

SLOUCHING TOWARDS FRANKFURT TO BE BORN:  
PROGRESS OF EMU AFTER MAASTRICHT

by

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In September 1993, just two months after ramming ratification of the Maastricht Treaty through the House of Commons, British prime minister John Major quipped that calls for economic and monetary union (EMU) in the EC had "all the quaintness of a rain dance and about the same potency."<sup>1</sup> Indeed the political and economic problems confronting EMU seem legion. Ratification of the treaty provoked a prolonged political crisis within the Community, exposing divisions and opposition. Three crises within the European Monetary System in the space of two and a half years, seriously challenged the idea that the Community would be able to implement economic and monetary union. In the most serious of these, under severe speculative pressures, the EC countries agreed to widen the margins of fluctuation between their currencies from  $\pm 2.25\%$  to  $\pm 15\%$  in August 1993.<sup>2</sup> Furthermore, the difficulties many states are finding in reaching the Maastricht Treaty's convergence criteria and the costs of switching from national currencies to the ecu present seemingly insuperable barriers.

And yet, most EU member states publicly declare their determination to see the project through. Stage two of emu started January 1, 1994 on schedule with the establishment of the European Monetary Institute, the forerunner of the future European central

Footnotes

1 John Major, "Raise your eyes, there is a land beyond," *The Economist*, September 25, 1993.

2 The Deutschemmark and Dutch guilder remained within their  $\pm 2.25\%$  bands.

Original Page 1

bank. The EMI moved into its new headquarters in Frankfurt in November 1994 and, exercising its function of preparing for economic and monetary union, issued its first annual report in April 1995. As we approach the millennium, what developments are we likely to see. And what rough beast its hour come round at last, slouches towards Frankfurt to be born? <sup>3</sup>

This paper argues the following.

1. The crucial factor in determining whether EMU succeeds or fails is the solidity of the axis between France and Germany. More specifically Emu can be seen as a bargain made between the highest levels of executive power, the presidency in France and the chancellory in Germany. Creating Emu is therefore essentially a political, not an economic, project. The importance of other factors depends on the extent to which they might break this link.
2. French and German interest in Emu stems from international structural constraints, imposed by the international financial system, the liberalization of EC capital markets and German unification. Emu can be seen as a joint strategy led by France and Germany to mitigate those constraints. The bargain between France and Germany that underlies Maastricht is extremely robust, not because the benefits of success are seen as so great, but because the costs of failure are seen as so high.
3. Despite the rather detailed provisions of the Maastricht Treaty, implementing Emu involves an ongoing process of

Footnotes

3 Apologies to W.B. Yeats.

Original Page 2

negotiation, primarily between France and Germany. Disputes between them can often be bitter and public, yet these ongoing battles over what Emu will look like take place within the context of a broader determination of both parties to bring it about.

4. The major threat to implementing Emu comes not from international monetary turmoil, intra-EC politics, nor even the occasional public spats between French and German officials, but from domestic political opposition within France and/or Germany. Although the project has encountered significant domestic resistance, so far the French and German governments have successfully persevered and will likely continue to do so in the future.

5. Despite the ratification crises, recurring EMS crises, and domestic difficulties, some type of Emu will likely be launched by 1999 or soon after, due to the strength of the French-German commitment to bring it about.

The rest of the paper will 1) examine the nature and origins of the MaaStricht bargain on EMU, 2) show how France and Germany successfully navigated the treaty through its ratification crisis, 3) examine the effects the various EMS crises have had on the solidity of the Paris-Bonn axis, and 4) discuss domestic factors within France and Germany that might threaten the commitment of either government to uphold the Maastricht bargain.

Original Page 3

The Maastricht bargain

The Maastricht treaty can be seen as an effort by the highest levels of executive power in France and Germany to change the international structures in which they operate through collectively creating new

international institutions. These two countries have long been the motor of European integration. Their status as the most powerful members of the Community and the fact that both are willing and able to proceed with this project on their own has limited the options available to other member states. In turn, the apex of the executive branch in both countries has used its pivotal position to outmaneuver domestic opposition from societal actors and even other state actors to achieve their objectives.

Three interrelated factors help explain the Maastricht bargain between France and Germany -- the evolution of the international monetary and financial system, the dynamic generated by the single market and concerns ushered in with German unification. By far, the most important of these is the first. The floating exchange rates, huge international financial markets and high mobility of capital which characterize the contemporary international financial system have progressively stripped from European states the ability to pursue independent national monetary policies. States find themselves in a global competition for capital that reduces their ability to set monetary policy according to domestic policy goals. 4

#### Footnotes

4 See Philip G. Cerny, *The Changing Architecture of Politics: Structure, Agency and the Future of the State*, (London: Sage, 1990), pp. 212-222; and John B. Goodman, *Monetary Sovereignty*, (Ithaca N-Y: Cornell University Press, 1992), p. 183.

