MONETARY UNION AND THE POLITICIZATION OF EUROPE[1]

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Introduction

This paper argues that the politicization of Europe is largely due to the decision to proceed with economic and monetary union (EMU) and to the subsequent crisis of the euro zone—a crisis that had been predicted by some of the world's best experts: economists such as the Nobel Prize winner Milton Friedman, Harvard's Martin Feldstein and Kenneth Rogoff, Berry Eichengreen of the University of California at Berkeley, and by several other top specialists (Majone 2009; 92-94). That their warnings were totally disregarded by both EU leaders and European institutions is something that has to be carefully analyzed if we wish to avoid similar disasters in the future. Part, but only part, of the explanation may be a political culture of total optimism which until recently has inspired the public pronouncements of European leaders. The gap between the official rhetoric celebrating the economic achievements of European integration and the reality of poor economic and productivity growth went largely unnoticed in the past because most EU policies were too remote from the daily problems of the people to seriously concern public opinion. Before monetary union complaints about the disappointing economic performance of the EU could be answered by reminding the critics that Community competences did not include macroeconomic policymaking. Also in policy areas of Community competence, moreover, it was difficult for ordinary citizens, and sometimes even for the experts, to allocate responsibility for unsatisfactory outcomes as between "Brussels" and the national governments.

EMU has changed all this. Unlike most policy decisions taken in Brussels, the decisions taken by the European Central Bank (ECB) are widely advertised, and their consequences—whether on home mortgages, on consumer credit, or on the availability of publicly-financed services—have a direct impact on the welfare of all inhabitants of the Euro-zone, indeed of the entire EU. Because of their impact on growth, also the Bank's non-decisions, e.g., concerning changes in the discount rate, are often discussed in the media. For half a century Euro-elites could present integration as a positive-sum game; but since the beginning of the debt crisis of the euro zone people realize that integration entails costs as well as benefits, and that a positive net balance

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can no longer be taken for granted. This realistic assessment of the consequences of European integration is not only a new, but also an ominous development. Now everybody can see that surrendering monetary sovereignty entails costs as well as benefits. This new realism is likely to induce greater popular resistance to future transfers of powers to the European level, and a much stronger demand of accountability by results—precisely what is foreign to the political culture of the EU, with its emphasis on process rather than on outcomes. Future European policies will be evaluated not primarily in terms of their contribution to the integration process, but by their actual contribution to the welfare of the average citizen. Unless the EU can demonstrate (by deeds, not by words) that it can add value to what individual member states, or subsets of member states, can achieve on their own, it will be impossible to resolve the legitimacy crisis of the EU—a crisis in the making long before the introduction of the common currency, but which the euro disaster .could aggravate with incalculable consequences.

Despite its obvious attraction for the political elites and for interest groups, the traditional method of *in camera* decision making in the name of Europe cannot be expected to continue in the future because of the growing politicization of the integration process. Politicization means the end of permissive consensus of the past, when European publics took the integration project for granted, as an accepted part of the political landscape. Such a passive attitude could last only as long as the integrationist elites managed to keep European issues out of the political debate. Even before the present crisis, the quantum jump represented by monetary union had radically changed the piecemeal approach to integration. advocated by Jean Monnet and by neo-functionalist scholars. This method has been nicely summarized by Pascal Lamy, former European Commissioner, erstwhile lieutenant of Commission President Jacques Delors, and now director general of the World Trade Organization: “Europe was built in a St.Simonian [i.e., technocratic] way from the beginning, this was Monnet’s approach: The people weren’t ready to agree to integration, so you had to get on without telling them too much about what was happening” (cited in Ross 1995: 194).

Another consequence of the politicization of Europe—one which can only be mentioned here—is that political entrepreneurs now have the opportunity of differentiating themselves from other parties in terms of European issues, so that bargains struck in Brussels may now be contested at the national level. This particular consequence can already be observed in several member states. During the campaign for the Austrian national elections of September 2008, for example, both the social-democratic leader and the leaders of the two parties of the extreme right appealed to widespread anti-EU feelings in the population to steal votes from the pro-EU Volkspartei. New member states like Hungary, the Czech Republic, and even Poland provide numerous other examples of the use and abuse of European issues for party-political purposes. This is an aspect of the politicization of Europe that deserves much more systematic analysis than it has received so far.

To come back to our main topic, EMU is unique in more ways than can be discussed within the limits of a paper. It is the first attempt to establish a monetary union before political union—in the United States a central banking authority, the Federal Reserve System, was established only in 1913, more than 120 years after the ratification of the federal constitution. Again, the euro disaster is by far the worst crisis experienced by the EC/EU so far—the "Empty Chair Crisis" of July 1965, when Paris instructed its officials no longer to participate in meetings of the Council of Ministers. and recalled its Permanent Representative to the European Economic Community, is by comparison not much more than a squabble between General De Gaulle and his partners in the EEC. Above everything else, EMU is unique in exhibiting all the structural flaws of the entire process of European integration: in the language of a later section, it is a synecdoche—a part that may be used to study the whole. Finally, EMU is unique in presenting a choice never faced before by EU leaders: either to move ahead decisively towards political union, at the risk of downgrading the EU's democratic deficit to the level of a democratic default; or else to go back to the single European market envisaged by the 1957 Treaty of Rome, moving beyond this concrete goal only in presence of citizen support clearly expressed by popular referendums.

Monetary Union as Total Harmonization

Harmonization of the laws and policies of the member states is one of the three legal techniques which the Treaty of Rome (Article 100) made available to the European Commission for establishing and maintaining a common European market—the other two techniques being liberalization and the control of anti-competitive behavior. The legal literature distinguishes three main modes of (*ex ante* or top-down) harmonization: total, optional, and minimum harmonization. From the early 1960s to the early 1970s the Commission's approach was characterized by a distinct preference for total harmonization--detailed measures designed to regulate exhaustively a given policy area, to the exclusion of previously existing national laws and regulations. Under total harmonization, once European rules have been put in place, a member state's capacity to apply stricter rules by appealing to the values referred to in Article 36 of the Treaty--such as the protection of the health and life of humans, animals, and plants --is excluded. The European Court of Justice initially supported this exclusive Community competence, judging it to be necessary to the construction of the common market and, more generally, to the autonomy of the Community system. This support of total harmonization was part of the overall strategy of the Court aimed at contrasting the tendency of the member states to reduce European law to a branch of international law. Already by the mid-1970s, however, the limit of total harmonization had become visible. The idea of a common market structured by one body of uniform European rules had to be given up once it was realized that total harmonization confers on the Community an exclusive competence which it is ill-equipped to discharge (Weatherill 1995). The emphasis shifted from total to optional and minimum harmonization--and to mutual recognition. Optional harmonization aims to guarantee the free movement of goods, while permitting the member states to retain their traditional forms of regulation for goods produced for the domestic market. Under minimum harmonization, the national governments must secure the level of regulation set out in a directive but are permitted to set higher standards, provided that the stricter national rules do not violate Community law.

The idea that economic integration requires extensive harmonization of national laws and regulations has been criticized by distinguished economists since the early years of the European Community. Thus, Harry Johnson wrote: “The need for harmonization additional to what is already required of countries extensively engaged in world trade is relatively slight…The problems of harmonization are such as can be handled by negotiation and consultation according to well-established procedures among the governments concerned, rather than such as to require elaborate international agreements” (Johnson 1972, cited in Kahler 1995: 12). In opposing the harmonization bias of the early literature on economic integration, Johnson pointed out that the eventual gains from harmonization should be weighed against the welfare losses produced by harmonized rules that are not tailored to national preferences except in a rough, average sense. The welfare losses entailed by centralized harmonization has become a major theme in the more recent literature on free trade and harmonization (Bhagwati and Hudec 1996).

