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EC History: A Monetarist Interpretation

This session was initially organized around an alternative monetarist interpretation of the EC. I will try to outline this interpretation beginning with the reasons for the Treaty of Rome. Jerry Friedman will discuss the poor performance of EC countries under monetarism and Werner Bonefeld the dilemma the single currency poses for British monetarism. Prof. Chang, who has joined us, will discuss the respective contributions of France and Germany to EMU.

The recent publication of Andrew Moravcsik's The Choice for Europe[1]invites reexamination of the EC project. It is the most ambitious, well-informed and complete attempt yet to develop a historical interpretation--what he calls an 'analytic narrative'--based on a careful empirical analysis of critical events.[2]Such an interpretation looks for the underlying motive for freer trade and closer union and finds it in the commercial exporting interests, strongly intra-sectoral(pp. 494-6), of European states. His theory of EC negotiations revolves around the strength of national sectoral interests in industry and agriculture.[3]He thus confirms the findings of Alan Milward and his school, who have stressed the importance of exports and national political economy in a broader sense in the formation of European institutions.[4]

Together they afford useful corrective to both the Whiggish idealism of accounts stressing the influence of European federalism[5], Jean Monnet[6]and 'supranational entrepreneurship'[7] and the functionalism that oriented much American political analysis.[8]But both have their biases. They neglect or discount--Moravcsik after exhaustive disjunctive analysis[9]--the influence of geo-political, diplomatic[10]and domestic political factors and the important function that Europe played in national politics.[11]It is Europe as a derivative of domestic politics that is most neglected.

That the common market was first and foremost a trade arrangement should come as no surprise.[12]Those who lend a federalist intention to the signatories of the treaty of Rome must explain why the same countries four years later were on the verge of approving De Gaulle's Fouchet Plan for a Europe of nation states[13]or accepting ten years later the Luxembourg Compromise.[14]

The signatories paid little attention to what they were signing. The French did not even read the compromise document they hastily concluded with the Germans. Few of them including the prime minister believed it would ever be implemented.[15]Not even the judicial committee set up by negotiators seemed aware of the federalist implications of a treaty that almost inadvertently borrowed its institutions from the supranational European Coal and Steel Community(ECSC).[16]

Like most analysts[17]Moravcsik and Milward regard the EC as politically neutral or at least adaptable to the desires of member states. The Milward school, relying mostly on research into the views of national planners, sees it as the instrument of essentially welfare-oriented mercantilist states.[18] It exaggerates the commitment of Western governments to intervention in the 1950s[19]as well as the continuity of the Common Market with the more interventionist ECSC.

The liberal thrust of the Common Market compared to the ECSC and previous European projects[20]is underscored by its forward trajectory toward the treaty of Maastricht and EMU. It is difficult to deny their monetarist orientation. Maastricht sets up an independent bank seeking the imperative of price stability and embraces classical economics as the guiding principle of the community.[21]A careful analysis of the forces behind the treaty of Rome reveals that this outcome though unintended by most signatories[22]was not accidental, that EC institutions and principles, quite apart from other domestic and international factors, militated against intervention in favour of a competitive free market economy.

Indeed, a subscriber to the great man theory of history would want to place the economist and social philosopher Friedrich Hayek ahead of Monnet as the guiding spirit of the EC. Better than Monnet Hayek foresaw the market logic that would necessarily prevail in a federated Europe. Writing against the Keynesian current in 1939,[23]he advocated a federation to prevent the inflationary demands that resulted from polarized class relations within nation states. A European federation could only operate on the basis of free markets since the rule of unanimous consent would virtually preclude constructive measures of intervention--and besides what people would allow themselves to be dictated in macroeconomic matters by another.

A federation would encourage competitiveness against national protectionism, support the de-politicisation of economic relations against the power of workers to impose demand management, and do away with restrictions on the movement of capital, labor and goods. It would narrow the scope for the regulation of economic life, fragment the nationally-based working class, and render possible a single currency managed by an independent bank removed from democratic constraint. Supranationalism was thus endorsed as a way of keeping the state out of economic concerns and promoting free enterprise.

Hayek was a marginal figure when he founded the Society of Mont Pèlerin in 1947 but the economists who attended his conference, which discussed European federation, notably Milton Friedman, were to inspire the monetarist counter-revolution that occurred in the 1970s and 80s. By freeing currency markets from Bretton Woods the Nixon administration under Friedmanite influence let loose speculative movements that helped batter down regulatory barriers all over the world.[24]

The Germans who attended Hayek's seminars--Walter Eucken[25], William Röpke[26], and Ludwig Erhard[27]--starting with the deflationary monetary reform of 1948 effectuated a counter-revolution against the regulated economy in their own country. It was their political economy[28], that of ordo-liberalism, which produced the German economic miracle[29]and underlay the Common Market.

Monetarism or sound money policy is an elastic notion, but it would be wrong to make too much of the distinction, as does Peter Johnson in a pluralist analysis of the Bundesbank[30], and Moravcsik, pp. 246-6, who adduces a distinctive export interest,[31]between the Friedmanite concern for controlling domestic money supply and the defense of fixed exchange rates as an external discipline. The conflicting demands of price stability and fixed exchange rates were reconciled in Germany by requiring deflationary adjustment by trading partners.

Preventing inflation, containing wage costs, maintaining a strong currency--these were the aims of the ruling Christian Democrats and their business allies. Isolated electorally by the Cold War and nonplussed by the economic miracle, the Socialists acquiesced while unions settled for minimal participation in management.[32]When governments faltered, the Bundesbank carried out its statutory obligation to insure price stability. All this in pursuit of a deflationary export strategy that beggared its neighbors.[33]

German manufactures, particularly capital goods, were at the center of the post-war European trading network.[34]German banks and industry wanted free trade and fixed currency convertibility on a larger European, if not global, scale, but they accepted the political necessity for the Europe of the Six under Adenauer's leadership.[35]The ordo-liberal professors Walter Hallstein[36]at the Foreign Office, Alfred MÜller-Armack[37], secretary of state, and Ludwig Erhard, economics minister,[38] may have disagreed about diplomatic arrangements--the Europe of the Six--but they were all devotees of competition and free trade.

