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Economic thought at the European Commission and the creation of EMU (1957-1991)

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Abstract

To understand macroeconomic and monetary thought at the European Commission, two elements are crucial: firstly, the Rome Treaty, as it determined the mandate of the Commission and, secondly, the economic ideas in the different countries of the Community, as economic thought at the Commission was to a large extent a synthesis and compromise of the main schools of thought in the Community. The Rome Treaty transformed economic and legal rules in the countries of the Community. It comprised the creation of a common market, as well as several accompanying policies. Initially, economic thought at the Commission was to a large extent a synthesis of French and German ideas, with a certain predominance of French ideas. Later, Anglo-Saxon ideas would gain ground. At the beginning of the 1980s, the Commission's analytical framework became basically medium-term oriented, with an important role for supply-side and structural elements and a more cautious approach towards discretionary stabilisation policies. This facilitated the process of European integration, also in the monetary area, as the consensus on stability oriented policies was a crucial condition for EMU. Trough time, the Commission has taken seriously its role as guardian of the Treaties and initiator of Community policies, also in the monetary area. The Commission always advocated a strengthening of economic policy coordination and monetary cooperation. In this paper, we first focus on the different schools which have been shaping economic thought at the Commission. This is followed by an analysis of the Rome Treaty, especially the monetary dimension. Thereafter we

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go into the EMU process and the initiatives of the Commission to further European monetary integration. We will consider three broad periods: the early decades, the 1970s, and the Maastricht process.

1 Introduction

Economic and monetary union implied the transfer of sovereignty for monetary policy from the national to the European level, a highly political decision. The process of European monetary integration has also been a highly political process, with key decisions being taken at the highest level. Important moments were the summits in The Hague (December 1969), Bremen (July 1978), Hanover (July 1988) and Maastricht (December 1991). Given this general context, we will analyse in this paper the role of the European Commission in the EMU process, paying special attention to economic thought at the Commission.

To understand macroeconomic and monetary thought at the European Commission, two elements are crucial: firstly, the Rome Treaty, as it determined the mandate of the Commission and, secondly, the economic ideas in the different countries of the Community, as economic thought at the Commission was to a large extent a synthesis and compromise of the main schools of thought in the Community.

The Rome Treaty has transformed economic and legal rules in the countries of the Community. The Treaty comprised the creation of a common market, as well as several accompanying policies. However, the monetary dimension of the Treaty was relatively limited. In this instance, is it noteworthy that the six *"Schuman"* countries that created the European Coal and Steel Community, followed, at the same time, two rather different paths to economic integration. The six countries opted for regional integration of the goods markets, with the creation of the European Economic Community (EEC). However, monetary integration was approached from a more world-wide perspective, with the restoration of complete external convertibility in the framework of the Bretton Woods system (Abraham & Lemineur-Toumson, 1981).

According to the Rome Treaty, the Commission has three main functions: (a) guardian of the Treaties, to ensure that the provisions of the Treaties and the decisions of the institutions are properly implemented; (b) executive arm of the Community; (c) initiator of Community policy, the Commission has the sole right to present proposals and drafts for Community legislation. As the Rome Treaty is a "framework treaty", the Commission has been active to implement the

Treaties (Dumoulin, 2007). It clearly considered its projects in the monetary area as part of its duty as guardian of the Treaties.

In this paper, we first focus on the different schools which have been shaping economic thought at the Commission. This is followed by an analysis of the Rome Treaty, especially the monetary dimension. Thereafter we go into the EMU process and the initiatives of the Commission to further European monetary integration. We will consider three broad periods: the early decades, the 1970s, and the Maastricht process.

2 Economic thought at the European Commission

Macroeconomic thought at the Commission was, to a large extent, a synthesis and compromise of the main schools of macroeconomic thought in the European countries, especially the three big ones: Germany, France and the United Kingdom[1].

German economic thought was centred around the notion of the social market economy. Two tendencies can be distinguished. The more free market oriented German economists emphasised that economic policy was, in essence, *"Ordnungspolitik"*, i.e. a policy to create a sound and secure framework within which markets can operate. The main tasks of economic policy are: (a) monetary policy: assure price stability; (b) fiscal policy: rather limited task for the government; and (c) structural policy: a more passive role, competition policy is emphasised. The other tendency, more Keynesian, with Karl Schiller as an important representative, emphasised the social dimension of the "social market economy". It was linked to the social democrats and the trade unions and considered a dialogue between the social partners (trade unions and employers) as a crucial element of its strategy to stimulate growth and employment.

In general, German economists mostly emphasised that economic policy consisted in the application of certain basic economic principles (especially the respect of market mechanisms and wage moderation) to the actual economic situation. It has certain similarities with Roy Harrod's characterisation of Keynes's view: "Following Marshall, he (= Keynes) believed ... that progress in economics would be in the application of theory to practical problems. His recipe for the young economist was to know his Marshall thoroughly and read his Times every day

[1] For an overview of post-1945 economic thought in Europe, see the contributions in Coats, 2000.

carefully, without bothering too much about the large mass of contemporary publication in book form" (Harrod, 1951, 381).