Concerns about what already in the 1970s some member states considered excessive centralization became more intense after the Single European Act, by way of derogation from Article 100 of the Treaty of Rome, introduced qualified majority voting for harmonization measures having the internal market as their object. In an attempt to allay such fears, the Treaty of Maastricht defined, for the first time, new European competences in a way that actually limits the exercise of Community powers, and explicitly excludes any harmonization of national laws. For example, Article 126 adds a new legal basis for action in the field of education, but policy instruments are restricted to “incentive measures” and to recommendations: harmonization of national laws is explicitly ruled out. Likewise, Article 129 creates specific powers for the Community in the field of public health protection, but this competence is highly circumscribed as subsidiary to that of the member states. Harmonization is again ruled out, even though the Article states that health-protection requirements shall form a constituent part of the other Community policies. The other provisions of the treaty—defining new competences in areas such as culture, consumer protection, and industrial policy—are similarly drafted. Unwilling to continue to rely on implicit powers, which seemed out of control, the framers of the Treaty on European Union opted for an explicit grant that delimits the mode and the reach of action (Weiler 1999). Such has been the approach followed thereafter by later treaties.

In its *Tobacco Advertising* judgment of October 2000--which annulled for the first time a measure adopted under the co-decision procedure--the ECJ showed how strictly the limits of the Community's conferred powers are taken today. Germany, which had been outvoted in the Council, argued that Directive 98/34 prohibiting all forms of tobacco advertising, was a disguised public health measure, while the European Parliament and the Council contended that the treaty allowed the Community to adopt any measure to regulate the internal market, not just those that liberalize trade. The Court held that the European legislator could not rely on other treaty provisions to circumvent the explicit prohibition (in Article 152 of the EC Treaty) of harmonization of health measures. It argued that measures based on Article 95 EC (on the harmonization of national laws and regulations) must be aimed at improving the conditions of the internal market, not at market regulation in general. Long before the *Tobacco Advertising* judgment, Alan Dashwood had noted that 'harmonization tended to be pursued not so much to resolve concrete problems encountered in the course of constructing the common market as to drive forward the general process of integration. This...was bound to affect the judgment of the Commission, inclining it towards maximum exercise of the powers available under Article 100 and towards solutions involving a high degree of uniformity between national laws' (Dashwood 1983: 194).

Ot is important to keep in mind that the obsolescence of *ex ante* harmonization is due not only to the member states' distrust of the supranational institutions, but even more to the growing socioeconomic heterogeneity in the enlarged EU. Relative to previous enlargements, income disparities between the new member states from Central and Eastern Europe and the old EU-15 are considerably larger; for example, the income levels of the three Mediterranean countries (Greece, Spain, and Portugal) when they joined the Union in the 1980s, were around 65 per cent of the EU-10 average. The average income of the new Eastern members was only 40 per cent of the EU-15 average. This is about the same difference as that between the GDP of a West Europe reduced to ruins by the second world war, and the GDP of the United States in 1945. In fact, income inequality is today much greater in the socially-minded EU than in the arch-capitalist USA: while the average household income in New Jersey is about twice as large as the corresponding measure in Mississippi, average per capita income in Luxembourg is more than ten times as large as in Romania. Significant cross-country differences in socio-economic conditions are necessarily mirrored in a diversity of national priorities and policy preferences, and this implies that welfare-enhancing regulations have to be different rather than harmonized. This is true even in the case of minimum harmonization—unless the minimum European standard is so low as to be exceeded by all national standards, in which case it is simply irrelevant.

Stephen Weatherill has rightly observed that total harmonization confers on the European institutions an exclusive competence which they are ill-equipped to discharge; hence the shift to optional and minimum harmonization, and to mutual recognition. Such shifts have been considered "the inevitable adjustments to the notion of uniformity demanded by a Community structure that is supporting an ever-increasing number of Member States and an ever-increasing range of functions" (Weatherill 1995: 148). Since these lines were written the number of member states has almost doubled, the range of functions has greatly expanded, and socioeconomic diversity has increased exponentially. In spite of all these changes, the boldest experiment in total harmonization was launched on 1 January 1999, when the final stage of monetary union entered into force with the irrevocable fixing of the exchange rates of the currencies of 11 (soon to become 12, and eventually 17) member states, and the pre-emption of national action in the monetary area.

European Monetary Union: A Synecdoche

A synecdoche (a Greek word meaning literally "a receiving together") is a figure of speech in which a part is used for a whole. For the student of European integration the process leading to the monetary union is uniquely significant: not only because of the seriousness of the current crisis of the euro zone, but perhaps even more because the process of monetary integration recapitulates, in crucial aspects, the entire integration process. Thus, to understand why the great expectations that accompanied the introduction of the euro were bitterly disappointed so soon, is to grasp the basic problems of policymaking in the EU—and to perceive them more clearly than would be possible by analyzing other, less obvious, cases of policy failure. It is indeed hard to find a better example of the willingness of EU leaders to compromise their collective credibility by committing themselves to overoptimistic goals. Nor can one find, in the entire history of European integration, a better illustration of the complete disregard, not only of expert opinion (as already noted), but also of such basic principles of crisis management as the timely preparation of contingency plans, and careful attention to signs that may foretell a crisis. Management consultants have introduced the notion of "culture audit", meaning a systematic recording of all the factors that go into making a company's culture. Such an audit is a useful way to recognize that corporate culture is not just defined by hard factors like mission statements and administrative structures; it is also determined by softer factors such as beliefs, attitudes and symbols. For political scientists, values, beliefs, and attitudes constitute the political culture of a given community. The notion of political culture has rarely been used to study how plans and decisions are made at the European level, but I have found it useful to speak of a “political culture of total optimism” in order to make sense of the refusal of EU leaders to contemplate the possibility of failure--and to point out some of the paradoxes that follow from such an attitude.

I borrowed the expression “political culture of total optimism” from the historian Geoffrey Parker, who used it in his discussion of the grand strategy of Philip II of Spain. According to the British historian, “Spain’s strategic culture absolutely demanded such total optimism: since it had to be assumed that God fought on Spain’s side and would therefore send success, any attempt to plan for possible failure could be construed as either “tempting Providence” or denoting a lack of faith”. Of course, also many rulers of the past, as well as modern statesmen and strategists, made the mistake of not taking the possibility of failure into account. “Philip II, however, left more to chance—or to “Providence”—than most statesmen, thanks to his complete confidence that God would make good any deficiencies and errors”. The consequences of the king’s total optimism were “ a willingness to cast all caution to the winds and, equally dangerous, a failure to make contingency plans” (Parker 1998: 107-8).

The total optimism of EU leaders seems to spring, not from confidence in Providence, but from two more worldly sources. On the one hand, federalists derive confidence in the final success of their cause from the conviction that the nation state is no longer viable, at least in Europe. Like some intellectual leaders of the 1930s, such as Ortega y Gassett and Julien Benda, the federalists of the post-war years believed that only the political union of the continent—a nation state “writ large”--could save Europe from becoming irrelevant in a world dominated by a few superpowers of continental dimension.. Therefore, sooner or later European citizens will accept the necessity of political union, and will also understand why in certain situations it is necessary to accept risks that would be considered unacceptable under different circumstances (Majone 2009: 22-5). Also EU leaders who are not in favour of full political union find it convenient to display total optimism concerning the outcome of decisions taken at European level. This is because they have a vested interested in the preservation of a system that allows them to take unpopular measures *in camera*, rather than in a direct confrontation with the opposition parties at home--as is well known, the distinction between majority and opposition parties is foreign to the logic of the European Parliament and the other supranational institutions. Moreover, most decisions taken in Brussels must satisfy different, even conflicting, interests. The decision to proceed with monetary union, for example, was supported by leaders who saw EMU as a crucial step towards political union; by governments that wished to terminate the “tyranny of the mark”; and by leaders of economically weaker member states, who correctly assumed that membership in the euro zone would immediately improve the credit rating of their country, allowing them to borrow at significantly lower rates of interest. When decisions must satisfy so many different interests, the attention of the contracting parties tends to be focused on immediate outcomes rather than on long-term implications. Thus, a culture of total optimism, while it could hardly take roots in modern democracies, tends to facilitate decision-making in Brussels. The fact that long-term consequences are heavily discounted explains, not only the absence of contingency plans and of any other instrument of crisis management, but also the willingness of European leaders to increase the probability of failure for the sake of immediate advantages. The lax application of the convergence criteria of the Maastricht Treaty, and of the rules of the Stability and Growth Pact are clear examples of this tendency to increase the risks of an already risky project.