#### Original Page 4

The breakdown of the Bretton Woods system of fixed exchange rates in 1973 fed a process of geometric expansion in international financial markets, facilitated by advances in information and telecommunications technology. As a result, central bank reserves have declined as a percentage of the global daily turnover on foreign exchange markets, reducing their ability to stabilize exchange rates through market intervention. 5

Compounding this vulnerability was the fact that under floating exchange rates, the international monetary system tended to revolve around a dollar-deutschemark axis. During periods of dollar weakness, funds tend to go out of dollars and into deutschemarks. 6 This puts upward pressure on the mark in relation to other European currencies, especially the franc, regardless of whether domestic economic policies within the EC are divergent or not. Exchange rate instability hit France harder than Germany,

#### Footnotes

5 Global turnover on foreign exchange markets was estimated at \$1 trillion a day in 1992, a 300% increase from just 1986. The New York market alone went from a daily turnover of \$10 billion in 1977 to \$192 billion in 1992. A recent IMF report suggests that this expansion of global financial integration is still in its "adolescence" Morris Goldstein, David Folkerts-Landau, Peter Garber, Liliana Rojas-Suarez and Michael Spencer. " International Capital Markets: Part I. Exchange Rate Management and International Capital Flows," *World Economic and Financial Surveys* (Washington, DC: International Monetary Fund, April 1993).

6 The deutschmark is a preferred substitute for the dollar largely because of West Germany's perceived political stability, its liberal policy on foreign investment, the liquidity of markets for the Deutschmark and the Bundesbank's commitment to maintaining its value. For a good explanation of this phenomenon, see Elke Thiel, "Deutschmark Between the Dollar and the EMS," *Aussenpolitik*, English edition, Vol. 33, No. 1, 1982. Also see Jacques van Ypersele, *The European Monetary System: Origins, operation and outlook* (Chicago: St. James Press, 1985), p. 99.

Original Page 5

confronting it with a vicious cycle of currency depreciation and price inflation. Nevertheless unbridled deutschmark appreciation posed a threat to Germany's exports--the engine of its post-war economic growth. Furthermore, German leaders found that under floating exchange rates raising interest rates to stem inflation often had the perverse effect of undermining anti-inflationary policies by attracting large amounts of foreign capital that would swell Germany's money supply. It was in response to these vulnerabilities that France and Germany launched a joint initiative that culminated in the creation of the European Monetary System (EMS) in 1979. 7

The EC's single market project created new pressures for European monetary integration. The project itself was in part a reaction to the constraints the international financial system imposed on Europe. The idea was born out of frustration over "Eurosclerosis" -- the continent's seeming inability to recover from the economic turbulence of the 1970s and its persistent decline vis-a-vis the United States and Japan." It resulted from

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7 Many analysts argue that Germany has no real economic interest in Emu. However, Germany has demonstrated an interest in exchange rate stability in the past with respect to the EMS. The EMS itself only came about when German chancellor Helmut Schmidt saw a need for it to counter a dollar crisis and resist international pressures to reflate the German economy. Even the Bundesbank, which was initially skeptical of the EMS has taken important actions to strengthen and preserve it, such as the Basle-Nyborg accords in October 1987 and the coordinated interest rate adjustment with the Bank of France in November 1987, in response to the New York stock market crash of the previous month.

8 In the fifteen years after 1973, industrial production had risen by 60% in Japan, 40% in the US but only 20% in Europe. While employment had increased by 15 million in the US between 1973 and 1983, it had decreased by 3 million in the Community during the same period. For discussions of "Eurosclerosis" or "Europessimism" see Wayne Sandholtz and John Zysman. "1992: Recasting the European Bargain," *World Politics*, October 1989, pp. 108-111; Michel Albert and James Ball, *Toward European Economic Recovery in the 1980s: Report to the European Parliament*, The Washington Papers, No. 109 (New York: Praeger, 1984); Jean-Pierre Moussy, "Le Grand Marché Intérieur Européen à l'horizon 1992," *Regards sur l'Actualité*, February 1988; and "1992: A Survey of Europe's Internal Market," *the Economist*, July 9, 1988.

Original Page 6

a French diplomatic initiative, after the dramatic failure of France's Socialist experiment in economic policy, itself due largely to these international financial constraints. Its goal was to reverse Europe's economic decline by creating a "Europe without frontiers" that would remove all remaining regulatory obstacles to the free movement of goods, people, services and capital within the EC.

