DIFFERENT PERCEPTIONS OF EMU AMONG THE MEMBER STATES

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THE NEED FOR REVISING THE METHOD OF GOVERNANCE OF EMU/ THE EURO AREA IN THE LIGHT OF THE RECENT CRISIS RAISES TWO MAIN ISSUES OF ANALYSIS:

• WERE THERE BASIC “CONGENITAL” DEFECTS IN THE ORIGINAL DESIGN OF EMU – OR WAS AN ESSENTIALLY SOUND FRAMEWORK SIMPLY UNDERMINED BY IRRESPONSIBLE NATIONAL POLICIES?

• WHATEVER THE ANSWER, TO WHAT EXTENT ARE THE RECENT PROBLEMS DUE TO DIFFERENT NATIONAL PERCEPTIONS OF EMU, BOTH AT THE TIME OF MAASTRICHT AND LATER?
GIVEN THAT MY OWN BACKGROUND – APART FROM BEING A KEEN ACADEMIC OBSERVER OF EUROPEAN MONETARY INTEGRATION OVER SOON FOUR DECADES – TO CENTERS ON ANY INSIGHTS MY PARTICIPATION AS AN INDEPENDENT EXPERT MEMBER IN THE DELORS COMMITTEE ON EMU WHICH PREPARED THE OUTLINE OF EMU ADOPTED AT MAASTRICHT, I SHALL TRY TO MERGE THE TWO ISSUES WHILE

• TRYING TO IDENTIFY DIFFERENCES IN PERCEPTION, NOTABLY BETWEEN FRANCE AND GERMANY THAT AFFECTED THE MAASTRICHT TREATY AND LATER THE STABILITY (AND GROWTH) PACT

• LOOKING AT THEIR REAPPEARANCE IN THE CURRENT REVISIONS OF THE GOVERNANCE FRAMEWORK
FRANCO-GERMAN DIFFERENCES IN PERCEPTION

1. THE ROLE OF MONETARY UNION IN A "GRAND POLITICAL BARGAIN"

2. THE MAIN ECONOMIC ARGUMENTS FOR EMU

3. THE SEQUENCING OF MONETARY UNION IN THE PROCESS TOWARDS ECONOMIC AND POLITICAL UNIFICATION

4. THE BASIS FOR NATIONAL POLICY BEHAVIOUR IN EMU: RULES VS. DISCRETION, OR SUSTAINABILITY VS. STABILISATION

5. THE DEGREE OF SYMMETRY/ASSYMETRY IN NATIONAL POLICY ADJUSTMENTS
6. HOW SHOULD RULES FOR NATIONAL BUDGETARY POLICY BE ENFORCED? WHAT DEGREE OF AUTOMATICITY SHOULD BE APPLIED?


8. SPECIAL POLITICAL FRAMEWORK FOR THE EMU-PARTICIPANTS?

MOST OF THESE DIFFERENCES WERE RESOLVED AT MAASTRICHT AND THEY ARE NOW PROVING VERY DIFFICULT TO MODIFY – YET THEY RUMBLE ON, NOTABLY (5) TO (8)
A ”GRAND POLITICAL BARGAIN”? 

A TRADITION IN THE HISTORY OF EUROPEAN INTEGRATION, DEAR TO BOTH POLICY MAKERS AND POLITICAL SCIENTISTS, TO SEE ”GRAND BARGAINS” IN RELATION TO MONETARY INITIATIVES:

• THE WERNER PLAN OF 1970 AND THE OSTPOLITIK OF CHANCELLOR BRANDT

• THE EUROPEAN MONETARY SYSTEM OF 1978/79 AND FRANCE-GERMAN DEFENSE COOPERATION

• EMU AND THE EURO AS A GERMAN CONCESSION TO ASSURE SUPPORT FOR THE UNIFICATION OF GERMANY FROM HER EUROPEAN PARTNERS
THE NATURE OF THESE BARGAINS HAS ALWAYS SEEMED DIFFUSE – AT LEAST TO ECONOMISTS, THOUGH THEY MAY HAVE HAD SOME OF THE FEATURES IN THE EARLIER POSTWAR PERIOD

IN POLITICAL TERMS OTHER EUROPEAN COUNTRIES WERE NOT IN A POSITION TO EXPECT ANY CONCESSIONS FROM GERMANY IN 1989 – UNIFICATION HAD TOO MUCH MOMENTUM, EVEN VIA THE SOVIET UNION; IT WAS UNOBJECTIONABLE

