The Role of Medium-sized Countries in the Creation of EMU: The Cases of Belgium and the Netherlands

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Ivo Maes (National Bank of Belgium) and Amy Verdun (Max Planck Institute Köln) "Belgium, the Netherlands, and Europe's Economic and Monetary Union"
David Mayes and Matti Virén (Bank of Finland) "Asymmetry in European Macroeconomic Policy"
George Pagoulatos (Athens University of Economics and Business) and Theodore Pelagidis (Panteion University of Athens) "EMU and the New Stabilization State: Demand Disturbances and Asymmetric Responses"
Discussant: David Cleeton (Oberlin College)

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Abstract

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It is often argued that EMU was created due to the efforts and interests of larger Member States. This paper argues that the Belgian and Dutch contributions to EMU indicate that medium-sized countries played a significant role in the creation of EMU. This paper analyses the path to monetary cooperation of Belgium and the Netherlands from its early days in the context of the Benelux to their participation in Economic and Monetary Union (EMU). It examines Belgian and Dutch attitudes towards European integration, key concepts of the Belgian and Dutch EMU strategies, and their role on the European monetary scene. It is argued that both countries wanted to create a zone of monetary stability in Europe and as such have led the process by example. However, their conceptions of monetary stability were, to a certain extent, different. In the EMU process their roles diverged. Belgium, as a close ally of the Commission, played a pace-setting role, especially through creative and diplomatic proposals, whilst the Netherlands played the role of gate-keeper and important ally of the Germans. In addition they both played the role of mediator.

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1. INTRODUCTION

It is often claimed that large European Union (EU) Member States have been the main movers of EMU. Moravcsik (1998) makes this case very forcefully in his analysis of five decades of European integration. In his view the EMU process can only be understood if one accepts that EMU served the domestic economic interests of the three most dominant Member States, that is, France, Germany and the United Kingdom.

Dyson and Featherstone (1999) also study the role of the largest Member States. They conclude that four large Member States (the three already mentioned plus Italy) supported the EMU project; not only to protect domestic interests of these countries (as Moravcsik argues), but also because of a large number of other reasons.[1] Two of those reasons are that elites in these countries had come to realise the importance of creating a monetary regime based on the principles of price stability and central bank independence, and the aim to institutionalise within the EU framework the successful monetary policy convergence achieved under the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS).[2]

Realist scholars, for example Grieco (1995), argue that Member States favoured EMU because it provided the EU Member States national monetary authorities with a renewed voice over monetary policy-making. During the 1980s the monetary authorities of the ERM countries de facto followed German policies. Thus effectively they did not have a say in the policy-making process, whereas under EMU they would regain a voice over monetary policy through the Governing Council of the ECB. Other scholars and

[1] The United Kingdom (UK) was not in favour of joining EMU, but nevertheless accepted EMU as part of the 1992 Maastricht Treaty.

[2] Overviews of the process of European monetary integration can be found in Dyson and Featherstone (1999), Gros and Thygesen (1998), Maes (2002); Szász, (1999), van Ypersele and Koeune (1989) and Verdun (2000).

commentators (including many journalists) have argued that EMU only succeeded because of a deal between France and Germany. The claim is that France agreed to support German Reunification if Germany agreed to accept EMU (cf. Garrett 1992). Apart from the fact that EMU had reappeared on the agenda before there was any sign of the fall of the wall[3], this bold claim has recently been dismissed by the French and German leaders themselves.

In our view it is erroneous to attribute EMU exclusively to the Franco-German alliance or to the convergence of the interests of the largest four countries. Without ignoring the decisive role of French-German negotiations at crucial moments or the importance of the large four, the construction of EMU has been a collective, multilateral achievement in which all member countries, including the smaller ones, have played a part.[4]

In this context one should recall that the incorporation of EMU in the European Communities implied a revision of the Treaty of Rome. Indeed, it was decided to combine efforts and create a Treaty on European Union which included more than merely EMU. In the Intergovernmental Conferences (IGCs) and the European Council summits, the strength of the negotiation position of any given country also depends on the support from other countries be they small, medium-sized or large countries. Moreover, the 1992 Treaty on European Union could only enter into force if it was ratified by all (at the time twelve) Member States. It is important, therefore, to examine the contributions of Member States, also the smaller and medium-sized ones.

There is a growing literature on the role of small states in the European Union (see inter alia Archer and Nugent 2002, Armstrong and Read 2002, Galloway 2002 and Katzenstein 1985, Miles 2002, Thorhallsson 2000). Though there is no satisfactory definition of a small state some have developed criteria to evaluate the size of a state (Archer and Nugent 2002). With regard to EU Member States there have been debates as to how to label the smaller Member States in the EU. It is often stated that there are five large countries (France, Germany, Italy, Spain and the United Kingdom. Poland will be the sixth large Member State if and when it joins). The criteria usually are size

[3] The Single European Act mentions the need to create an EMU. Subsequently, the so-called Delors Committee discussed a possible blueprint of EMU in the fall and winter of 1988 and the spring of 1989. Its report was published in April 1989 well before the first signs of the demise of the communist regimes in the second half of that year.

of population and Gross Domestic Product (GDP). Often a more subjective judgement is made to determine whether a country should be placed into one or another category. Besides those five EU Member States the others are considered small and medium-sized. We argue that Belgium and the Netherlands should be considered medium-sized. Note however that Archer and Nugent (2002) also recognize the importance of the category medium-sized country. However, they categorize the Netherlands as medium-sized whereas Belgium is considered by them to be 'small'. Yet Miles (2002: 92) observes that "The Union has been characterized by a lack of 'medium-sized countries' as members and this has tended to mean that the notion of smallness has been defined in relations only to largeness and not vis-à-vis that of being 'medium-sized'". We argue that Belgium and the Netherlands are medium-sized countries.[5]