It was foreseen that the single market project would also unleash new structural dynamics that would force the pace of monetary integration. The creation of a single European market in finance would spur economic growth by simultaneously increasing the amount and decreasing the cost of capital within the EC. However, the abolition of exchange controls this required would increase the potential volatility of intra-EC capital flows and further expose EC currencies to the pressures of the international financial system. Failure to reform European monetary arrangements to meet these dangers could force a reversal of financial integration via the reimposition of exchange controls, a re-fragmenting of Europe's financial markets that would effectively destroy the EC's 1992

Original Page 7

single market project.'

Recognizing this relationship, French finance minister, Edouard Balladur proposed the creation of a European central bank in January 1988. Balladur's proposal was soon supported by Germany's foreign minister, Hans Dietrich Genscher, its chancellor, Helmut Kohl and even by Bundesbank president, Karl Otto Pöhl. The EC's Hannover Summit in June 1988 agreed to appoint an expert committee, which would produce the Delors report in April 1989, delineating a three stage process for creating a European central bank and a single European currency.

German unification raised the stakes and accelerated the process of European monetary integration. It radically

Footnotes

9 See Christian Goux, "La Liberation des Mouvements de Capitaux en Europe et la Question d'une monnaie européenne," *Après-demain*, February 1988, p. 25. In an expert study authorized by the European Commission, Tommaso Padoa-Schioppa has argued that free trade in goods and services, capital liberalization, fixed exchange rates and national control of monetary policy form an "inconsistent quartet" that could only be resolved by establishing a Community-wide monetary policy. See David Cameron, "The 1992 Initiative: Causes and Consequences," in *Europolitics* ed. by Alberta M. Sbragia, (Washington, DC: Brookings Institution, 1992), pp. 2627; and Wayne Sandholtz, "Choosing Union: monetary politics and Maastricht," *International Organization*, Winter 1993, p. 20. However, Sandholtz contends that: "The economic logic (of monetary union) is not compelling. A fully liberalized EC market could operate effectively with existing national currencies. Indeed, market forces (currency competition) would provide a powerful incentive for national governments to maintain low inflation." p. 21. However, as recent experience has shown, factors beside inflation rates may determine the relative strength of currencies. Trying to follow German interest rates might mean EC members have to squeeze their domestic economies harder than required to control inflation. Market forces are just as likely (if not more so) to lead to currency instability or the reintroduction of exchange controls as to higher interest rates, both of which undermine the single market project. In short, the economic connection between financial integration and monetary integration may indeed be compelling.

Original Page 8

superimposed high politics on the already compelling economic reasons for European monetary integration. In this new

environment, France's leaders feared that its own independence could only encourage German independence, which in turn would inevitably mean French marginalization.<sup>10</sup> For their part, German leaders stressed repeatedly that German unification and European integration were two sides of the same coin.<sup>11</sup> Chancellor Helmut Kohl argued again and again that Germany must increase its economic and political cooperation with the rest of Europe or face a return to the past of national and power political rivalries--a past which had been neither kind nor secure for Germany. It was in this context that the Maastricht Treaty was negotiated.

#### The Ratification crisis

On June 2, 1992, Denmark's narrow rejection of the Maastricht treaty in a binding referendum provoked a prolonged crisis over the treaty's ratification. This crisis demonstrated the centrality of

#### Footnotes

<sup>10</sup> See Stephen Philip Kramer, "The French Question," *The Washington Quarterly*, Autumn 1991, especially pp. 83 and 86; and Stanley Hoffmann, "French Dilemmas and Strategies in the New Europe," in *After the Cold War*, ed. by Robert O. Keohane, Joseph S. Nye and Stanley Hoffmann, pp. 128-132.

<sup>11</sup> See for instance Helmut Kohl's comments on French television during the French debate on Maastricht ratification: "We wanted to say that German unity and European unification are two sides of the same coin, it is the crowning of franco-german friendship, it is the crowning of a historic process, that is why the day, the week or the month which consecrated German unity in 1989 and which came to its conclusion in 1990, cleared the way for the Maastricht Treaty and its ratification." French text of Kohl's remarks, translated from *La Politique Etrangere de la France; Textes et Documents*, September 1992, p. 14.

#### Original Page 9

the Paris-Bonn axis to the fortunes of Emu and strength of their determination to bring it about. Technically, Denmark's rejection should have killed the treaty outright, but the French and German governments were unwilling to let Maastricht die. On June 3, the day after the Danish referendum, Kohl and Mitterrand issued a joint declaration reaffirming their determination to pursue implementation of the European Union called for in the Maastricht Treaty. French leaders stated publicly the same day that Maastricht could be implemented without Denmark by the remaining eleven members of the Community.<sup>12</sup> German leaders for their part agreed. As one senior German diplomat remarked: "We would make a new treaty without Denmark. We are not going to let 24,000 peculiar people stop Europe's momentum. Legal solutions can always be found."<sup>13</sup>

EC foreign ministers endorsed the French-German line at an emergency meeting in Oslo. It was decided that the Maastricht treaty would not be renegotiated or modified. The eleven members of the Community would proceed with ratification of the Maastricht Treaty, leaving the door open for Denmark to reconsider its decision at a later date. However, the British government's decision to suspend further

#### Footnotes

12 See Mitterrand's declaration to the (French) Council of Ministers and Dumas's interviews with RTL and TF1 in *La Politique Etrangère de la France. Textes et Documents*, June 1992, pp. 101-103. For the French version of the joint declaration by Mitterrand and Kohl, see *La Politique Etrangère de la France. Textes et Documents*, June 1992, p. 101.