BUT IN FRANCE IT REMAINS A WIDELY HELD ASSUMPTION THAT PRESIDENT MITTERAND (WHO DID NOT FAVOUR UNIFICATION) OBTAINED SUCH A CONCESSION FROM KOHL

MORE PRACTICALLY: EMU WAS DESIGNED BEFORE NOVEMBER 89 – BUT THE SUBSEQUENT PACE OF IMPLEMENTATION AND GERMAN ATTENTION MAY HAVE BEEN AFFECTED BY THE DOMINANCE THEREAFTER OF THE UNIFICATION THEME FOR GERMANS
DIFFERENT PERCEPTIONS OF THE MAIN ECONOMIC ARGUMENTS FOR EMU

While both Germany and France agreed that the elimination of exchange-rate adjustments and a more robust framework in the face of external shocks were arguments in favour of accompanying the deepening of the internal market with a single currency,

- Germany saw the main purpose as the "locking-in" of low (and stable) inflation which had gradually emerged after 1985, while

- France saw the main purpose as sharing monetary leadership with the Bundesbank

AND AT THE HIGHER POLITICAL LEVEL THE NOTION OF AN INDEPENDENT CENTRAL BANK REMAINED UNFAMILIAR, AND THE IMPLICATIONS OF “SHARED LEADERSHIP” WERE MISUNDERSTOOD, OR MISREPRESENTED

MITTERAND’S STATEMENTS DURING THE MAASTRICHT CAMPAIGN IN SEPTEMBER ‘92 ARE THE MAIN EXAMPLE – AND THEY CAUSED FUROR IN GERMANY
SEQUENCING AND MONETARY UNION

Ever since the Werner Plan of 1970 it was clear that Germany and France had very different perceptions as to the proper sequencing.

In the German view, monetary union should be the very last step in the integration process – the "coronation theory."

Both nominal and real integration should have been completed, incl. labour market flexibility before monetary union.
FRANCE – WITH SUPPORT FROM THE COMMISSION AND MOST OTHER MEMBER STATES - EMPHASISED THE ROLE OF MONETARY INTEGRATION IN ADVANCING OTHER DIMENSIONS OF INTEGRATION, BOTH OF POLICIES AND OF MARKETS

IN MORE TECHNICAL TERMS: A NEOFUNCTIONALIST APPROACH – COMBINED WITH OPTIMISM THAT THE CRITERIA FOR AN OPTIMUM CURRENCY AREA WOULD ADVANCE TOWARDS BEING MET BY MONETARY INTEGRATION ITSELF SUMMARISE THIS VIEW

ON THIS POINT THE OUTCOME AT MAASTRICHT WAS CLOSER TO FRENCH THAN TO GERMAN PERCEPTIONS: NOMINAL CONVERGENCE WAS EXPECTED TO CONTINUE THROUGH MARKET FORCES; REAL INTEGRATION WAS SUPPOSED TO MOVE AHEAD BECAUSE IT WOULD BE SEEN AS IN THE INTEREST OF INDIVIDUAL GOVERNMENTS

LATER EFFORTS TO ACHIEVE REAL INTEGRATION DIRECTLY, NOTABLY THROUGH THE LISBON STRATEGY OF 2000, LARGELY FAILED
RULES VS. DISCRETION IN EMU

CLEAR EXAMPLE OF DIFFERENT PERCEPTIONS IN THIS AREA:

• GERMANY WAS CONSISTENTLY ADVOCATING RULES FOR NATIONAL PUBLIC FINANCES – A DEFICIT CEILINGS AND A DEBT NORM – WHILE KEEPING AN ARMS-LENGTH RELATIONSHIP TO OTHER MORE DETAILED NATIONAL BUDGETARY DECISIONS, WHILE

• FRANCE WAS ARGUING IN FAVOUR OF A MORE INTERVENTIONIST POLICY WITH DISCRETIONARY POWERS VESTED IN THE ECOFIN COUNCIL/EUROGROUP

THE ISSUE WAS FUDGED IN THE DELORS REPORT AND THE MAASTRICHT TREATY BY SPEAKING BLANDLY OF “COORDINATION OF ECONOMIC POLICIES”
BUT THERE IS A FUNDAMENTAL DISTINCTION BETWEEN A RULES-BASED SYSTEM DESIGNED TO CONSTRAIN EXCESSIVELY BOLD NATIONAL BUDGETARY POLICIES AND A MORE DISCRETIONARY SYSTEM AIMING TO ACHIEVE AN APPROPRIATE OVERALL FISCAL THRUST IN EMU AND A PROPER POLICY MIX WITH MONETARY POLICY.

