The Shaping of the Framework for a Single Currency in the Course of the EMU Negotiations.

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Paper to be presented at the Fourth Biennial International Conference of the European Community Studies Association, Charleston, S.C., May 11-14, 1995

I. The overall setting

The European Economic and Monetary Union (EMU) is a matter of controversy. The pro's and con's have been all spelt out. Critics and supporters of the EMU differ on whether it is desirable and will be feasible or not and very much persist in their traditional opinions. EMU opponents, for instance, feel confirmed in their attitude by recent European currency crises. For EMU proponents, however, the same events have stressed the urgency of the EMU's implementation. They consider the EMU the only way to secure internal market achievements, unsustainable otherwise. On the German part, EMU supporters agree with the critics, however, that the D-mark should not be given up for a weak European currency. Having approved the Maastricht framework for the EMU, its supporters now insist that the treaty must be strictly obeyed.

That the EMU is a controversal issue should not come as a surprise. It is delicate indeed, since member states will have to relinquish sovereignty in a substantial part of their national policy, exclusively in monetary policy and, to a certain extent, in fiscal policy as well. With the exception of Great Britain and Denmark, all EU member states have endorsed the goal of the final EMU, which can be seen as a remarkable result by itself. Investigating the negotiations for the EMU may not only contribute to understanding the EMU concept, but could also be useful in view of the forthcoming Maastricht II negotiations.

Based on a comprehensive study on the EMU negotiations in the course of the intergovernmental conference and its preparatory work[1], this paper will analyse the creation of the EMU framework with respect to its main ingredients, namely, (1) the European System of Central Banks, (2) the formulation of rules for a fiscal policy and (3) the procedures for implementing the EMU. This issue-related analysis will be combined with an analysis of the process itself, involving (1) the initial phase from 1987, when the idea was launched, up to the conclusion of the European summit in Strasbourg in Dezember 1989 to convene the intergovernmental conference, (2) the conference preparations in 1990, and (3) the final negotiations of the intergovernmental conference itself.

II. Launching the EMU initiative

As it is known, the goal of creating a European Economic and Monetary Union was not new at all when the issue came up in 1987. The first attempt in the early 1970s had failed, however, due to rather divergent economic policies of the

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[1]Wilhelm Schönfelder/Elke Thiel, Ein Markt - Eine Währung: Die Verhandlungen zur Europäischen Wirtschafts- und Währungsunion. Baden-Baden (Nomos) 1994

member states. This time, circumstances looked more promising. Participation in the European exchange rate mechanism had brought about a rapprochement in economic priorities and performances. The internal market project was progressing. These were returns on former investments that could be used for further advancement.

Having been a source of success, the European Monetary System (EMS), however, offered only very limited scope for evolution. The mutual credit mechanism had already been built up in order to better support currencies when all restrictions on capital movement had to be removed in line with the internal market. The Bundesbank had played a decisive role in the evolution of the EMS. Yet Germany was blamed for dominating the system. EMS partners complained of having lost influence on monetary policy to Frankfurt. A way that could lead out of the deadlock was the creation of a European Central Bank.

Among the first ventilating this idea was the then German foreign minister, Hans-Dietrich Genscher, who promoted the issue in many speeches, starting in early 1987. The Delors Committee, set up in June 1988 by the European Council meeting in Hanover, can be traced back to his initiative. His proposal of an independent European Central Bank, for which the Bundesbank was to be the model, was to satisfy German partners´ request for co-decision making in monetary policy on the one hand while suiting German price stability goals on the other.

For most EMU partners, the independence of the central bank was a new approach, much different from their traditional monetary systems. But it was not so new in view of what they had already practiced by adapting to the D-mark in the European exchange rate mechanism. Due to the experience that inflation rates tend to be lower in countries with independent central banks, the model had gained adherents at that time. Applying the principle of central bank´s independence to the EMU thus appeared to be a rather logical consequence. But the concept still had to be elaborated on in detail.

III. Keeping the momentum

1. The three-step approach to the EMU

Delivered in April 1989, the Delors-Report[2] was to provide the basis for a decision of the European Council on the issue at the Madrid summit in June. The report elaborated the main features of the EMU and identified its key principles, such as the central bank´s independence and its commitment to price stability goals, binding rules for

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2 Committee for the Study of Economic and Monetary Union: Report on Economic and Monetary Union in the European Community. Luxembourg 1989

fiscal discipline and convergent economic performances being a primary condition for the EMU´s smooth functioning. These were points of references one could stick to.

