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Maciej Bartkowski

Understanding the European Monetary Integration: An Alternative Explanation

The creation of EMU is more often than not, viewed in the statist framework of intergovernmental bargaining, where transnational and supranational actors and other economic and ideational factors are either ignored or their significance is underestimated. There is a tendency to view these factors as sort of secondary and loosely related reasons that stood behind the process of monetary integration[1].

The whole project to establish monetary union stretched over more than a decade-long period. It was launched in 1988 and only in January 2002, it would be fully implemented. The essential work on the monetary union, however, was carried out between 1988-1989. The establishment of the Delors Committee in 1988 and its report issued few months later "set the EMU ball rolling"[2].

This study will gather disperse and a relatively scarce literature on the role of the non-state actors (transnational, supranational) and other non-political factors (economic and ideational elements)[3] in the process leading to EMU. Subsequently, the analysis will evaluate the role and significance of all the earlier-mentioned factors in the establishment of the monetary union. The argument will follow that the decisions of 1988-1989, which subsequently led to the establishment of EMU, cannot be fully understood unless one takes into consideration the interplay of economic and ideational factors and the involvement of transnational sectoral groups, and supranational actors. A mélange of different factors (economic, ideational, transnational and supranational) will require to establish an analytical "patchwork", which, as it will be argued, can provide a plausible account for a complex process of policy-making in connection with a decision to proceed with the monetary integration in Europe. This "patchwork" scheme will allow a simultaneous depiction of different settings of influence and the roles played by various actors and factors, which had impact on launching and designing EMU.

A structure of this essay will be as follows. First, various explanations for launching the monetary integration and for the way this integration proceeded will be presented and subsequent critical evaluations, which will discount the rationale of these approaches, will follow. Then, a new analytical framework of analysis will be presented and the claim will be made that this analytical scheme can provide a plausible, alternative account for the process of the European monetary integration. In the later parts of the paper each factor; transnational, supranational, economic and ideational will be elaborated upon against the process leading to the monetary union. Here, the extent of the relevance and importance of each of these factors for the monetary integration will be emphasized. Finally, the paper, in the conclusion, will briefly recapitulate the main claims of this study.

A critical overview of recurring accounts of the monetary integration

In this section, the study will present the main lines of argumentation used by different scholars in order to explain the EMU phenomena. At the same time, a critical evaluation of each of the explanations will hint at the fact that the author intends to provide his own alternative explanation of the monetary integration.

Politics of geopolitics: monetary integration and the German unification

EMU is seen as a grand political design closely related to geopolitics of the changes, which had taken place in Europe between 1989 and 1990. Ultimate "accelerator towards monetary union…was the political desire of the French government to fold the *newly enlarged* German state into a tighter European structure"[4] (my emphasis). Thus, it was German unification, which was the most important factor in explaining the agreement to push for EMU[5]. Even if we accept that German unification did contributed to the monetary integration, we are still left with a puzzle about the timing of these two processes. By the time of the collapse of the Berlin wall in November 1989, the Delors Committee had finished its work, publicly presented the Committee's proposals on the structure of the future monetary union and suggested first two (out of three) implementation stages for EMU. The European leaders during the Madrid European Council held in June 1989 accepted the main proposals of the Delors Report. They endorsed the launch of the first stage of EMU and agreed for the proposition to convene an Intergovernmental Conference, which would consider changes to the Treaty in order to move beyond the first stage of monetary integration[6]. These important events and specific conclusions related to launching the EMU project were taken at least five months before any rumors about the trembling wall and a probable German unification entered the salons of the policy-makers and possibly influenced their decisions. German unification may have been important for EMU in the later stages, however, one needs to realize that the machine which pushed forward the work on the monetary union was already put firmly in motion before any geopolitical changes had taken place.

Intergovernmental bargaining as a plausible explanation for a drive to monetary union?

The process of monetary integration can be also understood in terms of intergovernmental negotiations, where the states, whose preferences have been already determined as a result of earlier bargaining carried out on the domestic level, retain the control over the policy-making process within the EU[7]. The EMU program, seen through the intergovernmental lenses was designed, determined and controlled by the states and their representatives in the Council. The EMU initiative was undertaken because the interests of the governments (particularly those of the biggest and most important states such as Germany and France), shaped by the domestic economic groups[8], have, for different economic or political reasons, gradually converged and culminated in the endorsement of EMU[9]. This, in turn, led the states to agree to the establishment of the Delors Committee and subsequently to the acceptance of its proposals. Although powerful as it may seem, intergovernmental explanation of the monetary integration seems to rely too much on the importance of states' bargaining while at the same time neglecting the involvement of other actors. There is no clear evidence to suggest that the interests of the member-states were already neatly converged when the EMU process was taking off in 1988. On the contrary, the states were strongly divided over the possible content of EMU and over how the process of monetary integration should proceed. Not only were the Danes and British opposed to the establishment of an independent European central bank but also the French were wary about this idea. Germans, on the other hand, were hesitant about the possibility of losing control over their own well-working national monetary institution for its, still vaguely defined, European counterpart[10]. The existence of political divisions and a lack of interests' convergence were the reasons why the Delors Committee was established in the first place. Thus, the work of the Delors Committee and the impact of its report cannot be downgraded to a mere by-product of the states' bargaining and negotiations. The Delors report became a sort of pivotal point around which the conflicting interests of the states could finally meet and converge.