Some specific characteristics can be attributed to 'small states'. Katzenstein (1985: 81-92) hypothesizes that small states in the EC (1) are more open and dependent on other economies and pursue a more liberal trade agenda; (2) focus more clearly on selected policies they find important due to their limited domestic resources; (3) have an administration and a bureaucracy that is characterised by greater informality (4) develop a special relationship with the Commission on which they rely more heavily to get their proposals through the Council, (5) are more likely to have a corporatist structure which restricts their governments in EU negotiations. Thus it is not surprising that small states can have an important impact on the EU policy-making process.

In 1998 Jones, Frieden and Torres conducted a study on EMU and small states. They show that the smaller EU Member States have all had different reasons for supporting EMU, but were generally in favour of it. Even though that study provides important insights into the domestic treatment of EMU in the smaller Member States

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[4] Ludlow (1982) took this perspective in his study of the creation of the EMS.

[5] The categories "small" and "medium-sized" countries will become more relevant after Eastern enlargement.

(i.e. how EMU was accepted in these countries and how they proceeded to prepare for it) Jones et al. however do not focus on the influence of these smaller countries in the EMU process. Finally, a recent edited volume examines how EMU has been incorporated in a selection of Member States (Dyson 2002). It sheds light on how EMU affects Member State policies, political structures, discourses and identity. However, the volume explicitly does not examine the influence of these countries on the process of creating EMU.

This paper aims at shedding light on the role of two medium-sized EU Member States, namely Belgium and the Netherlands, in the process of European monetary cooperation. Being two of the founding members of the European Communities, strong supporters of monetary cooperation, close allies of the Commission, France, Germany and the United Kingdom, as well as countries that have taken a leading role in economic cooperation (for example in the context of the Benelux), we argue that their roles have been important and to date underestimated in the literature on European monetary integration. We would not want to claim that the role of the large Member States was unimportant or that the role of these two medium-sized Member States was larger than that of Germany and France. Rather, we want to spell-out the roles these two countries played in the EMU process, highlight their importance and stress the case that smaller Member States *do* make a difference and indicate *how* they make a difference. We argue that Belgium and The Netherlands, through their early economic cooperation, their creative proposals and diplomatic efforts, played an active role in the process of European monetary integration. Interestingly, however, in the EMU process, their roles diverged. Belgium played a "pace-setting role", especially through creative and diplomatic proposals, whilst the Netherlands played the role of "gate-keeper" and important ally of the Germans. Throughout the process they each played the role of mediator between the different camps, in particular France, Germany and the United Kingdom.

As an active member of the "monetarist" group, Belgium played a "pace-setting" role in the EMU-process. Exchange rate stability (or EMU) was part of its view of an integrated Europe. Even in difficult circumstances, Belgium has done its utmost to keep EMU on the agenda. The Netherlands were a key player in the "economist" camp. As a medium-sized country, it could afford to be more outspoken than Germany, thus playing a gate-keeper's role. Its concerns were the creation of a stability-oriented EMU, in which only countries that were "ready" would participate.

The conceptual framework here differs from Börzel (2002), who analysed Member State responses to Europeanization in the area of environmental policy. She distinguishes between "pace-setting" (actively pushing policies at the European level to minimize implementation costs), "foot-dragging" (blocking or delaying costly policies) and "fence-sitting"" (neither systematically pushing or blocking policies). In the EMU dossier, the debate was much more about which was the most serious source of monetary stability (inflation or exchange rate instability) and whether EMU, which implied a transfer of monetary sovereignty to the European level, would contribute to greater monetary stability. Belgium played a "pace-setting" role, because of its conviction that European integration needed exchange rate stability, but also because policy-makers favoured EMU in order to push through domestic reforms. The Netherlands played the role of "gate-keeper" (which better captures Dutch concerns that EMU should guarantee price stability than "foot-dragging"), while they had one of the best performances for the convergence criteria.

In this paper the focus is mostly on official Belgian and Dutch positions.[6] It is based on official documents, archival information and the insights derived from interviews.[7] Besides focusing on the political role of the two countries we reflect on the proposals made by people representing those countries (for example the Tindemans Report). However, we do not focus in detail on the contributions of specific important individuals who happen to have the Belgian or Dutch nationality (such as, for example, Triffin, Lamfalussy or Duisenberg).

The structure of the paper is as follows. The next section discusses the Benelux and Belgian-Dutch monetary relations. Sections three and four look at, respectively, the

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6 We recognise that it is not fully unambiguous what constitutes an "official position". Usually "official positions" refer to positions take by governments (see for example Wallace 2001: 1). This paper follows that practice, in that "official positions" refer mostly to the official positions of the governments and central banks. Of all government positions, we focus especially on the Ministry of Finance.

7 This paper draws on more than fifty background elite interviews with officials from various institutions mostly in Belgium and the Netherlands but also in the European institutions and some other Member States. These institutions include for example the central banks, the Ministries of Finance, representatives of the main political parties, representatives of trade unions and employers' organisation, officials of the European Commission, and government representatives.

Belgian and Dutch strategies and contributions to EMU. The final section draws conclusions about the role of Belgium and the Netherlands in the creation of EMU.