There were two important Frenchmen at the origin of Rome, Monnet and Mollet. Both wanted a more interventionist Europe than did the Germans. Monnet's sectoral spillover approach was rejected by the Germans and Dutch in favour of a liberal common market. Mollet's ideal for a fully planned and regulated European economy was embodied in an early memorandum,[39]but he and the Socialists basically trusted in the larger capitalist market to bring about social progress.[40]

Contrary to the standard mythology of a 'Malthusian' patronat, the CNPF under George Villiers, reacting to the interventionism of the ECSC, was beginning to warm to the idea of a free European market as a way to undermine French social regulation.[41]As reflected in the hostility of high officials, many sectors of French society feared German competition.[42]In formulating its conditions for the abolition of protection the government took up the demands of employers and other interest groups in the Economic and Social Council for the simultaneous upward harmonisation of labor regulations and charges, extensive safeguard clauses and French veto over passage to a second stage.[43]

Mollet, a confirmed European, wanted an agreement, but French conditions were unacceptable to their partners. Fear of economic and diplomatic isolation after the Suez crisis forced the French to back down. The government conceded to the Germans that social improvement would have to come from the operation of the free market while vastly exaggerating to parliament the social and investment guarantees obtained in negotiations. The final treaty hastily concluded relegated the social dimension to equal wages for men and women and a minor protocol that was quickly forgotten.[44]

The treaty of Rome, which I analyze in greater detail in a my book The Single European Currency in National Perspective: A Community in Crisis?, St Martin's Press, 1998, sought the creation of a single European marketplace through competition and free trade.[45]It thus aimed to eliminate all forms of national protection, including state aids and discriminatory regulation. Negative integration, the removal of national barriers, was made self-executory, but provisions for positive interventions such as the social fund and investment bank, so important to the French and Italians, were much diminished, omitted like industrial and social policy or made subject like transport to the rule of unanimity.

Another method of achieving the end was the approximation of economic and monetary policy but along German rather than French lines. Unlike the Spaak Report, which noted the twin dangers of deflation and inflation, the treaty sought to keep prices down. Members were to coordinate monetary policy, which in the opinion of the ECJ forbade floating. Another provision sought to neutralize the trade effect of devaluation, which France and Italy needed to stimulate their economies. The treaty pointed toward fixed exchange rates if not a single currency.[46]

This was the conclusion of the Commission, which also wanted a federal executive responsible to a European parliament.[47] Hallstein, the president, believed in the classical ideal of a 'natural market', free of social interventions and controls. For the abolition of tariffs to be effective it would have to lead to the removal of all other forms of discrimination such as differential transport, tax and exchange rates. By blunting the instruments of national economic policy such harmonization would lead to a federal state.[48]

During the first twelve years of implementation the Commission had to accommodate mercantilist arrangements in all states especially France and Italy. The organized resistance to its federalist project came from General De Gaulle. He is usually portrayed as a nationalist defending the sovereignty of France rather than any political economy.[49]

De Gaulle realized that he could only control France and keep the Communists at bay if he guaranteed rapid growth. Industrial aids, administered credit and monetary expansion were tools French governments used to assure growth and social peace.[50]De Gaulle had only managed to dampen their inflationary potential through authoritarian controls. When workers, breaking out of ten years of restraint, gained eight per cent real increases in the general strikes of May-June, the government accommodated them with monetary expansion, which in contrast to Germany prolonged growth far beyond the oil shock of 1974.

The strikes, which threatened to accelerate inflation differentials between France and Germany, prompted the first serious project for EMU.[51]Trade interdependence, argued the Commission, now required strict coordination of economic and monetary policy. But French and German conceptions were widely divergent. The French, who were campaigning against American dollar laxity, sought German funds to support a strong euro currency without any change in their own domestic economy while the Germans wanted the French economy to conform to their own deflationary requirements.[52]

The recommendations of the Werner Commission in 1970 for a closely coordinated economic transition to a single currency with an independent central bank and an economic government responsible to parliament were more German than French. The project attracted the French cabinet, but was vetoed in December by the French president Georges Pompidou. Only the nation state, he said, could tame 'brutal capitalism'[53]and rectify the social and regional inequalities it generated. Without it the French would be ungovernable. The French quickly abandoned the idea of a single currency, allowing only for the band of currency fluctuation known as the snake from which they had to exit twice before its demise in 1976.

The initial report on EMU had been drafted by Raymond Barre, vice-president of the Commission, a liberal economics professor who made no secret of his desire to end French monetary exceptionalism.[54]As prime minister in 1976 Barre made another effort through wage restraint to bring France into line with Germany. The proposal of Roy Jenkins, head of the Commission, for EMS with an exchange rate mechanism, was grasped by the pro-European leaders of France and Germany, Valéry Giscard d'Estaing and Helmut Schmidt, as a defense against dollar depreciation and as an external discipline to French monetary expansion.[55]

The first version of it, which required German assistance to weaker currencies, was deemed too inflationary by German banks and business, which held an effective veto over the Social-

Democratic chancellor.[56]Preference for responding to major imbalances was given to realignment, which would be subject to unanimous consent, and to the EC Monetary Committee, which would manage state finances in a crisis.[57]

