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BETWEEN NATIONAL SOVEREIGNTY AND INTERNATIONAL POWER:

WHAT EXTERNAL VOICE FOR THE EURO?

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> Who, exactly, speaks for Europe's single currency? We do, says the European Central Bank, because we run monetary policy, and are therefore the guardians of its worth. We do, say the governments whose countries make up the European Union, because we created the euro, and the unelected people who run the central bank should have a vocal political counterweight. Too many people already speak for it, mutter currency traders, as they push the euro to one record low after the other.[...] None of this can be much help to Pedro Solbes, Europe's commissioner for economic and monetary affairs. For if anyone in Brussels speaks for the euro, it is Mr. Solbes.
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> *The Economist*, September 16, 2000

The decision by member states of the European Union to create a new unified currency, the Euro, was motivated by a host of reasons --some economic, some political.[1] One of the political rationales for the pooling of sovereignty over monetary issues and the abandonment of centuries-old national currencies was the view that the creation of an unified money in Europe could provide the world with a true alternative to the hegemony of the dollar.[2] The Euro, some Europeans argued, could empower Europe by reducing its dependence on the dollar and raise its stature in global financial diplomacy. On the other side of the Atlantic, the specter of a newly strengthened and united Europe provoked a certain unease leading to some rather harsh American criticisms at the birth of the Euro.[3]

Yet even though the Euro was created in part to increase the collective power of its eleven initial participants, the era of the new European currency as a genuine competitor to the dollar on world financial markets has not yet begun. The relative strength of the American economy at the Euro's creation and the need for the European Central Bank (ECB) to mature and establish a track record of credible policy are some of the explanations analysts have offered for the Euro's weakness in the foreign exchange

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[1] See Sandholtz (1993), Oatley (1997), Moravcsik (1998), McNamara (1998), Dyson and Featherstone (1999) for explanations of the move to EMU.

[2] See, for instance, Henning (1997), p. 2.

[3] Feldstein (1997), for instance, argued that the existence of the Euro would severely strain transatlantic relations and drastically increase the potential for war in Western Europe. See also Pfaff (1998).

markets. Another crucial, but often overlooked explanation for the relatively small international impact of the Euro lies in the political paradox of EMU. The participants in monetary union have made the dramatic step of giving up their national currencies in part to increase their power internationally, but they have not yet relinquished their national sovereignty over the external representation of the new currency. The European Union has yet to establish itself as a key unified actor in the international monetary realm; instead, international financial management in the G7 and IMF are met with cacophony and confusion on the part of Europe. The legal and practical ambiguities regarding the mechanisms for external monetary policymaking and representation of the Euro in international financial fora may be hurting the Europeans' chances of competing with the dollar on an equal footing. As long as no "single voice" has the political authority to speak on behalf of the European currency, like the US secretary of the Treasury does for the American currency, the preeminence of the dollar will remain unchallenged.[4]

Creating the single voice of the single currency is a perilous political endeavor, however, which explains why member states have so far eschewed the issue. Deciding who will speak on behalf of the Euro in international economic and financial fora raises a host of critical questions. Through what institutional mechanisms will the different, and sometimes contradictory, economic and political interests of the member states be internally reconciled into a common position in international monetary negotiations? Who, of the European Commission, the Council of Ministers, or the European Central Bank, should be representing internationally the interests of the Eurozone as a whole? What is the optimal balance between national sovereignty and international power on which member states could come to an agreement? Finally, what could be the international implications of a European cacophony or, to the contrary, of a unified voice speaking on behalf of the participants in European monetary union?

To begin to answer these questions, this paper evaluates the potential paths facing the EU as it projects the face of a single currency abroad. First, we analyze the need for a single voice representing the single European currency internationally. We highlight the different circumstances in which a currency needs a political voice in international affairs, and we disentangle what is specific to the financial sector from what is shared with other policy areas in which an external voice is needed, such as trade and common security policy. Second, we focus on the historical and political context in which the EU member states are operating when deciding on institutional design. We analyze the incomplete foundation provided by the Maastricht Treaty and the tentative efforts by the members of the Eurozone to devise institutions for presenting a united front to the rest of the world. Third, we explore which of the various options for designing a single voice for the single currency is most likely to promote the most politically acceptable balance between national sovereignty and international power. In conclusion, we suggest some implications of creating the Euro's external voice for the relative power of Europe vis-à-vis the United States, for the scheduled enlargement of the EU to the east, and for the current debate about the democratic accountability of supranational institutions.

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[4] For a similar argument, see Walker (1998).

I. Why a Single Financial Voice Internationally?

Monetary union debuted on 1 January 1999 with the question of the EU's external financial representation unresolved. However, if the member states had insisted on dealing with the question of external voice prior to going ahead with monetary union, the political battles that have historically accompanied any EU discussion of abandoning national sovereignty for the sake of enhanced power and efficiency in international settings would probably have hindered the implementation of EMU. The issues viewed as most crucial to monetary union, also, were the internal issues such as the ECB's design and criteria for entry into EMU. Nevertheless, we argue that the question of external representation of the Euro cannot continue to remain unresolved. In this section, we examine the main rationales for a single financial voice of the Euro and we highlight the specificities and similarities with the other policy contexts in which the EU has formulated policy with a single external voice.

1. Rationales for a single financial voice

There are three main reasons why an external voice for the Euro is warranted. The first is directly related to the foreign policy objectives of the European states. In order to fully achieve their economic and political goals, EU member countries need to have available instruments of multilateral cooperation at the international level. The ability to work effectively within the international financial institutions and more informal monetary fora enables the EU states to ensure that their interests are furthered in the international political economy. For example, in the advent of a financial crisis, the EU will better be able to protect its own investors by participating effectively in the IMF as a stabilization package is developed. Or should the EU states decide it is in their interest to pursue a fixed exchange rate agreement with the US, developing such an arrangement will be easier if the Euro states can speak with one voice.