Initially, French economic ideas were very influential at the Commission. Robert Marjolin, the first commissioner for DG II, had been the deputy to Monnet at the French Planning Office, famous for its five-year plans (Marjolin, 1986). The French Planning Office, while being part of the French "Colbertist" tradition, was also a spearhead of Keynesianism in France, with the national accounts at its heart (Rosanvallon, 1987, 40).

Anglo-Saxon ideas in the post-war period followed different fads: Keynesianism, monetarism and supply-side economics. This was also so at the Commission, even if monetarism was never very popular. From a methodological point of view, the "Anglo-Saxons" favoured generally a more analytical approach, whereby economic policy recommendations would be based on more refined economic research. They especially favoured the development of Commission's model building capacity.

Initially, an important transmission channel for Anglo-Saxon ideas was the OECD. Many Commission officials had worked at the OECD and there were many interactions between the OECD and the Commission. Anglo-Saxon ideas received a big boost with the nomination of Padoa-Schioppa as director-general of DG II in 1979. Also, younger economists had a more Anglo-Saxon education, more of them having studied in the United States and having a Ph.D. (Maes, 2002).

During the second half of the 1970s, economic thought at the Commission shifted from a dominance of Keynesian economics toward a more supply side oriented approach. While this was a more general tendency in the economics profession, the failure of the, very Keynesian, "Concerted Action Plan" of 1978 was an important factor hereby at the Commission. At the beginning of the 1980s, the Commission's analytical framework became basically medium-term oriented, with an important role for supply-side and structural elements and a more cautious approach towards discretionary stabilisation policies (Maes, 1998, 14).

Moreover, a further push towards integration fitted well into this new conceptual framework. The completion of the internal market, with its elimination of the remaining barriers to a free flow of goods, services, persons and capital, was very much in line with the deregulation strategy being pursued in the various European countries. Macroeconomic policy in the countries of the Community became more stability oriented, as policy-makers realised the illusory nature of the trade-off between inflation and unemployment. This orientation fitted in with a policy of stable exchange rates and a move towards a monetary union.

3 The Rome Treaty

The Rome Treaty was, de facto, of a constitutional order and would transform economic and legal rules in the countries of the Community (Padoa-Schioppa, 1998, p. 9). The Treaty comprised the creation of a common market, as well as several accompanying policies in areas like agriculture, transport and competition. It also foresaw new institutions: the Parliament, the Council, the Commission and the Court of Justice. Moreover, a second treaty was signed, creating the European Atomic Energy Community (EAEC). Looking at the Rome Treaties from an economic thought perspective, the European Atomic Energy Community (EAEC) bears more a French (planning) imprint, with its sectoral approach, while the European Economic Community, with the abolition of barriers to the free movement of goods, services, labour and capital, shows a stronger German influence (Maes, 2004)[2].

Compared with commercial policy or competition policy, for example, the responsibilities of the Commission were rather limited with respect to macroeconomic and, especially, monetary issues. Triffin (1958, p. 1) described the limited monetary dimension of the EEC Treaty as “a Hamlet in which the role of the Prince of Denmark is almost totally ignored”. The Treaty left macroeconomic policy-making mainly at the level of the Member States (Bussière, 2007). The responsibilities of the Commission concerned the orientation and co-ordination of the national macroeconomic policies.

The part of the Treaty on "Economic Policy" comprised three chapters: "Conjunctural Policy", "Balance of Payments" and "Commercial Policy". The integration project goes farthest in the area of commercial policy, where, after the transitional period, "a uniform commercial policy" is foreseen (Article 111)[3]. The chapter on "Conjunctural Policy" is rather short (only one

[2] Free movement of capital was more limited, in response to French pressure. Moreover, France also obtained the "safeguard clauses" (cf.infra).
[3] As the references are to the original EEC Treaty, the original numbering of the articles is followed.

article). It stipulated that macroeconomic policy, while being a matter of common concern, remained a responsibility of the Member States.

The most extensive discussion of macroeconomic and monetary issues can be found in the chapter "Balance of Payments". It illustrates that macroeconomic and monetary issues were tackled from a "common market" perspective, as balance of payments disequilibria would threaten the creation and functioning of the common market. Also in this area, the German and French negotiators followed different approaches, partly due to differences in the economic situation in their countries.

Article 104 states that each Member State should pursue an economic policy "to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices". Otmar Emminger (Deutsche Bundesbank) considered this a "fundamental" article as it implied the commitment of every Member State to adopt economic policies which would ensure balance of payments equilibrium (Emminger, 1958, p. 93).

Article 105 continues that, in order to attain the objectives of Article 104, "Member States shall co-ordinate their economic policies". It states that the Member States "shall for this purpose institute a collaboration between the competent services of their departments and between their central banks". The Commission has a role of initiative herein, as it "shall submit to the council recommendations for the bringing into effect of such collaboration". However, already in January 1958, the Governors of the central banks decided to organise this cooperation, informally in Basle, and informed the Commission of this. It was a pre-emptive action by the Governors, who were afraid of a potential Commission initiative which might institute more tight rules (Pluym and Boehme, 2004, p. 117).

Article 108 discusses the situation where a Member State has serious balance of payments difficulties which could threaten the functioning of the common market. It stipulates that the Commission should investigate the situation and that the Commission can recommend measures for the Member State to take. Moreover, the article provides for the possibility of granting "mutual assistance". Article 109 contains the famous safeguard clauses, which France insisted on, whereby, in the case of a sudden balance of payments crisis, a Member State can take the "necessary protective measures".