BOTH AIMS ARE LISTED AS DESIDERATA IN THE DELORS REPORT, BUT EFFORTS TO GIVE ANY SUBSTANCE TO THE SECOND MEANING OF COORDINATION FIZZLED OUT AT MAASTRICHT.

THE FRENCH STILL SPEAK OF “TWO DREAMS” FOR POLICY COORDINATION, OF WHICH ONLY THE FORMER, DISCIPLINARIAN ONE, WAS IMPLEMENTED IN THE TREATY (PISANI-FERRY, 2006).

THE PURPOSE OF THE FISCAL RULES IS TO IMPROVE LONG-RUN SUSTAINABILITY OF PUBLIC FINANCE, NOT TO (MARGINALLY) IMPROVE THE STABILISING FEATURES OF EMU FISCAL POLICIES IN A MORE CYCLICAL CONTEXT

THE GERMAN PERSPECTIVE IS CLEARLY DOMINANT ALSO IN THE “SIX-PACK” ALREADY ENACTED AND IN THE PROPOSALS STILL TO BE DISCUSSED IN THE EUROPEAN COUNCIL IN THE NEAR FUTURE (“THE EURO PACT”)
SYMmetry of the Policy Framework

A closely related point of perception differences is whether some degree of symmetry of scribed adjustments can/should be envisaged.

This has been a constant call of the French since at least 1974: the Plan Fourcade for more symmetrically intervention rules in the currency “snake”, via the Gicard vision of an EMS built on the basket ECU (which Chancellor Schmidt temporarily supported), to the start of the EMU debate by France (and Italy) in ’88 with calls for demand stimuli in Germany as the German external surplus rose (memoranda by Balladur and Amato).

But EMU in the end was designed asymmetrically to foster convergence towards the best performance, not the average.
ENFORCEMENT AND AUTOMATICITY

THE MAASTRICHT TREATY’S “EXCESSIVE DEFICIT PROCEDURE” WAS ALWAYS REGARDED AS VAGUE AND DIFFICULT TO APPLY CREDIBLY

GERMANY (THEO WAIGEL) PROPOSED IN ‘95 THE STABILITY PACT – RELABELLED STABILITY AND GROWTH PACT IN ’96 - TO MAKE THE FRAMEWORK OPERATIONAL

THE FRANCO-GERMAN DEBATE FOCUSED ON DEFINING THE “EXCEPTIONAL CIRCUMSTANCES” WHEN THE RULES COULD NOT, OR MIGHT NOT, BE ENFORCED

A (RIDICULOUSLY PRESICE) COMPROMISE WAS REACHED BY KOHL AND CHIRAC IN ’97 ON THIS PARTICULAR ISSUE
GERMANY PREFERRED AUTOMATICITY IN THE EVALUATION AND SANCTIONS PROCEDURE, BUT THAT COULD ONLY BE DONE THROUGH A CHANGE IN THE TREATY WHICH HAS LEFT ROOM FOR POLITICAL DISCRETION IN ECOFIN

WE ARE IN EXACTLY THE SAME DEBATE NOW, BUT THE ROOM FOR DISCRETION HAS BEEN GREATLY NARROWED BY REQUIRING LARGE QUALIFIED MAJORITY TO BLOCK A COMMISSION RECOMMENDATION OF SANCTIONS, SO THAT THE PROCEDURE CAN NO LONGER BE THWARTED AS EASILY AS HAPPENED WITH GERMANY AND FRANCE IN 2003

STILL OPEN: CAN TOUGH MONITORING WORK (1) IN A MORE PREVENTIVE CASE, (2) ON THE DEFINITION OF A PRESCRIBED PACE OF DEBT REDUCTION TOWARDS 60% OF GDP, AND (3) ON MACROECONOMIC PERFORMANCE MORE GENERALLY?
IN THE FRENCH ELECTION CAMPAIGN M. HOLLANDE HAS STATED THAT HE WANTS TO “RENOGOTIATE THE EURO PACT” – IN CLOSE ANALOGY TO THE ‘97 ELECTION CAMPAIGN FOR THE NATIONAL ASSEMBLY WHICH THE SOCIALISTS WON

THEN THERE WAS NO RENEGOTIATION, BUT FRANCE SAVED FACE BY OBTAINING THE ADDITION OF A (NON-BINDING) CHAPTER ON EMPLOYMENT OBJECTIVES TO THE AMSTERDAM TREATY AND TO THE BROAD ECONOMIC POLICY GUIDELINES THEREAFTER

TASKS FOR THE FUTURE ECB?