2. BENELUX: A FORERUNNER'S ROLE

*Be*lgium, the *Ne*therlands and *Lux*embourg founded the *Benelux* on 5 September 1944. Reacting against the poor economic conditions before and during the Second World War, the Benelux was to set up a customs union between these countries as soon as the war was over. Already before the war various West European countries had participated in economic collaboration and had been planning further cooperation.

There were various reasons why the three countries sought to cooperate.[8] They are each small (neighbouring) West European countries sharing a largely common history (van Roon 1994). At some point in the past they were world colonial and trading powers which also made important contributions to the West European cultural heritage (Weil 1970: 1-3). In the 1940s they were confronted with the geopolitics of the day which made it evident that smaller countries could no longer dominate the world. In fact, they realised that they could only have some influence if they joined hands together. Moreover, cooperation was much facilitated by the proximity of the three governments in exile in London.

The first agreement between the three countries was a bilateral monetary agreement, signed on 21 October 1943 (Polak, 1994).[9] The most important elements were the fixing of mutual exchange rate parities, which could only be changed by mutual agreement, mutual credit lines, and permanent contacts between the central banks in order to coordinate policies (Grosbois 1994: 50-1). The bilateral monetary agreement was the first of its kind, and in the following years other collaborative initiatives would be inspired by the Benelux agreement.

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8 Initially Belgium wanted to include France as well, and it, in turn, also wanted the United Kingdom to take part. However, the UK was not interested in participating, and, as we know, France eventually also did not join.

9 The agreement was between the Netherlands on the one hand, and Belgium and Luxembourg on the other. Belgium and Luxembourg had had fixed exchange rates since 1921 and formed the Belgium-Luxembourg Economic Union (BLEU). In this paper we shall mainly discuss Belgium and the Netherlands, rather than all three countries.

However, Belgium and the Netherlands had diverging views on the degree of economic and political cooperation (Van Zanden, 1992: 13). The Netherlands was opposed to creating a supranational government as it did not want interference in its economic policies, whereas Belgium was more favourable to this idea.

On 5 September 1944 the Benelux was formally created. The "Benelux agreement" made provisions for the creation of a customs union – which eventually became fully operational on 1 January 1948. The agreement consisted of a bilateral agreement with the Netherlands as the one party, and Belgium and Luxembourg as the other. It envisaged the creation of three councils: a council for customs, one for the economic union and one for trade agreements. Later, cooperation in the Benelux extended to a large number of policy areas, comprising agriculture, monetary policy, defence, freedom of movement of persons, goods and service (Griffiths 1992).

In the Community of six, the Benelux often played a leading and pace-setting role. A prime example is the Benelux Memorandum of April 1955 which, after the failure of the European Defence Community, relaunched the European integration process, leading to the Conference of Messina and the Rome Treaties. In subsequent years the Benelux Memoranda again played a significant role, especially in institutional matters.[10]

The experience of Belgium, the Netherlands and Luxembourg was a basis of reflection in the negotiations for the creation of the European Economic Community. In a way, the Benelux has been considered a "testing laboratory" for integration. Bloemen (1992) has christened it the "Benelux-effect". According to some (Harryvan 1992: 169) the EEC would not have existed without the Benelux experience. In a sense the Benelux provided a test case of integration. Not only did it function as a positive exemplary model, it sometimes served as a case that represented circumstances and conditions under which collaboration or integration among the participating countries failed. Both positive and negative cases served as examples to the EEC countries. An illustration of a lack of collaboration was the agricultural policy, in particular the difficulties in the 1950s (see Mommens 1992).[11]

[10] An example was the proposal for the procedure of "reinforced cooperation", which was taken up in the Amsterdam Treaty.

[11] Collaboration was planned in the area of agricultural policy. However, both countries pursued radically diverging policies which led to the Dutch agricultural sector being much more efficient than

In the area of monetary integration, the views of Belgium and the Netherlands rather quickly started to diverge. During the 1960s and 1970s Belgium and the Netherlands still elaborated plans for monetary cooperation despite the fact that their currencies did not remain stable vis-à-vis each other, and the fact that they had opposing views on the path to economic ad monetary integration (Janssens, 1981, 364).[12] In 1969, when the Belgians elaborated their EMU plan, they found a lot of inspiration in the Benelux monetary agreements (Archives Snoy). When the Bretton Woods System broke down, an agreement was made, on 21 August 1971, to limit the fluctuation margins between the guilder and the franc to 1.5 per cent. It formed the only fixed but adjustable parity mechanism in the EC until the launching of the snake in April 1972. It continued to exist after the start of the European mechanism, which limited intra EEC fluctuation margins to $\pm$2.25 per cent, being known as the "worm" in the snake, but was abolished in 1976. Over the next decades, the franc lost ground against the guilder. In the first decade of the EMS the guilder/franc parity was adjusted 6 times. In August 1993, at the high time of the ERM-crisis, the guilder was the only currency to which the Bundesbank consented to maintain the narrow fluctuation margins (thus guilder/DM margin was kept at $\pm$2.25 per cent). In the assessment of the convergence criteria, the Dutch were among the most critical countries with respect to the Belgian public finances.

Summarising, Belgium and the Netherlands started off very early, with Benelux, collaborating in the area of monetary policy-making. When the 1970s showed a difference in opinion about the road to EMU, they each contributed to the European integration process from their own perspective. Yet, although their strategies differed, they were united in supporting European integration. Let us now turn to the Belgian and Dutch approaches to economic and monetary integration in Europe.