The Treaty, in Article 105.2, also provided for the establishment of the Monetary Committee. It was based on a French Memorandum (Archives NBB, B 436/4). The proposed missions of the Monetary Committee were to provide reciprocal information for the various authorities and to formulate opinions on “all aspects of monetary policy concerning the functioning of the common market”. The Memorandum explicitly mentioned the mutual assistance procedure.

During the negotiations, the exchange rate issue was also a topic of serious discussions. According to Van Tichelen (1981, p. 340), one of the Belgian negotiators, one of the main points of disagreement was whether it should be a national or a Community competence. The Belgian delegation, inspired by a Commonwealth formula, proposed that "Each Member State shall treat its policy with regard to rates of exchange as a matter of common concern" (Article 107.1). It was an ambiguous formula, but it succeeded in placing the exchange rate in the area of competence of the Community.

So, the EEC Treaty focussed strongly on the creation of a common market. Overall, the monetary dimension was rather limited. Macroeconomic policy-making was mainly left at the level of the Member States. The Commission received certain responsibilities for the orientation and coordination of the national macroeconomic policies. Of special concern thereby were balance of payments disequilibria, as they could threaten the common market. Moreover, the Commission had a right of initiative to draw up proposals for the organisation of this cooperation. In the following years, the Commission would, on the basis of the Treaty, advocate a strengthening of economic policy coordination and monetary cooperation in the Community.

4 The Commission and the monetary integration project

4.1 The early decades

4.1.1 The "European reserve fund" project

At the start of the EEC, the French macroeconomic and monetary situation, with a galopping inflation and balance of payments deficits, was a matter of serious concern for the Commission.

This induced the Commission to reflect on how it could fulfil its role in the macroeconomic and monetary area. Marjolin, in collaboration with Triffin, drew up a proposal for the creation of a European Reserve Fund. Triffin reformulated his earlier ideas for a European Reserve Fund in an EEC framework (Maes and Buyst, 2004). It was discussed at DG II and Marjolin, in November 1958, presented a Memorandum to the Commission (see Annexes 4 to 8 in Ferrant & Sloover, 1990)[4].

Marjolin started from the observation that the EEC Treaty provided for the basic principles of the coordination of economic policies, but that the details of this coordination had not been properly worked out. Marjolin argued for a common economic policy. This would provide a way of avoiding substantial divergences in inflation and employment, which would lead to balance of payments difficulties and the application of the safeguard clauses.

To put into practice the coordination of policies, Marjolin proposed to undertake regular surveys of the economies of the Member States. Moreover, he proposed that the Community institutions could also formulate policy recommendations. The weight of these recommendations would be stronger if the Community had at its disposal resources to facilitate financial solidarity. So, Marjolin proposed to create a European Reserve Fund.

This idea, that the Community should dispose of resources to facilitate financial solidarity, would become a recurring theme in Commission proposals (Maes, 2005). A basic principle behind it was that such mechanisms, by demonstrating a collective stance, were a more efficient way of averting currency speculation than isolated national measures. Also, it made it possible to offer "carrots" to countries which had to adjust policies, increasing so the influence of the policy recommendations of the Commission.

The European Reserve Fund could be constituted by pooling 10% of the international reserves of the Member States' central banks, a proposal which was certain to arise the ire of the central bankers. The Fund would provide for different types of loans, both to assist countries with balance of payments difficulties and also to support economic growth. Marjolin also proposed that the accounts of the Fund would be expressed in a new unit of account.

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[4] In an earlier Memorandum of 31 May 1958, Marjolin was more cautious, proposing a system of "stand-by" credit, not a European Reserve Fund (Archives Triffin).

The proposals gave a key role to the Commission in the macroeconomic and monetary area. It would have a leading role in the coordination of policies and a member of the Commission would also be on the Executive Board of the European Reserve Fund, together with the central bankers and, according to the Commission proposal, the Treasury Directors.

However, in December 1958, De Gaulle devalued the French franc and introduced orthodox economic policies. Consequently, the proposal for a European Reserve Fund lost its "raison d'être".

4.1.2 The Commission's action programme of October 1962

The first years of the EEC went well. In October 1962, the Commission submitted a Memorandum with its Action Programme for the second stage of the Community (1962-1965). Walter Hallstein, the president of the Commission, drafted the political introduction, while all Commission members took part in the preparation of the programme. In the Memorandum the Commission pushed for the Rome Treaty to be interpreted in the maximum sense as implying the progressive realisation of full economic and monetary union and political union.

The introduction of the Memorandum very strongly emphasised the political character of European economic integration, which was intended to lead to the economies of the six Member States merging in a full economic union. Economic union implied the progressive merger of national economic policies in a common short-term and long-term economic policy. This further implied that the Community would fix long-term economic objectives.