It is not the author's intention to argue that intergovernmental bargaining among the EC member-states over the issue of monetary integration was irrelevant. What needs to be recognized, however, is the fact that the member-states entered formal negotiations over specific issues of the monetary integration in the later stage. Other non-state actors such as the central bankers and the Commission President with a narrow group of his advisors decided the agenda of the EU monetary integration, opting for specific solutions to the controversial problems. Everything happened before the states became formally engaged in bargaining policies in the Council. And when they finally "entered the game", they followed the proposals made by the Delors Committee.

Importance of interest groups in the monetary integration

Some authors argue that the domestic distributional effects of EMU based on the maintenance of stable interest rates pushed certain domestic interest groups to support the monetary integration[11]. On the other hand, others are more skeptical about the interest groups' involvement in and support for EMU because "it is difficult to find interest groups with a substantial economic interest" in monetary integration[12].

Both opinions, one about the significant role of the interest groups in the process leading to the monetary union and the other, about the indifference of these groups toward the monetary integration, viewed the economic interest groups as being confined to the borders of the national states. Thus, the studies focus on the *domestic* interest groups. While starting from a national level of analysis, these studies attempt to establish or to deny the existence of certain "corridors", through which domestic interest groups may have influenced the national governments. However, because in each member-state "records of the preference and tactics of business groups and the deliberations of national executives remain incomplete" as far as the policies of monetary integration are concerned[13], the disagreements about the role of interest groups continue. A focus directed only at the domestic interest groups presents an oversimplified picture of the economic interest groups' involvement in the process of monetary integration. The issue, which is neglected here, is connected with the work of the *transnational* interest groups. These groups had better opportunities than their national counterparts to determine the EMU process because the process itself was conducted within the EU framework, not in the national capitals, involving, next to the state representatives working in the Council, other non-state actors, among others, the Commission. Therefore, one should examine the national economic groups, which by the nature of their international interests were keen to established European-wide associations and through these transnational associations conduct lobbying for the common market and the monetary union. The support of the transnational economic interest groups for EMU may not have been decisive in determining specific design of the monetary integration. However, these groups, contrary to their domestic equivalents, managed to establish formal and informal ways of contacts with a supranational institution such as the Commission. They were also vocal enough to show to more skeptical national policy-makers that the Commission was receiving full backing of the major international businesses in its push for monetary integration.

Monetary integration and a sectoral interest of bankers

Banks belong to the already discussed subject of interest groups. However, the direct (formal) involvement of the bankers in the process of monetary integration deserves separate consideration. Both arguments for and against the banking sector's support for EMU are present in the literature on the monetary integration. Eichengreen and Frieden argue that international banks had an important impact on the development of the European monetary integration[14]. Østrup, however, shows that the banks had no interest in supporting EMU because they were about to lose more than gain from monetary integration[15].

Both views seem to treat the banking sector as a monolithic whole and this, in turn, brings such extreme opinions. It is true that the commercial and industrial banks were about to lose from the monetary integration due to the reasons, mentioned by Østrup. However, another group of bankers: the governors of the central banks were generally about to gain the most from monetary union. And these gains should be calculated in political rather than economic terms. The central bankers, as Kapstein argued while referring to the multilateral cooperation to regulate international banking system, are "a group of bureaucrats (who are very much interested) in an effort to maintain if not enhance their positional power in their domestic political structures"[16]. EMU gave the governors of the EC central banks opportunity to strengthen their domestic position undermined by a rapid globalization of the flow of capital and, in some instances, by a lack of independence from the political establishment. The governors saw to raise their influence over the lack of independence from the political establishment. The governors saw to raise their influence over the monetary policies by building a federal structure of EMU, based on independent "European System of Central Banks", which would consists of a Central European Bank and the existing national central banks[17].

Economic factors in the process of monetary integration

The literature, which favors political aspects in determining the monetary integration, does it by denying the significance of economic factors. In this context, the economic factors are somehow narrowed down to mean economic benefits. Thus, Eichengreen and Frieden claim that:

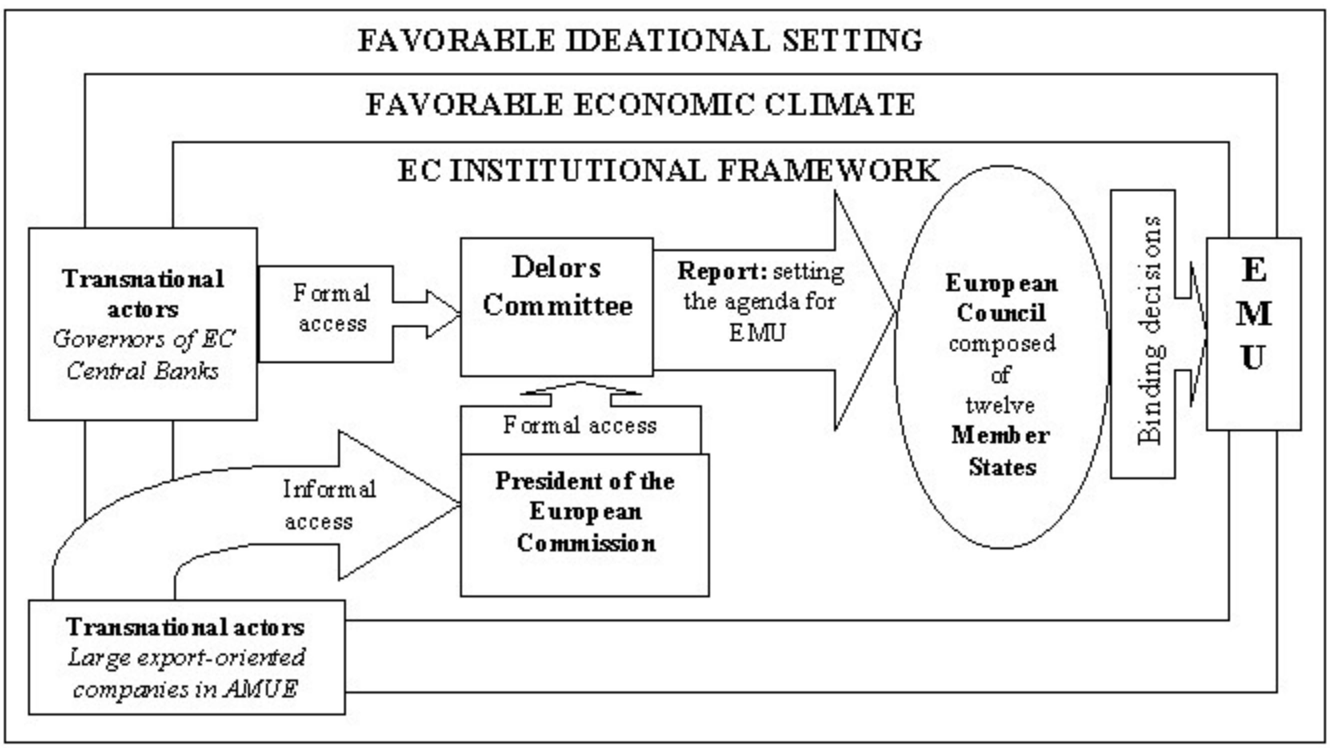
> neither economic theory nor economic evidence provides a clear case for or against monetary unification. The direct economic benefits of monetary unification are likely to be relatively small, and may or may not be dominated by the costs. The absence of a clear economic justification for EMU leads us to conclude that events in Europe are being driven mainly by political factors[18].

The concept and understanding of the economic factors should, however, go beyond the notion of economic benefits. Thus, the monetary union was made possible not because of the future economic benefits, which were, as the above authors noted, dubious, but by the presence of a favorable economic climate, which contributed to the conviction about the feasibility and desirability of the monetary integration. The macroeconomic indicators related to trade, inflation and budget deficit showed a growing convergence in monetary policies of the EC member states. Additionally, the conclusion of the negotiations on the single market in 1986 and the 1988 decision to fully liberalize the capital movements for most of the Community members by June 1990 further influenced the belief about the necessity of the monetary union in the wake of a full economic integration[19]. And although, the economic factors cannot be, by any means, considered as constituting a decisive force in pushing for monetary integration, they should not be, however, easily dismissed or their impact underestimated.

Alternative analysis

The analytical framework of the interactions of the four: economic, ideational, supranational and transnational factors, is presented in **figure 1**. Based on this analytical structure, the study will argue that the transnational sectoral groups established the access to the EU institutions and started communicating directly with the EU officials and indirectly with the national policy makers, working in the Council of Ministers. The central banks' governors gained formal access to the EMU machinery by the sheer fact of their presence in the Delors Committee. Their position of influence was exceptional in the sense that no other interest (sectoral) groups were institutionalized within the EU structures during the EMU negotiations. During almost one year of the Delors Committee's work, the governors of the central banks became part of the established EU institutional structure. By the virtue of their new position, the governors had greater opportunity than any other group, (which had to operate outside the EU institutional framework) in determining what kind of monetary integration would be the most appropriate and what policies and institutions would be the most effective in the future monetary union. The Chief Executive Officers (CEOs) of the largest export-oriented companies grouped in the Association of the Monetary Union of Europe (AMUE) had direct (informal) contacts with the President of the European Commission and supported him in the EMU project. In turn, Jacque Delors, the President of the Commission, became very much committed to the idea of monetary union and saw it as the means for greater European economic and political integration. In general, transnational groups: big businesses and governors of the central banks as well as the supranational actor such as the President of the Commission were on the same side of the "pro EMU fence". They were (in a direct or indirect way) setting the agenda for the future monetary integration, which would be acceptable to politicians and more importantly, which would create solid fundaments for the effectively working monetary union. However, transnational and supranational actors would achieve little and the monetary integration would run astray as it did earlier, if it had not been for the ideational and economic factors, which considerably influenced the decisions of the policy-makers for the ideational and economic factors, which considerably influenced the decisions of the policy-makers. The existence of a favorable economic climate connected with greater integration in terms of capital markets and growing interdependence in relation with the EC trade relations, pushed for the agreement to re-launch the EMU program at the end of 1980s. At the same time, the new monetary ideas, based on stabilization of currencies, balanced money supply ("sound-money") and the fight with inflation were at the end of the 1980s endorsed by the political and economic elites and also by and large by the electorate. A presence of the ideational consensus over the national monetary policies pushed the European policy-makers to accept certain institutional solutions and the policy-choices, which were proposed by the Delors Committee. Thus, the economic and ideation factors provided the "window of opportunity" for the transnational sectoral groups and a supranational actor not only to articulate their preferences but also to have them accepted by the governments.