The Delors-Report proposed a three-step approach for the EMU´s implementation. The first stage would start on July 1, 1990. For the other stages, no timetable was set up, but it was strongly recommended that "the decision to enter upon the first stage should be a decision to embark on the entire process" (cipher 39). For this reason, member states should make a commitment to negotiate the treaty for the EMU, and preparations should start immediately.

While it was relatively easy to achieve an agreement with respect to the first stage of the EMU - actually an adapted version of the European Monetary System - the question of whether the European summit in Madrid should already give the mandate for preparing the intergovernmental conference was highly controversial. A strong grouping on the part of the EC ministers of finance was opposing such an early commitment. Before engaging into negotiations, the experiences with the first stage would have to be awaited, from their point of view. The dilemma was obvious: negotiations were not to start without being sufficiently prepared. But without any timetable, efforts in the pursuit of the issue could easily fade out.

On the German side, Foreign Minister Genscher urged for a decision in Madrid that would keep the process in motion. Although generally supporting the three-step approach of the Delors-Report, the Ministry of Finance and the Bundesbank held the view that some important issues had to be clarified first. This difference in opinion made media headlines several times during the second half of 1989. But it concerned only the mode of procedure.

Regarding the fundamental issues of the EMU, views were rather identical among the main actors in Bonn and between Bonn and Frankfurt. Genscher was convinced that the time was ripe for the EMU and aimed at keeping the political momentum alive by convening an intergovernmental conference. Yet the Foreign Ministry fully supported the request for a stability approach to the EMU. It was commonly understood from the beginning that a European single currency had to be a strong currency in order to receive approval by the German population.

2. The decision to let the intergovernmental conference convene

Prior to the summit, Germany and France achieved a common understanding on how to proceed in Madrid for which they could receive the backing of most EC members. The European Council was to approve the Delors-Report as the basic framework for creating the EMU in three stages, always to be seen as an entity.

The Madrid summit did not yet set a definite date for the intergovernmental conference but concluded that the conference would convene "once the first stage had begun" and would be "preceded by full and adequate preparations".[3] This was a formulation that could accommodate all sides. It even suited the British prime minister, who strictly rejected anything beyond stage one of the EMU. With the conclusion "we have conceded absolutely nothing", however, Margaret Thatcher largely underestimated the drive the EMU process had already gained at that time.[4]

The issue of the intergovernmental conference remained controversial the following months. EMU adherents aimed at a decision at the European summit in Strasbourg in December 1989, which opponents tried to prevent for various reasons not always spelt out. The British case was obvious: they simply did not want the EMU. In Germany, the Ministry of Finance and the Bundesbank worried about the price stability in the EMU, a concern shared by the Netherlands.

French-German cooperation succeeded again in promoting the issue. On the initiative of the French and German Foreign Minister, Dumas and Genscher, a committee of high ranking personal representatives of the foreign and finance ministers of the member states was set up early in September 1989. The so-called Guigou Committee was asked to identify and report to the Strasbourg summit the fundamental questions that had to be addressed by the EMU intergovernmental conference. By this, the intrinsic issues of the EMU - first investigated by the Delors-Committee - were thus dealt with a second time on the Community level. The importance of this interchange of views can only be underscored by the fact that many members of the Guigou-Committee later on became members of their national delegations at the intergovernmental conference.

At the occasion of the French-German consultations early in October 1989, a common understanding was reached that the Strasbourg summit should schedule the start of the intergovernmental conference for the second half of 1990 - at the time of the Italian presidency - and that negotiations should be concluded at the end of 1991 under the presidency of the Netherlands. In the following month, both sides successfully tried to promote the issue in bilateral talks with other EC members.

Meeting in Strasbourg on December 8 and 9, the European Council concluded that the majority required to let the

[3] Conclusions of the Madrid European Council of June 26-27, 1989, chapter B, cipher 4.
[4] See for instance The Financial Times, June 29, 1989.

intergovernmental conference convene was achieved - against the vote of Great Britain - and that the conference should convene on the invitation of the Italian presidency before the end of 1990.