In the chapter on monetary policy, it was argued that monetary union could become the objective of the third stage of the common market (1966-1969). The Memorandum argued that monetary policy had a "vital importance" for the Common Market, as exchange rate fluctuations could disrupt trade flows. The Memorandum paid special attention to agriculture in this respect. Monetary union was therefore not only a way forward for the Community. It was considered as necessary to protect the customs union and the Common Agricultural Policy – a "single market" (with common prices) for agricultural products - from exchange rate fluctuations. The German revaluation of March 1961 had in this respect an important influence on policy-makers at the Commission, as it showed the vulnerability of the international monetary system (Gleske, 2001, p. 147). For the second stage (1962-1965), the Memorandum proposed "prior consultation" for all important monetary policy decisions, such as changes in the discount rate, minimum reserve ratios, central bank loans to the State, changes in exchange rates, etc.

The Memorandum received a rather mixed welcome. The Governors of the central banks asked for a legal analysis of whether the Council and the Commission had the right to elaborate regulations and directives and to take binding decisions for the central banks (La Politique Monétaire dans le cadre du Marché Commun, 4/12/62, Archives ECB). Their legal services confirmed this. In their official reaction, the Governors came out in favour of further progress in monetary cooperation between the countries of the Community. However, they remarked that monetary coordination was also desirable in a wider framework than that of the Community, and that it could only be efficient if budgetary policy was coordinated as well. Moreover, according to the Governors, several issues, such as the reform of the international monetary system, mutual assistance and monetary union, had to be discussed first at the level of each Member State ("Note" of 10 December 1962, Archives ECB).

The discussions led to adjustments in the Commission proposals. On 24 June 1963, the Commission submitted a Communication on "Monetary and Financial Cooperation in the European Economic Community" (CEC, 1963a). Herein, the Commission proposed creating two new consultative organs, the Committee of Governors of the Central Banks of the Member States of the European Economic Community and the Budgetary Policy Committee, as well as increasing the responsibilities of the Monetary Committee, especially in the area of international monetary matters.

The new Commission proposals received a more favourable welcome. While the decisions of 1964 were a far cry from a monetary union, as proposed in the 1962 Commission Memorandum, they contributed to establishing the Commission as an actor in the monetary area. Firstly, they made it clear that the EEC Treaty gave a right of initiative to the Commission in the monetary area. Secondly, the Commission would be invited, as an observer, to the meetings of the Committee of Governors. This would give the Commission an entrance into the world of the central bankers.

4.1.3 The Barre memorandum

In the second half of the 1960s the Bretton-Woods System was under increasing pressure. The Commission elaborated the so-called "Barre Memorandum" of February 1969 (Commission of the EEC, 1969). The Barre Memorandum focused on three main lines of action:

a. convergence of medium-term economic policy. The Barre Memorandum proposed being more specific about the degree of convergence of the broad orientations of medium-term policy of the Member States and ensuring mutual compatibility. The Commission analysis thus blended the French medium-term approach with the German convergence analysis. The main objectives of these medium-term policies concerned economic growth, the movement of prices and the situation of the balance of payments.
b. the coordination of short-term economic policies. Here the emphasis was on sufficiently coherent short-term policies, so that the different economies did not develop in ways which diverged from the medium-term objectives. The Memorandum proposed the reinforcement and more effective application of the consultation procedures, before Member States decide on economic policies. The Memorandum also proposed a system of "early warning" indicators.
c. a Community mechanism for monetary cooperation, to help alleviate pressures on the foreign exchange markets. The proposed Community mechanism for monetary cooperation had two parts: one for short-term monetary support and one for medium-term financial assistance.

Compared with the 1962 Action Programme, the Barre Memorandum was clearly much more modest and pragmatic. This should not be surprising given the lack of political will, especially - but not only - in the France of de Gaulle. The "empty chair" crisis of 1965, when France did not take part in EEC meetings, constituted a break and induced the Commission to more cautious proposals. Moreover, the increasing divergence of national economic situations, especially with regard to inflation and the balance of payments, showed the vulnerability of the Community.

The Barre Memorandum is also characterised by a special mixture of traditional German and French ideas. This is most clear in the first part of the Memorandum, on "Convergence of medium-term economic policy ". Here the French-inspired medium-term analysis is applied to the German notion of economic convergence. By doing so, it signalled heightened concern at the Commission concerning the disparities in prices and costs in the Community countries (Note SEC(68) 3958 of 5/12/68, p. 11, Archives NBB).

The Commission's ideas for closer monetary cooperation between the Community countries initially drew very mixed reactions from the central bank governors. At their meeting of December 1968, Carli (I), while admitting the political nature of the issue, stated that he was "perplexed" at the possibility of closer monetary cooperation at Community level. He argued that the Community covered rather too small an area. Moreover, the Community constituted only a customs union and not an economic and political union (Minutes of the 27th Meeting of the Committee of Governors, 9/12/68, Archives ECB). Blessing (D) and Zylstra (N) agreed with him, while Brunet (F) and Ansiaux (B) took more subtle positions.

At their meeting in March 1969, the Governors stressed that the coordination of economic policies was the most important issue. After a thorough discussion, Ansiaux concluded that a mechanism for monetary cooperation “can be justified more on political than on economic grounds, and from that point of view we cannot be totally negative” (Minutes of the 29th Meeting of the Committee of Governors, 10/3/69, Archives ECB). After further technical monetary discussions, a Community Mechanism for Short-term Monetary Assistance was created in February 1970, in the form of an arrangement between the central banks. Further, in March 1971, a facility for medium-term financial assistance was established. As this last one was based on a Community Decision, it also foresaw a role for the Commission in the functioning of the facility.