That crisis was brought about by the election in the midst of a global downturn of a Left government in France pledged to nationalization and reflation. The inflation differential between France and Germany and pressure on the franc gave Germany the opportunity to push for a pause in French reforms in 1981, wage restraint in 1982, and a forced loan that led to austerity by 1984. In 1983 Mitterrand considered an alternative protectionist program, which would have meant a departure from EMS, but was blocked by the Europeanists, Jacques Delors, finance minister, and Pierre Mauroy, moderate Socialist prime minister, in his cabinet.[58]

The decision to stay within EMS was not economic in the objective sense that Moravcsik adopts[59], but was part of a political project backed by conservatives, centrists, the CFDT and employers that combined European construction with domestic austerity. Critics had long argued that reflation was incompatible with Socialist commitment to integration, which is why Mitterrand ignored the latter in his first years of power.[60]

The critical electoral factor in the turnabout was Catholicism. Europe had been introduced to Catholics after 1950 by the MRP, the party of Robert Schuman, which wanted to distinguish itself from fellow conservatives in government.[61]Previously nationalist but always anti-Communist and property-oriented,[62]Catholics were monetarist before being European.

The secularized Catholics who rallied to the Socialists in the 1970s and provided the margin of victory[63]retained old values, which included subsidiarity and the defense of the market and property as guarantors of individual autonomy and responsibility against the nation state, values that fitted the EC project. Represented in government by Delors[64]and Michel Rocard[65]in alliance with Mauroy[66], they exercised their veto in 1983.

The switch to deregulation was radical, the creation of a single financial market on the Anglo-saxon model, the curtailment of subsidized loans and the abandonment of direct control for open market fixing of money supply and interest rate.[67]The result was falling inflation with rising unemployment and a dramatic redistribution of income from labor to capital. The finance minister Pierre Bérégovoy was able to fix the franc at a high rate with the D-mark in July 1985. When he returned to office in May 1988, he adopted the philosophy of sound money.[68]

The turnabout laid the foundations for EMU. The Communists had been marginalized and there was no political alternative to monetarism. Mitterrand therefore had a free hand to substitute Europe for socialism as his grand projet.[69]He undertook to end the impasse in the EC over agriculture, enlargement and the British rebate and found common ground for closer union in the single market initiative. The latter was sustained by the ideological turn of major governments, backed by organized business, toward de-regulation and competitive markets.[70]

The program taken up by Delors and Lord Cockcroft, a businessman appointed by Mrs Thatcher, was deregulatory; notionally it encouraged a race to the bottom.[71]It cleared away non-quantitative national barriers to trade using the permissive principle of mutual recognition and only the 'essential requirements' of health and safety. It was followed by the freeing of capital movement in 1990, obtained by the Germans from the French in return for a promise of tax harmonisation that was not kept.[72]

The single currency followed naturally from a single market with capital mobility and fixed exchange rate. It sought the permanent establishment of sound money, not a loosening of EMS discipline by exporters as Moravcsik suggests.[73]Following French and German initiatives, the Delors Committee made up of central bankers adopted a plan along lines suggested by the head of the Bundesbank for an independent European bank dedicated to price stability. The plan came down on the side of German requirements for economic convergence even stricter in terms of national policy alignment than the final treaty and stability pact.[74]

In launching the Delors Committee with Kohl Mitterrand showed he was ready to embrace the terms of German monetarism for the sake of European union, a surrender of traditional policy made possible by the abandonment of domestic intervention. The terms of a deal, more tenuous on the German than the French side because of collegial governance, were thus in place long before the German demand for reunification, which gave Mitterrand leverage over a reluctant Bundesbank.[75]

The French Socialists had gone along with Mitterrand on Europe, but they were unable to make an ideological aggiornamento[76]and harbored residual doubts. The dissenter Bérégovoy was allowed to float the idea in 1991 of an economic government and national parliamentary delegation to flank the European bank, but it was only for public consumption and never seriously pursued.[77]The treaty did not prevent Mitterrand and his colleagues from claiming that the French would control the bank nor Chirac requiring Wim Duisenberg to retire early as head in favor of a French candidate.

The monetarist development of Maastricht out of Rome was natural as was the similar role played by France in negotiations of the two treaties. As the odd man out in political economy, France had to make large concessions to its partners to remain part of Europe. But instead of quibbling about treaty clauses--the French do not have a legalistic culture[78]--they capitulated to the Germans hoping to finesse their way out of full implementation through blocking action and superior diplomacy.

In both cases France had a state interest--commercial and military--in reaching accord with its partners. But the concessions in political economy were made possible by certain domestic political developments. The exclusion of the Communists in 1947 and the rise of the Gaullist RPF put France in the hands of third force coalitions, which evacuated many of the working-class reforms of the Liberation and took a more orthodox economic direction under the influence of the CNPF, most notably under Antoine Pinay in 1952.[79]

To mark themselves off from this direction two governmental parties, the MRP and SFIO adopted a federalist program, transposing forlorn domestic hopes onto a European plane.[80]For a SFIO which had abandoned effective planning and fiscal and monetary policy at home, Europe was an ideological imperative.[81] Without a government of Socialists dedicated to the European project in 1956, it is difficult to see how the French--for example under De Gaulle[82]or Pierre Mendès-France, who was more representative of the French consensus than Mollet[83]--could have reached an agreement.[84]

The same reasoning applies to EMU, which was the political substitute for Mitterrand's domestic socialism. Without a Socialist government that had marginalized the Communists and hard-line Gaullists[85]with the help of Catholic centrists and that embraced monetarism, it is hard to see how the French could have forced the single currency on a reluctant Germany.