The second reason for projecting a unified position is related to the overall health of the international monetary system. Effective management of the international financial system is a critical challenge facing policymakers. From formal regimes like the Bretton Woods system to the contemporary arrangement of ad hoc management, the willingness to stabilize currency flows and provide a context for growth and low inflation globally has been a central need of the international political economy. Most theorists believe that this need is best served by the presence of a hegemonic power ready and willing to provide these public goods.[5] However, although the US is in a position of relative power, many note that such hegemony works best when it is institutionalized within arrangements that draw on the resources and commitment of other states in the system.[6] For Europe to act as an effective partner with the US in managing the international monetary system, it will have to be able to coordinate internally and represent itself externally. Moreover, for Europe to achieve the sort of equal footing to

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[5] Kindleberger (1973); Gilpin (1987).

[6] Ikenberry (2000).

the US that some of EMU proponents believed would come naturally with the Euro, the creation of a strong supranational central bank must now be matched by the development of a Euroland level competence for the external representation of the Euro.

The third reason for developing the single external voice of monetary union lies in the potential for the Euro to make a political statement about the future of European integration. A coherent and unified voice externally would enable member states to send the message, both to their domestic constituents and to the rest of the world, that they are committed to building a stronger European Union. Within Europe, it could be interpreted as a commitment by member states to give themselves the means to make monetary union a success, therefore helping the domestic acceptance of the Euro. Vis-à-vis the non-EMU members, it would signal that the institutional machinery is working successfully and that it might be wise for them to join in before they lose all ability to influence the future direction of monetary union (thereby avoiding the repeat of the UK's experience of joining the European Community when most of its institutional structure was already in place). Finally, for the rest of the world, it would transform the EU into a player to be taken seriously in financial negotiations. Most importantly, the existence of a unified external voice of the Euro would enhance the trust in the new single currency by reassuring investors that the Euro is becoming a safe alternative to the dollar. If the Euro participants themselves do not feel confident enough in the new currency, as might be signaled by the absence of single external voice, why should third countries?

The two most important settings where such an external voice is needed are the International Monetary Fund (IMF) and the Group of 7 (G-7). The IMF is the central international organization for managing the international financial system. It ideally acts to prevent national governments from getting into financial difficulty, providing loans and expertise when warranted. When those efforts fail, the IMF is the central institutional forum for efforts to contain financial crises and protect system stability from contagion and disruption from national crises. At the moment, the Eurozone countries continue to be represented individually, with European Union officials holding only observer status.

The G-7 plays a less hands on and more informal role than does the IMF, providing an informal forum for long term discussion about the direction of economic policymaking across the major states. They have also used the summit meetings for strategy sessions on linking economic management of the international system to goals of political stability and foreign policy. In certain cases, the G-7 has been the crucial forum for exchange rate management among the major powers. In the 1980s, the finance ministers of the G-7 orchestrated the rise and fall of the US dollar in the Plaza and Louvre Accords. In the 1990s, the G7 has focused on managing crises such as the deterioration of the Russian economy and the Asian financial crisis. Three Eurozone countries are currently members of the G7 (France, Germany and Italy), alongside the United States, the United Kingdom, Japan and Canada. The strictly intergovernmental, non-institutionalized setting, and intimacy of the G-7 can produce rapid policy responses and move markets more effectively than can the IMF. Both fora are key to management of the international economy and achievement of Europe's policy goals.

2. The EU's single voice in other policy areas

Monetary union is the latest policy area in which the member states are confronted with the issue of external representation, but is far from the only salient area where the EU might potentially act in concert on the international stage. The EU has faced a similar set of political and institutional challenges in the areas of environment, foreign and security policy and, most prominently, trade. Indeed, trade policy is one of the longest and most successfully integrated common policies in the history of the European Union. Since the inception of the European Community as a customs union with a common external tariff in 1957, member states have had to grapple with the question of how to present a common front to the outside world. From unanimity to qualified majority voting, from exclusive Community competence to shared competence between the EU and the member states, the external trade voice of the EU has been projected through all sorts of institutional arrangements, which are still debated today after more than four decades of successful bargaining in international trade negotiations.[7]

Like today's European leaders looking for innovative solutions to implement monetary union, the founding fathers of the European Community sought to achieve the right balance between national sovereignty and international power when designing the original institutions for representing the Community externally in trade negotiations. Some of the challenges they initially faced in trade policy still exist today in the financial and monetary arena. First, and foremost, is the need to reconcile into one coherent position the multitude of divergent positions of the member states. Another related challenge is the desire by national governments to keep some degree of control over the levers of the economy, particularly in the fiscal realm, which remains at the domestic level yet is impacted by arrangements in the monetary sphere.

While there are many similarities between the external role of the European Union in financial and trade affairs, there are also major differences, which make the transposition of the institutional template developed for trade policy not directly possible. One of these differences is the time constraint under which the major actors operate. It is quite frequent for trade negotiations to linger for many years. If the two parties to a trade negotiation cannot come to an agreement, the status quo remains. But problems susceptible to prompt an international financial negotiation carry a different sense of urgency. There is more need for international cooperation and concertation, and less room for give-and-take and aggressive negotiating tactics.

Another difference is the number of actors who can have a claim to speak on behalf of the common policy. In the field of trade policy, the longstanding debate on the issue of competence has pitched the member states on the one hand (represented by the Council) versus the Community (represented by the Commission). The main sources of contention have been over the voting rules used to reach an international negotiating

[7]Meunier and Nicolaidis (1999); Meunier and Nicolaidis (2001).

mandate and over the extent of delegation of authority from the member states to Commission negotiators. In the monetary and financial area, there is an additional actor with an equal claim to exclusive, or at least partial, representation externally, the European Central Bank. As the ECB is designed to be independent from political bodies at both the EU and national level, coordination with the various actors who have a stake in managing international monetary cooperation becomes even more problematic.

Yet another difference is the number of policy-making levels. In international trade negotiations, the EU plays a three level game: at the domestic table (where interest groups fight for influence over policy-making), at the European table (where member states fight for taking control of the common position) and at the international table (where Europe fights to preserve its interests against third countries). The interplay of these three levels results in complex bargaining situations where negotiations at the domestic and European levels can hinder or, on the contrary, help the EU strategically in international trade negotiations.[8] In financial and monetary affairs, however, only two levels seem to matter –European and international—since few domestic groups are taking an active part in the details of monetary policy-making.