4.2 The 1970s

4.2.1 The Werner Plan and the snake

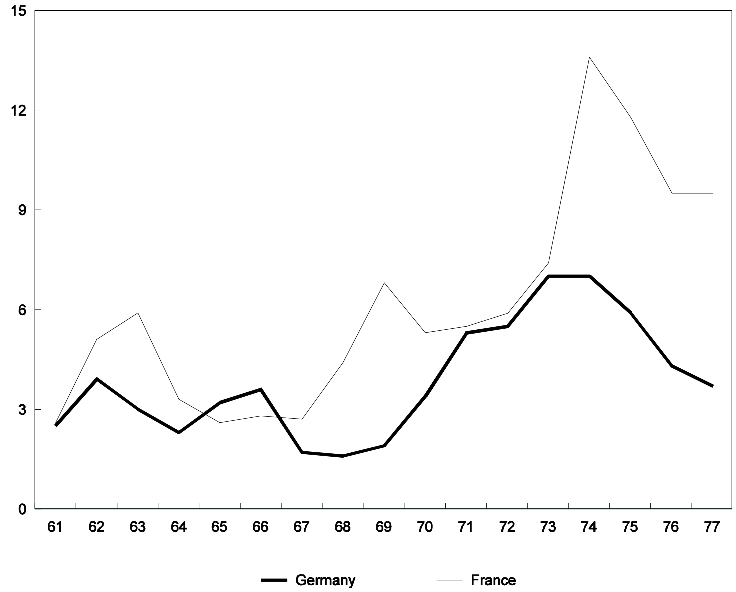
At the end of the 1960s, doubts about the Bretton-Woods system became more and more widespread, especially with the devaluation of the French franc in 1969 and the vulnerable position of the American dollar. The countries of the Community feared that further exchange rate instability would lead to the disintegration of the customs union and the demise of the common agricultural policy (Maes, 2007). Moreover, new political leaders had come to power. In 1969 de Gaulle resigned and Pompidou was elected in France. In Germany, a new government was formed with Willy Brandt as chancellor, a convinced pro-European. The Brandt government proposed the EMU project, which also contained a proposal for a European Reserve Fund (drawn up by Triffin).

Raymond Barre, in a Note for the Commission of 21 October 1969, was critical of these proposals: "Depuis quelques mois, on parle de nouveau de "Monnaie Européenne", de "Fonds Européen de Réserves". Le Comité Monnet a pris position en faveur de la création d'un tel Fonds. J'ai à diverses reprises indiqué à la Commisssion qu'il ne me paraît pas souhaitable pour le moment de soutenir de telles idées." (Raymond Barre, Note pour la Commission, 21 October 1969, Archives Snoy). However, also in Barre's, more pragmatic, view, progress was possible.

At the 1969 Hague Summit, the Heads of State and Government adopted economic and monetary union as an objective for the Community. A committee was created, chaired by the Luxembourg Prime Minister, Pierre Werner. It produced a report in October 1970 (Council-Commission of the European Communities, 1970, commonly known as the Werner Report). The Report first presented a general picture of monetary union. On an institutional level, the Report proposed that two Community organs should be created: a centre of decision for economic policy and a Community system for the central banks. This also implied a revision of the Rome Treaty. It proposed a plan to attain EMU in three stages.

Immediately after its publication, the Werner Report was heavily criticised by the orthodox gaullists in France (Tsoukalis, 1977, 104). Their criticism centred on the supranational elements of the Report. It induced a change in the policy of the French government, contributing to a dilution of the proposals of the Report. In particular, the creation of new Community institutions was dropped.

Figure 1 - ***Inflation in Germany and France in the 1960s and 1970s***



Source: Eurostat databases – Newcronos.

The first attempt at monetary unification was not very successful: the new European currency mechanism, the so-called "snake", was quickly reduced to a German mark-zone and policy coordination remained limited. This was not only due to the unstable international environment (the collapse of the Bretton-Woods system and the oil crisis), but also because national governments were still strongly attached to their sovereignty and the pursuit of national economic objectives, herein comforted by the then influential theory of the Phillips curve (Maes, 2002). In Germany, priority was given to the fight against inflation, while in France economic growth was considered a more important objective, which contributed to significant differences in inflation (cf. chart).

4.2.2 The European Monetary System

In the second half of the 1970s, the Commission became increasingly worried about the stagnation of the European integration process and the ensuing risk that the achievements of the past could fall apart. Roy Jenkins, the president of the Commission, tried to revive the monetary union project, especially in his famous Florence speech (Jenkins, 1977). The following year, the French president Giscard d'Estaing and the German Chancellor Helmut Schmidt relaunched of the monetary integration process with the plan for the European Monetary System (Ludlow, 1982).

The key objective of the EMS was to create "a zone of monetary stability in Europe". This had a double dimension: internal and external. It represented a compromise and synthesis between the ideas of the “monetarists”, led by France, emphasising the importance of external stability (exchange rate stability) and of the “economists”, led by Germany, advocating internal stability (price stability) and the coordination of economic policy.