In contrast to a widespread view, German unification did not have any significant impact on the pursuit of the EMU objective. When the Berlin wall came down on November 9, 1989, the EMU process was already set up. German proponents of the EMU felt confirmed in their efforts to promote European integration and just continued with their endeavors to launch the intergovernmental conference and to properly shape the EMU. Neither did German officials become more (or less) inclined to compromise on the specific issues involved, nor did their EC counterparts urge them to do so.

3. The conference preparations

With the conclusion of the Strasbourg summit, the official preparations for the EMU negotiations commenced. Papers were submitted by the European Commission and the European Monetary Committee. Since the Monetary Committee consists of members of the finance ministries and central banks of the member states, its reports can be seen as a particularly good indication as to what was already consensual and what kind of problems were coming up. The Committee of Central Bank Governors - consisting of the same persons that wrote the Delors-Report - elaborated a draft for the constitution of the European System of Central Banks.

Member states' consultation on the issue were largely pursued at informal meetings of the Council of the Ministers of Economics and Finance (EcoFin) where central bank governors regularly took part. In contrast to the regular meetings of the council, no formal decisions were made during these occasions, but new routes were often set up. In this function, the informal EcoFin meetings also played a role in the EMU negotiations itself.

The EMU already took shape in the course of the preparatory work. Great Britain officially announced its strong reservations regarding the final EMU. This did not prevent the British, however, from cooperating on the issue in a constructive manner, frequently in line with the German position. Among all other EC members, an understanding was reached to create a European System of Central Banks and a *single* European currency - in contrast to the British proposal for a "hard ECU" that was to circulate in addition to the national currencies. The key features of the EMU were agreed upon in principle, largely in line with the Delors-Report. Yet many issues were singled out for which an appropriate solution remained to be found in the EMU negotiations.

Meeting four times in 1990, the European Council took stock of the progress achieved during the consultations and decided on the procedures that were to further the process. In April (Dublin I), preparations for the intergovernmental conference on the Political Union were launched on a French-German initiative. In June (Dublin II), it was concluded that both conferences should be set up by the European Council meeting in Rome in December 1990. At the Rome summit in October 1990, the European Council identified the key elements of the economic union and of the monetary union, according to which the negotiations were to be directed. By fixing the date for the start of the second stage of the EMU, the European Council reconfirmed its resoluteness to proceed with the three-step-approach.

IV. The framework of the final EMU

1. The independence of the European System of Central Banks

With the exception of Great Britain, it was commonly understood from the beginning that the monetary union implied the creation of a European Central Bank (ECB). The new monetary system was to have a federal structure, consisting of the ECB and the national central banks. The European System of Central Banks (ESBC) would be the only authority in charge for the conduct of monetary policy in the final EMU. Maintaining price stability would be its prime objective. It was also understood that the new monetary authority had to be independent of the political authorities in order to pursue its price stability goal.

Regarding the different traditions and experiences in the member states, however, it was not such a surprise that they had different perceptions on what "central bank´s independence" means. There was the view, favored by France, that the independent position of the central bank should some how be balanced - and maybe also controlled - by a strong economic authority. It was also claimed that the new monetary institution would need to be democratically accountable for its actions in order to make its policies acceptable to the public.

These issues were brought up in the papers drafted by the European Commission[5] at an early stage of the conference preparations. They were also addressed in the European Monetary Committee, where some aspects were clarified. The independence of the ESCB had to include four elements: (1) the institutional independence of not being subject to instructions from any other authority, (2) the operational independence of having the instruments for the conduct of

[5] Economic and Monetary Union: The Economic Rationale and the Design of the System, Agence Europe, No. 1604/1605 (March 23, 1990) and Economic and Monetary Union: Institutional Note from the Commission, Agence Europe No. 1620 (May 26, 1990).

monetary policy fully at its disposal, (3) the personal independence of the members of the ESCB's decision-making body, and (4) the financial independence of having its own resources. As also spelt out in the report of the Monetary Committee, the legitimacy of the ESCB had to come from the EMU treaty, having been ratified by the member states.[6]

Being part of the new monetary system, national central banks had to become independent from their national government, too. Independence was to apply to the whole central banks' bodies and not be confined to the central banks' governors in their capacity as members of the decision-making authority of the European System of Central Banks. Initially, it was difficult for some member states to accept that their central banks should become fully independent and the problem was cautiously circumvented in the early paper drafts. Yet when the topic came up in the EMU negotiations, an accord on this rule was achieved relatively effortless.