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the Belgian one. When the Belgian agricultural sector encountered structural economic difficulties it wanted the Dutch government to help resolve the Belgian problems by raising Dutch wages and accept some restrictions on the export of Dutch products to Belgium. The Dutch government did not want to give in to these demands because they considered the failure of Belgian price and wage policies to have caused the problem (Mommens 1992: 111).

12 In 1961 the Dutch followed the German revaluation, while the Belgians did not. On 9 May 1971, the mark and the guilder floated against the dollar, while the franc did not.

3. BELGIUM: A PACE-SETTING ROLE

In matters of European monetary integration, Belgium was a "consistent demandeur" and played a pace-setting role. As in many other areas, it was often a close ally of the European Commission. One of its constant concerns was to have EMU on the agenda.

In preparation for the Hague Summit of December 1969, Belgian policy-makers worked hard to put EMU on the agenda. Gaston Eyskens went to The Hague with a carefully elaborated Belgian plan. Governor Ansiaux played a leading role in the Werner Committee, especially the proposal for a European Exchange Rate Stabilisation Fund.

Belgium devoted itself to keeping EMU on the agenda in difficult times too. An example is the Tindemans Report which attempted to revive EMU in the late 1970s (see discussion below). The concept of a multi-speed Europe was devised to allow progress to be made in monetary matters, even if, initially, not all Member States would be able to take part. The negotiations on the monetary dimension of the Single European Act in 1985 were a further crucial episode. This was the first major revision of the Rome Treaties. While it was clear that EMU could not be a concrete objective, it was crucial to get the "acquis communautaire" in monetary matters (EMU as an aim of the Community, the EMS and the ecu) mentioned in the Treaties. Belgium carefully prepared its proposals, manoeuvred to prevent the Commission from becoming isolated in negotiations and worked hard and tenaciously on this issue (de Ruyt 1989). These early initiatives would subsequently become a crucial stepping stone for the Delors Report and the Maastricht Treaty negotiations.

Later, Belgium played also a leading and creative role in the concrete elaboration of EMU, especially the preparations of the euro scenario, approved at the Madrid Summit of December 1995 (Brouhns 1996), and in the preparations for the introduction of euro notes and coins, the so-called cash changeover (Smets, Michielsen & Maes 2003).

In this section the focus is on Belgian attitudes towards European integration and EMU, the Belgian vision on the nature of EMU and the path to reach it, as well as on Belgium's concrete role in brokering compromises.

3.1 Attitudes towards European integration and EMU

In the post-war period there has been a very high degree of consensus in Belgium in favour of European integration (Smets, Maes & Michielsen 2000). EMU was an important objective of Belgium's European policy, as an essential element of political integration (Franck 1998: 207). This fundamental consensus, in favour of European integration and EMU, is based on the structural characteristics of Belgium as a small open economy, its geographic location and fundamental attitudes in favour of European integration, strongly marked by the experience of the two world wars. The consensus involved the main political parties and the important social actors (such as trade unions and employers' organisations).[13] Moreover, the Christian-Democrats were the dominating force in the political landscape in the postwar period. They identified themselves strongly with European unification. As former Belgian Prime Minister Mark Eyskens remarked, "Europe is like a fatherland to be loved" (Beyers and Kerremans 2001: 16). The consensus extended to the relations between the political and monetary authorities, and even the delicate subject of the central bank independence has not been an issue of debate in Belgium. This consensus made it certainly easier for Belgium's representatives to play a pace-setting role in the EMU process.

For this medium-sized European country, European integration implied a significant gain in influence. European integration instituted the rule of European law, limiting the power of the larger countries. Supranational EC actors, like the Commission and the European Court of Justice, also further constrained the power of the larger countries.

On the European scene, Belgium typically has been a close ally of the Commission. This closeness was based on the shared aim of a more federal Europe. Furthermore, the location of the Commission in Brussels facilitated informal contacts.[14]

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13 Also the academic community in Belgium was very keenly interested in European matters, making European integration an important topic of research (cf. Maes, Buyst and Bouchet 2000). This research was well appreciated in Community circles and many Belgian academics participated in important working groups of the European Commission, such as the Marjolin Report, (cf. Peeters 1975) and One Market, One Money (cf. Van Rompuy, Abraham and Heremans 1991).

14 The Belgians were also well represented among Commission officials, see Maes (1996).

Moreover, the Member of the Commission responsible for monetary matters has often been French, which has further facilitated contacts with the Belgian authorities.[15]

In Belgium, the EMS and EMU were also used by policy-makers as reasons to adopt and implement reforms and measures deemed necessary for reducing the severe imbalances that had emerged in the Belgian economy in the late 'seventies and early 'eighties. While these measures were vital for the future of the Belgian economy and society at large, their European justification was instrumental in gathering the necessary political support.

At the beginning of the 1980s the Belgian economy was in very poor shape. In 1981 the government budget deficit amounted to sixteen per cent of GDP and the current account deficit to four per cent of GDP. In 1982, under a new Christian Democrat-Liberal government, there was a drastic reorientation of economic policy. At its core was an 8.5 per cent devaluation of the Belgian franc, a cut in real wages (with a temporary abolition of the wage indexation mechanism) and a budgetary tightening. This new policy led to an improvement in the economic fundamentals, which enabled the Belgian authorities to pursue gradually a more ambitious exchange rate policy (Lamfalussy 2000). During realignment discussions in the mid-1980s they consented to only ever smaller depreciations against the German mark. In January 1987 the position of the Belgian franc was the subject of a rather acrimonious debate, as Belgium insisted on maintaining its exchange rate parity with the German mark, while France did not want to be isolated in depreciating against the German mark.[16] The Belgian authorities also gradually moved towards a strategy of keeping the Belgian franc well within the band and closer to the German mark, especially in order to influence market sentiment (Godeaux 1989). This progressive strengthening of the Belgian franc exchange rate policy culminated in the decision of the Belgian authorities, in June 1990, to peg the Belgian franc formally to the German mark.