Time does not permit me to fully elaborate an alternative theory--I'd like to leave some suspense--but I hope this paper has showed the extent to which the EC was constructed from the beginning on a monetarist basis close to the German model[86]that was sustained economically by business and banking interests much broader than Moravcsik's exporting sector and politically largely by centrist parties in each country leaning on liberal, social democratic and Catholic traditions held together by an underlying faith in the market allocation of resources.[87]

1. Ithaca, Cornell U.P., 1998.

2. Cf. Robert Bates, Avner Greif, Margaret Levi, Jean-Lauren Rosenthal and Barry Weingast, Analytic Narratives, Princeton U.P., 1998. In subjecting himself to a narrow Popperian test of falsifiabilty and dissenting from authoritative accounts, Moravcsik makes himself vulnerable to more credible alternative narratives.

3. Moravcsik, pp. 234, 304.

4. Alan Milward, The European Rescue of the Nation State, Routledge, 1992, Alan Milward, Federico Romero, Ruggero Ranieri and Vibeke Sorensen, Frontier of National Sovereignty: History and Theory, Routledge, 1992. Frances Lynch, France and the International Economy: From Vichy to the Treaty of Rome, Routledge, 1997. See also Richard Griffiths, ed, The Netherlands and the Integration of Europe, Amsterdam, NEHA, 1990.

Moravcsik, p. 473, does adopt Milward's notion of an objective national economic interest when he explains monetary union, which he sees as a response to international capital mobility and the consequent need for macroeconomic stability.

5. See critique by Richard Griffiths, 'A la recherche des débuts de l'intégration européenne,' Revue de synthèse, IV, no.3 (July 1990), 235-53, who is more sensitive to domestic political debates than Milward, 'Etats-nations et communauté,' id., 254-70.

6. Moravcsik, esp. pp. 138, 140, 145, 152.

7. Moravcsik, pp. 205-37, 304, 359-73, 386, 439, 448, 458-61, 479, passim.

8. The locus classicus is Ernst Haas, The Uniting of Europe: Political, Social, and Economic Forces, 1950-57, Stevens & Sons, 1958, who attempted to validate Monnet's approach to integration. What little evidence of 'spillover' he found, essentially Socialist demands for more supranational regulation, was rhetorical rather than effective, revealing the tribunate role the European parliament has mainly played. German Socialists acquiesced in the liberal Common Market primarily because of their domestic defeats rather than their disappointment over reunification as Moravcsik, p. 95, suggests. The most significant 'spillover' from the ECSC was--within a European context to be sure--essentially negative, a revolt against supranational regulation by most parties that yielded the Common Market. For the failure of interventionism in the ECSC see John Gillingham, Coal, Steel and the Rebirth of Europe: The Germans and French from the Ruhr Conflict to the Economic Community, CUP, 1991.

9. Moravcsik admits secondary causation in the case of European geopolitics and ideology, which especially operated when economic interests were politically unrepresented or divided to determine the form rather than the substance of arrangements as in the choice of Europe of the Six, pp. 90-95, 103, 404, 476-8. He does not explore the linkage of disparate issues through negotiated exchange or of issues tied together in a political project or connected to an underlying logic or force. Advocates of integration usually combined political and economic arguments. Negotatiors often exchanged political for economic advantage.

10. Erling Bjöl, La France devant l'Europe: la politique européenne de la IVe République, Copenhagen, 1966, acknowledging the difficulty of distinguishing real motives from rationalizations, comes down on the side of the diplomatic explanation. The best recent synthesis incorporating the latter is G. Bossuat, L'Europe des Français, 1943-1959, Publications Sorbonne, 1996. Perhaps Moravcsik's most counter-intuitive argument is that Gaullist policy was mostly concerned with agriculture, pp. 178-97.

11. Robert Geyer examines this aspect in The Uncertain Union: British and Norwegian Social Democrats in an Integrating Europe, Avebury, Aldershot, 1997. Moravcsik, p. 137, does admit that domestic politics in France and Germany may have influenced the form of the EC.

12. However it was not merely a tariff agreement, which had previously been proven impossible, given divergent national interests (cf. Wendy Brussse, Tariffs, Trade and European Integration, 1947-1957: From Study Group to Common Market, Macmillan, 1997), but a leap to an entirely new system of market regulation.

13. Georges-Henri Soutou, 'Le Général de Gaulle et le plan Fouchet,' Institut Charles de Gaulle, De Gaulle et son siècle, Europe (1992). The Dutch, who vetoed the Fouchet plan, regarded the Rome treaty as a triumph for 'l'Europe des patries,' Moravcsik, p. 150. Moravcsik regards the plan as a diplomatic feint, pp. 184-7.

14. Robert Margolin, Architect of European Unity: Memoires, 1911-86, Weidenfeld and Nicholson, 1986, p. 356.

15. S. Holland, The Uncommon Market, Macmillan, 1980, p. 64, n. 23. Moravcsik, pp. 109, 157. Christian Pineau and Christiane Rimbaud, Le Grand Pari: l'aventure du traité de Rome, Fayard, 1991, pp. 275, 298.

16. P. Pascatore, 'Les travaux du "Groupe juridique" dans la négotiation des traités de Rome,' Studia Diplomatica 34(1981): 161-77. Moravcsik, pp. 101, 149, 152-8. Pierre Uri, delegated by

the ECSA and co-author of the Spaak Report, recommended imitation of ECSA institutions, Haas, pp. 514-16, 547-8. An aid to Monnet on the French Plan and ECSC, Uri was a mild Keynesian who only believed in post-hoc intervention in the market process, Penser pour l'action: fondateur de l'Europe, Odile Jacob, 1989, esp. pp. 142, 145. German and French proposals for EC governance were more intergovernmental, but all members seemed willing to pool sovereignty on issues of trade liberalization.

17.Inter alia K. Featherstone, Socialist Parties and European Integration: A Comparative History, Manchester U.P., 1958, p. 343, and P. Kapteyn, L. Gormley and Verloren van Thematt, Introduction to the Law of the European Communities, Boston, Kluwer, 1989, esp. pp. 80-1.