The European Monetary System was composed of three main elements: the exchange rate mechanism (ERM), credit mechanisms and the European Currency Unit (or ECU). At the core of the European Monetary System was the exchange rate mechanism. This may seem somewhat paradoxical, since not all currencies in the European Community participated. The original members were: the German mark, the Dutch guilder, the French franc, the Danish krone, the Belgian/Luxembourg franc, the Irish pound and the Italian lira.

Characteristics of the exchange rate mechanism were: (1) the fixing of central rates between the participating currencies; (2) initially, a normal fluctuation margin of 2.25% above and below the bilateral, central rate, (with the exception of a 6% fluctuation margin for Italy); and (3) realignments of the central rates were only possible by common agreement of all the participating countries. This implied that unilateral decisions on devaluations or revaluations, as in the Bretton-Woods system, were not allowed. It stressed the Community character of the exchange rates between the participating currencies.

The role of the Commission in the negotiations leading to the EMS was relatively limited, certainly compared to other initiatives at European monetary integration. The EMS was very much a Franco-German initiative, with Giscard and Schmidt playing the leading roles. Even after the Copenhagen European Council of April 1978, were the plan was officially brought on the agenda, the main negotiations were conducted by a few trusted advisers of Schmidt and Giscard. It was only after the Bremen Council of July 1978, that the EMS negotiations came in the "normal" Community circuit (Monetary Committee, Committee of Governors, Finance Ministers).

4.3 The Maastricht process

4.3.1 The Single European Act

In 1985, the process of European integration was relaunched with the internal market programme. It would bring a new dynamic to the European Community, leading to an engrenage, from one market to one money. An important element was the liberalisation of capital movements, for which also Delors had been pushing. This was having consequences in the monetary field, as the liberalisation of capital movements was a crucial German condition for progress on monetary cooperation. Moreover, central bankers and finance ministry officials were more and more confronted with the so-called "impossible triangle", indicating that it is impossible to have free capital movement, fixed exchange rates and an autonomous monetary policy at the same time. During the 1980s and early 1990s capital mobility increased enormously. Also, the financial markets grew in importance (Abraham, 2004). With stable exchange rates in the EMS, there was no longer much room for an autonomous monetary policy, except in the anchor country. The European Community therefore had to live with the disadvantages of monetary union, while enjoying few of its advantages. So the internal market project created pressure for increased monetary integration in the Community, a typical example of "spill-over" effects.

The negotiations on the monetary dimension of the Single European Act in 1985 were an important moment. This was the first major revision of the Rome Treaties. At the end of November, the Commission submitted a draft chapter on economic and monetary union. This codified the practice of the EMS and contained a provision that would allow governments to agree unanimously on the creation of an autonomous "European Monetary Fund" (Grant, 1994, p.73). This ran into heavy resistance, especially from the United Kingdom, but also from other countries as Germany and the Netherlands. For the Commission, it was crucial that the Treaties should mention the "acquis communautaire" in monetary matters (EMU as an aim of the Community, the EMS and the ecu). Delors, supported by France and Belgium, obtained a, limited, chapter on a "*Monetary capacity"* in the Single European Act. Later, this would become a crucial stepping stone for further progress on EMU.

4.3.2 The Delors Report

In early 1988, debates about Europe's monetary future accelerated. In a memorandum of January 1988, the French Finance Minister, Edouard Balladur, argued that the EMS still had some important defects, notably its asymmetry. It also argued that it was necessary to reflect on further institutional steps in the monetary construction of Europe. Balladur's Memorandum found a perceptive ear in Germany, not at the Bundesbank or the Finance Ministry, but at the Foreign Ministry. In February 1988, Genscher, in his personal capacity, published a Memorandum wherein he argued strongly for a European Monetary Union and a European Central Bank (Schönfelder & Thiel, 1996, 29). At that time, early in 1988, Helmut Kohl was still quite open to the issue of monetary union. On the one hand, he was sensitive to the arguments of Stoltenberg that EMU was only possible if a sufficient degree of convergence was achieved (coronation theory). On the other hand, he was also sensitive to the arguments of the advocates of EMU, like Genscher, but also Mitterrand and Delors. Moreover, Kohl gradually realised that EMU was unavoidable if he wanted to realise his vision of a "United States of Europe". Of crucial importance was the Franco-German bilateral summit at Evian, early in June 1988, when Kohl and Mitterrand decided to push ahead with EMU.

In preparation for the June European summit, DG II prepared a briefing dossier for Delors. The “Dossier préparatoire au mandat de Hanovre sur la construction monétaire européenne ‘’ (23 June 1988, Archives DG ECFIN) was based on three postulats: 1) "L’Union monétaire et l’union économique vont de pair"; 2) "L’établissement de l’union monétaire se fera selon un processus graduel"; 3) "Il convient de bâtir sur l’acquis". In the dossier, a parallel currency approach was defended: ‘’La mise en place de la future monnaie européenne se fera au départ de l’écu, lequel émergera comme monnaie unique au terme d’un long processus d’acclimatation et de développement en parallèle avec les diverses monnaies nationales’’ (Fiche 4). As noted in the fiche, this approach was the opposite of the (German) approach, whereby, once a sufficient degree of convergence, would be attained, the national currencies, would the be replaced, in a big bang, by a European currency. In the transition process, the fiche, explicitly foresaw a phase whereby the Ecu would be a parallel currency: "dans cette phase, l’écu circulerait, dans chaque pays de la Communauté, en parallèle à la monnaie nationale. Ainsi, deux circuits monétaires coexisteraient dans chaque pays, celui de la monnaie nationale et celui de l’écu".