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[15] For example there were good contacts between Barre and Snoy, the Belgian Finance Minister at the time of the Hague Summit on a confidential and personal basis. They even had an exchange of their initial proposals (Archives Snoy). There were also good relations between Delors and Maystadt (Dyson and Featherstone 1999: 707).

[16] Finally, the German mark was revalued by three per cent and the Belgian franc by two per cent, while the French franc kept its central parity.

3.2 A symmetric EMU

The Belgian vision of the structure and functioning of EMU can be found in the Belgian plan for EMU of January 1970: "Un plan de solidarité monétàire européenne en trois étapes 1971-1977" (Ministère des Finances 1970). The ultimate aim of EMU, as was stated at the Hague Summit of December 1969, was the creation of a "European monetary community". According to the Belgian plan two conditions had to be fulfilled: the unification of economic policies and a certain degree of homogeneity of the economies of the six Member States. This homogeneity referred not only to a degree of institutional homogeneity, but also to an absence of marked differences in the economic and social systems. The plan further proposed certain Community transfer mechanisms. Major institutional reforms were necessary for the final phase. The creation of new supranational Community institutions was crucial, implying a revision of the Rome Treaties. EMU was organised around two poles: first, a "Community Monetary System", like the Federal Reserve System in the United States, and, second, a kind of economic government, "d'organes communautaires dotés des pouvoirs requis pour la poursuite d'une politique économique unique". Economic policy was defined as encompassing budgetary and income policies. For budgetary policy, the new Community institutions would establish the general framework within which the Member States had to administer their budget. The Community budget should gradually gain in importance. Finally, the Belgian plan of January 1970 proposed that in the first stage the fluctuation margins should be progressively reduced and that changes in parity could only be taken by common agreement.

When later, during the 1991 Maastricht Treaty negotiations, the idea of a "European economic government" was launched by France and the Commission, the Belgian government gave it its wholehearted support (Maystadt 1998). Greater decision-making power for the Ecofin Council was regarded as essential both to strengthen the economic side and as a counterbalance to the monetary side, which was based on a unified monetary policy. However, the concept was not adopted in the Treaty. Economic policy remained in essence a national matter, leading to an asymmetrical EMU (Verdun 1996). But, this debate contributed to Article 99 (ex article 103) of the Treaty, which provides for the annual broad economic policy guidelines of the Member States and the Community and a few years later to the creation of the Eurogroup (Verdun 2003).

3.3 Parallelism with a monetarist emphasis

The Belgian integration strategy had a "monetarist" emphasis. Monetary cooperation and integration were seen as a catalyst for economic convergence. Thus there was no need to wait for complete convergence as the "economists" would prefer (e.g. Ansiaux 1970; Ungerer 1997: 103). As was mentioned with regard to the 1970 Belgian plan for EMU, exchange rate stability has been central to Belgium's policies to promote European monetary cooperation.

A second area in which Belgium has been active – and one which is closely related to exchange rate cooperation – concerns the mechanisms of monetary solidarity (official credit and settlement facilities). The basic idea here was that such mechanisms not only promoted mutual monetary cooperation, but – by demonstrating a collective stance – were also a more efficient way of averting currency speculation than isolated national measures.

As chairman of the expert committee of the Werner Group the then governor of the National Bank of Belgium, Hubert Ansiaux, left his mark on the proposals designed to elaborate mutual support mechanisms (Werner 1991: 24). Belgium was later in favour of giving the European Fund for Monetary Cooperation (EFMC) sufficient responsibilities and resources to make possible, from the beginning, a real coordination of monetary policy (Vlerick 1974: 13). At the time of the EMS, the Belgian representatives continued to focus on strengthening the EC credit mechanisms.

When Germany, in November 1995, proposed a "Stability Pact for Europe", Belgium immediately reacted positively. However, the Belgian finance minister, Philippe Maystadt, also stressed the need to supplement the budgetary stability pact by a "monetary stability pact". This would focus on the exchange rates between the single currency area and the other Member States of the EU (Maystadt 1996:10). He was here drawing on an old and fundamental Belgian idea, namely that exchange rate stability is important in a single market. Moreover, this could also help the convergence process in the other Member States. The ensuing discussions led to the creation of a new exchange rate mechanism, the so-called ERM2 (Brouhns 1997:53).

Although it took this "monetarist" view, Belgium agreed with the consensus on the need for parallel progress in the economic and monetary spheres (de Strycker 1970: 21). Apart from parallelism as a compromise solution, the Belgian authorities were convinced that monetary cooperation was not sustainable without sound economic fundamentals and economic convergence. Coordination of economic policy had to make a contribution here, not only by recommending suitable policy measures to Member States, but also by enhancing their effectiveness by mutual coordination of national measures.

3.4 Scope for different speeds

The concept of a multi-speed Europe is a controversial and highly sensitive one. The official discussion on this strategy was triggered by the Tindemans Report, presented at the December 1975 European Council (Tindemans 1976). The Tindemans Report was written at a time when, owing to increasing economic and monetary divergences within the Community, a relaunch of EMU was unlikely. The Tindemans Report defined for the first time the elements of a multi-speed integration. Member States that were in a position to make progress had to be able to do so without waiting for the ones which lagged behind (Tindemans 1976: 27). The latter would receive the necessary assistance and be judged on their performance by the relevant EC institutions and the idea would be that they would be trying to catch up. The report saw the snake as providing the framework. It would become the pivot of the new strategy subject to greater co-ordination of economic and monetary policy (Rey 1994: 32).