Because of the extensive experience accumulated by the European Union with respect to international representation in the field of trade policy over the past four decades, the institutions for decision-making and negotiating authority in trade seem an obvious place to start looking for inspiration for the design of the Euro's single voice. However, because of some central differences between trade policy and financial and monetary affairs, the institutional blueprint developed in the field of trade —with its complex design for competence sharing and voting— cannot be reproduced as is. If the EU is to develop the single voice of the single currency, it must strike a partly original balance between respect for national sovereignty and the need for efficacy and power in the international context.

II. Representation in practice: A political conundrum

In practice, the single voice of the Euro has been so far a political conundrum, which explains why member states have postponed addressing the issue for as long as possible. EMU, which joins together sovereign states under one currency, is a fundamentally new type of political entity which does not fit into the contemporary 'one money, one nation' system.[9] This creates difficulties for the formulation of foreign macroeconomic and exchange rate policy as well as for representation of the EU in international institutions. The Maastricht Treaty provided only a very incomplete foundation for the external representation of the single currency, and the subsequent efforts by the members of the Eurozone to present a united front to the rest of the world

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[8] Meunier (2000).

[9] See Cohen (1998) and Helleiner (1998) for discussions of the historical periods where currency and territory have not overlapped.

have been at most very tentative. However, developments since Maastricht have yet to resolve the issues at hand. Two interrelated sets of tensions impede the ability of the EU to play a coherent role on the international monetary stage. First are the institutional arrangements for making exchange rate policy; and second are the external arrangements so far agreed to within the two key sites of international monetary governance, the IMF and the G-8.[10]

1. Maastricht and Foreign Policy for the Euro

The 1991 Treaty on European Union, commonly referred to as the Maastricht Treaty, laid out the blueprint for economic and monetary union in Europe, in particular by setting the timetable according to which a central bank would be created, monetary policy would become a common policy, and the single currency would be put in place. At the same time, Maastricht created an important constraint on the EU's ability to act decisively in the international monetary arena. The EU institutional setting designed in the Maastricht Treaty is both fragmented and burdensome, without the institutional mechanisms to reconcile the different, and sometimes contradictory, economic and political interests of the member states into a common position for international monetary negotiations.

Maastricht and Exchange Rate Policy

While the structure of domestic EU monetary policy decision making within the ECB is relatively clear, the designers of the Treaty on European Union were much less clear about the division of responsibilities in the area of exchange rate policymaking. Operational responsibility for the Euro's value, through the conduct of foreign exchange operations (interventions and the daily management of exchange reserves), is the sole responsibility of the ECB. The treaty is ambiguous, however, about the locus of responsibility for the formulation or creation of exchange rate policy.

According to Article 109 of the Treaty (see Appendix), the decision to enter into a formal exchange rate agreement with non-EU countries is the responsibility of the ECOFIN, and any such agreement would be binding on the ECB. In the absence of such an agreement, the Council, acting on a proposal from the Commission and after consultation with the ECB, may adopt by qualified majority voting "general orientations" for exchange rate policy towards non-EU currencies, but only insofar as they do not interfere with the ECB's primary goal of price stability. As the resurrection of a formal system such as the post war Bretton Woods international exchange rate regime is unlikely in the foreseeable future, the vague language regarding "general orientations" is more likely to govern the informal cooperation which has characterized the international

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[10] A third critical area contributing to the weakness or strength of the Euro and the EU's ability to act on the global stage is fiscal policy, as taxing and spending programs remain decentralized at the national level. As many believe that monetary policy and fiscal policy work best when they are made in tandem with one another, this may well hamper the effectiveness of the EU to coordinate its monetary and exchange rate policies externally with its partners in the international system.

monetary system since the early 1970s. This means that Maastricht provides an opening for increased Commission institutional power and ongoing policy discussion about the locus of competence for exchange rate policy.

Post-Maastricht Developments in Policy Capacity

Two very different mechanisms have been established in the aftermath of Maastricht to deal with the need for more economic policy coordination and representation within Europe: the stability pact, which provides a strict rule based blueprint for fiscal policy; and the Eurogroup, which serves as a very preliminary political forum for more discretionary management of the Euro and the EU's economy more generally (n.b., the Eurogroup was initially called the Euro-X, then Euro-11 group). It is this second initiative that most centrally effects the character and organization of economic policymaking in EMU and thus its external face.

The Eurogroup, which had its inaugural meeting June 5, 1998 in Luxembourg, is a subset of the ECOFIN, made up of the economic and finance ministers of the Euro states and acting as a forum for coordination within the Euro zone. In a compromise reached among Germany, France and Britain, the non-EMU member finance ministers are allowed to attend the Eurogroup meetings, but are excluded from discussions over issues central to the Euro, such as its external value vis-à-vis the dollar.

France has been the main proponent of a strong role for this forum. Dominique Strauss-Kahn, the then French Finance Minister, argued at its inauguration that it should form a necessary political counterweight to the highly independent ECB. The Eurogroup has been promoted as a way to coordinate national budgets in an effort to boost growth, to plan structural reforms in pensions and labor markets, as well as coordinate tax harmonization in an effort to guard against competition over such policies. Strauss-Kahn also envisioned the Eurogroup playing an international role, representing the EMU countries at the IMF and other international fora.

Strauss-Kahn's departure as Finance Minister did not put an end to discussion over the Eurogroup. Some have noted that the French appear to regard the Eurogroup Council as an "embryonic economic government for Europe, and a heavy political counter-weight to the ECB."[11] Germany insists, however, that the Eurogroup should serve merely as an informal body to promote information exchange, and that the Stability and Growth Pact, if adhered to, will produce the appropriate fiscal policies. Britain has been even more resistant to a major role for the Eurogroup, fearing that it will be shut out of the policy-making process if the Eurogroup gains real institutional power. Forward movement along these lines among the EMU states may indeed serve to exacerbate the cleavage between the 'ins' and the 'outs', although a widening of this division may be inevitable in any case as EMU progresses.

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[11] The Economist (1998).

In the area of exchange rate policy more specifically, the European Council attempted to resolve some of Maastricht's ambiguities at its meeting in Luxembourg (12 and 13 December, 1997). It adopted a resolution designed to clarify Article 109, stating that the ECOFIN may "in exceptional circumstances, for example in the case of a clear misalignment, formulate general orientations for exchange-rate policy in relations to non-EC currencies." An episode such as the attempt to halt the appreciation of the dollar under the 1985 Plaza Accord might be deemed to constitute an "exceptional" circumstance.