The present discussion is not meant to be a full-fledged “culture audit”; rather, it should be seen as an invitation to students of European integration to apply to the EU an approach which scholars have found quite useful in the comparative analysis of national political systems The few examples that follow are meant to suggest the usefulness of examining EU policies and decision-making processes from a perspective that includes at least elements of a “political-culture audit”. Consider first the so-called Lisbon Strategy. Less than two years before the introduction of the euro, at the summit held in the Portuguese capital in March 2000, the EU Council launched the Lisbon Strategy for Growth and Jobs, with the promise that by the year 2010 the Union would become “the most competitive, knowledge-based economy in the world”, and thus surpass the U.S. economy. In order to achieve this goal it was assumed that the EU would grow at an annual average rate of 3 per cent, so as to create 20 million new jobs—while maintaining a commitment to solidarity and equality, and respect of the environment. The 2010 target had been set by the EU leaders in the heady days of 2000, when the European economy was booming—while its basic structural problems remained largely unresolved. The experts knew all along that the goal was in fact unfeasible: it would have required an annual growth rate of productivity of about 4 per cent. Instead, in recent years productivity in Europe had been growing at about 0.5 to 1 per cent, while in the U.S. productivity growth had been about 2 per cent per annum. As in the case of EMU so in the case of the so-called Lisbon strategy, the warnings of the experts were simply ignored. Eventually, disappointing economic developments convinced EU leaders that it was wiser to drop the target date of 2010, which they did on the occasion of the 2005 Spring European Council. Surprisingly, the press releases following the Spring 2007 meeting of the same body reported that the heads of state or government of all 27 member states “acknowledged the success of the Lisbon Strategy for

Growth and Jobs, reflected in higher growth and falling unemployment figures". As it turned out, what the Council celebrated so enthusiastically was a cyclical upswing, not structural growth, as was shown by the data released by the European Statistical Office in August 2007: the Union was still dragging behind the US on practically all indicators (Majone 2009: 195-6). Eventually, the Lisbon Strategy was declared dead in 2011 by Commission President Barroso who, instead of explaining the reasons of the failure, used the occasion to announce the launching of a new "Europe 2020" project.

The large-scale enlargement of the years 2004-2007, with the consequent dramatic increase in socioeconomic heterogeneity within the EU, may be mentioned as another manifestation of the same culture of total optimism. The original plans of opening accession negotiations with no more than five countries from Central and Eastern were soon superseded by the decision, taken at the Luxembourg European Council in December 1997, to open formal accession negotiations with all ten CEEC (Central and East European Countries) candidates, plus Malta and Cyprus. The basic reason was national or institutional self-interest, with each incumbent member state pushing for its own favoured candidate, and the Commission attempting to present enlargement as feasible without an increase in the budget, and without demanding too many sacrifices from the incumbent member states. As Sedelmeier and Wallace (2000: 453) write, these assurances of the Commission 'implied some very optimistic assumptions, notably real growth of the budget through annual growth in EU GDP of 2.5 per cent, but politically the important message was that the reforms needed for enlargement were "yesable".' The point was that Eastern enlargement gave the Brussels bureaucracy an extraordinary opportunity to play for the first time a role of political leadership, and through the direct grants, also the role of the patron vis-à-vis CEEC countries. Hence, the politically important message the Commission intended to convey was that the reforms needed for enlargement were feasible at no cost to the older members of the EU.

To these two examples one could add the shocked surprise caused in 2005 by the rejection of the draft Constitutional Treaty by impressive majorities of French and Dutch voters—55 and 65.1 per cent, respectively. In an extraordinary meeting in Brussels in early June 2005 the Presidents of the Commission, of the European Parliament, and of the EU Council at first tried to minimize what had happened. They insisted that the ratification process should continue, so that at the end of 2006, when it was scheduled to be completed, a general reassessment of the situation could be made. Their hopes were dashed by the British decision to postpone indefinitely the referendum originally planned for the first half of 2006. Denmark, the Czech Republic, and Poland soon followed the British example, reinforcing the general impression that the Constitutional Treaty was effectively dead. According to informed observers, moreover, the draft Constitution would not have passed popular consultations, not only in "Euro-sceptic" countries like the UK, Denmark, or the Czech Republic, but even in Germany. Yet, the possibility of a rejection of the draft Constitution had never been seriously considered in Brussels: no "Plan B" existed.

In sum, there is enough evidence to conclude that the strategies worked out by EU leaders do not contemplate the possibility of failure. The main flaws in the present system of governance are observable across very different areas of EU policymaking; but because of the central importance of money in economic and social life, the consequences of such flaws are more directly and immediately perceived in the area of monetary policymaking. For this reason the story of European monetary union may be used as a synecdoche or, more simply, a parable from which useful lessons can be drawn that are applicable in a number of different policy contexts, not only in the EU but also in other models of regional integration. The process that was supposed to take the member states to the point of no return on the road to full-fledged integration was marked since its inception by deep differences of opinion among the main participants—disagreements about the purpose and management of monetary union that have never been resolved. Plans for monetary union were almost contemporary with the establishment of the European Economic Community in 1957. One could assume, therefore, that the problems and consequences—both intended and unintended—of such a far-reaching integrationist move would have been reasonably well understood by the time the European Council, meeting in Brussels in May 1998, decided to begin EMU on 1 January 1999. As we know, this is not at all the case.

Putting the Cart Before the Horse

At the Hague summit in December 1969, the heads of state and government of the EEC decided to reduce exchange rate flexibility and to move towards economic and monetary union. EMU was to replace the customs union as the main goal of the new decade. A high-level group—chaired by the prime minister of Luxembourg, Pierre Werner—was entrusted with the preparation of a report on the establishment of monetary union. In October 1970 Werner presented an ambitious seven-stage plan to achieve this goal within ten years by means of institutional reforms and closer political cooperation. The plan glossed over serious differences of opinion concerning the strategy to be adopted during the transitional period in order to achieve a sufficient harmonization of national economic policies. The crucial difference was whether the Community would move towards monetary alignment—irrevocably fixed parities and the elimination of margins of fluctuation—before the effectiveness of the system of policy coordination had been demonstrated. The countries of the so-called "monetarist" bloc (led by France and including also Italy, Belgium and

Luxembourg, with widespread support in the European Commission) held the view that the EC should move towards monetary alignment even before the system of economic policy coordination had proved its effectiveness. Hence, they were in favour of early steps to fix the exchange rates, as a prelude to full monetary union. While agreeing that balance of payments surpluses were a sign of financial disequilibrium, the “monetarists” believed that responsibility for correcting imbalances lay equally with surplus and with deficit countries.

In practice this meant that strong-currency countries with balance of payments surpluses (like Germany) should support economically weaker countries (such as France and Italy) through currency intervention and the pooling of foreign exchange reserves. But this was exactly what Germany and the Netherlands, the members of the “economist” bloc, wished to avoid. German and Dutch leaders insisted that convergence in the real sector and in the setting of policy goals was a necessary, if not a sufficient, condition for stable exchange rates. Hence, monetary union required a closed coordination of the economic, fiscal, and even social policies of the prospective members of the union. Expounding the policy that Germany would advocate for a quarter of a century, Karl Schiller, the economics and finance minister of the Federal Republic, announced that monetary union would happen only after European economies had converged (Marsh 2010: 53).

The Werner plan attempted to minimize the differences between “monetarist” and “economist” positions by proposing parallel progress in both monetary integration and economic policy coordination. The final report of the Werner Group was based on a consensus among its members concerning the ultimate objective of monetary union, and a rather vague compromise between “economists” and “monetarists” about the intermediate stages. Paradoxically, but characteristically, the main conflict within the Werner Group concerned, not the feasibility of EMU within the short time-scale envisaged, but the strategy to be adopted during the transitional period. The consensus on the feasibility of the goal and the unresolved disagreements about the means turned the realization of EMU into a question of political will, but this entailed another paradox. As Tsoukalis (1993) has pointed out, this political view of monetary union implied the risk of neglecting the economic costs associated with the loss of monetary sovereignty, and in particular with the abandonment of such an important policy instrument as the exchange rate. In fact, the plan soon became a victim of the sclerosis that afflicted the EC in the 1970s, while high inflation and growing economic divergence made nonsense of the 1980 target date. Thus EMU “became the biggest non-event of the 1970s…With the benefit of hindsight it can be argued that the ambitious initiative, originally intended to transform radically the economic and political map of Western Europe, had been taken at the highest level without much thought of its wider implications” (ibid.: 182). The same thoughtless attitude concerning the risks and long-term implications of the project characterizes all the following stages of the process that eventually led to the adoption of the common currency.