Figure 1: THE ANALYTIC FRAMEWORK FOR THE INTERPLAY OF INFLUENTIAL DETERMINANTS IN THE 1988-1989 DEBATE ON EMU



Transnational actors and supranational "President": big business, Jacques Delors as the President of the Commission and the community of the governors of the EC central banks

In 1986, the former President of France and former Chancellor of Germany: Valéry Giscard d'Estaing and Helmut Schmidt established an interest group the Committee for the Monetary Union of Europe (CMUE). The CMUE, including also other politicians, central and private bankers and economic experts, embarked on the active promotion of and lobbying for the establishment of European Monetary Union. In 1988, the CMUE published surveys, which showed big business support for the introduction of the monetary union and presented its proposals about EMU, including the proposition to create an independent European Central Bank[20]. Connected with the CMUE activities was the establishment of the Association of the Monetary Union of Europe (AMUE), composed of the CEOs from the largest transnational corporations such as Fiat, Philips, Siemens, Total-CFP, Rhône-Poulenc, banks like Société Générale de Belgique and Paribas or employer organizations such as Italian Confindustria. In 1990, AMUE had over 200 companies as active members[21]. AMUE may not have had a direct access to the state policy-makers in the Council[22], but it did keep a close contact with the Commission President Jacques Delors. During the joint press conference with AMUE in February 1988, Delors openly acknowledged "very important" support of AMUE in connection with EMU and added that the "company managers not only follow us, but often precede us"[23]. The AMUE links with the leader of the Commission cannot be overlooked, in the situation when the 1988 Delors Report on EMU bear largely the marks of the Commission President and when, in turn, the 1988 Delors Report had a direct and decisive impact on the establishment of the EMU[24]. The influence of AMUE should be also considered from a broader perspective. In this context, Apeldoorn noted that the AMUE members were also connected with the European Round Table of Industrialists (ERT) and thus, they constituted "the same elite of European transnational capital", which pushed simultaneously for Economic and Monetary Unions[25].

Jacques Delors, as a supranational actor, was from the beginning attracted to monetary policy due to his commitment to deeper economic and political integration. But, what was particularly important, was his professional background that made him the right person in the right time and in the right place. Delors was not only familiar with the EU machinery but above all he was a "finance" man. His professional career had been closely connected with the monetary issues while he was a chairman of the European Parliament's Committee on Economic and Monetary Affairs in the years 1979-1981 and the French Finance Minister between 1981-1983. While bringing back the idea of EMU, Delors managed successfully to convince the Council leaders to set the Committee on EMU that would be composed of Central Bank governors and three distinguished economic experts. The aim of keeping politicians at a distance until the EMU agenda would be already set and very difficult to change, was achieved. Delors' influence on the Report on EMU was more than significant. Jean-Paul Mingasson, the Director General of the Commission's Budget Directorate, while referring to the Delors Committee report noted: "Delors spent a huge amount of time on the dossier… he always knew where he wanted to go". And he added "Delors corrected all the sentences… there wasn't a phrase in the final paper, which he didn't author"[26].

The impact of the Commission President, Jacques Delors, cannot be considered separately from the roles played by other transnational players: the central bank governors. The presidents of central banks became transnational actors characterized by "distinct, even unique professionalism"[27]. Their "transnationalism" was based on the idea that no longer was it possible to exercise narrowly defined territorial control over national monetary systems[28], particularly in the era of globalization and increasing liberalization of capital flows. Thus, "a central banking culture (has transcended) national boundaries"[29]. The role of central bank governors in the creation of EMU is important not only because,

by the virtue of their functions, they often exercised effective influence on the decisions of their *own* national political representatives. But, what is even more significant, from the end of the 1980s, the governors of the national central banks were provided with the access to *all* the European leaders by being formally institutionalized into the structure of the European Union in the Delors Committee. Thus, the governors took a central position in the EMU policy-making machinery.

While working in the Delors Committee, the bankers agreed that EMU required strong institutionalization in the form of an independent European-wide central bank based on the "German model". Thus, the opinion prevailed that monetary policy if it was to be effective, should be implemented by the independent European Central Bank (ECB) supported by the European System of Central Banks, whose political and economic independence was also necessary. Additionally, the group agreed that in order for the monetary policy to be implemented successfully, its main objective should be set on the principle of price stability[30]. The bankers and economic experts opted for a single currency and rejected the European Monetary System (EMS) parallel currency, ECU. Finally, Delors Committee proposed a three-stage process that would lead to EMU, avoiding, however, setting any specific timetable, apart from a deadline for the start of the first stage. Decisions, taken by the EC central banks' governors from the authoritative and impartial positions, although enjoying the support of some of the EC countries, were also criticized by the others. However, it was difficult for the policy-makers, if possible at all, to challenge the governors' proposal. The governments, during the Madrid Council of June 1989, eventually accepted all the above propositions, although the "German model" raised certain controversies[31]. Thus, the Delors report became the framework, within which later intergovernmental negotiations related to the monetary union were carried out.