18. Milward, Rescue, ch. 5. Lynch, France.

19. Cf. B. Moss, Labour and Economic Growth under the Fourth French Republic, Birmingham, Aston University Papers, 1993.

20. See Gillingham, Coal, Steel and the Rebirth of Europe, and G. Trausch, ed., European Integration from the Schuman Plan to the Treaty of Rome, LGDJ, 1993.

21. Articles 3a and 102a enshrine the 'open market economy with free competition, favoring an efficient allocation of resources.'

22. Moravcsik denies the unintended consequences of spillover from both policy and institutional commitments, pp. 489-94.

23.'Economic Conditions of Interstate Federalism' in Individualism and Economic Order, Routledge, 1949.

24. Eric Helleiner, States and the Re-emergence of Global Finance from Bretton Woods to the 1990s, Ithaca, Cornell U.P., pp. 100-25.

25. Eucken, The Foundation of Economics: History and Theory, Hodge, 1950, was leader of the Freiburg school.

26. See his International Order and Economic Integration, Dordrecht, D. Reidel Pub., 1959, and 'Gemeinsamer Markt und Freihandelzone,' Ordo: Jahrbuch fÜr die Ordnung von Wirtschaft und Gesellshaft 10(1958): 31-62. Hayek was a frequent contributor to Ordo.

27. Deutschlands RÜckkehr zur Weltmarkt, 1954. Erhard's paper to Hayek's conference in 1949 was 'The Economic Strategy of the Free World,' J. Raybould ed., Hayek: A Commemorative Album, Adam Smith Institute, 1998, pp. 55-8, 80.

28. On the power of economic ideas to forge coalitions see P. Hall, ed., The Political Power of Economic Ideas: Keynesianism across Nations, Princeton U.P., 1989.

29. H. Giersch, K-H Pacqué and H. Schmieding, The Fading Miracle: Four Decades of Market Economy in Germany, C.U.P., 1992.

30. The Government of Money: Monetarism in Germany and the US, Ithaca, Cornell U.P., 1998.

31. The notion that stable competitive exchange rates have their origin in export interests is advanced by Jeffrey Frieden, 'Invested Interests: The Politics of National Economic Policies in a World of Globlal Finance,' International Organization 45(1991):425-51. Paulette Kurzer, Business and Banking: Political Change and Economic Integration in Western Europe, Cornell U.P., 1993, attributes them to dominant financial interests and independent central banks while James Walsh, 'Politics and Exchange Rates: Britain, France, Italy and the Negotiation of the European Monetary System,'Journal of Public Policy 14(1994):345-69, stresses the fusion of financial and industrial interests in countries seeking fixed competitive rates. Sectoral business support is a necessary but not a sufficient condition to explain monetary union, which required a certain type of political economy and political project, identified closely with Germany, to prevail.

32. The Marxist tradition had not prepared them for demand management, C. Allen, 'The Underdevelopment of Keynesianism in the Federal Republic of Germany,' The Political Power of Economic Ideas: Keynesianism across Nations, ed. P. Hall, Princeton U.P., 1989, pp. 264, 272-3.

33. Giersch et al, Fading Miracle. T. Cutler, C. Haslam, J. Williams and K. Williams, 1992: The Struggle for Europe: A Critical Evaluation of the EC, Berg, 1989, pp. 5-26, demonstrate how Germany absorbed manufacturing capacity from Britain and surrounding countries.

Keynesianism remained poorly developed, Allen, 'Underdevelopment,' and Charles Roberts, 'Economic Theory and Policy-Making in West Germany: The Role of the Council of Economic Experts,' Cambridge Journal of Economics 3(1979):83-9.

34. Milward, Rescue, ch. 4.

35. Fritz Berg, head of the Federation of German Industry, was virtually Adenauer's minister of economics, Moravcsik, pp. 96-7. Ernst Otto, Die Deutsche Industrie in Gemeinsamen Markt, 1957. Werner BÜhrer, 'German Industry and European Integration in the 1950s,' in C. WÜrm ed., Western Europe and Germany: The Beginning of European Integration, 1945-60, Berg, 1995. G. Braunthal, The Federation of German Industry in Politics, Ithaca, Cornell U.P., 1965, pp. 322-6. S. Lee, 'German Decision-Making and European Integration: German "Europolitik"', A. Deighton ed., Building Post-War Europe: National Decision-Makers and European Institutions, 1948-63, London, 1995. Edelgard Mahant, 'French and German Attitudes to the Negotiations about the EEC, 1955-6,' London U. Ph.D, 1969, pp. 240-50. Hans KÜsters, Fondements de la Communauté économique européenne, Edition Labor, 1990, pp. 34,

96. Giersch, Fading Miracle, p. 117.

36. Hallstein was a law professor who worked for the Ruhr steel industry while negotiating the Schuman Plan. For his ordoliberal views see his United Europe: Challenge and Opportunity, Harvard U.P., 1962, pp. 39-45, and Europe in the Making, George Allen & Unwin, pp. 24-9.

37. Auf dem Weg nach Europa, TÜbingen, Rainer Wunderlich, 1971.

38. The co-author of the Spaak Report was Hans von der Groeben, a jurist responsible for ECSC in Erhard's ministry, who shared ordoliberal views, The European Community: The Formative Years, Luxembourg, 1987.