The most crucial issue in regard to the political independence of monetary decisions were the rules set up in Art. 109 for the management of the exchange rate for the single European currency. The exchange rate policy is the borderland for which monetary authorities and political authorities claim responsibility. Since decisions on the exchange rate have consequences for the domestic monetary conditions and price stability, the European Central Bank had to be kept in charge. Otherwise, its independence could easily be undermined.

It was commonly held that the European Central Bank had to carry out exchange rate interventions in its own responsibility. There was also a common understanding that the basic decisions on the exchange rate regime and the adoption of central rates with respect to third currencies was to remain the responsibility of the Communitiy's political authority, i.e., the council of ministers.

The issue that remained controversial up to the Maastricht summit was the targeting of the exchange rate under the current condition of floating currencies. Some member states requested a strong position of the council of ministers in formulating the exchange rate policy. This was rejected by other members, because it would give the political authorities a leverage on the conduct of monetary policy. The problem was finally settled at the Maastricht summit itself by the clause that the European Central Bank would have to be consulted prior to any decision of the council and that general orientations on the exchange rate "shall be without prejudice to the primary objective of the ECBS to maintain price stability" (Art. 109, 2). The price stability

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[6] Economic and Monetary Union: The Document of the Monetary Committee. Agence Europe, No. 1609 (April 3, 1990)

goal is furthermore anchored in Art. 109, 1 concerning the council´s decision on the adaption of central rates.

2. Rules for fiscal policy

Creating a central authority to which member states fully tranfer the decision-making power on monetary policy is indispensible in a monetary union. Responsibility for price stability has to remain in one hand in order to effectively pursue this goal. Regarding the economic policy in the EMU, however, institutional requirements are not so unequivocal.

The community of economic experts is split on the issue into two schools of thought. Some hold the view that a monetary union has to be accompanied by a centralised economic policy, including a substantial increase in the Union´s budget. Others tend to believe that a common monetary policy will already deliver sufficient pressures to keep member states´ policies on a converging path. The Advisory Council to the German Ministry of Economics, for instance, was among the advocates of the latter opinion.

The European Commission addressed the issue in its paper submitted in March 1990[7], pleading for an approach in the middle. Following the principle of subsidiarity, economic and fiscal policy had to remain in the domain of the member states, but was to be coordinated by the Community´s institutions. Up to this, member states agreed. The intrinsic problem, however, the elaboration and formulation of the appropriate rules for achieving policy coordination still had to be solved.

In line with the idea of a *gouvernement économique* , France favored a strong role of the European Council in the coordination process. It was to set the guidelines which member states´ macroeconomic policies had to follow. Other members, including Germany, wanted to accept only the less binding form of economic "orientations" that were to be set up at the lower level of the EcoFin council. They also wanted to assure that such orientations would not apply to monetary policy.

The topic surfaced several times and became a concern duing the EMU negotiations. Yet when it turned out that "guidelines" would not be approved, member states favoring this solution did not insist. The issue was settled in Art. 103 in favor of the EcoFin council and of economic policy "recommendations", a term less committing than "guidelines".

Monetary policy cannot be kept on a stability oriented path when fiscal policy runs in the opposite direction. How to ensure that member states will conduct their fiscal policies

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[7] Economic and Monetary Union: The Economic Rationale and the Design of the System., op. cit.

in line with the price stability goals of the EMU was one of the most crucial issues for which a solution had to be found. The view that a stability oriented monetary policy will automatically restrain public deficits and debts is widespread among economists. In the Community, however, a broad understanding was reached at an early stage of the preparatory work that this mechanism would not suffice. In Germany, the Bundesbank, in particular, insisted on binding rules for fiscal discipline. Without such rules, the whole burden of achieving price stability would fall upon monetary policy.