There is no doubt that the recommendations issued by the Delors' group had a high authoritative value[32]. The group was composed of persons, who enjoyed high esteem in the professional community and whose expertise and knowledge on monetary issues were widely recognized in their own countries and internationally. Even though the Delors Committee was not responsible for the final decision to go ahead with EMU, (which was decided by the governments) it did, however, establish the methods of how EMU could be practically achieved. The central bankers successfully elevated EMU to the equal status of the Single Market program. They convinced decision-makers about the necessity of EMU to be included into a Treaty, and in the form, which would not be different from their initial proposals presented in the Delors report[33]. Even more importantly, the Delors group managed to convince the policy-makers to accept, not only the principle according to which EMU should work: price stability, but also to endorse a specific institutional framework composed of independent monetary institutions, in which EMU could be realized[34]. This was an important step on the road to EMU. 18 years earlier, the Werner group, which was composed of national politicians and experts but not the central banks' governors[35], failed to recognize the necessity of the independent and autonomous monetary institutions for the establishment of EMU[36]. This could have been one of the main reasons why the previous attempts to proceed with monetary integration had ended previously in failure. In general, transnational actors such as governors of central banks turned out to be remarkably influential over the process of launching EMU, over the kind of institutions, which the future EMU was to be set on and over the monetary policies, these institutions would eventually pursue.[37]

Economic interdependence of the EC economies as the factor encouraging monetary integration

In the background of the debate on monetary integration, was the economic performance and economic integration within the EC area. For sure, the economic crisis did not serve well the prospect of monetary union, which was particularly visible during the 1970s. Each time the economic crisis emerged, the countries were, generally, unable to maintain stable currency exchange rates, and were either abandoning or postponing their commitments to proceed with the monetary integration. However, with the increasing trade and fiscal integration and a relatively stable macroeconomic performance, states were usually back on the track that led to the monetary union. In general, a growing economic interdependence between the EC states, connected with the trade and fiscal integration, served as a positive stimulus to proceed with the project of the monetary union.

Growing intra-EC trade relations had an important impact on the greater states' willingness to accept the monetary union. On the one hand, an increase in the volume of the intra-EC trade of the EC member-states in contrast to their trade performance with the outside world, was the factor that was encouraging two most important EC players: Germany and France to successfully conclude negotiations on EMU. And, on the other hand, deteriorating trade volume within the EC area and a growing importance of the outside trade was, if not directly discouraging then, at least providing these two countries with fewer incentives to proceed with EMU. By looking at the EC trade growth, one can distinguished two phases of a sluggish trade performance, which also matched the bumps on the uneasy road to monetary integration. For example, between 1970-1985 the intra-EC trade for France and Germany grew generally only a little bit faster than the outside trade. Particularly in the years 1974-1977, the intra-EC trade was stagnant and the same occurred in the years 1981-1983[38]. Looking at the progress in terms of preparation and negotiation of the possible monetary integration, it is evident that during these two periods, the governments' interest in the monetary union, if not completely waned, was, at least, severely limited. This, in turn, brought about negative consequences for the monetary integration, which had been postponed indefinitely; to better times. At the same time, a rapid growth of the intra-EC trade in the 1960s and in the late 1980s matched increasing interest in the establishment of the monetary union. In general, a growing trade dependency of the EC member-states constituted a sound basis for the successful launch of the European monetary integration at the end of the 1980s (**figure 2** shows a steady growth in the intra-EC trade relations from the end of 1950s till the mid 1990s).

Figure 2: Percent of all exports to other EC/EU member states

	1958	1973	1986	1995
Belgium/Luxembourg	45.1	73.1	73.2	71.6
Netherlands	41.6	72.6	74.9	75.7
France	22.2	54.7	55.3	62.8
Germany	27.3	47.1	50.8	57.0
Italy	23.6	50.1	53.7	56.8
UK		31.8	48.0	53.9
Ireland		76.0	72.0	72.2
Denmark		45.3	47.0	61.6
Greece			63.7	55.5
Spain			60.3	72.3
Portugal			68.3	80.3
Austria				59.3
Sweden				56.9
Finland				56.7

Source: David Cameron, Economic and Monetary Union: Underlying Imperatives and Third-Stage Dilemmas, Journal of European Public Policy, vol.4, no.3, (September 1997):460.

Increasing trade within the EC borders was not the only economic factor, which created favorable economic climate for the EMU initiative. Inflation cohesion among the EC states is an "important further element", which determined monetary integration[39]. During the 1970s, the non-cohesion in the inflation rates between the EC countries jumped from the average of 5% to more than 15% and it fluctuated within the 5%-15% range until the second half of the 1980s, when it stabilized and dropped below 5%[40] (see also **figure 3**). During this time, the EC states, which embarked on the neoliberal economic policies, tightened public spending (between 1983-1986, the EC member states' budget deficits dropped to average of 2% of GDP[41]) and increased the interest rates in order to contain domestic inflation and in the long-time, to facilitate economic growth. This was a positive move, which prepared the solid ground for re-launching EMU.

Figure 3: Average annual inflation rates in the European Community (excluding Greece and Portugal).

	1971-1980	1981-1990	1991-1995
Belgium	7.1	4.6	2.5
Denmark	10.4	5.8	2.0
Germany	5.7	2.6	3.1
Spain	15.1	9.3	5.0
France	9.8	6.2	2.2
Ireland	13.9	6.9	2.5
Italy	14.6	9.9	4.9
Luxembourg	6.5	5.1	2.8
Netherlands	7.5	2.3	2.6
United Kingdom	13.3	6.0	4.2

Source: McNamara (1998):160.