At Luxembourg, the heads of state also agreed that the ECOFIN Council "should decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union," and interpreted the Council's jurisdiction broadly by including "bilateral relations between the EU and individual third countries and to proceedings in international organizations or informal international groupings."

ECB President Wim Duisenberg has stated, however, that an exchange rate objective is not an appropriate monetary policy strategy for the ECB, "given that for an area as potentially as large as the Euro area, such an approach might be inconsistent with the internal goal of price stability. The external value of the Euro will thus mainly be an outcome of the ECB's monetary policy." Formal arrangements with non-EU countries are unlikely, he went on to say, although the ESCB will of course have the technical capacity to "intervene in order to counteract excessive or erratic fluctuations of the Euro against the major non-EU countries."[12] In contrast, the European Commission and some member states, notably France, have argued that the Treaty does leave open the door for more activist policy on the part of ECOFIN and the Commission. One likely motivation for such a stance is the desire to manage the value of the Euro to increase the competitiveness of EU products in world markets.

However, the initial experience of the Euro in exchange rate markets has been primarily marked by a steep decline in the value of the Euro vis-à-vis the dollar, not an overly strong Euro as some had predicted. The Euro began on 1 January 1999 valued at $1.18, but by its first birthday was trading at around 1 Euro to 1 US dollar. In its second year, the Euro declined to around $.87. There is disagreement on the implications, economically and politically, of this decline. A good argument can be made that the Euro simply began at too high a value, hurting European exporters, and that a certain decline is desirable. For those who championed the Euro as a way to develop a strong, stable counterpart to rival the dollar internationally, the decline has been disappointing and frustrating. The ECB has sent somewhat mixed signals at times about the desired level of the Euro, and a variety of actors have criticized Duisenberg and others for not presenting a more coherent front on interest rate changes and the level of the Euro.[13]

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[12] Duisenberg (1998a).

[13] "Frankfurt Follies," *The Economist* February 26, 2000.

The uncertainly regarding the legal division of responsibility for exchange rate policymaking between ECOFIN and the ECB is troublesome but not unusual, however, when considered in light of national policy arrangements. Henning notes that "in most countries, the relationship between the central bank and finance ministry is treated in legislation only vaguely, if at all."[14] Historically, the finance ministries have played an active role in exchange rate management and policymaking throughout the EU. The ECB's view that exchange rate policy will simply be subordinate to the internal objective of price stability, although enshrined in the Treaty, has already been proved not the case in practice, and will likely evolve as the ECB matures as an institution.

2. External Representation in International Monetary Fora

The two most critical areas where the EU needs to project its power internationally in the monetary realm are the IMF and the G-7. Below, we discuss the still unresolved issues arising from the mismatch of a the EU's model of a 'single currency, many states,' and the international financial institutions' tradition of a one to one relation between states and currencies.

The International Monetary Fund

Membership in the IMF is on a country by country basis and this is not likely to change in the immediate future .[15] According to the IMF organizational structure, decisionmaking authority rests in its Board of Governors, which is made up of one representative from each member state. The Governors and their Alternates are ministers of finance or heads of central banks, meeting formally in annual fora. The Interim Committee exists to provide ongoing advice to the Governors on the functioning of the international monetary system, and a joint IMF/World Bank Development Committee advises them on the special needs of poorer countries.

The IMF's day-to-day work is done by the Executive Board at its headquarters in Washington. The 24 Executive Directors, with the Managing Director of the IMF as their Chair, supervise the operations of the Fund and thus implement the policies set by the member governments through the Board of Governors. At present, eight Executive Directors represent individual countries: China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States. Sixteen other Executive Directors represent groupings of the remaining IMF countries. The Executive Board rarely makes its decisions on the basis of formal voting, but relies on the formation of consensus among its members.

[14] Henning (1977), p.32.

[15] See Polak (1997) and Thygesen (1997). It remains unclear whether the IMF's Articles of Agreement legally need to be changed to incorporate or consolidate the Euro states into the Fund as one entity.

In the current organizational structure of the IMF, EMU members are either represented individually by Executive Directors (i.e., France and Germany) or belong to groups represented by Directors in six further groups, each of which also includes countries outside EMU. Given that the Euro states have a single, unified monetary policy under EMU, reorganization to represent them within a more coherent grouping seems reasonable.[16] This cannot be done, however, without resolving questions about the internal organization of EU decisionmaking.

Some of the larger EU member states have stated that they do not want to pool sovereignty in international fora.[17] While the large states arguably gain from pooling sovereignty within the EU itself, because they continue to be dominant in that domain, they are less confident in their ability to influence outcomes in other international organizations. Consolidation is obviously a more attractive option for smaller states. This debate over the pooling of sovereignty in international financial fora raises several more specific questions as well.

First, the question of quota arrangements under EMU is unresolved, although it is a critical one as quotas largely determine members rights and obligations. Quotas are the 'membership subscriptions' that provide the IMF with a pool of money to lend to members in financial difficulty. They also are the basis for determining how much the contributing member can borrow from the IMF or receive from the IMF in periodic allocations special drawing rights. The more a member contributes, the more it can draw in time of need. Finally, quotas determine the voting power of the member. The IMF itself proposes a quota for each member country, using a complex formula in which trade and GDP play prominent roles. Quotas are reviewed every five years and can be raised or lowered according to the needs of the IMF and the economic importance of the member.

At the moment, EU members contribute a combined 30 percent of IMF funds, compared with 18 percent from the US. If EMU's members pooled their quotas, however, their consolidated quota might be reduced substantially, since quotas are largely a function of trade and financial flows and "intra-EU transactions would be excluded when calculating a consolidated quota."[18] This would also imply a loss of voting weight as well. Pooling sovereign state quotas is not allowed under the current IMF Articles of Agreement, which would have to be rewritten to allow this action.

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[16] While the CFA monetary zone coexists with national representation in the IMF, it cannot be thought of as meaningful example EMU should follow given the differences in size and importance of the two.
[17] Interviews with EU and IMF officials, Princeton, NJ, in conjunction with a workshop on "European Monetary Union and International Economic Cooperation," hosted by the International Finance Section, Princeton University, April 3, 1998.