Initially the idea of a multi-speed strategy was treated with quite widespread scepticism, because of fears that the Community would disintegrate. Gradually, it gained more acceptance and was applied successfully in the EMS and the Maastricht Treaty.

3.5 Concrete contributions: brokering compromises

In the EU Belgian officials have a good reputation for brokering compromises and furthering consensus. Coming from a small country, Belgian policy-makers have been more obliged to take account of the viewpoint of the other players. Moreover, living in a multicultural and multilingual country, they are much more used to negotiating with persons from a different background. Belgian monetary officials have often used their intellectual and diplomatic abilities to contribute to compromises at the European level.

Belgian monetary diplomacy, often together with Luxemburg, has often been focused on stimulating a Franco-German understanding. In so doing Belgian diplomacy sought to promote the process of European integration. Already during the negotiations for the Rome Treaty the exchange rate was the subject of turbulent debate. According to Van Tichelen (1981), one of the Belgian negotiators, one of the main points of disagreement was whether it should remain national or become Community competence. The Belgian delegation inspired by a formula used by the Commonwealth, proposed that "Each Member State shall treat its policy with regard to exchange rates as a matter of common interest". It was an ambiguous formula, but it succeeded in placing the exchange rate in the area of competence of the Community. A further example was the Belgian contribution to the preparations for the EMS when Belgium was chairing both the Monetary Committee and the Committee of Central Bank Governors (Ludlow 1982: 165). The Belgian idea of the "divergence indicator" opened the way for an agreement on the provisions of the EMS resolution of December 1978, even though if the instrument was subsequently hardly used. This episode illustrates how a small country, through creative intellectual and diplomatic efforts, can have an impact on EU processes. Another example is the Belgian proposal, during the intergovernmental conference on the Maastricht Treaty, to call the new second stage institution the "European Monetary Institute" (Schönfelder & Thiel 1996: 132). It was instrumental in bridging the differences between France, proposing the creation of the European Central Bank, and Germany, in favour of a "Council of Presidents of Central Banks". A further example is the Belgian proposal, during the negotiations concerning the Stability Pact, for the definition of a severe recession, when the sanctions would not apply. It distinguished two triggers, an automatic one (a decline in GDP of two per cent or more), which Germany insisted on, and one for which the Council of Ministers had to take a decision (a decline in GDP of between one and two per cent), as preferred by France (Quatremer and Klau 1999: 132).

4. THE NETHERLANDS: THE GATE-KEEPER

4.1 Dutch attitudes towards European integration and EMU

As is the case with Belgium, the Dutch economy is small and open, and highly dependent on the larger world economy. As such the Dutch have typically been very much in favour of European integration. Though the focus of the Dutch was initially geared more or less equally towards both the United States and Europe, their ties to other European countries have been gradually strengthened to a point where the Dutch can be seen as being amongst the most supportive of the European integration process. With the collapse of the Bretton Woods system in the 1970s the Dutch authorities refocused and upgraded the importance of securing exchange-rate stability in Europe (Rood 1990). At the time of the Werner Report, the Dutch were in favour of further economic and monetary cooperation. Their concept of EMU was different from the one the Belgians held. The end goal EMU was accepted, but the path to reach it was that of the "economists".

4.2 A symmetric EMU and supporting the German model

Throughout the late 1960s and 1970s the Dutch monetary authorities favoured a close monetary cooperation with other EC member states. They made alliances with the Germans on policies for further economic and monetary integration. Like the Germans, the Dutch were keen to ensure that macro-economic integration was well developed before moving towards deeper monetary integration. The Dutch and German governments both belonged to the 'economists' camp in the well-known debate between 'economists' and 'monetarists' on how best to obtain further monetary integration.

Nevertheless, they favoured closer European co-operation in this area. They backed the exchange-rate agreements that were established to promote monetary and trade stability in Europe, such as the snake and the exchange rate mechanism (ERM) of the European Monetary System (EMS).

During 1970s, like many other states, the Netherlands had to learn the hard way that high inflation can be devastating for a small open economy. After having been hit severely by the Arab oil embargo in 1973, the Dutch realised more than ever before that their economy was fully dependent on those of others. Both oil crises (1973 and 1979) had a major negative impact on the Dutch economy, the second being even worse than the first. Against this background, the Dutch monetary authorities chose to follow the policy of maintaining a 'hard guilder'. During the late 1970s the guilder still devalued against the D-Mark (two per cent in October 1976; in October 1978, in September 1989 and in March 1983). Thereafter there were no more exchange-rate adjustments vis-à-vis the D-Mark.

4.3 The Dutch strategy: parallelism with an economist emphasis

The Dutch continued to prefer economic coordination to parallel monetary cooperation. Nevertheless it has been reported that there have been differences between the Foreign Ministry and the Ministry of Finance about the path to EMU. The Ministry of Finance was more hesitant to accept supranational governance in this area of policy-making. Nevertheless these differences were not so fundamental that they challenged the overall Dutch perspective on EMU. The Dutch wanted EMU to be constructed within a broad framework of stability would also include economic and monetary convergence in policy objectives and outcomes.