Some restrictions on fiscal policy already derive from the principle of the central bank´s independence. Financing public debts is strictly prohibited to the European Central Bank and to the national central banks as well (Art. 104). For the latter, this rule already had to be introduced prior to the second EMU stage, having started on January 1, 1994. As also clarified at an early point of the preparatory process, any responsibility of the Community or its member states for one member state´s debts had to be precluded (no bailout).

That excessive public deficits had to be avoided was basically agreed upon, too. But this principle was (and still is) very contradictory to the real situation in some member states. Moreover, binding rules for fiscal discipline infringe upon national sovereignty, a point brought up particularly by the British. In order to be effective, rules for fiscal policy had to include measures to enforce discipline when the council concludes that an excessive deficit exsists. Rules also had to spell out what "excessive" implies. The definition of criteria was complicated by the fact that economic scholarship neither provides easy solutions to the problem.

The Monetary Committee investigated the issue in a report, submitted in March, 1990.[8] As indicated in this paper, the question of criteria was as contested as the question of sanctions. In the course of the EMU negotiations the view gained support, however, that an upper limit for public deficits was to be set in terms of the gross national product (GNP).

The Maastricht criteria for a "sound" fiscal policy, introduced in Art. 104 c - 3 % GNP being the upper limit for public deficits and 60 % GNP for public debts - came about rather pragmatically. They more or less represent the average of public deficits and debts in the member states at the time of the negotiations. As many economic experts have criticized, they do not represent a scholarly well-founded standard for fiscal stability but are to provide a value of

[8] Economic and Monetary Union: The Document of the Monetary Committee. Agence Europe, op. cit.

reference in the political process of fiscal policy surveillance.

Regarding the question of sanctions, France and Germany as a final measure proposed to suspend payments from the EC budget. Yet this was fiercely opposed by the countries to which the rule was likely to be applied. In the final settlement, it was conceded that sanctions should not apply to the payments from EC structural funds. Apart from this, a comprehensive sanction mechanism was set up in Art.104 c, ranging from policy recommendation and public admonition to non-interest bearing deposits and fines.

For member states having problems with fiscal discipline, it was conceded that the overall financial situation of the country had to be taken into account in addition to the "hard" criteria. There was a broad understanding among the wealthier member states, however, that convergency requirements for the final EMU had to be met by the candidates in their own responsibility. Financial transfers from the Community as a measure of relief were to be ruled out.

The issue was crucial since some less wealthy member states considered an augmentation of the Community's funds their main advantage in the EMU. The matter surfaced several times but was not dealt with conclusively at the intergovernmental conference on the Economic and Monetary Union nor on the Political Union. As a concession to the less wealthy member states, the creation of a cohesion fund was concluded in principle, however.

V. The implementation of the EMU

1. The crucial second stage

Following the Delors-Report, the second stage of the EMU was to be a period of transition in which the institutional framework for the final EMU had to be set up (cipher 55). There was a common understanding that monetary decision-making had to remain in the hands of the member states in stage two. As it was strongly insisted on the German part, this principle had to be applied to all aspects of monetary policy, including the policy with respect to the exchange rate. The latter, however, was not unchallenged in the Community and became a major concern during the EMU negotiations.

Since institutional change would be involved, stage two could start only when the EMU treaty had come into force. Fixing a date for the transition, however, turned out to be a most difficult task.

There were good reasons for keeping the transitional stage brief. Should the final EMU follow suit in a short space of time, member states entering the second stage, in fact, already had to be prepared for the final EMU in terms of their economic performances. Yet it was easily foreseen that this condition would not be soon fulfilled by all the member states.

The dilemma was obvious. Waiting with the second stage until all member states qualified for the final EMU, it could not start right after ratification of the new treaty. For an indefinite length of time, the EMU would be stuck in the first stage. With an early start of stage two, however, this phase could become indefinitely long, since the final EMU had to wait until convergency was achieved among all the member states. In both cases, the momentum could get lost. In fact, implementing the EMU with various speeds was the only course out of the problem.

The issue surfaced during the conference preparations in the second part of 1990 and was fiercely discussed. Member states, assuming not to be in the first rank regarding their qualification for the EMU, pleaded for long periods of transition. The question was raised whether the treaty should even fix the date for the second EMU stage at all. From an economic point of view, a second stage was not really needed. Stage one could be extended until the conditions for the final EMU were met. However, due to political reasons it was considered necessary that the Community - having set up the EMU treaty - receives a new impetus from entering stage two.