[18] Henning (1997), p. 52.

Second, the surveillance of national policies is complicated by EMU. The Fund needs to consult with the EU on Euro exchange rate policy, with the ECB on monetary policy, and with EMU members on fiscal and other policies. Since exchange rate and monetary policy adjustments are no longer an option for individual member states, the Fund may have to focus to a greater extent on structural adjustment as the way to adapt to economic difficulties. But with whom should the Fund discuss the broader fiscal and monetary policy mix? At the moment, there is no adequately defined interlocutor, while the Commission has suggested that ECOFIN should perform this role.

Finally, the Fund must judge the balance of payments and reserve situation in each EMU country, but this is complicated by the pooling of sovereignty over monetary policy with the Euro. How would the Fund identify a balance of payments need in a particular member state? In principle this can be done for each EMU member, but the analysis is likely to become increasingly ambiguous for intra-EMU trade.

International cooperation in the G-7

The present nature of international cooperation in the G-7 may mean that the effects of EMU on the organization or policy outcomes of international economic cooperation will not be dramatic, at least in the short to medium term.[19] The G-7 operates as an informal club of the richest states, rather than being a formal institution representing the majority of the world's countries. However, there remain questions about the longer-term effects of EMU on informal economic cooperation and coordination among these powerful states. Much of the uncertainty arises from the differences of opinion about the ways in which the Euro will be managed. Should the dollar-Euro rate be subject to extreme and persistent misalignments disrupting trade relations between the two areas, it is likely that there would be some coordinated intervention in the G-7 along the lines of the Plaza Accord.

If the Euro becomes a key currency, this will certainly demand more unified representation within the G-7. Many observers believe that the Euro is unlikely to gain such a status in the near term. The credibility of the ECB and the Euro must be established, and despite the hopes of Maastricht's designers and the public statements of ECB officials, there has not been a seamless transfer of reputation from the Deutschmark to the Euro. With time, most observers believe that the Euro should acquire all three functions of an international currency: that of a global unit of account and exchange, as well as serving as a internationally recognized store of value. The large size of the Euro area and the EU single market bode well for the Euro's use as a vehicle currency, particularly as the integrated financial market becomes deeper and more liquid, as well as continuing to attract international investors.

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[19] The G-7 is made up of the United States, Germany, Japan, Italy, Canada, France, and the United Kingdom. Recently Russia has been participating as well, making it the G-8.

More useful perhaps for the consideration of EMU's effects on international cooperation in the G-7 is the observation that the present G-7 tends to be focused on the management of external crises or developments which may evolve into crises.[20] In the past, coordination of a broad set of economic policies was thought to be an appropriate and achievable goal for the summit process, as in the case of the Bonn Summit of 1978.[21] In the 1980s, management of the debt crisis and the efforts to moderate the swings of the dollar-yen rate dominated the agenda. In the 1990s, by contrast, international economic cooperation in the 1990s has focused on ameliorating the effects of currency and financial crises in Mexico, Asia and Russia.

According to Kenen, the efforts of the last two decades have been aimed at crisis management and regime preservation, not at the type of coordinated, mutual adjustment in policies that was originally thought to be the goal of the summit process. Given this dominant trend, as well as the possibility that EMU will reduce the need for adjustment as it eradicates the problems associated with exchange rate pressures within the EU, it is unlikely that the G-7 will consolidate the EU states into one actor, say in a G-3. If Kenen's assessment is correct, the EU states are best represented individually in the G-7 in such a situation, as their policy positions and financial capabilities will vary substantially and it is unlikely that they would easily develop a unified position on matters beyond monetary and exchange rate policy, narrowly construed. For those matters, the ECB will be represented along with the national representatives at the G-7 level.

Other analysts, in contrast, have argued that the dollar-Euro rate may be highly unstable and demand coordinated management, as the US and the EU will be relatively closed, large economies and thus initially less likely to pay attention to exchange rate management.[22] This inattention could ultimately be costly, leading to a pressing need for more transatlantic cooperation. Exchange rate stabilization is also another concern, calling for the creation of a G-3 whose competence would be restricted to monetary and exchange rate matters.[23] Henning has offered a variety of scenarios for who would represent the EU within a G-3--the head of the ECB, the European Commission, the President of the ECOFIN, and/or some combination of member state representatives. This proposition is attractive because it would address the confusion that arises from the conflicts in responsibilities across the EMU vs. non-EMU countries in the EU and its rotating presidency, the ECOFIN, and the Euro-X. In the event of a monetary crisis, it

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[20] Kenen (1998b).

[21] Putnam and Bayne (1987).

[22] See for instance Bergsten (1997).

[23] Henning (1997).

remains unclear who the US president or Treasury secretary would call to discuss a European response. In G7 negotiations, "the euro-zone is represented not only by three national central bank governors (France, Germany and Italy) and the ECB president, but also by the finance minister of the country that holds the rotating EU presidency and the Commissioner in charge of monetary affairs to lend assistance."[24] More generally, "Officials from the 11 euro-zone member countries, the European Commission and the European Central Bank have all felt free to offer frequently conflicting views on the Euro's exchange rate and its prospects. The prime candidate to be the Euro's spokesman, the ECB's president, has often been contradicted by other officials."[25]

III. Policy prescriptions: who should be the single voice of Euroland?

Given the political constraints under which member states operate --that is, concern for sovereignty in tandem with a desire for a prominent role in the international monetary system-- and given the lessons derived from the EU experience in other policy areas, who should be the single voice of the Euro? The answer to this question depends in large part on the policy goals the EU and its partners are seeking. We evaluate this issue from the starting point of this paper, the idea held by some in Europe that one of the main goals of the Euro is to transform the EU into a truly unified global actor while simultaneously reinforcing and stabilizing the EU's integration project itself.