When first reporting about the 1970 Werner Plan to the Dutch parliament the Dutch Minister of Finance, Mr Witteveen, gave his initial support to it. He considered the plan to be in line with the Dutch view of EMU which he had personally set out in a speech only five months previously[17] (Tweede Kamer, Zitting 1970-1971, 9e vergadering, 15 October 1970: 371). However, he had one major concern about the Werner Plan namely that there could be too much emphasis on the monetary provisions. Six months later, in light of changes made by the European Council on 9 February 1971, the Dutch Finance Minister was considerably more satisfied with the progress of EMU. The Minister voiced the importance of considering the first stage of EMU as merely a first step, and that full economic and monetary union – rather than merely exchange rate cooperation – should be the end goal. Furthermore, Witteveen stressed the importance of making decisions about budgetary policy at the European level which would improve the overall coordination of budgetary policies of the Member States. This provision would ensure the parallelism between economic and monetary integration (Eerste Kamer, Zitting 1970-1971, 23ste vergadering, 17 February 1971: 667-8). Furthermore the Dutch warmly welcomed that there be a significant role for the to be established European Parliament. At this time the French were much more sceptical about transferring powers to existing and potentially newly created supranational institutions.

Though the economic situation changed in Europe after the collapse of the Bretton Woods system in the early 1970s, the Dutch did not give up hope about the creation of EMU. In 1976 Willem Duisenberg, the then Dutch Minister of Finance, put forward a plan to improve the coordination of economic policy and the management of exchange rates. This so-called "Duisenberg plan" was also in line with the 'economist tradition' in that it aimed at consultation and coordination of economic policy (see Oort 1979). However, even though the aim was to obtain closer policy coordination, the plan only assumed voluntary coordination.

In the late 1970s and early to mid-1980s the Dutch economy suffered from low economic growth, rising unemployment and lack of competitiveness (see also Szász 1988: 208-9). The Dutch monetary authorities reacted to this situation by deciding among other things to follow a strong currency policy and closely follow German monetary policies (see for more details Verdun 2002: 241-2). They aimed at securing fixed exchange rates between the guilder and the D-Mark. This policy objective was maintained until the launch of the euro in 1999. By 1999 the Dutch exchange rate vis-à-

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17 Minister Witteveen gave a speech to the Amsterdam Chamber of Commerce on 26 May 1970.

vis the D-Mark had been the most stable of all ERM currencies over a period of two decades.

The Dutch were not only reflecting on their own performance. The issue of who would qualify to join the third stage of EMU was the topic of Dutch concern. When the ERM was under pressure, the idea of a 'two-speed' EMU was often discussed. On these occasions, the Dutch were amongst those who thought that a two-speed EMU might be necessary if some states failed to meet the convergence criteria. They typically urged the need to stick to the timetable as much as possible (*Het Financieele Dagblad* 1993). Yet they did not want to compromise on the convergence criteria. The Dutch were often outspoken advocates of the German model, and dared to go public by stating the importance of relying on the German experience in successful monetary policy-making. For example, to ensure low inflation, they advocated adopting money supply targets and monetary instruments similar to those in Germany, rather than relying on inflation targeting as the British advocated (*Financial Times* 1995). On various occasions, when the performance of states like Italy, France and other southern European states in meeting the convergence criteria was poor, the Dutch suggested going ahead with a smaller group. Thus Wim Duisenberg, then Dutch central bank president, stated that an EMU without Italy was possible, but it would be unthinkable without France. France should be able to join by 'a political judgment' (ibid. 1995). On another occasion a Dutch official argued that the whole EMU project would lose credibility if Italy was allowed to join. In 1996, when the former French President Valéry Giscard d'Estaing suggested the idea of loosening the convergence criteria, the Dutch were again at the forefront, arguing that such an idea was unacceptable (*Algemeen Dagblad* 1996). By November 1996 prominent Dutch figures, like former central banker André Szász, advocated that EMU should start with a small group (*NRC Handelsblad* 1996). This view was supported in some banking circles (*De Volkskrant* 1996).

4.4 Dutch leadership in the run-up to the Maastricht Treaty and Beyond

The Netherlands was influential in the relaunch of EMU in the late 1980s and early 1990s particularly during the Intergovernmental Conferences (IGCs). The Dutch government headed by Prime Minister Ruud Lubbers held the rotating presidency of the

EC at a key moment in the history of EMU, i.e. when the IGCs preparing the Maastricht Treaty revisions were negotiated in the second half of 1991. The Dutch negotiators in the IGC on Political union adopted a very proactive approach at the start of their presidency, launching an ambitious proposal for reforming the institutional structure of the EC towards a 'tree-like structure' (Dyson and Featherstone 1999; Moravcsik 1998). Nevertheless, this proposal for political union went too far for many states, and the Dutch had to withdraw it and return to the draft treaty of the previous Luxembourg presidency.

With regard to the EMU negotiations they also made a provocative start. In late August 1991 the Dutch tabled a so-called 'technical paper', which toyed with the idea of introducing a 'two-speed Europe' (*Financial Times* 1991a). This proposal was aimed at being able to start off with a hard core that was ready (e.g. Germany and the Benelux) and leaving behind some countries that would need longer to converge (e.g. Italy, Spain Portugal and Greece). It also would allow countries that were more sceptical about EMU a path for slower participation in the EMU (notably the United Kingdom and Denmark). This proposal met with objections from the southern member states (*Financial Times* 1991b). The remainder of the autumn the Dutch worked very hard at getting a workable compromise that would satisfy all member states. The Dutch had to keep the Germans on board who were only interested in an EMU that would not endanger the price stability objective. At the same they had to find the wording that would be acceptable to even the most sceptical ones, the United Kingdom and Denmark. The end result was the successful incorporation of EMU into the Treaty on European Union with an opt-out for with a 'derogation'. Furthermore EMU would only start with those countries who would have met the convergence criteria.