Already in 1971 Samuel Brittan had warned that "An attempt to freeze the pattern of [exchange] rates before there is a European political authority or common budget…would threaten the degree of trade and other liberalization already achieved; it would thus be a classic example of putting the cart before the horse" (Brittan 1971: 46). The prescient quality of Brittan's warning was revealed some forty years later, when French President Sarkozy and other EU leaders became convinced that the national governments should have a bigger say in the making of European monetary policy, especially in decisions concerning exchange rates with other currencies. An excessive appreciation of the euro, these leaders complained, is damaging the national economies. In March 2008, while the euro was reaching new record levels against the dollar, the then managing director of the International Monetary Fund, Dominique Strauss-Kahn, joined the debate attributing the overvaluation of the European currency to the excessive power of the European Central Bank. According to Strauss-Kahn the ECB fulfils its statutory duty of containing inflation, but the absence of a finance minister of the EU means that at the European level concerns about inflation de facto prevail over concerns about growth: the ECB is overpowering precisely because it has no political counterweight.

The prevailing political culture of total optimism also inspired the operational code followed, more or less consciously, by European leaders since the 1960s. A key element of this operational code is Monnet's strategy of fait accompli. Because fait accompli focuses on immediate results, long term implications of decision are simply ignored. In turn, the desire to reach an immediate result is an incentive to come to a decision even at the cost of leaving important issues unresolved for lack of common agreement. While Monnet's strategy has been used repeatedly in the course of the process of European integration, its most striking application was the decision to proceed with monetary union before there was any agreement on political union—in fact, resistance to political integration has increased since the centralization of monetary policy. But why were French and other European leaders willing to take the risks involved in putting the cart before the horse--in proceeding to monetary union in the absence of agreement on political union? At least part of the explanation is the desire of those leaders to oppose what they saw as the dominating position of the Bundesbank in Europe.

Fighting the "Tyranny of the D-Mark": from EMS to EMU

Under the Smithsonian Agreement of December 1971, which was meant to salvage the Bretton Woods system, the finance ministers and central bankers of the industrialized countries decided a series of parity changes that restored, but only temporarily, fixed rates for the dollar. The Agreement produced an anomaly for the members of the EC: their currencies could fluctuate by 9 per cent against each other, but only by 4.5 per cent (plus or minus 2.25 per cent) against the dollar. Wide margins of fluctuations of intra-EC exchange rates were generally considered to be incompatible with the functioning of the common market and, in particular of the CAP. To avoid this, the EC set up a new regional system for controlling floating. Each pair of Community currencies could oscillate either side of a 2.25 per cent margin, instead of the 4.5 per cent resulting from the application of the Smithsonian Agreement. Plotted on a graph, the new path of European currencies resembled a snake twisting inside the fluctuation "tunnel" of plus or minus 4.5 per cent of the Smithsonian Agreement. This was the "Snake in the tunnel" created in March 1972 (Marsh 2010:60). For the next three years the EC's currencies crept in and out of the Snake, with the German mark pushing through the top and the pound, franc, and lira falling through the bottom. The pound left the exchange rate arrangement in July 1972. In October of the same year the heads of state or government meeting in Paris reiterated their commitment to a complete EMU by 1980, but only a few months later the lira was floated. The French franc left the Snake in January 1974, and a subsequent attempt to return only lasted from July 1975 to March 1976.

In the following years, the Snake shrunk to a Deutsche Mark (D-Mark) zone, including, in addition to Germany, the Netherlands, Belgium and Denmark. By the mid-1970s widely divergent inflation rates and economic performances had completely undermined the Snake and confirmed the failure of the first attempt to achieve monetary union, the Werner Plan. France, Italy, and the other weaker-currency countries had dropped out of the Snake rather than accept the discipline imposed by German monetary policy. The Snake arrangement, with the D-Mark at its centre, was asymmetrical, just like the Bretton Woods system with the dollar as its anchor, had been asymmetrical. The crucial problem now facing France and the other "monetarist" countries was how to keep moving towards monetary union without allowing the German central bank's low-inflation monetary policy to become the pace-setter for the entire EC. In the debate eventually leading to the formation of the European Monetary System (EMS) in March, 1979, "greater symmetry" became the French slogan for reduced German influence in the Snake and, more generally, in European monetary policy. Germany's influence over European money—the "tyranny of the Mark"—was, according to the Banque de France, a major factor complicating France's aim to return to the Snake. As it happened, in the Snake arrangement, as later in the ERM—the Exchange Rate Mechanism of the EMS--the German currency eventually became the real centre of the system, the anchor to which all other currencies were pegged. What in retrospect seems an inevitable development was not, however, accepted without a good deal of reluctance, when not open resistance, by French and other European leaders. Initially, the ERM was meant to operate symmetrically for all members, and symmetry was to be achieved by making the European Currency Unit (ECU), rather than the D-Mark, the centre of the exchange rate mechanism.

The ECU was a basket of currencies, consisting of fixed amounts (to be revised every five years) of each EC currency, including those not participating in the ERM. It was to be the ECU against which the currencies of the member states would establish their central rates. These central rates defined in terms of ECU were then used to establish a grid of bilateral exchange rates. A currency could thus reach the upper (or lower) limit without another currency being pushed to the bottom, or to the ceiling. Currencies pushing against the ceiling would be as out of step as currencies moving to the floor of the band. In this way, the adjustment burden would no longer fall exclusively on the economically weaker countries, and also the strong-currency countries could be forced to take corrective economic measures. Central bank interventions were compulsory and unlimited whenever currencies reached the limits of their permitted margins of fluctuation, and central rates could be changed only by common agreement. France's hope was that the "currency basket" mechanism would force the Bundesbank to intervene to lower the D-Mark before other central banks were obliged to defend their own currency.

Germany, however, made few concessions to the French desire to end the hegemony of the mark. Currency interventions and debt settlement rules within the EMS still required weaker countries to support their currencies rather than the stronger members to weaken theirs. No comprehensive agreement on reserve pooling was reached, while the decision that a European Monetary Fund would be established in 1981, was never implemented. In sum, the EMS launched in 1979 contained only minor concessions to the position of France and of the other members of the "monetarist" group, including the European Commission. Interviewed by David Marsh on 10 May 2007, former Bundesbank President Hans Tietmeyer was quite explicit: "The Bundesbank desire to have the system based on the anchor of the D-Mark, and to prevent a move towards "symmetry" of intervention and settlement obligations, won the day. The EMS turned out to be not much more than a legal enshrinement of the basis of the Snake" (Marsh 2010: 87). For France and its allies this was precisely the problem with the EMS.

The first stage in the history of the EMS ended with the realignment of March 1983, when French President Mitterand adopted the hard-currency option. This first period was characterized by high instability of bilateral exchange rates, and differences between low- and high-inflation rates which at times diverged by over ten percentage points. During the second stage, which ended with the realignment of January 1987, there were few realignments, usually involving small changes in central rates and only a few currencies. Also inflation rates converged downwards in this period, especially between 1986 and 1987. The third stage of EMS was characterized by a remarkable stability of exchange rates, based essentially on the continued convergence of inflation rates, and by increased credibility of the system. For more than five years there has been no realignment of exchange rates, with the exception of a small adjustment of the Italian lira. The UK finally decided to join the ERM in October 1990, followed by Portugal in April 1992, thus leaving only the Greek drachma outside the ERM. High inflation rates still prevented Greece from joining the club. Overall, in its first thirteen years of existence, the EMS had been remarkably successful. Despite the scepticism that had greeted its beginnings, short-term volatility of bilateral exchange rates had been substantially reduced; realignments, when they occurred, became a matter of genuinely collective decision; inflation rates had converged. The EMS has generally been described as a zone of monetary stability, with reference to both exchange rates and inflation rates. Also, its membership expanded, in parallel with the increasing credibility of the system. Not all members of the system were pleased by this performance, however. The reason was the persistent asymmetry of the system. The EMS, like the Snake, was asymmetric because of the central role of the D-Mark in it. The attempt made to design rules which would guarantee a certain degree of symmetry between strong and weak currencies proved almost totally ineffective.