39. Marjolin, Architect, pp. 286-8.

40. See KÜsters, 'The Origins of the EEC Treaty,' E. Serra ed., Il rilancio dell'Europa e i trattati di Roma, LGDJ, 1989, p. 228, and Mollet, Alain Savary and André Philip in Bjöl, France, pp. 60, 62, 71, 96, 272. Philip, leader of the Socialist European movement, represented the extreme of a revisionist current in European socialism that saw the US with its mass production realizing the aims of socialism. German and other Socialists seemed to agree that nation states could no longer accommodate the requirements of bigness, JÜrgen Bellers, 'The German Social Democratic Party,' Socialist Parties and the Question of Europe in the 1950s, ed. Richard Griffiths, E.J. Brill, 1993, p. 79, also, p. 22.

41. The head of the International Commission of the CNPF was enthusiastic about the Spaak Report. Moravcsik, pp. 108-10, P. Mioche, 'Le patronat français et les projets d'intégration économique européenne dans les années cinquantes,' Trausch, ed. European Integration, Mahant, 'Attitudes,' pp. 77-96, Bjol, France, pp. 197-8

42. Bossuat, l'Europe, pp. 260-352, and his 'The French Administrative Elite and Europe,' Deighton ed., Building Europe.

43. Bjol, France, pp. 197-8, 270. Kusters, 'Origins of EEC', p. 224.

44. Moravcsik, pp. 118-20 like Lynch France, pp. 178-81, claims agreement was reached before Suez contrary to the testimony of French negotiators Maurice Faure and Christian Pineau and other major historians, KÜsters, 'Origins EEC,' pp. 233-7, and his Fondements, pp. 147-203, also in Serra, ed., Rilancio, pp. 283, 289, 309, 324. Eric Kocher, 'Le Rôle de la France dans les négotiations de Rome,' Mémoire, Paris I, 1989. G. Elgey, La République des tourmentes, 1954-9, Fayard, 1972, I, 599-620. Bjöl, France, pp. 62-3. Bossuat, Europe, pp. 260-376. In Moravcsik's view, p. 146, the French came out winners.

45. Wolfgang Streeck, the leading authority on industrial relations and the social dimension in Europe, confirms this analysis for those sectors, 'The Internationalization of Industrial Relations in Europe: Prospects and Problems,' Politics and Society 26(1998):429-59, and 'From Market-Making to State Building? Reflections on the Political Economy of European Social Policy,' European Social Policy: Between Fragmentation and Integration eds S. Liebfried and P. Pierson, Brookings Institution, 1995.

46. Moravcsik denies this monetarist orientation, p. 149.

47. K. Dyson, Elusive Union: The Process of Economic and Monetary Union in Europe, Longman, 1994, pp. 69-71.

48. Hallstein, United Europe, and Europe in the Making.

49. Moravcsik, pp. 178-97, sees him defending more narrowly the French agricultural interest. He does not discuss De Gaulle's opposition to the Commission's project for a single currency in 1965, which resulted in the replacement of his finance minister Valéry Giscard d'Estaing by Michel Debré, Ken Dyson, The Elusive Union: The Process of Economic and Monetary Union in Europe, Longman, 1994, pp. 70-1.

50. M. Loriaux, France after Hegemony: International Change and Financial Reform, Ithaca, Cornell U.P., 1991, pp. 136-63.

51. The Commission had broached the subject of coordinating monetary policy in response to American dollar depreciation in February 1968 but the Monetary Committee was only given a mandate on September 9, Bulletin of the European Community, no. 3, 1969, pp. 1-3. Monnet was influential behind the scenes in this EMU project, G. Bossuat, 'Le Président Georges Pompidou et les tentatives d'Union économique et monétaire,' Association Georges Pompidou, Georges Pompidou et l'Europe, Editions complexe, 1995.

52. Commission memorandum, Dec. 12, 1968, Bulletin of the European Community, 1969, v. 3. Loukas Tsoukalis, The Politics and Economics of European Monetary Integration, George Allen, 1977, esp. pp. 91-104. D.C. Kruse, Monetary Integration: EMU, EMS and Beyond, Routledge, 1980, esp. pp. 19-24, 48-75.

53. Quoted in Association, Pompidou, pp. 349-53.

54. In a speech to French financial consultants on November 21 1968 he recommended the creation of a single European financial market, Tristan Mage, Clefs pour l'Europe et son fonctionnement, 1967-72, 3 vols., 1972, I, 100-13. His appointment by de Gaulle was a sign of the latter's growing economic liberalism. Reflecting his pragmatism, Barre's plan was modest combining French demands for short-term credit with German desires for policy consultation, Moravcsik, pp. 292-3.

55. J. Story, 'The Launching of the EMS: An Analysis of Change in Foreign Economic Policy,' Political Studies 36(1988):397-412. Dyson, Elusive Union, pp. 106-11. Moravscik, p. 266.

56. Karl Kaltenthaler, Germany and the Politics of Europe's Money, Duke U.P., 1998, pp. 46-58. Moravcsik presents it as a victory for the Bundesbank rather than business generally, pp. 244-8.

57. Ignoring concessions made to the French over the use of the écu and a monetary fund to help weaker currencies, the Germans asserted their control over devaluations after 1981, Moravcsik, pp. 298-304.

58. Moss, Single Currency, pp. 63-6.

59. Pp. 239, 269-86, 332-43, 410. He regards both the breakdown of Bretton Woods and national monetarist responses to it, such as the franc fort, as inevitable objective phenomena rather than the results of political choice. For the latter view see Helleiner, States. For a more dialectical approach that combines choice with feedback effects and path dependency see David Andrews and Thomas Willett, 'Financial Interdependence,'International Organization 51:(1997):479-565.

Allowing increasing capital mobility made the unilateral fixing of exchange rates more difficult, but did not exclude floating. Moravcsik admits that industrialists in weak currency countries were led to demand hard money policies in order to depress wages and shift resources to the private sector.