Our argument is simple: there needs to be developed a clear system of *political* representation in the area of monetary and financial governance in the EU that allows for effective partnership with the other major economic powers in the international system. We propose that this representation be centered in the Eurogroup, which should continue to develop responsibility for coordination and communication between the national economic policy realm and the international political and financial community. The Eurogroup must, however, do this in close conjunction with the President and Governing Council of the ECB as well as with the Commissioner in charge of monetary affairs. And within the Eurogroup, power for negotiation must be delegated to a single actor who can serve as a prominent and effective interlocutor with foreign officials, particularly the US, as well as the IMF and the G-7. Below, we first address why two other actors, the ECB and the Commission, cannot play this role, and then sketch out in more detail our proposal and the challenges it engenders.

1. Why Not Delegate to the Technocrats?

We are arguing for an explicitly political and representative body to form the foundation for EMU's external policy. But we must briefly discuss why two potential actors, the ECB and the Commission, would not be more appropriate. First, as the legal guardian of the Euro, the ECB and its President, Wim Duisenberg, might seem a natural candidate for the Euro's representation. However, the ECB, as a non-representative body, cannot fulfill this role. The ECB's legal independence from political bodies at the

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[24] Everts (1999b).
[25] Dale (2000).

European as at the national level, and its narrow mandate for the governance of monetary policy and price stability, hamper the ECB's ability to act as a robust political partner in situations where the establishment of policy priorities and actions will be fluid and changing, as they are often are in situations involving international financial cooperation. The ECB is less able to build coalitions and make policy decisions concerning the EU's overall macroeconomic policy governance, which often is part and parcel of negotiations about exchange rates and financial stability. Obviously, the ECB must be a key actor, but it cannot be the sole locus of authority for Euroland.

The European Commission is the other contender for the role of technocratic representative of EMU to the rest of the world. In the field of trade, it is indeed the Commission that is representing the interests of the member states through a common position in international negotiations --and it is accepted by the rest of the world as the only legitimate interlocutor. Member states first negotiate a common position among themselves; then they give a mandate to Commission representatives who bargain in international negotiations within the limits of this mandate; finally, Commission representatives bring back the results of the negotiations for ratification.[26] But the specificities of the financial and monetary fields make the Commission less suited for serving as Euroland's representative. Because it is a bureaucratic body without direct political power, it also cannot react flexibly and with attention to the need for political coalition building that might be necessary in a situation of financial crisis and bailouts. For example, it is difficult to imagine the current Commissioner in charge of monetary affairs, Pedro Solbes, as having the political clout to stand on an equal footing with the other foreign finance ministers. Also, since not all EU states are members of EMU, delegation of external representation to the Commission, which represents all member states, may be even worse .

2. The Eurogroup

The Eurogroup has been growing in importance since the Euro's beginning, aided by the energetic leadership of Belgian Finance Minister Didier Reynders who has been serving as its chair this year.[27] The Eurogroup seems a natural place to develop more competence, as it is made up of the national finance ministers responsible at the national level for the intricacies of international monetary and financial cooperation. However, critics have raised several concerns, some more political and others administrative.

The political resistance to the strengthening of the Eurogroup comes from two directions, as discussed briefly in Section 2. The first is a fear that monetary policy will become more politicized and the independence of the ECB will be compromised if the

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[26] Meunier and Nicolaidis (1999).

[27] Osborn (2001).

Eurogroup develops too much authority in the monetary realm. The fear of some staunch advocates of central bank independence is that the activism on the part of the politically grounded Eurogroup will challenge the authority, and hence credibility, of the ECB, potentially diluting its anti-inflationary strength. However, the comparative historical experience indicates that the presence of a strong finance ministry or treasury, even one that acts as a prominent international actor such as the US Treasury, does not have to compromise in any way the stature or credibility of the central bank.[28] Indeed, such a cohesive and effective financial authority can actually provide an increase in the effectiveness of the central bank by working to promote policies that support the central bank goals. The second line of attack on the Eurogroup comes from the non-Euro countries, most significantly, Britain, which is anxious not to see increased policy capacity in an area it will have little influence over. Such states are reluctant to give up any sovereignty but somehow view it as legitimate to protest developments that other states have decided on their own. While Britain may complain, it is difficult to imagine that ultimately that the non-participants will have veto power over developments in the Euro area, particularly as it encompasses powerful countries with their own agendas for the Eurogroup. Indeed, the lack of a coherent policymaking body assigned to deal with the broader economic issues, both within and without the EU, will eventually hurt the non-participants themselves.

Additional concerns about the Eurogroup center on the potential for the rotating presidency of the group to create political and administrative problems. Changing leaders every six months in tandem with the EU Presidency may mean a lack of continuity, expertise and political credibility at the helm of the Eurogroup. The fact that small countries will have their turn as chair has some critics arguing that the Eurogroup will not be a prominent force in the international system: "the fact is that not all financial heavyweights will accept the finance minister of a small EU country as a serious interlocutor."[29] However, the recent experience of Mr. Reynders seems to challenge that view. The Belgian minister has been aided by the fact that the EU presidency has been held by Sweden, a non-EMU country, this year, so he was instead elected chair but will continue to serve through a second six month term starting in July when Belgium assumes the presidency.

A second administrative concern is the problem that "when the rotating president arrives at international meetings, he comes with a carefully prepared position from which he cannot budge without further consultations with the other finance ministers. This rigidity is not exactly conducive to flexible diplomacy, and certainly not in dealing with international financial crises."[30] This is one of the rationales for the second level of change we would expect to see if Europe truly wants to be a major player on the

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[28] Woolley (1984); Goodman (1992).

[29] Everts (1999b).

[30] Everts (1999b).

international financial state, the appointment of a single individual to act as "Mr. Euroland," discussed below.

Finally, there is the question of decisionmaking rules within the Eurogroup, should it be the central locus of authority for the Euro's external face. Whether internal EU decisions are made according to unanimity or qualified (weighted) majority will certainly impact the EU's bargaining power in international negotiations, as well as the outcomes of these negotiations.[31] For example, Article 109 of the Maastricht Treaty calls for qualified majority voting in matters dealing with EMU policy at the international level. But despite similar rules in the trade area, the EU in practice has made a lot of its trade policy on a unanimity, not qualified majority, basis. The downside to this procedure in international monetary matters is the potential for the IMF's decisions to be blocked by a single, small EU state if the EU's consolidated quota reached the minority blocking percentage within the IMF.[32] To go back to the trade example, this has been the decades-long story of agricultural trade negotiations, where a single country, France, has been able to take the entire position of the EU hostage to its interests and, as a result, has hindered the possibility of trade-liberalizing agreements at the international level.