One Market, One Money?

Advocates of monetary union have presented it as the necessary complement of the Single Market project—hence the title of the study published in 1990 by the European Commission: *One Market, One Money*. In reality, many of the world's closest trading partners, such as Canada and the United States or Australia and New Zealand, have not shared a single currency, yet have seen their trade and investment flows increase dramatically in recent decades. In spite of clear evidence to the contrary, the Commission report stated emphatically that only a single currency allows the full potential of a single market to be achieved. A single currency, the Commission argued, would enhance the credibility of the internal market programme and the gains associated with its completion: "one market", "one legal system", and now "one money". A common monetary policy vis-à-vis the rest of the world would also produce a "European monetary personality", as it was called, and thus gains in prestige and political power. The Maastricht Treaty provided a legal framework for monetary union, but left many basic institutional and policy questions to be settled in the future--in the best tradition of fait accompli. In particular, the treaty has no indications on what to do to contain and resolve systemic crises, except for a very explicit "no bail-out clause" prohibiting the members of the euro zone, the ECB, and the other European institutions from rescuing member states which find themselves in serious financial problems. The incompleteness of the treaty in crucial matters of monetary policymaking did not particularly worry EU leaders since the basic motivations for monetary union were not economic but political. The priority of European Commission President Delors was to make the integration process irreversible, and France's, to eliminate, once and for all, the dominating position of the Bundesbank in Europe. As far as France was concerned, a key benefit of monetary union was represented by the possibility of replacing the existing exchange-rate arrangement, centred on the D-Mark, with a formal European level institution where each national central bank governor would have a seat at the table of monetary decision-making. Finally, on January 1, 2002, the euro was introduced among enthusiastic predictions of faster economic growth, far-reaching structural reforms by the governments of the euro zone, greater productivity, further intensification of intra-EU trade, and price stability. Those forecasts, like so many previous ones, soon proved to be too optimistic.

Even a "good European" like Mario Monti, for eight years Single Market and then Competition Commissioner in Brussels, in an interview published by the Italian financial newspaper *Sole-24 Ore* of 24 November 2005, admitted that monetary union had so far failed to accomplish all the positive results that had been promised. The euro, according to economics professor (and currently Italian prime minister) Monti, is a currency in search of a single market—a single market which does not yet exist because of the protectionism still practiced by the national governments, and the reluctance of the same governments to undertake the necessary structural reforms. Note the circularity of the argument: during the debate on EMU people were told that monetary union was needed to complete the single market, and also to force the national governments to undertake structural reforms; after the common currency was introduced, the message was that the single currency could not produce the hoped-for benefits before a fully fledged single market was established, and the requisite structural reforms were carried out. More recently (*Financial Times* of June 21, 2011) professor Monti argued that the real problem with the EU is excessive deference to large member states. He supported this argument with two examples: the failure to enforce the old Stability and Growth Pact against France and Germany in 2003; and Germany's opposition to a Commission proposal to strengthen the Lisbon Strategy for Growth and Jobs by publishing a score board so as to put more pressure on member states by "naming and shaming". We have here another instance of the paradox noted in the preceding section, in connection with the debate on the Werner Plan: the tendency to discuss the best means to a given end, without examining whether the end itself is feasible. Recall that the goal of the Lisbon Strategy of 2000 was to make the EU the most competitive economy in the world, capable of surpassing the American economy by the year 2010, just as the Werner Plan had assumed that monetary union could be achieved by 1980. Also in these cases nobody questioned the feasibility of the announced goal.

Monetary Union and Political Disunion

The euro was supposed to be the visible symbol of the irresistible advance towards a politically united Europe. Actually, EMU has split the EU into several different camps—perhaps permanently. Instead of the Commission's slogan "One Market, One Money" we now have a Union divided into two main groups: the members of the euro zone, and the *de jure* (UK, Denmark) and *de facto* (Sweden) opt-outs. But a third group may emerge in the not too distant future. In 2006 a well-known American economist--Kenneth Rogoff, professor at Harvard and former chief economist at the International Monetary Fund--predicted that in the future the EU may be split into three camps with the addition of the future drop-outs of the euro zone—countries with a large public debt, like Portugal or even Italy, which in the next five to ten years may have to give up the euro. At the time he mentioned neither Greece nor Ireland or Spain, the financial problems of the last two countries being in fact of a somewhat different nature. Interviewed by the German magazine *Der* Spiegel, Rogoff argued that Portugal and Italy, and possibly other countries as well, may be forced to abandon the common currency because rigorous implementation of the Maastricht parameters could entail social and economic costs too high for their voters to accept (Mueller 2006). Even before the Rogoff interview some experts had advanced the hypothesis that also fiscally sound members of the euro zone may decide that in an increasingly heterogeneous EU the costs of centralized, one-size-fits-all monetary policy exceed the benefits, and thus decide to leave the euro zone.

These and other unanticipated consequences of EMU are understandable in light of the paradox of a totally harmonized monetary policy in an increasingly diversified EU. The importance of harmonization as a tool of market integration has been mentioned in an earlier section, where some serious problems in the application of this legal tool have also been noted. Recall that total harmonization has been deemed to confer on the European institutions an exclusive competence which they are ill-equipped to discharge; hence the shift to optional and minimum harmonization, and to mutual recognition. Despite these precedent, the boldest experiment in total harmonization was launched in 1999 with the irrevocable fixing of the exchange rates of the currencies of the members of the euro zone, and the pre-emption of national action in the monetary area. What is most striking about this paradox is the contradiction between the centralization of monetary policy and the mutation of the fairly homogeneous EU-15 into a highly heterogeneous bloc of 27 states. If EU-15 was not an optimal currency area, this is *a fortior*i true of EU-27, and in such a large and heterogeneous group of countries the probability of asymmetric shocks will increase significantly. This means that in a greatly enlarged euro zone--including in principle all the new member states, see below--the shocks will be more asymmetric than in the original monetary bloc, so that some of the original members will be more frequently outliers, in terms of inflation and output, compared to the average economy on which the ECB will have to focus. As a consequence, these members will perceive the policies of the central bank to be less responsive to shocks than it was before the latest enlargements. The constraints imposed by a one-size-fits-all monetary policy may thus entail costs too high to make monetary union acceptable in terms of an economic calculus of benefits and costs. Countries that until recently considered the economic benefits of monetary union greater than the costs could very well think otherwise in the enlarged EU. The only way to meet the challenge posed by enlargement is to make sure individual member states have the instruments to deal with asymmetric shocks, and in this respect particular importance would attach to reform of the labour markets to make them more flexible (De Grauwe 2004). But recent experience, in Greece and elsewhere, has shown how politically difficult such structural reforms are.

The political benefits of monetary union have been even more disappointing than the economic ones. German leaders worked hard to convince their voters that the sacrifice of the beloved D-Mark was justified by the prospect of a decisive advance towards political union. As I had repeated occasions to point out, however, the introduction of the common currency has hardly increased the credibility of Germany's partners commitment to political union. In Germany itself popular support for the political integration of Europe—never as strong as it was often assumed by elite opinion—has significantly decreased in recent years. In fact, after the reunification of the country, the disappearance of the Soviet menace, and a fading memory of the horrors of World War II, Germany is no longer so dependent on the political support of its European partners. Also the new members from Central and Eastern Europe do not seem to be too interested in the political integration of the continent. The loss of national sovereignty during the period of Soviet domination explains the importance these countries attach to national values—an attachment which in some cases verges on old-style nationalism. Hence, it is hardly to be expected that these countries will support wholeheartedly the cause of political union, even after they join the euro zone.