When the idea of an Economic Government was launched during the IGC leading up to the Maastricht Summit, the Dutch sided with the Germans in being highly sceptical of such an institution. Like the Germans they feared that the European Central Bank would be subject to too much intervention by political authorities. On the other hand, when the EMU blueprint was being discussed, the Dutch became more acceptant of an EMU that was more based on exchange rate cooperation and a single currency, even if further economic cooperation was not guaranteed as much as would have been the case if a fully parallel EMU had been created. Again, the Dutch sided with the Germans while brokering a deal with the others.

Though taken up in the Treaty, EMU was by no means completely settled in 1991. The interpretation of the convergence criteria would remain a hot political topic. The Germans were concerned that once EMU would be fully operational that some countries might return to their old practices of high levels of public borrowing and high levels of inflation. The Dutch were among the countries most supportive of these German concerns and thus spoke up about the concerns that the Germans had. As was already touched upon above, the Dutch-German relationship had been carefully crafted throughout the fifteen years prior to signing of the Treaty on European Union (Brouwer 1999). Also, the German government had to do a careful balancing act between being pro-active on what it considered important, and not seeming to be too dominant within the broader European context.

One could characterise the Dutch role in the EMU process as consisting of continuously trying to accommodate the Germans whilst keeping the other Member States on board. Given their good relations with the United Kingdom the Dutch could often be seen doing a "East-West" balancing act mediating between the UK and Germany, whilst at the same time trying to accommodate the voices from the South who wanted to make sure they were part of EMU right from the outset.

5. CONCLUSION

Small and medium-sized countries can make a difference. As we have seen above Belgium and The Netherlands both played a significant role in the EMU process. The paper finds support for Katzenstein's hypotheses on the characteristics of small states. EMU was important to these two countries and they put in effort to facilitate its creation. As open economies they of course had much to gain from a regime of fixed exchange rates and better still a single currency. Though sometimes mediating between the wishes of Germany, France, the UK, the Southern countries and the Commission, their overall focus was always on creating policies and institutions regarding economic and monetary policy-making that were firmly embedded in Community institutions.

Belgium played an important role as a pace-setter in the process of European monetary integration whilst the Netherlands played the role of gate-keeper and important ally of the Germans. In addition they played the role of "broker" and "mediator". This assessment does not challenge the decisive impact of the Franco-German axis on the genesis of EMU, nor does it belittle the role of the larger Member States, but it shows that medium-sized countries have also played their part.

In matters of European monetary integration, Belgium was a "consistent demandeur" and played a pace-setting role. As in many other areas, it was often a close ally of the European Commission. One of its constant concerns was to have EMU on the agenda. Typical for the Belgian approach, such as in the Belgian contribution to the Werner Report, were proposals for furthering exchange rate stability and monetary cooperation, the underlying aim being that they would act as a catalyst for economic and political integration. It gave the Belgian EMU strategy a monetarist accent, even if Belgium agreed from the start to the need for parallel progress in the economic and monetary spheres.

The Dutch approach was clearly in the "economist" tradition. It was based on pushing for economic coordination prior to further monetary integration. The Dutch were firmly in support of the initiatives of the Germans, but were equally eager to find a compromise solution that would work for the monetarists (Belgium, France, and Luxembourg). Like the Belgians, the Dutch remained firmly in support of economic and monetary integration.

Throughout the whole process, Belgium played an important role in brokering European compromises and furthering consensus. A prime example was the idea of the divergence indicator, during the preparations for the EMS. While the Belgian representatives also defended specific Belgian interests, like the qualification of Belgium for EMU, they took great care to further and stimulate European monetary integration through both pragmatic and creative proposals and ideas. In this way Belgium played a pace-setting role in the European monetary integration process. It so contributed, together with the other partners, to make of EMU a truly multilateral achievement.

The Dutch, by contrast, were in line with the policies and objectives of Germany. Yet, the Dutch did not merely speak for that country, nor did they only play the role of advocate for the German objectives. Rather they were keen to promote their view, and wanted to support the German policies because they believed in them. The Dutch played the role of gate-keeper. In the 1970s and 1980s they had a more restrictive view on the conditions under which EMU was possible. Likewise, once EMU was accepted they were firm on the interpretation of the criteria for entry, which can be seen in their sceptical attitude to the inclusion of countries such as Italy in the third stage of EMU. The Dutch were also in favour of ensuring that EMU would be constructed within a broad framework of stability and embedded in proper economic and monetary convergence in policy objectives and outcomes.

Summarising, both Belgium and the Netherlands have a long tradition of promoting European monetary cooperation. Furthermore, they have had a history of cooperation together, even if their policies or basic assumptions about the road to further integration were dissimilar. In Belgium, there was a large consensus on the EMU dossier, comprising both policy-makers at the foreign and finance ministries and the central bank. In the Netherlands, like in Germany, there were differences of emphasis. On the European scene, Belgium a close ally of the Commission, played mainly a mediating role between France and Germany. The Netherlands played more a mediating role between Germany and the United Kingdom. All in all, the Belgians and the Dutch played an important role in pace-setting, brokering, gate-keeping and mediating. Without their contribution the process of economic and monetary integration would have been very different.

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