13 Quoted in *Economist*, June 6, 1992, p. 51.

Original Page 10

consideration of the Maastricht Treaty until after the resolution of the crisis created by the Danish vote complicated the ratification crisis. In its role as rotating president of the EC during the second half of 1992, Britain had primary responsibility for negotiating a solution to the Danish crisis. There were French and German doubts as to Britain's willingness to defend a treaty it had never sought and did not particularly like. Furthermore, a small group of die-hard treaty opponents within the Conservative party, exploited the government's thin majority after the April 1992 elections and stymied Major's efforts to bring forward ratification of the treaty in the House of Commons in November 1992.

To influence Britain's behavior, France and Germany made it clear that they would not let problems associated with ratifying the treaty stop them from carrying out its objectives. Mitterrand suggested publicly that if no solution could be found to the problems of Danish and British ratification, the other ten could proceed towards European Union on their own.<sup>14</sup> While Kohl was less direct, he made it clear nonetheless that Germany wanted all the member states to ratify the treaty unchanged. Major clearly understood the dangers that Britain might be isolated from deciding the Community's future course.<sup>15</sup>

Footnotes

14 *Financial Times*, December 11, 1992, p. 1.

15 In debate in the House of Commons, Major declared: "The essential question is simply: are we or are we not in this country to play a central role in Europe's development." *Financial Times*, November 5, 1992, p. 18.

Original Page 11

At the Edinburgh EC summit of December 11-12, 1992, Major skillfully brokered a resolution to the Danish crisis. All twelve member states signed a decision, legally binding in international law, that clarified rather than amended the treaty. The decision stated that European citizenship did not replace national citizenship, that Denmark would continue its membership in the European Monetary System, but not participate in the European System of Central Banks or the single currency (in doing so, Denmark was exercising in advance a right already granted to it in a protocol to the Maastricht Treaty), and that Denmark was not obliged to join the Western European Union and would not participate in decisions with defence implications. Denmark would be allowed to abandon this decision and participate fully in the European Union at any time it chose.<sup>16</sup> The decision at Edinburgh allayed the concerns of many Danish voters who approved the treaty by a decisive margin in a second referendum on May 18, 1993.

After the second Danish referendum, the British government resumed its own efforts to ratify the treaty. However, on July 22, it faced a humiliating defeat on a motion to ratify the treaty by an unholy alliance between Labour and Tory Eurorebels who voted against their party.<sup>17</sup> Pushed to the wall by opposition within his

#### Footnotes

16 For the text of the decision, see Bulletin of the European Communities, 12-1992, pp. 25-26. To satisfy German concerns that the decision not be seen as a renegotiation of the Treaty, which might permit legal challenges in the national courts, the decision was divided into sections rather than articles. Economist, December 19, 1992, p. 48.

17 Financial Times, July 23, 1993, p. 7.

#### Original Page 12

own party, Major then set down a motion of confidence giving the government the authority to ratify the Maastricht Treaty. Major made it clear that if the government lost this vote, he would ask the Queen for a dissolution of parliament forcing an early general election. This put the Tory rebels over a barrel. With the Conservatives running third in the polls at that time, behind both Labour and the Liberal Democrats, the rebels faced the prospect of pushing their party to a disastrous electoral defeat and losing their own seats. Faced with this pressure, the Tory rebels finally came into line and on July 23, the House of Commons approved the motion of confidence, 339 to 299. After failed constitutional challenges in Britain and Germany, the Maastricht treaty finally came into effect on November 1, 1993. Since September 1992, the European Monetary System has suffered three major crises. These crises have resulted in bitter and public recriminations between member states, even between France and Germany. Skeptics point to these recurring crises within the EMS to argue that implementing Emu simply isn't feasible. However, these crises have had the rather curious effect of cementing the political will of France and Germany to bring it about. Turmoil within the EMS has strengthened Germany's hand in the ongoing process of negotiating the details of Emu, making it more likely that it will get the kind of Emu it wants. For the French, these recurrent crises highlight their continued vulnerability without Emu.