As already indicated, the new member states must join EMU, once they satisfy the Maastricht criteria: they are not allowed to opt out of monetary union as some older member states did. This is because monetary union is considered part of the *acquis communautaire*—the body of rules and legislation mandated by the EU. However, it seems likely that after the current debt crisis also these countries will reassess more carefully the benefits and costs of monetary union, as has been suggested by Slawomir Skrzypek, the late president of the National Bank of Poland. Shortly before dying in the Smolensk air crash in which the President of Poland and numerous other personalities lost their life, Mr.Skrzypek published an article in the *Financial Times,* titled "Poland should not rush to sign up to the euro". In this article, the central banker pointed out that in 2010, when Europe was plagued by concerns over excessive public debt in Greece and elsewhere, the Polish economy was projected to grow 2.7 per cent, accelerating to 3 per cent in 2011. One important reason for this, he wrote,

> is that as a non-member of the euro, Poland has been able to profit from the flexibility of the zloty exchange rate in a way that has helped growth and lowered the current account deficit without importing inflation…Because Poland's currency is not bound by the Exchange Rate Mechanism II, we have been able to adjust the value of the zloty in line with domestic requirements (Skrzypek 2010: 11).

The decade-long story of peripheral euro members drastically losing competitiveness, Mr. Skrzypek added, has been a salutary lesson. The "Greek imbroglio" (as he called it) shows that there is no substitute for countries' own efforts to improve competitiveness, boost fiscal discipline and increase labour and product market flexibility—whether or not they are in the euro-zone. This banker's advice to his fellow citizens:

> [W]e must temper the wish to adopt the euro with necessary prudence. We should not tie ourselves to timetables that may be counterproductive. Solid economic growth and sensible policies are possible both within and outside the euro zone. Nations in a hurry to join the euro may end up missing their overriding objectives (ibid.).

The cautious approach suggested by the Polish central banker has been followed by Sweden since it joined the EU in 1995. This country, not a member of the EU when the Maastricht Treaty was ratified, could not obtain a *de jure* opt out from EMU, like the United Kingdom and Denmark. It did however ask, and was granted, a derogation—in practice, a *de facto* opt out--when it became a member of the Union. Swedish leaders have decided that future membership of their country in the euro zone shall depend on the approval of the voters in a popular referendum. Since the beginning of the sovereign debt crisis opinion polls show growing popular opposition to joining monetary union, so that the prospect of Swedish membership in EMU keeps receding into the future. It is quite possible that a number of countries from Central and Eastern Europe may decide to follow Mr. Skrzypek's advice and join Sweden in the camp of the *de facto* opt-outs. As already noted, the EU rather than being united by the common currency, will end up being split into several camps: the members of the euro zone; the *de jure* opt outs; the *de facto* opt outs; and the drop-outs. The latter group would in turn include two distinct subsets: countries which may be forced to abandon the common currency for the reasons explained by Rogoff, namely the unacceptable social and economic costs entailed by a strict application of the membership conditions; and also countries which, although fiscally sound, have concluded that in an increasingly heterogeneous EU, the costs of one-size-fits-all monetary policy are too high to make monetary union profitable in terms of a calculus of economic, and/or political, benefits and costs. This, I should add, is an optimistic scenario since it presupposes that monetary union will survive the crisis of the southern periphery of the euro zone!

EMU and the Politics of Structural Choice

As mentioned in a previous section, a key benefit of EMU for France and other members of the “monetarist” group, was the opportunity monetary union seemed to offer of replacing the existing exchange-rate arrangement, centred on the D-Mark, with a European-level institution where each national central bank governor would have a seat at the table of monetary decision-making. That the ECB turned out to be even more exclusively committed to price stability than the old Bundesbank, and at least as jealous of its own political independence, is another paradox of monetary union, and certainly not the least remarkable one. In fact, the ECB is not just a politically independent institution operating in the context of a democratic government, like the Federal Reserve or the Bundesbank. Rather, it is a “disembedded” non-majoritarian institution, free (indeed, obliged) to operate in a political vacuum, without a European government (or at least a European finance minister) to balance its powers. The paradox is made more pungent by the fact that the extreme independence of the ECB found its strongest defender in Jean-Claude Trichet--a former director of the French Treasury and governor of the Banque de France--who in the past had opposed both EMU and central bank independence (Marsh 2010:185-6). As president of the ECB, however, Trichet became Germany’s main ally in matters related to the political independence of the Bank, and to the limited role of the so-called Euro-Group—the finance ministers of the members of the euro zone. With reference to Trichet’s change of mind concerning central bank independence David Marsh (ibid.: 226, 317) speaks of a “Becket effect”, drawing a parallel to Thomas à Becket, chancellor of Henry II of England, who opposed the king after he was made archbishop of Canterbury—and was murdered for his change of allegiance. As Marsh reports, one German central banker spoke approvingly of Trichet as “our convert”, while another commented that it was incomparably better for Germany to have a French ECB president carrying out a Bundesbank-style policy in Frankfurt than to have a German president carrying out a Banque de France-style in Paris—a possible outcome if the ECB had been located in France rather than in Germany.

The Bundesbank-style policy of the ECB is matched, in part, by a formal structure and rules that in many ways mimic the Bundesbank. For example, the ECB's disclosure rules follow the Bundesbank thirty-year pattern, in significant contrast with the practices of the Federal Reserve Board and of the Bank of England, which publish minutes of their interest rate-settings sessions a few weeks after the meetings take place. Despite continuing pressure from the European Parliament and from expert opinion to give more information on its decision-making, it is unlikely that the ECB will start to release minutes of its proceedings: to do so would, in David Marsh's words, "fly in the face of the Bundesbank long-term practice". Also its location in Frankfurt has made it easier to skew the ECB's corporate culture towards the Bundesbank model. Informed observers expect that the superior performance of the German economy in recent years will stamp the imprint of the German model on ECB policymaking even more strongly. This does not mean, however, that monetary policymaking in the EU can be expected to match the performance of the best national models. The very fact that European monetary policy must be of the one-size-fits-all type means that many decisions of the monetary authority are bound to be suboptimal for some, if not all, members of the euro zone, as discussed in the preceding section. It is also the case that the voting system in the ECB seems to privilege nationality over the needs of the euro zone as an economic area. In addition to these more or less inevitable difficulties, however, the efficiency of the mechanisms of monetary governance has been reduced by the political compromises that were necessary in order to make monetary union at all possible. In a number of important cases these political compromises took the form of non-decisions: controversial issues were left unresolved, leaving big holes in the policymaking machinery.

An outstanding example is what Charles Wyplosz (2000) has called the "dark secret" of European monetary union: the fact that nobody is in charge of exchange-rate policymaking. Article 111(2) of the EU Treaty reads: "In the absence of an exchange rate system in relation to one or more non-Community currencies…the Council, acting by qualified majority…may formulate general orientation for exchange-rate policy in relations to these countries. These general orientations shall be without prejudice to the primary objective of the ESCB [the European System of Central Banks] to maintain price stability". This text could be interpreted as meaning that the decision to intervene in the foreign-exchange market is up to the Euro-Group. But the text could also mean that the finance ministers may suggest in general terms what the policy goal should be, without bothering with the details of the appropriate response to the daily or hourly movements of the markets. A third interpretation could be that the Euro-Group decides whether or not to intervene, but the ECB is then free to decide when and how. As Wyplosz points out, the ambiguity of the article is intentional. The drafters of this text knew that they were dealing with a politically sensitive issue. Many countries were reluctant to give up control over monetary policy, and by denying the ECB sole responsibility for the exchange rate they intended to limit its powers. Central bankers and economists were shocked because exchange-rate policy is the other face of the coin of monetary policy. On the other hand, exchange rates change so fast that it would be impossible for the finance ministers of the Euro-Group to devote sufficient attention to this issue. The solution was to produce a treaty article open to a variety of interpretations: ambiguity was the price of the political compromise between two different views (once more, those of "monetarist" and "economist" countries) concerning the nature and purpose of EMU.

In fact, the system of monetary governance of the euro zone provides ample evidence in support of Terry Moe's thesis that there can be no meaningful separation of structural issues from policy issues. Such separation is meaningless because whatever structures are chosen will influence the content, direction, and effectiveness of policy. It follows that virtually all aspects of structure and policy can become separate items for political compromise: structural items can be traded for policy items, and vice versa (Moe 1990). What distinguishes most clearly the politics of structural choice from the economics of structural choice—the economics of organization and management--according to this well-known American political scientist, is the nature of the underlying property rights. Market actors enjoy secure property rights that cannot be seized by others without compensation and in violation of the law. Hence they design organizations having efficiency as their main goal. In the public sector the analogous property rights—political property rights--are the rights to exercise authority in a given policy area. In democratic polities, however, public authority does not belong to anyone: it is attached to various public offices, and whoever succeeds in gaining control of these offices--through elections, legislative mandate, or delegation of powers--has a right to exercise it. In other words, political property rights are ill-defined, and this is the reason why political uncertainty is a fundamental problem of structural choice.