As it turned out at an informal EcoFin meeting in early September 1990, the Community was divided on the issue into two groups. Belgium, Denmark, France, Italy and Luxemburg supported the proposal of the European Commission that the second stage should start on January 1, 1993 - the day initially aimed for the new treaty coming into force. Spain prefered Januar 1994 in line with its preference for an extended transition period that should enable the country to take part in the final EMU.

Germany, Great Britain, Greece, Ireland, the Netherlands and Portugal held that no time schedule should be set up, though for different reasons. Great Britain adhered to its "hard ECU" approach. On the German part, the Ministry of Finance - as well as the Bundesbank - aimed to assure that stage two would start only if member states qualified in terms of economic convergency. The Netherland's position was similar. That Greece, Ireland and Portugal did not approve, came largely as a surprise. The motives were not spelt out. But it was likely that these countries anticipated they would not be able to participate in the final EMU, and did not want to be set apart by a timetable for its implementation. Maybe they also aimed at linking their approval for the second stage to concession on financial transfers - an expectation that did not fulfill, however.

During the following weeks, the Spanish and the Netherland´s Ministers of Finance sought a reconciliation of views by relegating a date - January 1, 1994 - with conditions member states had to comply with until. As particularly urged by Spain, all the twelve member states had to participate in the second stage but were to perform in accordance with certain conditions, such as the achievement of free capital movement and progress in adapting the domestic system to the requirements of the final EMU.

In the course of October, the view gained adherents that stage two should be set up either on January 1, 1993 or 1994. On the German part, Chancellor Kohl decided the matter by supporting January 1994. The only countries still opposing a fixed date were Great Britain, Ireland and Portugal.

The European Council, meeting for a special summit in Rome at the end of October, settled the issue in favor of January 1994. All member states were to have the chance to improve their economic performances during the second stage of the EMU. By a German proposal, the provision was later on introduced in the treaty that member states had to adopt so-called convergency programs prior to entering the second stage.

The formulation in the summit´s conclusions, however, that "the new Community institution will be established at the start of the second phase" opened the door for new irritations. Some member states, including Belgium, France, Greece and Italy, held the view that the "new institution" was the European Central Bank for which they claimed some substantial competences already at the second EMU stage. They proposed that the new monetary instutution should administer a designated amount of member states´s currency reserves and be allowed to use them for exchange market interventions under the council´s guidelines.

For Germany and the Netherlands, this was unacceptable. They insisted that the functions of the new monetary institution had to be strictly confined to the coordination of policies and to the preparatory work for the final EMU. Remaining in charge for achieving price stability up to the final stage of the EMU, national central banks had to have all monetary instruments at their disposal during the transition period, including the management of their currency reserves. In order to rule out any misunderstanding on the issue, the institution for the second stage was to be already distinguished by its name from the one for the final stage. By a Dutch proposal, the term European Monetary Institute was introduced for this reason.

2. The transition to the final stage

As it soon turned out, the transition to the final EMU stage was the central and most crucial issue the EMU intergovernmental conference had to address. Less progress had been achieved on the matter during the preparatory work than had been on the institutional framework for the final EMU. The issue was so delicate, because member states had to agree on entrance criteria and rules of procedure that would eventually exclude them from starting with the final EMU.

Great Britain claimed for an opting out clause. Before entering the final EMU stage, Westminster is to decide on the British participation. Since the country did not want to be isolated, it aimed for a rather general formulation of this provision. This could induce other parliaments to render the transition to the final stage a voting matter as well. With the objective that the three EMU stages should be an entity, however, the ratification of the EMU treaty already was to include the commitment for the final stage. Its implementation would otherwise become very uncertain.

For this reason, the majority of the member states insisted that the possibility of an opting out was to apply only to the British and to the Danish, also having announced a reservation. All the other member states were to commit themselves to the EMU, provided they meet the qualification.

Procedures for the transition to the final EMU had to serve two objectives, both being essential for the project's success. On the one hand, in order to ensure its smooth functioning, member states had to qualify in terms of monetary and fiscal stability for the final EMU. On the other hand, in order to keep up the momentum, no member state was to be in a position to prevent others from entering the final EMU.

