costs
- exchange rate stability in the EU	- increasing benefits through economies of scale
- single currency	- increasing competition
- regaining sovereignty at the European level	- increasing trade through reduced exchange rate insecurity
	- increasing efficiency/productivity
	- strengthening the market principles

POLITICAL MOTIVES	
related to domestic politics	*related to geopolitics*
- legitimation of the adoption of 'German-type' monetary policy by institutionalization	- strengthening the political role of the EU vis-à-vis the rest of the world
- legitimation of the need to restructure the national welfare state	- strengthening the monetary role of the EU vis-à-vis the rest of the world
- EU is not becoming a federation -- no transfer-union	- having the Ecu as a world reserve and trade currency
- slow progress of economic integration into other areas of policy-making	
- integration of one's nation state in Europe	

[40] It is fully recognized that these are artificial categories, i e , what is classified under 'Monetary Union' assumes a political decision, e g , the desire to aim for 'price stability' and pursue policies to support this aim implies the political commitment to anti-inflationary policies

This scheme tries to grasp the consensus of the actors by focusing upon the main motives for promoting the creation of an EMU Under the heading 'Monetary Union' four central objectives can be identified The actors agree that a European monetary policy has as its core objectives price stability and exchange rate stability in the EU as well as launching a single currency These objectives require an institutionalized single monetary authority which directs policies to achieve these goals The category of 'Economic Union' highlights motives which strengthen market forces in general and the Single Market in particular It is clear that no central economic authority was thought to be necessary to enforce these aims On the contrary, policies in this field should be left to the nation states, and the 'testing' of the efficiency of policies will be done by market forces

The second main category highlights political motives In the domain of domestic political motives it was found that actors felt the need to legitimize two trends Firstly, the adoption of 'German type' -- i e anti-inflationary -- monetary policy-making Secondly, although all actors anticipated that the present 'generous' welfare provisions in EU member states could be an obstacle to labour flexibility and international competitiveness, addressing these issues was seen as being politically very difficult Thus, relying on market forces for eventual harmonization to restructure the national welfare state was considered attractive Furthermore, actors stressed the need to ensure that the EU refrained from taking on a substantial redistributive role A fourth motive in this category was the need to make *only* slow progress in other areas of policy-making, anything more would not be politically possible nor desirable at the moment However, as mentioned before, it was recognized that other areas of economic policy-making (such as fiscal and social policies) would be affected by the EMU and the working of market forces The fifth and final motive related to domestic politics was the integration of one's nation state into Europe This point is categorized here rather than in the next category, because it implied that it is necessary for a medium-sized country to be integrated in Europe, given the nature of the present global economy [41] The last category, 'geopolitics', seeks to portray the role of Europe as a whole within a wider world. Motives in this category centre on how respondents viewed European unity as a necessary prerequisite for gaining influence in the global economy Europe would have a more important voice in monetary and political affairs, as well as increasing its bargaining power by having a single currency that could be used in international trade and as a reserve currency

What made various actors perceive that these motives were important for them? The British monetary authorities had one central aim in the IGCs, namely to participate in the process of constructing the EMU A repetition of the experience of the 1970s when they wanted to join the European Communities in whose construction they had not taken part, had to be avoided If they decided not to participate in the process of creating an EMU, they knew that the other countries would go ahead without them By taking part in the IGCs they tried to prevent too much 'deepening' of the Community

The French monetary authorities' central interest was to institutionalize German monetary policies within a European framework The 'franc fort' policy aimed at low inflation had been seen as successful, but also as mainly shadowing the Bundesbank's policies The EMU would give the French monetary authorities a voice at the supranational level It was hoped that the 'Economic Union' could be strengthened, but the French did not have an exact definition of this 'Economic Union', nor did they consider its strengthening a precondition for adopting the EMU

German monetary authorities stressed that they only wanted EMU if it would be certain that monetary policies under EMU would be as successful in maintaining price stability as the Bundesbank had been thus far Hence the core was to ensure provisions which would secure this aim, and which would keep out those countries likely to make the EMU more vulnerable to inflation This is why they stressed the need for strict convergence criteria They were also

[41] It could almost fit in the last category 'geopolitics' It is classified as a 'domestic' politics motive as it merely focuses on the individual country's place in Europe

concerned that a premature EMU would cause regional disparities, thus creating political pressure for transfer payments

Employers' organizations in all three countries emphasized very similar aspects of the problem. The EMU was attractive because it would provide a stable single currency The fact that it would only focus on the minimum possible arrangements regarding flanking policies meant that the EU with the EMU would be based on market principles, and that regulations, therefore, would not increase The employers' organizations also greatly feared the need for transfer payments if the EMU were to start too soon, or with countries that were not ready Thus, the convergence criteria were acceptable Moreover, despite the absence of formal fiscal and social harmonization, the push towards reducing government expenditure could in the view of the employers' organizations very well lead to 'tax competition' and harmonization of social welfare systems Market actors and governments would increasingly compare the various national systems by performing cost-benefit analyses Market actors would take these national social and fiscal factors into consideration before investing in any given country A national government would have to evaluate its social system on price-quality performance One respondent suggested that governments and tax payers would want to get 'service for their money' -- the assumption being that markets would exert pressures that would lead to reduced spending on welfare systems, and higher efficiency These comparisons between fiscal regimes and social welfare systems was thought likely to lead to eventual harmonization