Further progress was made at the June Hanover Summit. The European Council confirmed the objective of economic and monetary union. Delors, especially through his contacts with Kohl, was very influential in the monetary dossier. The summit decided to entrust to a

Committee the task of studying and proposing "concrete stages leading towards this union", a very shrewd limitation of the mandate of the Committee, as it was not asked to analyse whether EMU was desirable or not. According to Delors (2004, p. 232), Kohl asked him to chair the Committee. Indeed Delors had the confidence of Kohl and Mitterrand, and, as a former finance minister, the technical expertise. The governors of the central banks - in a personal capacity - were also on the Committee. Delors wanted them to be members, both because of their expertise and because this would bind them to the monetary union project.

The Delors Report (Committee for the Study of Economic and Monetary Union, 1989, hereafter referred to as the Delors Report) would assume a crucial role as a reference and anchor point in further discussions. The Delors Report basically revolved around two issues: first, which economic arrangements are necessary for a monetary union to be successful? Second, which gradual path should be designed to reach economic and monetary union?

Initially, the relation between Delors and Pöhl in the Committee was rather tense. However, the crucial aim of Delors was to get a unanimous Report. So he took a low profile and focused on seeking out a consensus in the Committee. Pöhl took a "fundamentalist" position and emphasised the new monetary order which had to be created: "Above all agreement must exist that stability of the value of money is the indispensable prerequisite for the achievement of other goals. Particular importance will therefore attach to the principles on which a European monetary order should be based" (Pöhl, 1988, 132). He argued for price stability as the prime objective of monetary policy, which had to be conducted by an independent central bank. The fundamentalist approach would be deeply influential in the Delors Report. The Delors Report proposed, at the institutional level, the creation of an independent "European System of Central Banks", to be responsible for the single monetary policy, with price stability as the ultimate aim.

The Delors Committee also rejected a parallel currency strategy as a means of accelerating the pace of the monetary union process (Delors Report, p. 33). Two arguments were advanced: an additional source of money creation without a precise linkage to economic activity could jeopardize price stability; the addition of a new currency, with its own monetary implications, would further complicate the already difficult endeavour of coordinating different national monetary policies. Herewith Delors accepted the abandonment of an important element of the traditional Commission strategy.