Regarding individual member states' performances, decisions were to be based on a set of objective criteria which could be quantified. This has always been a particularly strong German concern. The criteria set up in the treaty shall help rationalize the decisions coming up in 1996 and 1998, although they are not be applied in a pure technical sense.

All member states aimed at participating in the decision-making for the final EMU - and it was commonly admitted that they should. In an initial proposal, the Dutch presidency had suggested that a group of six member states - when fulfilling the conditions - should be entitled to conclude, by and for itself, the creation of the final EMU. Yet this had been strongly opposed by the member states which feared not to be in this group.

The question of how to ensure that member states not qualifying for the final EMU (as well as the two candidates for on opting out, Great Brtitain and Denmark) cannot block its implementation, remained a major issue of concern up to the Maastricht summit. The final handling of the problem was brought about at the summit by the heads of state or government themselves.

The European Council modified the treaty draft for the transition procedures in two decisive respects. The first modification aims at avoiding a veto. The European Council will have to decide before the end of 1996 "whether a majority of the member states fulfill the necessary conditions for adopting a single currency", and whether it is appropriate for the Community to enter the third (final)) stage". In order to rule out a veto position for a single member state, decisions will be taken by a *qualified majority* and not unanimously as suggested in the initial draft.[9] In a declaration on the "irreversibility of the final EMU" attached to the treaty in the protocols, member states have also committed themselves not to prevent others from implementing the EMU.

The second modification in the treaty draft is to ensure the EMU's implementation. In order to *finalize the process*, the European Council simply set up January 1, 1999 as the date by which the third EMU stage should begin at the latest, with the member states then fulfilling the conditions.

V. Conclusions

The EMU process has been marked by some pecularities: since one can either have a single European currency or not, incrementalism - which has often facilitated European integration in the past - was not suitable for the EMU. Member states had to commit themselves to the entire process. Neither did the issue give much leeway for compromises. The system had to be solid in terms of price stability, since Germany and other stability-oriented members otherwise would not accept it. EMU negotiations were formed by common efforts to find appropriate problems solutions rather than by bargaining patterns. They can be described as being an intense intellectual, political and diplomatic endeavor, with the emphasis on achieving a conclusion.

Time was favorable when the EMU initiative was launched in 1987. The Community had gained momentum by the internal market program. For the countries having participated in the European exchange rate mechanism, economic policies had already become more alike. Other member states were drawn into the process by the goal of the EMU. Due to EMS experiences, the idea of an independent central bank had

[9] The European Council will meet in the composition of heads of state or of government on this occasion. In this case, the whole range of voting procedures set up in the treaty for the council of ministers applies. In contrast, decisions in the European Council are taken by consensus.

gained adherents. Notwithstanding its complexity, the scope of the matter could be clearly identified. Negotitions were closely confined to the intrinsic issues involved.

Shaping the system solidly was essential. In order to move forward, however, the political momentum had to be secured. Relating issues with time schedules became the means by which progress could be enforced. German policy has supported the EMU in both regards. While Genscher pushed for progress in the political process on the one side, the Ministry of Finance, in close cooperation with the Bundesbank, on the other, pushed for a solid framework for the EMU. In the final analysis, both emphases have converged in promoting the EMU.

Setting up the procedures for the transition to the final EMU was the most crucial issue in the negotiations. Actually, member states, in fact, had to agree on a framework for a "core union". The Community was also confronted with the fact that two member states did not want to participate in the final EMU. Both issues are likely to come up again when the European Union advances further.

For the EMU, the problem has been solved in line with two principles:

(1) All member states can participate in the final EMU, provided they conform to the conditions in terms of objective criteria and a fixed time schedule.

(2) No member state can prevent others from implementing the EMU. The final EMU will start as a core union, but the core will remain open.

There are two implicit prerequisites, not spelt out in the treaty. First, for political reasons, the initial core must include France and Germany. Secondly, the EMU project has been promoted by the overall momentum the Community has gained since the reforms of the European Single Act came into force in 1987. That this drive is carried on by advancements in the 1996 negotiations for a new treaty amendment will also be important for the EMU´s implementation.