3. Mr. Euro

The EU will always be a unusually pluralistic setting for policymaking because of the need to balance power between the center in Brussels and the national capitals. However, balance cannot become gridlock, as it apparently has. A single representative of EMU internationally, who would attend the appropriate G-7 meetings and act as a conduit for consultation with other foreign officials, could be the political point person through which the various levels and levers of EU policymaking could cross.

The role of “Mr. Euro” could be designed after that of “Mr. CFSP” –the High Representative created in the 1997 Amsterdam Treaty to serve as a single interlocutor for third countries in the field of foreign affairs and security policy. Member states came to the realization that one of the reasons for the failure of the Common Foreign and Security Policy stemmed from the absence of a single European voice –the famous missing telephone number, according to Henry Kissinger. The post of “Mr. CFSP” was conceived of as the sole EU spokesman and interlocutor for third countries, designed to provide continuity against the backdrop of the rotating presidency and to create an international identity for the EU in foreign affairs. He/she must be a political heavyweight of international stature, rather than bureaucrat, to facilitate the forging of a consensus within the EU and to negotiate forcefully with other countries. Some analysts have started to raise the possibility of creating a similar post for financial and monetary

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[31] Meunier (2000).

[32] Henning (1997), p. 56.

affairs, and we support this position.[33] Indeed, the EU currently lacks the political voice equivalent to that of the US Treasury Secretary, and it seems that only the option of a Mr. (or Ms.) Euro could provide a serious European counterpart.

Which of these options should be selected depends on how European leaders define their priorities. If the primary goal is to stop the hemorrhage of sovereignty and keep at all costs their voting rights in international organizations, then there will be no forward movement along these lines. However, if the primary goal is to make the EU an international financial actor comparable to the US, then Europe needs to act in a unified manner internationally, and for this needs a reform of the rules for external representation. However, changes in international institutions will affect other countries and require their consent. It is therefore unrealistic to expect the abrupt emergence of a unified European presence in the international economic institutions--the creation, for example, of a G-3 to replace the G-7. That presence is more likely to emerge pragmatically and at different speeds in different settings.

In the short years since its start, EMU has caused an increase in the number of interlocutors in international negotiations rather than a decrease. If the member states of the EU cannot agree on how decisions regarding the Euro should be made and who should announce them to the world, it may be that only challenges coming from the international system will force institutional change. It may not be such matters as the ongoing management of exchange rates or the coordination of macroeconomic policies among the major industrial countries, but rather the management of financial crises which will be the key policy challenge facing the international community in the future. The EU may well take a long time to respond collectively to an external, system-threatening financial crisis such as the Asian crisis. The Common Foreign and Security Policy does not have a successful record of coordinated, timely responses to security crises. The need for a two stage process--coming to consensus amongst the EU member states and then interacting with foreign actors--makes the process more, not less complicated.[34] The internally fragmented political authority and multi-level polity of the EU is unlikely to support firm, decisive, international action. It would be ironic indeed if as a result of failure to reach consensus in the Euro area, US dominance in international financial affairs was reinforced. This was clearly not the European intention, but may be the practical result of failing to give the single currency a single voice.

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[33] Everts (1999a).

[34] Some academics have argued that complexity and multiple 'veto players' can work to one side's advantage in international negotiations, so this could favor the Europeans in a strategic sense (Putnam, 1988). However, it is possible that it may be to the US advantage to allow all relevant European actors to be in the room when decisions are to be made.

IV. Conclusion - International Power and Democratic Accountability

The spectacular experiment that is European monetary union has proceeded without the issue of external representation being settled first. The various officials who can have a claim to make pronouncements on the Euro have often contradicted each other. Yet the single currency needs a single voice for establishing the financial role of Europe in the world, for promoting the health of the international monetary system, and for ensuring the long-term success of monetary union. The absence of a unified external front may eventually weaken the Euro and prevent it from ever becoming a strong currency. We presented the various institutional options available for unifying the numerous voices speaking on behalf of the Euro into a coherent common position, and we suggested that a strengthening of the Eurogroup and the development of a clear authority for a single representative, a Mr. Euro, to speak for Europe are the policy changes most likely to maximize the international financial power of Europe. Of course, more research and, ultimately, more time is needed to demonstrate whether the attractions of increased power and effectiveness in the international realm are enough to prompt states to surrender sovereignty over the external face of their money. In this conclusion, we speculate on the likely implications of the evolution of the Euro's international role in three areas: transatlantic relations; enlargement; and democratic accountability in the EU.

The first issue raised by the creation of a single voice for the Euro is how it will be received by the United States and how it will affect transatlantic relations. So far, most American officials have declared that they were favorable to a single European interlocutor with respect to financial and monetary matters.[35] Monetary union is, overall, in the interest of the United States for geopolitical as well as economic reasons. Geopolitically, the US prefers a Central and Eastern Europe firmly anchored to the West by as many ties as possible. Monetary integration can be one such tie, as will be market integration and common social policies. Moreover, since a successful monetary union is expected to consolidate European integration in other areas, it may boost the Europeans' confidence in Common Foreign and Security Policy –a development that may be welcomed by an increasingly unilateralist and isolationist United States. Economically, the US can also expect to benefit from the creation of the single European currency --as long as the basic monetary preferences of the US and the EU remain aligned. Because it enables decisions to be reached faster and in a more transparent way, a single European voice for the single currency would probably ensure greater efficiency of international negotiations and reduce bargaining costs. Therefore, the US should support EU efforts to sort out the internal issue of competence over policy-making and consolidate its external representation.