The September 1992 EMS crisis arose from the financial

#### Original Page 13

problems associated with German unification. The massive costs of this project were funded largely by government borrowing, rather than higher taxes or reduced public spending. To counteract the inflationary pressures this generated, in July 1992 the Bundesbank raised German interest rates to 8.75%, their highest level since 1931. Coming so close after the Danish referendum, which narrowly rejected the Maastricht Treaty, this decision increased doubts on the part of international investors about the viability of the EMS. Bitter rows between Germany and its EC partners over interest rates, particularly with Britain at the Bath meeting of economics and finance ministers on September 5th, merely reinforced this trend.

Things came to a head on September 16, when the EMS suffered the worst crisis in its history up to that point. Great Britain and Italy suspended their participation in the exchange rate mechanism of the EMS, while Spain devalued the peseta by 5%.<sup>18</sup> The French managed to maintain the franc's value, but only by increasing their own interest rates and by engaging in massive intervention on foreign exchange markets in conjunction with Germany.

The EMS crisis of September 1992 was ominous. The fact that

#### Footnotes

18 Spain devalued by another 6% in November along with Portugal. Portugal, Spain, and Ireland all temporarily reimposed exchange controls to protect their currencies. These three countries and Denmark also raised short-term interest rates intermittently during November to ward off speculators. Finland, Sweden and Norway who had tied their currencies to the ECU to bolster their applications for membership in the EC were forced to float in September, November and December respectively.

#### Original Page 14

there had been no realignment within the EMS in nearly six years had given credibility to the Community's ambitions of creating a single market and economic and monetary union. The reimposition of exchange controls by Spain, Portugal and Ireland was a step backward from the single market goal of financial integration. After September 1992, not merely the stability of the EMS, but the Maastricht Treaty and even the single market were cast in doubt. However, the core exchange rate in the EMS, the franc-mark parity remained in tact and the crisis did not derail the coordinated French-German efforts to pressure Britain and Denmark to ratify Maastricht without amendment.

However, the crisis that hit the EMS in August 1993 was even worse. This was primarily a crisis surrounding the French franc. The new right-wing government that came to power in March 1993, engaged in an aggressive policy of lowering French interest rates to stimulate growth, cutting the Bank of France's intervention rate nine times, from 9.1% to 6.75%, in the space of 3 months. Based on the fact, that the French economy had been outperforming Germany on inflation since July 1991, the new government probably believed that there was room to make significant interest rate reductions without threatening the value of the franc. Indeed, at the end of June, a senior Bank of France official suggested that France could share the anchor role within the EMS with Germany.<sup>19</sup> At about the same time, France's new finance minister, Edmond Alphandéry,

#### Footnotes

19 Financial Times, June 23, 1993, p. 16.

#### Original Page 15

suggested that based on the soundness of its economy France was ready to take the lead in setting European interest rates and began pressing Germany to cooperate in "concerted" interest rate reductions.<sup>z</sup>

These efforts backfired. International markets interpreted these moves as a signal that with unemployment above 12% and a presidential election less than two years away, France was ready to make a dash for growth and willing to abandon its franc fort policy if necessary to achieve it. Concerted French-German exchange rate intervention could not dampen the rush from the franc. Under severe speculative pressures, the EC countries agreed on August 2, 1993 to widen the margins of fluctuation between their currencies from  $\pm 2.25\%$  to  $\pm 15\%$ .<sup>21</sup>

With a permissible variation of 30% between individual currencies, it is not surprising that many observers declared the EMS, and any subsequent attempts at Emu, dead. Nevertheless, developments

after the crisis testify to the continued determination of France and Germany to carry on. Immediately after the crisis, France and Germany joined by most other member states insisted that it would not derail plans for Emu.<sup>22</sup> In November 1993, the Franco-German economic & financial council meeting in Berlin announced a joint convergence plan, indicating both

#### Footnotes

20 See Financial Times, July 14, 1993, p. 2; and July 1, 1993, p. 2.

21 The Deutschemmark and Dutch guilder remained within their  $\pm 2.25\%$  bands.

22 Financial Times, August 3, 1993, p. 1.

#### Original Page 16

countries plans to meet the Maastricht treaty's convergence criteria by 1996. <sup>23</sup> In December 1993, in accordance with the treaty the Bank of France was given its independence. Stage two of Emu, the creation of the European Monetary Institute, forerunner of the European Central Bank, began on schedule on January 1, 1994.

Rather than take advantage of the wider margins to lower interest rates, France and most other EMS members chose to shadow their old pre-crisis parities. Paradoxically, the new wider margins made this easier to do by depriving speculators of a one way bet against EC currencies in trouble. By late 1994, France, Germany and their EU partners began to look seriously at the technical problems to be overcome to bring a single European currency into being. French officials stressed the importance of meeting the Maastricht treaty's timetable for the start of stage three of Emu, while German leaders argued that from their perspective the treaty's convergence criteria was more important than the timetable. However, both sides reaffirmed their commitment to bring Emu about.