Since the creation of the European Economic Communities at the end of 1950s, there was a gradual move towards stronger fiscal integration between the EC states. As a result of increasing economic (including capital) liberalization and growing volumes of capital transactions, once new financial instruments (swaps, capital) liberalization and growing volumes of capital transactions, once new financial instruments (swaps, futures, options) became available[42], the exchange rates were frequently and violently fluctuating on the European financial markets. Additionally, the European leaders in the 1986 SEA agreed that the capital movement would be fully liberalized by the mid 1990s. It meant that significant amount of capital could now move freely and uncontrolled between the EC countries, particularly between those, which had significant divergent economies. In the circumstances of greater fiscal interdependence, a free transfer of capital was likely to create greater fluctuations in terms of relative value of currencies and to make exchange rates very unstable. In order to find a long-term solution to this problem, “the creation of a single currency (was) eventually if not immediately…required”[43].

The difficulties in the monetary integration raised when the European economy was slowing down or going through crisis. Monetary union was finally agreed upon in certain moment of time (in 1988-1989), when the economic situation was, generally, favorable for the EC countries to make such an arrangement. Thus, the economic issues although may not have been decisive in the push for the monetary integration, they did constitute a necessary “background” for it. EMU was more likely than not to be achieved, when the EC states experienced a relatively stable economic growth (short of the economic crisis) and were proceeding with further economic integration within the EC.

Importance of the ideational determinants in the establishment of EMU

Certain economic ideas played an important, if not decisive, role in launching EMU and in choosing the institutional design of the future monetary union. Economic ideas were crucial for policy-makers to reach a common understanding about the need to accept what the Delors Committee proposed. In this sense, certain ideas helped to determine the choices and solutions the policy-makers made, particularly when there is uncertainty over which choices are the most appropriate[44]. In other words, some ideas should be viewed as specific “road maps”, which served the policy-makers as a guideline leading to the establishment of EMU. The ideas showed what should be viewed as right and wrong about certain policy-choice, and provided a “new social vision (while suggesting) what economic policy (would) steer a nation toward increased wealth”[45]. Thus, the ideas served as useful “taking-off” ground, from which a general and stable consensus over certain important issues related to the EMU project could emerge.

Examining prevailing principled ideas allows us to find a plausible explanation for certain policy choices that were made by a collectivity of actors. This analysis serves as an opportunity to assess the importance of ideas in influencing the policy makers and their decision to accept the Delors report and to go ahead with launching EMU based on the establishment of the independent monetary institutions with prefixed monetary policy objectives.

In the 1980s there was emerging consensus over the issues that in the 1960s and the 1970s raised strong disagreements and heated debates. A broad consensus emerged over the need for a price stability, which became essential for maintaining international and domestic credibility and reputation of a given monetary policy[46]. In order to keep the prices stable, the monetary institutions as well as government ministries started paying closer attention to the idea of “sound money” or what stood behind it: a commitment to the balanced money supply. “Sound money”, the idea connected with pursuing a price stability, first was voiced in the academic circles associated with classical monetary economists, among others, Milton Friedman. Soon, however, the concept of ”sound money” was accepted by the policy-makers, who faced with the failure of Keynesian economic policies, were looking for new ways (ideas) on how to manage the economy.

The acceptance of monetarist ideas meant that monetary policies had to be carried out by the institutions enjoying high degree of independence from any political pressure. This pressure was likely to be exercised by politicians, who used discretionary powers to manipulate the money supply in order to maximize their short–term political/election gains. Therefore, the central banks and their independence were seen as crucial elements, indispensable for maintaining “price stability”.

The new ideas of “sound money”, “price stability” and the call for the independence of the central banks from any political influence became very powerful shared understandings among major policy-making actors. The above ideas were “institutionalized into the standard operating procedures”[47] of key political and financial institutions and were internalized into the “worldviews” of the actors (policy-makers and governors of central bankers), responsible for managing the monetary and fiscal policies.

The existence of the prevailing (monetarist) ideas about the necessity for “sound money”, “price stability” and political independence of the monetary institutions, such as central banks, played a significant role in strengthening the meaning of certain provisions of the Delors report. The existence of the monetarist-oriented “principled beliefs” made easier for the central bankers to argue for and at the end to convince policy-makers about the necessity of certain solutions. If it had not been for the monetarist ideas, the governments would have been unlikely to accept the Delors Committee proposals connected with the independence of the ECB or its main objective that of maintaining price-stability. The importance of the new economic ideas lays in the success of re-launching EMU and is also connected with the fact that ideas were largely missing, when the previous failed attempts to establish monetary union, took place. A very plausible explanation for the previous failures would be that only in 1988, did the national elite develop “similar…set of macroeconomic preferences for low price inflation, stable exchange rates and sound budgetary finances”[48]. Earlier, neoliberal economic ideational convictions were largely unheard of and not present in the debate about monetary integration. This may partly explain why the initiatives reviving the monetary union starting from the 1960s and 1970s turned out to be unsuccessful and relatively short lived and why in the end of the 1980s, one can see a breakthrough in the process of monetary integration.

However, without the presence of other (material) actors, which strongly supported (for different reasons) the monetary integration and without the direct involvement of the governors of central banks having more or less determined preferences about the monetary union, the ideational factors would remain merely as freely floating ideas. The institutionalization of the ideas took place via the interest groups and other supranational and transnational actors, whose preferences determined the EMU structures and its future policies. Therefore, the ideas, although being even viewed as indispensable for the process of monetary integration, were only one among many factors, which contributed to the launch and the design of EMU.