Technical studies were not unfavorable to a French departure from the EMS as he claims. For a retrospective analysis see O. Blanchard and P.-A. Muet, 'Competitiveness through Disinflation: An Assessment of French Economic Strategy,' Economic Policy, no. 16(1993), pp. 12-56. The policy of the franc fort was highly partisan even among financial officials in the bank and ministry, E. Aeschimann and P. Riché, La Guerre de sept ans: histoire sécrete du franc fort, 1989-96, Calmann-Lévy, 1996.

60. Moravcsik, pp. 332-34, 341-2.

61. S. Berstein et al eds., MRP et la construction européenne, Complexe, 1993, especially J.P. Brunet, pp. 101-10, P. Letamendia, pp. 131-4, 240, and Tranvouez. Also, Daniel Powers, 'The MRP, the European Movement, and the Struggle to Define Europe,' French Historians Meeting, Ottawa, March 1998. The Catholic press hardly ever mentioned Europe directly.

62. My analysis extends to secular Catholics supporting the Socialists that of G. Michelat and M. Simon, 'Déterminismes socio-économiques, organisations symboliques et comportement électoral,' Revue française de sociologie, XXVI(1985):32-69. The strong connection of French Catholics to property ownership

may be less related to the quest for immortality than to their historical defense of property against socialism. The political leaders of the secularized Catholics, Delors, Rocard, Edmund Maire of the CFDT and Jacques Julliard of the Nouvel Observateur incorporated medieval themes in their socialism.

63. Secularized Catholics especially from the MRP bastion of the West provided the margin of victory of the Socialists over the Communists and thus over the Right beginning in the elections of 1973 and 1978. This phenomenon, which is something of a tabou in France, has not been studied directly.

64. Like the ordoliberals, especially the Catholic Muller-Armack, who invented the term 'social market,' Delors accepted both pre and post competitive intervention to rectify inequalities created by the market, but believed in monetary rigor. Giersch, Fading Miracle, pp. 31-2. G. Ross,'Social Policy in the New Europe,' Studies in Political Economy 40(1993): 61, 72-3. Allen, 'Underdevelopment,' p.75.

65. Parler vrai, Seuil, 1979.

66. Mauroy, who forged an alliance with the Catholic left in 1974, believed they represented the same non-dogmatic experimental spirit as his own, Héritiers de l'avenir, Stock, 1977, pp. 247-55.

67. Moss, Single Currency, pp. 65-6. J. Melitz, 'Financial Deregulation in France,' European Economic Review 34(1990): 394-402. Moravcsik, pp. 336-40, correctly notes the contradictions between financial liberalization, which had begun under Barre, and Mitterrand's economic policies, but regards the option of re-regulation, considered in some areas by Mitterrand, as utopian given the global market context. On the continuing pertinence of national economic regulation see Globalization and Progressive Economic Policy, eds Dean Baker, Gerald Epstein and Robert Pollin, CUP, 1998.

68. Aeschimann and Riché, Guerre, pp. 32, 53-9. Blanchard and Muet, 'Competitiveness,' pp. 12-56.

69. Moravcsik recognizes the role of Mitterrand's personal ambition and his need for new legitimation in the SEA and EMU, pp. 334-5, 343.

70. See Moravcsik's pathbreaking account, 'Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community,' International Organization: 45(1991):19-56. In Choice, ch. 5, he details sectoral interests rather than broader social and ideological forces behind the SEA. He wrongly applies the sectoral analysis to unions, p. 328, whose positions were more influenced by social and ideological factors, cf. A. Markovits and Otto, 'West German Labor and Europe '92', Germany and the European Community:Beyond Hegemony and Containment? ed.

C. Lankowski, Macmillan, 1993.

Even greater influence for big business and exporters is claimed by Maria Cowles, 'Setting the Agenda for a New Europe: The ERT and EC 1992,' Journal of Common Market Studies, 33(1995):501-26, and Neil Fligstein and Peter Brantley, 'The 1992 Single Market Program and the Interests of Business,' Politics and Institutions in an Integrated Europe, eds B. Eichengreen, J. Frieden, and J. von Hagen, Springer, 1995.

Mitterrand would have liked some moderation of free market principles, but realized in December 1985 he would have to join his liberalizing partners if he wanted closer union, J. Attali, Verbatim, Fayard, 1993, I, 887 and P. Favier and M. Martin-Roland, La Décennie Mitterrand, Seuil, 1990, 2:216-17.

71. Moravcsik, p. 377, also sees it as an example of efficient collective decision-making. G. Majone sees abdication of responsibility by the Commission to national regulation, Majone ed., Deregulation or Reregulation? Regulatory Reform in Europe and the United States, New York, 1990, pp. 3-4. Whether the single market has encouraged a reduction of health, safety, consumer and other standards remains to be studied.

67. Bérégovoy wanted to make fiscal harmonization a condition for capital mobility, but Mitterrand told him that European unity was more important before the summit at Hanover in June 1988, Aeschimann and Riché, Guerre, pp. 45-51.

73. Moravcsik, ch. 6, esp. pp. 381, 386, 397, 401-4, 411-12, 429-30, 470 and contra, pp. 391-92, 409-10, 414-16, 431, 440-42, 461-66, does not provide evidence of efforts by France and Germany or their industries to loosen fiscal purse strings only of a concern for competitive exchange rates and conflicting signals within government. Kohl's greater desire to accommodate the French than the Bundesbank was motivated by both his European idealism and sense of state interest. The peak associations that Moravcsik says influenced government aggregated and mediated diverse sectoral and firm interests on a quasi-political level. German industry like the Bundesbank content with EMS and European market dominance rejected compromises with French laxity. Cf. Dorothy Heisenberg, The Mark of the Bundesbank: Germany's Role in European Monetary Cooperation, Lynne Rienner. 1999, D. Cameron, 'Transnational Relations and the Development of European Economic and Monetary Union,' Bringing Transnational Relations Back In, ed. T. Risse-Kappen, CUP, 1995, M. Huelshoff, 'German Business and the 1992 Project,' Germany, ed. Lankowski, and Kalthenthaler, **Germany,** pp. 56, 62-76.