Spill-over effects from the Mexican peso crisis and mismanaged US attempts to provide a rescue package for Mexico created an international financial crisis that led to another EMS crisis in March 1995. The Mexican crisis highlighted the risks in emerging markets, sparking a global flight to quality. Funds flowed into the deutschemmark pushing up its value against other EMS currencies. On March 6, the Spanish peseta was devalued by 7%, its fourth

#### Footnotes

23 Financial Times, November 3, 1993, p. 16.

#### Original Page 17

devaluation in two and a half years. The Portuguese escudo was devalued by 3.5% the same day. The franc hit an all-time low against the mark during the March crisis and the Bank of France lifted its 3 month money market rate from 5.4% to 8.3% during the first week of March to protect the franc's value.

While another crisis in the EMS was certainly unwelcome, the March crisis was not as serious as the one suffered in August 1993. While the franc lost its value, it was clear that it would not hit its floor against the deutschemark. Again, as in previous crises, France and Germany reaffirmed their determination to implement Emu. The regular meeting of the Franco-German economic and financial council on March 21, declared that both countries would be able to enter stage three of Emu on time, that German already met the treaty's convergence criteria, while France still needed to work on reducing its budget deficits.<sup>24</sup>

#### Domestic obstacles in France and Germany

The process of ratifying the Maastricht treaty, stimulated domestic opposition to the goal of Emu in France and Germany. So far the French and German governments have managed to successfully navigate around these problems. However, to the extent that these domestic factors can force either the French or German government to abandon its commitment to implement Emu, they can threaten the project's future.

#### The highly centralized nature of the French political system

#### Footnotes

<sup>24</sup> Financial Times, March 22, 1995, p. 14.

#### Original Page 18

has given the government a great deal of leeway in formulating French policy. However, it would be a mistake to overestimate the state's autonomy in France. A long history of political instability has made French leaders keenly aware of the fragility of their institutions. Several writers have noted the ambivalent French attitude toward authority, seeing central control both as source of and potential solution for their grievances. Extra-legal protests can challenge the legitimacy of the state by disrupting its capacity to maintain order. <sup>25</sup>

On June 3, 1992, the day after the Danish referendum, French President Francois Mitterrand announced that France would hold its own referendum to ratify the Maastricht Treaty. In calling this referendum, Mitterrand sought to emphasize French commitment to Maastricht in the wake of the crisis created by the Danish referendum. Instead, he managed to conjure up a disparate lot of anti-Maastricht forces consisting of the Communists on the left, the National Front on the extreme right, most members of the neo-Gaullist RPR, many centrists from the UDF and a handful of Socialists. In reality, there was not a single campaign against Maastricht, but a diverse collection of campaigns each with its own separate agenda. Startled into action by the unexpected gains of the anti-Maastricht forces, the pro-Maastricht campaign began in earnest

#### Footnotes

<sup>25</sup> On these points, see Stanley Hoffmann, "The Ruled: Protest as a National Way of Life", *Decline or Renewal*, (New York: Viking Press, 1974); and Michel Crozier, *The Bureaucratic Phenomenon*. (Chicago: The University of Chicago Press, 1964).

#### Original Page 19

towards the end of August. The Yes campaign focused less on the positive benefits of the Treaty itself and much more on the negative consequences of French rejection. The issue was framed as one of international constraint rather than domestic choice. French leaders argued that without Maastricht the single market would fail, and any chance of restricting German dominance over Europe's economic policy through the Bundesbank and the deutschemark would disappear. Failure to ratify would mean a weakening of French-German ties both politically and economically, leaving France weaker and unable to constrain Germany from steering an independent course. 26

The No campaign was undercut by the fact that the leadership of the major opposition parties, the RPR and the UDF supported the Treaty. As it turned out, French voters narrowly ratified the Maastricht Treaty on September 20, by a vote of 51% to 49%.

However, this was not the end of the matter. While the French economy posted a strong recovery in 1994, this failed to make an appreciable dent in the country's unemployment which stood at over 3 million workers and more than 12% in the workforce. Furthermore, French workers who had been forced to accept wage restraint for

#### Footnotes

26 See comments by foreign ministers Roland Dumas in an article appearing in *Le Figaro*, September 3, 1992, reprinted in *La Politique Etrangère de la France. Textes et Documents*, September 1992, p. 36; comments by Michel Sapin, the finance minister in *Le Monde*, September 2, 1992, p. 8; and comments by Prime Minister, Pierre Bérégovoy in *Le Monde*, September 8, 1992, p. 11. Also see Francois Mitterrand's comments during his televised debate with Philippe Séguin at the Sorbonne on September 3, 1992 in *La Politique Etrangère de la France. Textes et Documents*, September 1992.