Political actors, Moe's argument continues, are well aware of this situation. The current winners in the struggle to control public authority would like to design structures as protective devices for insulating their favoured agencies and policies from the exercise of public authority by their opponents. However, today's losers could be tomorrow's winners, and this uncertainty prompts actors to seek structures that protect them from one another. The result is political compromise that allows the adversaries of the current office holders to participate actively in the design of new institutions and policies. Even when the resulting structures are not intended to promote failure, effectiveness is generally sacrificed in order to reduce political uncertainty. In order to reduce uncertainty and harness public authority in pursuit of their own ends, political actors have strong incentives to embed their achievements in the law: whatever is formalized will tend to endure (ibid.: 240).

Terry Moe's analysis of the politics of structural choice may be applied not only to democratic polities but to all systems where the rights to exercise public authority are ill-defined. The EC/EU is an outstanding representative of this larger group of political systems for a number of reasons, beginning with the well-known difficulty of clearly separating national and European competences in many policy areas. The notion of a EC/EU continuously moving the boundary posts of its own competence is one important source of the political uncertainty surrounding the process of policymaking at the European level. As we had repeated occasions to observe, moreover, the member states of the EU hold quite different views about the nature and purpose of European integration and, particularly, of monetary union. A related element of uncertainty is represented by the suspicion that some member states may not be seriously committed to the integration project, resulting in a very uneven level of implementation of EU policies. The problem of imperfect commitment explains the importance of the *acquis communautaire* as a means of reducing political uncertainty.

The fact that the rationale of monetary union in Europe was political rather than economic explains why paying attention to the politics of institutional choice is so important for understanding the present crisis. For France a centralized monetary policy and a multinational central bank represented the only practical way of opposing Germany's "undue" influence over European money—even at the cost of an unsatisfactory scheme of monetary governance. Unsurprisingly, actual results have been disappointing for everybody. Former German Chancellor Gerhard Schroeder, interviewed by David Marsh in April 2007, noted the paradoxical results of French efforts:

> If France's political aim was to create the Euro as part of a plan to weaken Germany so as to reduce our supposed economic dominance, then the result has been exactly the opposite. The rise in German competitiveness means that Germany is stronger, not weaker…We have less inflation—and the others can no longer devalue (Marsh 2010: 221).

For the believers in the political union of Europe, monetary union was always just a means to that greater end. Helmut Kohl, the chancellor of German reunification, was so convinced of the need to bind a united Germany into a politically united Europe that he was prepared to press on with the euro in the face of overwhelming opposition from the German voters. Unfortunately, the common currency that was meant to bring the peoples of Europe together is instead driving them apart. Of the many paradoxes of monetary union ,this is the most disturbing one for people who care about the future of our continent. The most important lesson one may draw from the parable of EMU is that Monnet's strategy of fait accompli—pushing ahead with ambitious projects, even without sufficient popular support--may in the end cause the collapse of the entire project.

From Total Optimism to Catastrophism

In January 2009 EU leaders celebrated the tenth anniversary of the successful launching of Economic and Monetary Union. This success, the euro-enthusiasts claimed, was not only technical and economic, but also, and foremost, political: the common currency was going to be the solid foundation of a truly integrated Europe. Less than one year later, the same leaders faced the real possibility of a bankruptcy of some members of the euro zone—indeed, even the possibility of what until recently seemed to be unthinkable: not only the disintegration of the euro zone itself, but even the failure of the European project. Chancellor Angela Merkel, on the occasion of the Bundestag debate on financial help to Greece of 7 May 2010, went as far as saying that the crisis of the common currency was nothing less than an existential threat for Germany and for Europe. The monetary union, she concluded, is a "community of destiny" (*Schicksalsgemeinschaft*): "if the euro fails then Europe fails". And Wolfgang Schaeuble, her Finance Minister, added: "We must defend this common European currency as a whole…By defending it we defend at the same time the European project" (citations in *Der Spiegel* of 17 May 2010: 80). Few other European leaders went as far as linking the future of European integration to the future of the euro, but then the Berlin government had to convince its very sceptical voters of the necessity of a Fund of 750 billion euros to avert the risk of default of Greece and possibly other members of the euro zone. Only a few years before these dramatic events—when "The Euro Is Forever" was the motto--a sovereign-debt crisis of such proportions would have been simply inconceivable. At that time all euro-zone governments could borrow at about the same cost as Germany. Even after the first signs of the debt crisis appeared—with Ireland and Greece having to offer interest rates that by March 2009 were already significantly higher than Germany's—no euro zone government was willing to discuss the possibility of aid measures for countries in serious financial straits. One year later, even the spokesperson of the Greek Ministry of Finance denied the need of any European aid package, saying that reports to that effect were "talk, only talk". In fact Germany and other EU countries were then considering the possibility of an aid package of the order of 25-30 billion euros, but only as an extreme measure (*Spiegel On Line* 14 March 2010). The official position remained that the Maastricht Treaty prohibits the members of the Union from providing financial aid to individual euro-zone members. Each government, it was said again and again, must keep its own finances in order so that no country becomes dependent on another. But when state bankruptcy--not in South

America or Asia but right in the EU--became a real possibility, the official position changed and the "no-bailout clause" (Article 125 (1) of the Lisbon Treaty) was conveniently forgotten, without a word of apology or of explanation.

How can we explain the switch from a political culture of total optimism to the catastrophism of the leaders of the largest economy in the EU? One could argue that by insisting that the survival of the European Union depends on the survival of monetary union, the German leaders are attempting to impress their voters with the exceptional gravity of the situation, but also to convince the present and future members of the euro zone to accept, in addition to a new, much stricter version of the Stability and Growth Pact and tighter coordination of national fiscal policies, also greater harmonization of important aspects of social policy. These ambitious objectives were spelled out by the German chancellor when, at the end of January 2011, she advanced the idea of a "Pact for Competitiveness" as a first step towards a future economic government of the euro zone. The pact would obligate all euro zone members to adhere to sound fiscal *and* social policies, including a pension limit to reflect demographic developments, and modest wage increases that would no longer be adapted automatically to rising prices. Also Finance Minister Schaeuble, a convinced European federalist, expressed the hope that the debt crisis of the euro zone may convince the other member states that a centralized monetary policy must be supported by the delegation of responsibility for macroeconomic policymaking to the supranational level, which delegation would entail a far-reaching harmonization of domestic, and in particular social, policies. In this way the sovereign-debt crisis would actually help to achieve those federalist aims which after the rejection of the Constitutional Treaty and the difficult ratification of the Lisbon Treaty, had seemed to recede into an ever more distant future.

As suggested above, the catastrophism of the German chancellor and her finance minister—making the survival of the European Union depend on the survival of monetary union—was aimed both at the German voters and at the present and future members of the euro zone. What remains to be explained, however, is the switch from the initial rigid adherence to the principle that each country is solely responsible for its own financial situation to the bleak scenario of collective catastrophe painted later. As we know, at the beginning of the debt crisis the position of the German government, as of the other governments of the former D-Mark bloc, was that the treaty simply prohibits the members of the EU from providing financial aid to individual euro zone members. However, the German refusal to help lacked credibility. Every European government is well aware of the importance the largest and economically most powerful member of the EU has historically attached to the collective good "European integration". It is true that a reunited Germany has shown increasing unwillingness to continue to play the role of paymaster and problem-solver of the EU, but as long as this country—for historical, political, and today especially for economic reasons--attaches greater importance to European integration than other member states, it seems doubtful that it will be able to provide a counterexample to Mancur Olson's theorem of the exploitation of the great by the small (Olson 1965: 35). Germany's European partners remain convinced that Berlin has a vital interest in ensuring the solvency of the weaker member states. Hence the original refusal to help the most heavily indebted members of the euro zone—a decision wholly under the control of the German government—was not credible. The situation may be different, however, if the realization of the threat does not depend only on a German decision.