Traditional French policies were defended by Bérégovoy at finance, Aeschimann and Riché, Guerre, pp. 44, 87-93, but the important decisions accepting German terms were made alone by Mitterrand in 1988. Mitterrand was in a rush toward monetary union telling his ministers they had to go along with the Germans and other European partners. Not only did he not oppose the convergence criteria, but he was the one who suggested the three per cent limit on fiscal deficits, which he had arbitrarily set for France in 1983, Aeschimann and Riché, Guerre, pp. 45, 87-93, Attali, Verbatim, 1988-95, Fayard, 1995, III, 11.

Unlike Mitterrand, Kohl had to wait until all coalition partners including the distrustful Bundesbank were on board before committing Germany to EMU. This did not occur, contra Moravcsik, pp. 397-9, until the Strasbourg summit of December 1989 as the German qui pro quo to Mitterrand for German reunification. Kohl only accepted a date for the IGC in December pending agreement on a conference on political union that was finally set in April 1990. He and Mitterrand needed the leverage of reunification because he believed he was acting contrary to German interests and opinion, Archives Kohl, Le Monde, July 30, 1998. A. Gauron, Le Malentendu européen, Hachette, 1998, pp. 163-73. H. Védrine, Les mondes de Mitterrand à l'Elysée, 1981-95, Fayard, 1996, p. 420. K. Dyson and K. Featherstone, 'EMU and Economic Governance in Germany, German Politics 5(1996):329-33. Cameron, 'Transnational Relations', pp. 51-61. 76-8. Aeschimann, Guerre, pp. 88-92. Attali, Verbatim, III, 349, 368, 493, 606, 767.

74. Hans Tietmayer, a state secretary of finance who had participated in the Werner Committee in 1970, had laid down German convergence and stability conditions in a report published in March 1988. The Delors Report reflected these conditions represented by the head of the Bundesbank, Karl-Otto Pöhl, who participated under duress. It recommended the alignment of national economic policies with a German-type ECB, a much stricter coordination than occurs in Germany. Dyson and Featherstone, 'EMU,' 330, 334. Moravcsik, pp. 434-6, 458-61, 464-6. Cameron, 'Transnational Relations,' pp. 48-51.

75. In the absence of Soviet resistance Mitterrand did not possess a credible veto of German reunification. He thus could only secure Kohl's adhesion to EMU by accepting German terms. Kohl however could still use the feigned threat of veto to obtain domestic assent to EMU.

76. They were unwilling to retrospectively validate Rocardism or challenge their own beliefs, Yves Rocaute, Histoires socialistes de la Commune à nos jours, Editions Ledrappier, 1987, esp. pp. 291-387.

77. Aeschimann, Guerre, pp. 88-92, Colette Mazzucelli, France and Germany at Maastricht, Garland, 1997, pp. 65, 118, contra Moravcsik, p. 411.

78. See Laurent Cohen-Tanugi, Le Droit sans l'état: sur la démocratie en France et en Amérique, Presses universitaires de France, 1985.

79. The Fourth Republic has been sadly neglected by historians, but see Mioche, 'Patronat français,' and id. and Bernard Cazes, eds, Modernisation ou décadence: études, témoignages et documents sur la planification française(Aix-en-Provence, 1990).

80. Maurice Duverger, dean of French political scientists and Socialist MEP, said of his group: 'The myth of supranational Europe was the way to escape from unbearable reality by taking refuge in imaginary worlds,' Geneviève Lemaire-Prosche, Le P.S. et l'Europe, Editions universitaires, 1990, p. 35.

At the 1954 MRP congress one delegate said.'We are the party of Europe.... It is our revenge for the failures and difficulties experienced in our social policy,' W. Irving, Christian Democracy in France, George Allen & Unwin, 1973, p. 187.

81. Mollet retained the commitment to social reforms like the third week of paid vacation. Roger Quilliot, La SFIO et l'exercice du pouvoir, 1944-58, Fayard, 1972, pp. 291-308. Michael Newman, Socialism and European Unity: The Dilemma of the Left in Britain and France, 1983, pp. 23-32.

82. He probably would have refused supranational powers and obtained more guarantees for agriculture, Moravcsik, p. 182.

83. Mendès-France would have delayed the common market until France had built up a competitive industry and obtained real social, investment and planning measures negotiated by national governments, Bossuat, L'Europe, pp. 138-39, 217, 226, 256.

84. Bossuat, L'Europe, pp. 291, 351 and 376, considers Mollet the founder of Europe. KÜsters, 'Origins EEC', p. 233.

85. Gaullists had defended national economics before 1981, but turned to neoliberalism and Europe as part of a united front of the right against Mitterrand's socialism, Andrew Knapp, Gaullism since de Gaulle, Aldershot, Dartmouth, 1994, pp. 171-82.

86. For an estimate of the income, growth and job losses that resulted from the adoption of the German model especially after 1978 see Gerald Friedman, 'Has European Economic Integration Failed?' ECSA Conference, Pittsburgh, June 5, 1999. Moravcsik's economic asssessment is sanguine, pp. 491, 494-6, 500-01.

87. For the distinction between parties and value cleavages see Gary Marks and Carole Wilson, 'The Past in the Present: A Cleavage Theory of Party Response to European Integration,' forthcoming in the British Journal of Political Science. The French were able to resist monetarism for some time because they possessed deeply-rooted socialist and Napoleonic traditions. Cf. Geyer, Uncertain Union.