Conclusion

Different forces played important role in the monetary integration. This paper claimed that the European monetary integration was not driven merely by the political actors such as the EC member states, but also by their supranational and transnational counterparts. Moreover, the EMU process was shaped by the economic as well as ideation factors that played a significant role in enabling political actors to go ahead with the monetary integration. Each of the analyzed four factors cannot separately account for the emergence of EMU. However, as a whole they constitute a powerful set of interdependent variables, which provide a plausible explanation of the process leading to the monetary union.

This study wanted to go a step further in the analysis of EMU, beyond the prevailing view of the monetary integration seen as a political process determined within the intergovernmental framework based on a hard bargaining between the states. It is not to say that the states were somehow not important in the process leading to EMU. Politicians played an important role because their power was to make binding rules and based on these rules EMU came into existence. However, the non-political factors, including transnational and supranational actors working in certain ideational and economic settings, made, in the first place, the whole EMU project possible and workable.

FOOTNOTES

[1] The below-mentioned authors see the establishment of the EMU largely from the political perspective, where the intergovernmental bargaining is a prevailing mode of reaching decisions on the EU level. They argue that EMU was determined very much in the statist framework composed of the governments and possibly interest groups, operating, however, within the states' boundaries and influencing national policies on a domestic rather than European level. Thus, transnational/supranational actors or other economic and ideational factors are, by and large, absent from these studies or their influence somehow underestimated. Barry Eichengreen and Jeffry Frieden, *The Political Economy of European Monetary Unification*, Westview Press (Oxford 1994), Jeffry Freiden, Daniel Gros and Erik Jones, *The New Political Economy of EMU*, Littlefield Publishers (Oxford 1998), Malcolm Levitt and Christopher Lord, *The Political Economy of Monetary Union*, MacMillan Press (London 2000), Francesco Giordano and Sharda Persaud, *The Political Economy of Monetary Union: Towards the Euro*, Routledge (London 1998). Loukas Tsoukalis, Economic and Monetary Union. Political Conviction and Economic Uncertainty in Helen Wallace and William Wallace, *Policy Making in the European Union*, Fourth Edition, Oxford University Press (Oxford 2000), Andrew Moravcsik, *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht*, Cornell University Press (New York 1998). Perry Anderson, The Europe to Come, in Peter Gowan and Perry Anderson, *The Question of Europe*, Verso (London 1997).

[2] Loukas Tsoukalis, *The New European Economy Revisited*, Oxford University Press (Oxford 1997):166.

[3] Here, I am referring to the works, among others, of: Kethleen R. McNamara, *The Currency Ideas: Monetary Politics in the European Union*, Cornell University Press (New York 1998), Amy Verdun, The Role of the Delors Committee in the Creation of EMU: An Epistemic Community?, *EUI Working Paper*, no.98/44, David R. Cameron, Transnational Relations and the Development of European Economic and Monetary Union, in Thomas Risse-Kappen, *Bringing Transnational Relations Back In. Non State Actors, Domestic Structures and International Institutions*, Cambridge University Press, (Cambridge 1995). George Ross, *Jacques Delors and European Int*egration, Polity Press, (Cambridge 1995).

[4] Anderson, The Europe to Come, in Gowan and Anderson, (1997):132.

[5] "The growing prospect of German unification proved to be a most effective stimulus for progress on monetary union" claims Sandholtz, see Wayne Sandholtz, Choosing Union: Monetary Politics and Maastricht, *International Organization*, vol.47, no.1, (Winter 1993):32.

[6] Daniel Gros and Niels Thygesen, *European Monetary Integration*, Longman (London 1992):323 and Kenneth Dyson, *Elusive Union: The Process of Economic and Monetary Union in Europe*, Longman (London 1994): 135.

[7] For more elaborated thesis on liberal intergovernmentalism see Andrew Moravcsik, Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach, *Journal of Common Market Studies*, vol. 31, no.4 (1993). Andrew Moravcsik, A New Statecraft? Supranational Entrepreneurs and International Cooperation, *International Organization*, vol.53, no.2, (Spring 1999).

[8] Andrew Moravcsik, *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht*, Cornell University Press (New York 1998):428-429.

[9] Finn Østrup, Economic and Monetary Union, in Finn Laursen, *The Political Economy of European Integration,* Kulwer Law International, (London 1995): 154-157. See also Erik Jones, Economic and Monetary Union: Playing with Money, in Andrew Moravcsik, *Centralization or Fragmentation. Europe Facing the Challenges of Deepening, Diversity, and Democracy*, the Council on Foreign Relations Book, (New York 1998).

[10] George Ross, *Jacques Delors and European Integration*, Polity Press (Cambridge 1995):84.

[11] Eichengreen and Frieden (1994): particularly Chapter 1, 2 and 3 in this volume.

[12] Østrup, Economic and Monetary Union, in Laursen (1995): 158.

[13] Moravcsik (1998):428.

[14] Eichengreen and Frieden (1994): 13.

[15] "Because there would not be exchanges between the European currencies and because European companies no longer have a need to hedge against exchange rate fluctuations", the European banks would lose a significant amount of revenue, gaining little, if anything at all, from EMU. Østrup, Economic and Monetary Union, in Laursen (1995): 158.

[16] Ethan Barnaby Kapstein, Between Power and Purpose: Central Bankers and the Politics of Regulatory Convergence, *International Organization*, Vol.46, No.1, (Winter 1992): 266-267.