However, when it comes to concrete measures to set up the Euro's single voice, US officials have not given the EU much help so far. When EU leaders finally reached a

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[35] Henning (2000), pp. 12-17.

compromise on the external representation of the Euro in international negotiations during the Vienna Council in December 1998 (a complicated arrangement including the foreign ministers and central bank governors of the three European members of G7, plus the ECB president, plus the president of the Council, plus a representative of the Commission), the United States immediately rejected the proposal.[36] Eventually, in June 1999 US officials agreed to an arrangement for EU representation, but only on a provisional basis.[37]

Indeed, beyond the façade acceptance of European monetary union as a benign policy development, some US policymakers are still uneasy about the long-term effects of the Euro on American interests. A "successful EMU" where the Euro has a significant impact on the international role of the dollar, could strain US-European cooperation across the board, but much depends on one's view of whether the US and Europe are pursuing shared political and economic goals or are moving toward a more conflict-based relationship. If EMU accelerates European integration in other areas, there will be more symmetry in US-European relations. The idea of symmetry with the United States in the international monetary system is indeed one that the Commission has stressed in its evaluation of the effects of EMU.[38] The transatlantic relationship has always contained elements of both rivalry and cooperation. Some believe that in the absence of a broader, shared political goal such as the one that existed in the cold war, there is a risk that EMU will push this relationship toward conflict and disagreement.[39] How the character of US-EU cooperation will evolve depends significantly on whether the United States and Europe will choose to act as rivals in a competitive relationship or partners in the creation of public goods for the international community.

A second important issue raised by a potential reform of the Euro's external representation is how it will accommodate EU enlargement. Actually, the imminence of enlargement should provide an added incentive for the existing member states to devise an adequate system of external representation. This was indeed one of the main rationales behind the reform of trade policy decision-making and external representation during the 2000 IGC.[40] The enlargement of the EU to many more countries, all with disparate if not contradictory interests, poses a double sense of urgency for institutional reform. First, the arrangement agreed on for external representation has to function

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[36] Henning (2000), pp. 37-38; Everts (1999a), pp. 22-23.

[37] Henning (1999), p.38.

[38] European Commission (1997).

[39] Feldstein (1997).

[40] Meunier and Nicolaidis (2001), p. 8.

efficiently with a greater number of member states. The experience in the field of trade policy proves, if anything, that institutions designed for a small number of member states do not work properly when membership greatly expands. Therefore, an informal arrangement designed for eleven members may no longer be adequate when the single voice has to represent twenty different countries. Second, the current members may have an interest in "locking in" their preferred institutional design before new members join. For instance, the large member states currently part of the Eurozone may prefer an arrangement that favors them at the expense of smaller states –especially before more small states become members of the EU. Both the "efficiency" and the "lock in" arguments call for an urgent resolution to the institutional question of the Euro's single voice.

Finally, the increased profile of Europe in the foreign economic policy realm raises once again the question of democratic accountability. Remedying the so-called "democratic deficit" of policy-making in the EU has been one of the most pressing political issues surrounding any progress of European integration lately. To what degree does the transfer of sovereignty over issues of international monetary cooperation and representation in international organizations require enhanced democratic accountability at the new, EU level of governance? The two arguments most often advanced to justify the apparent absence of democratic input into many EU decisions are, first, that such decisions are more efficient and, second, that technocratic elites understand better than ordinary citizens how to govern. On the face of it, both arguments seem particularly applicable to the case of financial and monetary affairs where, first, speed of reaction and flexibility are the essence and, second, problems are extremely complex and technical. But what are the limits of this logic? There is also a strong case to be made that as the EU continues to consolidate policymaking capacity at the center, it must move from the model of insulated decisionmaking without political representation. Our proposal to strengthen the Eurogroup places policymaking squarely in the hands of political representatives who are accountable to their national publics. However, it continues the tradition of elite decisionmaking without involvement by a direct European level representative body, the European parliament. Oversight by the European parliament is thus critical to sustaining the legitimacy of the Eurogroup, but it must also have a good degree of freedom to pursue its delicate policymaking initiatives, which in certain areas will not allow for preapproval, such as in the exchange rate area. The presence of a Mr. or Ms. Euro may help in some sense the potential for democratic accountability. It may be easier to offer accountability if citizens, and parliamentarians, have one person to praise or blame for the performance of the EU in international monetary affairs.

The debate over the single voice of the single currency mimics the larger debate over the fate of European integration, as this paper has highlighted. On one hand, the member states want to pool forces in order to obtain at the international level the power that they can no longer have as individual countries. The creation of the Euro is one example among others of a policy area in which the integrated whole has the potential for being bigger than the sum of its parts. On the other hand, many states are not ready to sacrifice what they have left of individual power at the international level. Relinquishing these last bits of sovereignty may be politically costly for the governments of large member states, especially as they see their control over the levers of the economy wane

under the twin pressures of Europeanization and globalization. Yet the issue of external representation, which highlights very clearly the contradictory pulls of international power and national sovereignty, cannot be postponed indefinitely. If the member states do not preempt likely problems by tackling the institutional question of the single currency's external voice now, it will eventually be forced by external events, be them a financial crisis or EU enlargement, and the solution devised in the heat of the moment may not be the optimal arrangement.

Appendix: Article 109 of the Maastricht treaty

1. By way of derogation from Article 228, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavor to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the procedure in paragraph 3 for determining the arrangements, conclude formal agreements on an exchange-rate system for the ECU in relation to non-Community currencies. The Council may, acting by a qualified majority on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavor to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the central rates of the ECU within the exchange-rate system. The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the ECU central rates.

2. In the absence of an exchange-rate system in relation to one or more non-Community currencies as referred to in paragraph 1, the Council, acting by a qualified majority either on a recommendation from the Commission and after consulting the ECB or on a recommendation from the ECB, may formulate general orientations for exchange-rate policy in relation to these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.

3. By way of derogation from Article 228, where agreements concerning monetary or foreign exchange regime matters need to be negotiated by the Community with one or more States or international organizations, the Council, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, shall decide the arrangements for the negotiation and for the conclusion of such agreements. These arrangements shall ensure that the Community expresses a single position. The Commission shall be fully associated with the negotiations.

Agreements concluded in accordance with this paragraph shall be binding on the institutions of the Community, on the ECB and on Member Sates.

4. Subject to paragraph 1, the Council shall, on a proposal from the Commission and after consulting the ECB, acting by a qualified majority decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union and, acting unanimously, decide its representation in compliance with the allocation of powers laid down in Articles 103 and 105.

5. Without prejudice to Community competence and Community agreements as regards economic and monetary union, Member States may negotiate in international bodies and conclude international agreements.

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