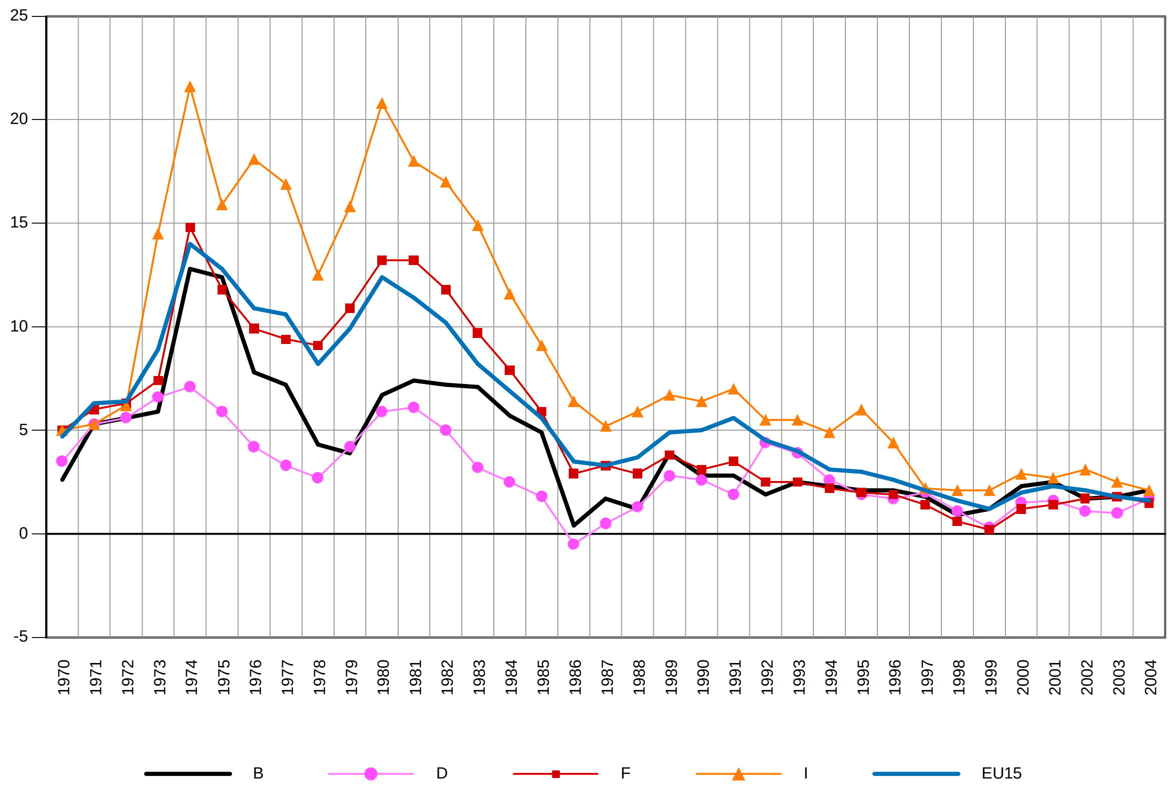
4.3.3 The Maastricht Treaty

The period 1989-1990 was characterised by some of the most dramatic political changes in Europe since the end of the Second World War. With the fall of the Berlin Wall in November 1989, the issue of German unification came suddenly to the forefront. France and other countries were afraid of a strengthened dominance of a unified Germany. They saw EMU as a way to bind in Germany. The German government's policy line could almost be summarised in Thomas Mann's dictum: "Wir wollen ein europäisches Deutschland und kein deutsches Europa". In this context, the EMU process accelerated, leading to the Maastricht treaty.

The European Commission further nurthered the dynamics of the integration process. It very much stressed the link between the single market process and monetary unification. It made a thorough analysis of the implications of EMU in a very extensive study called "One Market, One Money" (CEC, 1990). The Commission also prepared a draft treaty on EMU (Archives DG ECFIN).

In the intergovernmental conference on EMU, the debates centred on two main issues: the transition towards "Stage Three" of EMU and the constitutional structure of EMU. As for the start of Stage Three, two dates are mentioned in the Treaty: 1997 if a majority of countries fulfilled the criteria and 1999 as an ultimate date. In order to participate, the Member States had to fulfill certain conditions, especially central bank independence and the achievement of a high degree of sustainable convergence. These conditions for the start of monetary union, namely a fixed date and the satisfaction of the convergence criteria, were naturally the outcome of a debate. The monetarists, especially France and Italy but also the Commission, insisted on a fixed date to ensure the start of monetary union, while the economists, in particular Germany, insisted on economic criteria so that only countries which were "fit" could participate in the monetary union. The combination of the convergence criteria with a fixed date proved to be a very powerful stimulus for the convergence process. (cf. chart 2)

Figure 2 - INFLATION IN EUROPE, 1970-2004
(change in the deflator of private consumption, in percentages)[1]



Source: European Commission

[1] 1970-1991: West Germany

There were also major debates on the constitutional structure of EMU. Economic and monetary union became asymmetrical. The monetary pole of EMU was very much inspired by the Delors Report. Monetary policy was centralised. It was the responsibility of the independent European System of Central Banks, with price stability as its primary objective. The prominence of the German institutional model was evident. The coordination of economic policy was the topic of some of the most tense discussions during the intergovernmental conference. France proposed a "gouvernement économique", whereby the European Council would provide for broad orientations for economic policy, including monetary policy. Also Delors continued to push for a stronger economic pillar in EMU. For Germany, the independence of the European Central Bank was not negotiable. However, the Germans were also convinced of the necessity of a coordination of other economic policies, especially budgetary policy, as they determine the environment in which monetary policy has to function. Agreement was only reached after intense negotiations. The responsibility for other instruments of economic policy, like budgetary policy and structural policies, remained basically with the national authorities, subject to a coordination and surveillance process. The different conceptions of monetary union and economic union reflected the limits of the willingness of the member states to give up national sovereignty.

5 Conclusion

During the second half of the 20th century, macroeconomic and monetary thought at the European Commission went through important changes. Initially, economic thought was to a large extent a synthesis of French and German ideas, with a certain predominance of French ideas, also because the members of the Commission responsible for economic and monetary matters were eminent French economists. Later, Anglo-Saxon ideas would gain ground. At the beginning of the 1980s, the Commission's analytical framework became basically medium-term oriented, with an important role for supply-side and structural elements and a more cautious approach towards discretionary stabilisation policies. This facilitated the process of European integration, also in the monetary area, as the consensus on stability oriented policies was a crucial condition for EMU. Naturally, like in other policy institutions, economic thought at the Commission was always close to the policy-making process.

EMU has been a highly political process, with decisions being taken at the highest level. However, also in the monetary area, the Commission has taken seriously its role as guardian of the Treaties and initiator of Community policies. In line with its mandate, the Commission always advocated a strengthening of economic policy coordination and monetary cooperation.

The precise role of the Commission in the EMU process evolved through time. However, mostly, it was the Commission which took the initiative, sometimes with other actors, to drive forward European monetary integration. In the 1960s, the Commission was successful in becoming a member of the newly created Committee of Governors of the Central Banks and in obtaining the creation of the first mechanisms for monetary cooperation. At several moments, the Commission was also very influential in the Maastricht Treaty process, such as getting EMU back on the agenda or the Delors Report. The two main exceptions, when the Commission was much less the initiator, were the Werner Report and the creation of the EMS. At the time of the

Werner Report, the Commission, under the influence of Barre, was more cautious (not without reason, as later developments showed). The EMS was a rather exclusive Giscard-Schmidt initiative.

The role of the Commission, was, in line with its role as initiator of Community policies, generally greater in the early phases of a new initiative. This gave the Commission opportunities to shape projects. At the later phases, like in the case of intergovernmental conferences, the national member states would take a larger role. However, also at these phases the Commission could still play a role, especially through furthering compromises.

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