#### Original Page 20

several years became impatient for more of the fruits of their labor. By the spring of 1995 unions in several sectors began threatening to go on strike.

At the same time, French voters were becoming more disaffected from the country's main political parties. Corruption scandals, the lack of divergence on major issues and their seeming inability to solve the country's problems encouraged the French to vote against the established parties in greater numbers. The trend started with the National Assembly elections of 1993 and continued on until the first round of the presidential election in April 1995, which had the lowest turnout and the highest protest voter ever in a presidential election during the Fifth Republic. 27

The election of Jacques Chirac as France's new president on May 7, 1995, poses some interesting questions about the direction of French policy in the future. His attitude towards Emu has wavered. In March 1995, he took back the call he had made the previous November for a national referendum before France adopted the single European currency. During the campaign he insisted that he was a firm supporter of Emu and reminded voters that he had supported ratification of the Maastricht Treaty (although it should be noted he hesitated over a month before doing so). He sent conflicting signals in April, when he criticized the governor of the Bank of France, saying he had no right to dictate French

#### Footnotes

27 Turnout for the first round of the 1995 presidential election was 78.4% turnout. Only 62% voted for the established parties (the Socialists, the neo-Gaullist RPR and the centrist UDF). 31% of the unemployed vote went to the National Front candidate, Jean Marie Le Pen. Financial Times, April 25, 1995, p. 19.

Original Page 21

economic policy, but responded to accusations that he was undermining the franc's stability by declaring himself a firm supporter of the franc fort policy.<sup>28</sup>

Now that Chirac is president, which way is he likely to turn? Some indication was given in his victory speech when he declared that all government action would be judged in terms of whether or not it helped to reduce unemployment.<sup>29</sup> Chirac seems to believe that he can have his cake and eat it too-- that stimulating employment will help, not hinder, French efforts to reduce budget deficits to meet the Maastricht criteria. He may instead find himself caught between the Scylla of another speculative attack against the franc and the Charibdis of a social explosion at home. Nevertheless, even in the event of a debacle on economic policy, an event much less likely now than it was in 1983, as long as France itself does not repudiate the goal of Emu, there is a good chance that the project can still be completed, although at a later date than the French hope. France still has compelling interests in Emu and they are not likely to go away.

The German government has had a more difficult time dealing with domestic opposition to Emu than the French. This was so for a number of reasons. First, Germany, unlike all the other EC states with the possible exception of France, could exercise effective veto power over the whole Maastricht project. Second,

Footnotes

28 Financial Times, April 20, 1995, p. 16.

29 Financial Times, May 9, 1995, p. 2.

Original Page 22

although Maastricht was certainly important to Germany for both economic and political reasons, of all EC states it would probably be least effected by its failure. Therefore, the external constraints on German decisions were arguably less than those facing any other EC member state. And third, the decentralized nature of the German political system divided state power among state actors and provided societal actors numerous points of institutional access to decision-making.

The staggering costs of German unification made many Germans fearful that European unification would impose even greater sacrifices. The massive transfers of wealth from west to east, soaring unemployment in the east due to economic restructuring and ballooning government deficits to finance this operation all supported those who argued that Germany needed to maintain a free hand in monetary policy. While all the major political parties support Maastricht, opinion polls regularly show more Germans dislike the idea of economic and monetary union than like it. For many Germans, the deutschemark is a potent symbol of Germany's success and stability in the post-war period and they are anxious about the prospect of letting it go.<sup>30</sup>

Footnotes

30 See Financial Times, August 17, 1992, p. 10; and October 26, 1992, Section III, p. 1. This sentiment is well expressed by Wolfram Hanrieder: "The German D-Mark became the symbol of German probity, industriousness, economic success, and ultimately political responsibility. There developed among the Germans a deep conviction that the equilibrium of money was a precondition for the equilibrium of society, and that price stability ("neutral" money) meant equitable economics and therefore fair politics." Wolfram F. Hanrieder, *Germany, America, Europe: Forty Years of German Foreign Policy*. (New Haven, CT: Yale University Press, 1989), p. 228.

Original Page 23

The Maastricht Treaty required changes to Germany's constitution, the Basic Law, which could only come about through a two-thirds majority in both houses of the German Parliament. This allowed the opposition Social Democratic Party to play a role in the ratification process. The Social Democrats agreed to ratify the Treaty, but only after insisting that the Bundestag would have to approve Germany's entry into the third stage of Emu.<sup>31</sup>

Germany's independent central bank, the Bundesbank, also complicated the government's policy towards ratification. Its single minded pursuit of anti-inflationary policies über alles had played a large role in the September 1992 and August 1993 EMS crises. Additionally, Bundesbank officials would periodically go out of their way, not only to criticize economic and monetary union, but aspects of political union as well. On taking office as Bundesbank president in October 1993, Hans Tiersmeyer declared that his institution's central task was defending the stability of the deutschemark and that it had no scope to act as the central bank for all of Europe.<sup>32</sup> At various times, he criticized countries, including Germany, for falling short of convergence criteria, argued the convergence criteria really were not strict enough and called for greater political integration in Europe to accompany Emu.