FIRST, AN OMISSION, RATHER THAN DIVERGENT PERCEPTIONS: GIVING SOME RESPONSIBILITY FOR OVERALL FINANCIAL STABILITY TO THE EU LEVEL, MAYBE TO THE ESCB, WAS NOT ON THE AGENDA OF EITHER GERMANY OR FRANCE IN ‘91.

THE POLITICAL AUTHORITIES FELT THEY WERE GIVING UP MUCH SOVEREIGNTY ALREADY, AND THE CENTRAL BANKERS DID NOT, MAYBE REALISTICALLY, SHOW ANY INTEREST IN A ROLE, WHICH COULD UNDERMINE THEIR INDEPENDENCE AND CAUSE INTRUSIVE GENERAL OVERSIGHT (A FORMULA HAS NOW BEEN FOUND BY INVOLVING THE ECB IN SO-CALLED MACROPRUDENTIAL SURVEILLANCE, BUT NOT IN SUPERVISION OF INDIVIDUAL INSTITUTIONS)

THE IMPACT ON FINANCIAL INTERDEPENDENCE OF THE ARRIVAL OF THE EURO – AND ESPECIALLY AT A TIME OF CRISIS – WAS NOT FORESEEN TWO DECADES AGO.
Another topic left for the future was the time horizon of central bank operations – they were assumed to be very short-term and, in particular, not to involve credit to public sector institutions or across borders.

The treaty prevented direct credit to the public sector, incl. through purchases of government bonds in the primary market – there was even discussion in the Delors Committee whether purchases in the secondary market should be confined to bundles of national securities to avoid favouritism to individual governments.

These issues did not generate Franco-German controversies, but France was notably more keen on foreign-exchange interventions, made complex in the treaty in the absence of major international monetary reform.
ALTOGETHER CARE WAS TAKEN TO CREATE A “PURIST” CENTRAL BANK WITH HIGHLY FOCUSED RESPONSIBILITIES – AND STRONG AUTONOMY IN ADDRESSING THEM.

NO EFFORT TO CREATE ANY CORRESPONDING POLITICAL AUTHORITY AT THE EUROPEAN LEVEL IN CONTRAST TO THE WERNER PLAN.

A CONFUSION OF INDEPENDENCE WITH LONELINESS ON THE EUROPEAN POLICY STAGE (PADOA-SCHIOPPA) ?

MAYBE – AND WITH THE CONSEQUENCE THAT THE ONLY FUNCTIONING INSTITUTION, THE ECB, IS NOW BEING PUSHED TO DO THINGS THAT BELONG AT THE POLITICAL LEVEL, NOTABLY MEDIUM-TERM CONDITIONAL LENDING TO SOVEREIGNS LIKE A REGIONAL IMF.
SPECIAL PROVISIONS FOR THE OUTS?

This topic was not initially controversial, since non-participation in EMU was regarded as temporary in which case the provisions for Stage II could take care of the transitional problems.

Later, with a larger group of non-participants, and at least one country more permanently out, the issue became more intricate - and one of Franco-German controversy, as we have seen in December ‘11.

France is not unhappy with an intergovernmental approach to EMU, while Germany has a clear preference for using regular treaty changes – “the Community Approach” – as both more workable in the long run and more in conformity with the original intentions of the treaties.
CONCLUSIONS (TENTATIVE)

WITH MANY EXAMPLES OF DIFFERENCES IN PERCEPTION ONE MAY WONDER HOW
EMU MANAGED TO START

THE DIFFERENCES WERE OBVIOUSLY LESS PRONOUNCED AT THE LEVEL OF THE
EXPERTS WHO CONDUCTED THE NEGOTIATIONS - AND PARTICULARLY IN THE MORE
COLLEGIAL WORLD OF THE CENTRAL BANKS - THAN AT THE HIGHEST POLITICAL LEVEL
AND AMONG THOSE CITIZENS INTERESTED IN THE SUBJECT (AN INCREASING NUMBER)

MOST OF THESE DIFFERENCES WERE NOT MUCH DEBATED PUBLICLY PRIOR TO
MAASTRICHT, THOUGH FRANCE NEARLY HAD A NO IN THE 1992 REFERENDUM

NOW THE MIXTURE OF “CONGENITAL DEFECTS” IN THE DESIGN OF EMU AND THE
FLOUTING OF THE FRAMEWORK HAS MADE AN EFFORT TO AT LEAST TO ENFORCE THE
ORIGINAL RULES, LARGELY REFLECTING THE GERMAN PERCEPTIONS, INDISPENSABLE