Thus, the later position of the German government—that the collapse of the euro could entail the end of the EU--is best understood as a move in a strategy of brinkmanship. The essence of brinkmanship is the deliberate creation of risk. "This risk should be sufficiently intolerable to your opponent to induce him to eliminate the risk by following your wishes….In fact brinkmanship is a threat, but of a special kind" (Dixit and Nalebuff 1993: 207). The implicit threat of a collapse of monetary union as the result of Germany's refusal to intervene, was not credible. German leaders had already paid a high political price when they accepted to sacrifice the beloved D-Mark for the sake of monetary, and eventually political, union. To admit now that the sacrifice of the national currency had been useless, that political union was less likely now than ever before, was simply unthinkable. The warning of a possible collapse of the entire European project as a result of the actions or inactions of all the member states (Angela Merkel's "community of destiny") is more credible. The uncertainty scales down the threat, making it more tolerable to the threatening party, and therefore more credible to the other parties. With brinkmanship one is willing to create a risk, but remains unwilling to carry out the threatened act if the occasion arises. To convince other players that the threatened consequences will occur, one still needs a device of commitment, such as the toss of a coin, that takes the actual action out of one's control. But as Dixit and Nalebuff point out, in many circumstances a generalized fear that "things may get out of hand" can serve the same purpose. Thus, with reference to President Kennedy's announcement of a naval quarantine of Cuba during the Cuban missile crisis of October 1962, they write:

> The fact that Kennedy's decisions had to be carried out by parties with their own procedures (and sometimes their own agenda) provided a method for Kennedy to credibly commit to taking some of the control out of his hands. The ways in which a bureaucracy takes a life of its own, the difficulty of stopping momentum, and the conflicting goals within an organization were some of the underlying ways in which Kennedy could threaten to start a process that he could not guarantee to stop (ibid.:213).

Since the threat of strictly limiting Germany's role in the sovereign-debt crisis did not prove to be credible, in spite of being supported by explicit treaty rules, a new strategy had to be developed.

Instead of threatening an action under its full control, the German government suggested the bleak scenario of a break up of the European Union as a consequence of the collapse of the euro—a much more serious event than denying or limiting German financial contribution to the rescue operations, but one that does not depend only on the decisions of the Berlin government and that, for this very reason, is highly uncertain. The replacement of certainty by the perspective of a deliberately created risk is, to repeat, the essence of brinkmanship. It remains to be seen, however, whether brinkmanship will work as well for the German government as it did for President Kennedy. In fact, the assertion that the collapse of the euro would imply the break up of the European Union--a catastrophe which, it was said, could only be avoided by linking punitive interest rates with any EU aid payment in order to force indebted states to save—does not seem to have been taken too seriously either by Germany's European partners or by the experts.

The decision taken by the Euro-Group in March 2011 to establish the European Stability Mechanism (ESM, effectively a European Monetary Fund with a capital of 700 billion euro), to start operations as of July 2013, if not sooner, shows that the diagnosis of the experts was correct. In the meanwhile (July 2011), the resources available to the European Financial Stability Facility (EFSF) have been doubled, the interest rates charged for future loans to Greece, Portugal, or Ireland have been reduced from 4.5 to 3.5 per cent, the maturity of loans to Greece has been extended from 7.5 to 15 or even 30 years, and banks and other private investors have been asked to contribute to the rescue of Greece—on a voluntary basis. Effectively, the decisions of the EU Council of 21 July 2011 amounted to a tacit acceptance of the partial default of Greece—an admission the ECB had always vigorously opposed in the past.

After the Crisis: More Europe or Back to Rome?

Greece entered the third stage of EMU and adopted the euro in January 2001. Despite persistent doubts about the reliability of the data provided by the Greek government, the European Council resolved that Athens had satisfied the convergence criteria and could therefore join a bloc of countries that included such champions of fiscal discipline as Germany, the Netherlands and Austria. The international rating agencies then assigned the top AAA grade also to the Greek public debt--the same grade given to German bonds, as well as to the bonds of less fiscally virtuous members of the euro zone, suspected of having indulged in creative accounting. As a result, in the euro zone, each member's debt faced similar prices, even though the risks were not so similar. In reality, EU member states, European institutions and international agencies cooperated in creating serious problems of moral hazard and adverse selection. Ten years after its admission to the supposedly exclusive Euro club, Greece is being treated as an EU protectorate. During negotiations between Athens and the so-called troika--the ECB, IMF and European Commission-in June and July 2011--troika's officials revealed what they wanted: to make Greece's 50 billion euro privatization programme happen, outsiders were to be brought in to run it. And because Greece seemed incapable of collecting taxes, international experts would come in to do that, too.

Such rigour should have been applied much earlier, and not only in the case of Greece. The same countries and European institutions that supported, or at least accepted, a large and economically highly heterogeneous monetary union, regardless of the risks involved, invoke the strictest disciplinary measures now, when it may be too late. Thus, also the Dutch are urging that Greece's privatization programme be given to an agency run by international experts. Finland--Germany's other main ally in the campaign for a strict disciplinary attitude towards countries which broke the rules--insists that Greek assets should be securitized so that they could be used as collateral: if Greece defaulted, lenders could be given an airport or some other utility. Who would have imagined that European integration would in the end lead to colonialism! Already a few years ago, some long-time official participants in the EMU project stated privately that some form of fiscal federalism--i.e., a more federal European structure with centralized redistributive policies of taxing, borrowing, and spending--is a certainty in the long run, although this remains a publicly taboo idea (K. McNamara 2006). Since the beginning of the debt crisis such voices have become more insistent and openly articulated. Thus, Jacques Attali, who was the founding president of the European Bank for Reconstruction and Development as well as a former adviser to French President Mitterand, believes that Greece will never be able to repay its debts because the numerous aid plans, even if they have so far succeeded in avoiding default, failed to clear the long-term liabilities. On the other hand, the current crisis cannot be resolved by Greece exiting from the euro zone: "If we let Greece go bankrupt, the euro will disappear. The very principle of the European Union will be challenged". According to the French expert, the only possible solution requires the political courage of implementing a plan that includes the establishment of a European Ministry of Finance; the issuing of European Treasury bonds that would stretch out the debts payments of Greece, Portugal, and Ireland; and assessing a broad-based European Value Added Tax that would raise the necessary funds to repay the debt. No reference whatsoever to what Greek and other European voters may be willing to support. In other words, the defenders of EMU claim that the present debt crisis can be solved only by enlarging the democratic deficit of the EU to a point where, given the state of public opinion today, it may well become politically unsustainable. This would be the price of “more Europe”. The more reasonable alternative is to go back to the beginnings, and move beyond the goals of the 1957 Treaty of Rome only when a clear majority of the voters express their support for the new steps forward.

One final point: it is wrong to reduce the history of European integration after World War II to one particular approach, and wrongheaded to insist that the EU should be the main, if not the only, forum for close European cooperation. Neither geographically nor functionally or culturally the "Europe of Brussels" coincides with, or represents, the entire continent. Actually, the variety of modes of integration and interstate cooperation is one of the distinguishing features of European history. As Eric Jones (1987) has stressed, for most of its history Europe formed a cultural, economic, even a political unity. Of course, it was a special type of unity that did not exclude frequent, if limited, wars. Not the unity of the Chinese or Ottoman empires; rather, unity in diversity, embodied in a system of states competing and cooperating with each other. Such a system realized the benefits of competitive decision-making and the economies of scale of the centralized empire, giving Europe some of the best of both worlds. In the words of the British historian: "This picture of a Europe which shared in salient respects a common culture…and formed something of a single market demonstrates that political decentralisation did not mean a fatal loss of economies of scale in production and distribution. The states system did not thwart the flow of capital and labour to the constituent states offering the highest marginal return" (Jones 1987: 117). After the disastrous "long" century of nationalism, the search for unity in diversity has been resumed along a number of paths. The idea of a manifold path to European unity is of course anathema to the believers in a straight-line evolution from the European Economic Community to the United States of Europe, yet historical evidence and recent theoretical developments suggest that in complex societies the multiplication of voluntary associations, competing and cooperating with each other, need not be an element of weakness—on the contrary it can signal a positive, welfare-enhancing development.

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