Trade unions saw the EMU as a way to regain power after they had witnessed strong set-backs in their power in the 1980s Over the years they had learnt to accept that their main aim of 'full employment' or 'more jobs' was only obtainable if economic growth could be achieved Thus, they favoured plans which were designed to increase chances of growth The EMU plan was seen as likely to improve economic growth, provided the 'costs' would not disproportionally burden the labour market

The options the trade unions discerned were that they could participate in the process towards creating EMU -- and try to influence the agenda setting -- or oppose the whole project and be banished to the sidelines The trade unions, therefore, decided that they had nothing to lose for if the EMU were not constructed it would mean that monetary policy would inevitably be anti-inflationary and dominated by the Bundesbank External factors such as globalization, increasing trade and competitiveness, and earlier Community decisions, such as capital liberalization and the creation of the Single Market had also strengthened the role of market forces in the Community Thus, if trade unions could manage to place non-monetary issues on the agenda of the IGCs, e g the social chapter and provisions to reduce regional difference, they argued that they could gain in comparison with the situation of the late 1980s

5. Conclusion

Monetary experts in central banks, ministries of finance, employers' organizations and trade unions all perceived monetary integration necessary for various reasons. The paper distinguished four categories of motives of why actors favoured EMU motives related to Monetary Union, to Economic Union, to domestic politics, and to geopolitics. There appeared to be general consensus about the need to create a single monetary policy at the European level with the aim of price stability, and, given, the right circumstances, the issuing of a single currency This would also be a way of regaining partial sovereignty over monetary policy at the European level Regarding the Economic Union, only the strengthening of the Single Market and benefits related to extending the role of market forces were considered by all actors to be important To the contrary, the Monetary Union without arrangements to transfer powers in the economic realm -- the 'asymmetric EMU' -- was thought to be an attractive scenario for domestic and geopolitical reasons

Political reasons for accepting the asymmetrical EMU were to institutionalize the *de facto* choice of a German monetary regime in the EU, to embed Germany in the European Union (and for Germany to show the Europeans that they were devoted to integration rather than domination), to strengthen Europe's power in the global economy, and as a means of securing political legitimacy for restructuring the expensive welfare state provisions via the market in order to safeguard the competitiveness of interdependent economies in the global economy

For monetary experts of trade unions, acceptance of EMU was also seen as a way of regaining power at the supranational level They hoped that agreeing to the EMU would make them a 'decision-making partner' at the European level Once part of the decision-making elite, they could influence agenda-setting with regard to social and regional issues

Thus the hypothesis stated above can now be examined It stated that *monetary implications of EMU* have been a primary influence in the process of creating an EMU in Europe Policy-makers did not scrutinize the potential effects of EMU on other policy areas, e g on national fiscal and social policies, or the distribution of wealth across regions. In evaluating the validity of the hypothesis the paper has shown that the first part of the hypothesis indeed holds, though the second part needs to be revised The results of this research have shown that the 'Economic Union' is deliberately underdeveloped Experts argued that they favoured EMU *exactly because* it would lead to a process of harmonization through market forces EMU would offer legitimacy for restructuring the expensive welfare state The 'asymmetrical EMU', therefore, was a result of consensus among policy-makers that further integration was only feasible in the realm of *monetary* policy-making

The purpose of this paper has not been to try to advance a theory of European integration However, to incorporate the conclusions of the present study into a comprehensive theoretical framework would be an interesting starting point for further research Some preliminary comments can be the following

What do these results teach us about the assumptions and predictions of neo-functionalist and intergovernmentalist thought? The case study supports both schools of thought, depending on how the story is told A neo-functionalist would say that the actors (particularly economic actors) wanted to institutionalize monetary policies in the EU because capital liberalization and the creation of the Single Market had already limited the formal sovereignty of member states Thus, they would contend, the case study is an excellent example of 'spill-over' effect, i e it is necessary to integrate monetary policies precisely because earlier integration decisions have undermined national sovereignty in this field

The intergovernmentalist, on the other hand, would explain the case differently Emphasis would be put on two aspects the fact that the global economy has changed the economic environment, and that increased trade and openness have made countries more interdependent Thus, all actors favour the creation of the EMU simply because the present status quo is less ideal for each actor

A political economist would stand up and say 'The international global economy has changed, and markets and firms are increasingly important ' The nation state needs to conduct policies that take these changes into consideration Due to the globalization the nation state is losing its power to pursue policies in isolation co-operation is the name of the game If any actor wants to take himself seriously he will have to play according to the new rules of the game, which is accepting the challenge of global competition EMU is one way of doing that

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