Footnotes

31 German text of the new Article 23 can be found in *Frankfurter Allgemeine Zeitung*, December 3, 1992. Also see *Das Parlament*, December 12, 1992, p. 1; *Financial Times*, December 2, 1992, p. 16; and *Keesing's Record of World Events*, December 1992, p. 39244.

32 *Financial Times*, October 2, 1993, p. 1.

Original Page 24

Nevertheless the German government remains committed to carrying out the objective of Emu. In September 1994, the parliamentary caucus of Germany's ruling Christian Democratic party published a document in preparation for the 1996 intergovernmental conference. The CDU paper affirmed the goal of Emu and called for even closer coordination among a "hard core" of five countries--Germany, France and the Benelux countries--in the areas of fiscal, budgetary, economic & social policy.<sup>33</sup> Although Kohl declared the paper was not official government policy, it was framed by Wolfgang Schäuble, the leader of the CDU parliamentary group, and the man widely tipped as Helmut Kohl's eventual successor, and Karl Lamers, the CDU parliamentary group's foreign policy spokesman.

Comments made by Lamers and Schäuble after the paper was published while not necessarily official government policy, are undoubtedly good indications of Helmut Kohls' thinking. In a commentary in the *Financial Times* in November 1994, Lamers declared:

The D-mark occupies what some feel to be a dominant position in Europe. As a result, the existing European Monetary System, which is in essence a German one, cannot be a permanent solution for Europe's monetary arrangements. In the long run, it is unacceptable for other member states to have to acquiesce in monetary decisions made by the Bundesbank.<sup>TM</sup>

Wolfgang Schäuble, for his part, also indicated strong German support for Emu: "The soul of Germany is Europe, it is not the D-

#### Footnotes

33 Financial Times, September 2, 1994, p. 2.

34 Karl Lamers, "Compelling case for monetary union," Financial Times, November 7, 1994, p. 16.

#### Original Page 25

mark."35 Schäuble also indicated that although Germany would certainly like to see greater progress in political integration, it would not make progress on Emu conditional on it: "We have ratified the treaty, and monetary union will be carried out so long as the conditions [on economic convergence] are fulfilled.

I believe in implementing treaties that we have signed and ratified.." 36

#### Conclusion

Despite the hard knocks of the ratification crisis, recurring EMS crises, and domestic difficulties, Emu is likely to be implemented, due to the determination of the French and German governments to bring it about. This determination rests on a shared belief that due to external constraints from the international financial system, the single market project and German unification, both countries are much better off with Emu than without it. These constraints, severe as they are now, are likely to increase over time.

Nevertheless, the Emu that first emerges may not look the way many might have expected when the Maastricht treaty was first signed. Stage three will likely start by the 1999 deadline, or very soon after. It will probably start with the creation of the European Central Bank that will include a small inner core including France and Germany and two concentric circles. Over

#### Footnotes

35 Financial Times, March 21, 1995, p. 14.

36 Financial Times, March 21, 1995, p. 14.

#### Original Page 26

time, it will be expanded to bring more of the countries in these outer circles inside. It will likely start without the single European currency, but this 'will probably be introduced within the first five years

after the start of stage three. Emu will start with a strong bias towards anti-inflationary-policies, but these will be for the Emu countries as a whole, not just Germany. This should be a great benefit for the non-German Emu members, particularly France, which will be able to enjoy low inflation with lower interest rates than at present. There will be an ongoing struggle between ECOFIN's ability to set economic policy for the EU . as a whole and the ECB' s independence and commitment to low inflation. However, this would likely be little different from the experience of those countries that already have independent central banks.

The most likely obstacles to the implementation of Emu would be internal developments in France and Germany. Domestic problems in other EU countries would be virtually irrelevant so long as France and German continue to demonstrate the will and the ability to go ahead by themselves if necessary. Since the leadership of the major governing and opposition parties in France and Germany recognize the importance of Emu, a full scale domestic revolt of some kind would probably be necessary to break their attachment to the project. Even then, government leaders will no doubt attempt to find ways of dealing with their domestic difficulties that do not undermine the likelihood of Emu. To the extent that French-German interest in Emu stems from structural factors, even

Original Page 27

potential leaders opposed to the project may find their opinions change once they are faced with the responsibility of governing.

Original Page 28