[17] For the more detailed description of the structure of the European System of Central Banks see Gros and Thygesen (1992): Chapter 13.

[18] Barry Eichengreen and Jeffry Frieden, The Political Economy of European Monetary Unification: An Analytical Introduction, *Economics and Politics*, vol.5, no.2 (1993):89.

[19] Tsoukalis holds similar view: "Free trade, fixed exchange rates (and) the decision to liberalize capital movements provided the catalyst (for) moving gradually from an effective coordination of national policies to the centralization of monetary policy at EU level", see Tsoukalis (1997):164-165.

[20] Dyson (1994): 119 and Moravcsik (1998): 393 and 434.

[21] Dyson (1994):120.

[22] Apeldoorn underlines that AMUE and its impact in connection with EMU, need to be further explored since the literature on this subject is limited. See Bastiann van Apeldoorn, Transnational Class Agency and European Governance: The Case of the European Round Table of Industrialists, *New Political Economy*, vol. 5, no.2, (2000):170. The scarcity of research on AMUE cannot, however, justify the non-existence of the links between AMUE and the EC governments. It is very likely that such contacts had, actually, been present merely by the fact of the AMUE membership. The question, then would remain to what extent these contacts contributed to shaping politicians' positive attitude towards EMU. And this is what needs to be further researched on.

[23] Ibid.

[24] Wording of the Maastricht Treaty articles on EMU "strongly resembles" the language of the Delors Report, see Verdun, (1998): 6. And, at the end of the day, "EMU, more than everything else, was Delors' baby" see Ross (1995):80.

[25] Apeldoorn (2000):170. Despite this, in the literature, there is a tendency to underestimate the importance of AMUE and to focus on the interstate bargaining in the Council. For example, Dyson recognized the work of AMUE (rather than its importance). AMUE, in his interpretation, is viewed as "the advocacy of new ideas". He claims, however, that the introduction of EMU should be considered in "the context of powerful governmental constraints" and a bargaining in the Council. Dyson (1994):120.

[26] Ross (1995): 81-82.

[27] Dyson (1994):133.

[28] Ibid.

[29] Ibid.,183.

[30] Verdun (1998):17.

[31] Ross (1995):82-83 and Verdun (1998):15.

[32] Dyson (1994):133.

[33] Compare the Chapter on monetary policy (new articles 105-111) of the Treaty establishing the European Community (TEC) with the proposals contained in the Report of Economic and Monetary Union in the European Community, Delors Committee, Luxembourg: Office for Official Publications of the European Communities, 1989. In this context, Dyson *et al.*, while underling the importance of the governors of EC Central Banks, expressed their opinion that the Maastricht Treaty represented "in large part, an EMU for EC central bankers", in Kenneth Dyson, Kevin Featherstone and George Michalopoulos, Strapped to the Mast: EC Central Bankers between Global Financial Markets and Regional Integration, *Journal of European Public Policy*, vol.2, no.3, (September 1995):468.

[34] Ibid.

[35] Moravcsik (1998):292.

[36] Gros and Thygesen (1992):14.

[37] Cameron, while analyzing the influence of transnational actors starting from the year 1988 up to the Maastricht Treaty of 1992, openly admits that transnational actors were influential *throughout* the development of the EMU initiative" (author's emphasis). See Cameron

admits that „transnational actors …were…influential *throughout* the development of the EMU initiative" (author's emphasis). See Cameron, Transnational Relations and the Development of European Economic and Monetary Union, in Risse-Kappen ed. (1997):73-74.

[38] On the intra-EC trade during the 1960s till the end of 1980s, see Gros and Thygesen (1992):29-30.

[39] Ibid.,30-31.

[40] Ibid., 31.

[41] Gros and Thygesen (1992): 85.

[42] Dyson *et al*., 471-472.

[43] Cameron (1997):462.

[44] McNamara noted that the ideas "function like flashlights, guiding policy-makers by illuminating a specific path through the darkness of crisis and confusion and (provide) policymakers with strategies for governance", Kethleen R. McNamara, *The Currency Ideas: Monetary Politics in the European Union*, Cornell University Press (New York 1998):58.

[45] More on the role of ideas in the policy-making see Judith Goldstein and Robert O. Keohane, *Ideas & Foreign Policy. Beliefs, Institutions and Political Change*, Cornell University Press (London 1993): Part I. Quotation was taken from page 16 of the above book.

[46] Dyson *et al*., (1995):474 and David R. Cameron, Economic and Monetary Union: Underlying Imperatives and Third Stage Dilemmas, *Journal of European Public Policy*, vol. 4, no.3, (September 1997):464.

[47] Peter Hall, The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations, in Mark Irving Lichbach and Alan S. Zuckerman, *Comparative Politics. Rationalist, Culture, and Structure*, Cambridge University Press (Cambridge 1997):184. Hall argued that the power of the ideas cannot be fully realized until these ideas would be somehow institutionalized. In the case of EMU, the new economic ideas were in fact institutionalized and became influential in raising awareness about the things that needed to be "fixed" in order to embark on a successful monetary integration based on the common currency. See Hall, The Role of Interests, Institutions and Ideas…in Lichbach and Zuckerman (1997).

[48] Jones, Economic and Monetary Union: Playing with Money, in Moravcsik (1998):83.

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