

The Radical Impulse in European Monetary Affairs

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In this paper I challenge several aspects of the conventional wisdom about European monetary integration, as well as about European integration more generally. In doing so I will suggest that the European Commission played a more important role in the process of European monetary integration than is generally acknowledged—in fact I argue that the introduction of Economic and Monetary Union (EMU) in 1999 would have been impossible absent the Commission's influence. I base this claim on close analysis of how key decisions regarding EMU, as well as important decisions regarding other, less integrative forms of European monetary cooperation, were actually reached—that is to say, on a careful reading of the historical record. But I will also suggest that there are wider lessons to be learned from this close reading of a specialized subject—lessons that could be applied to European integration studies more generally.

The conventional wisdom grants that the Commission might occasionally play a significant role in shaping patterns of political action—primarily due to its role as an agenda-setter in the European policy process—but the circumstances under which this is imagined to be the case are highly circumscribed. With respect to European monetary integration, the essential argument can be summarized as follows: (a) the agenda-setting role of the European Commission works best when it is granted a formal role in the policymaking process, or when it has unusual expertise in the subject matter; (b) these conditions do not obtain in the domain of European monetary relations; and (c) this accounts for the marginal role played by the European Commission in the process of European monetary integration (and, later, monetary unification).

In this paper I demonstrate that the premise of this analysis—that the Commission’s role with respect to monetary integration was negligible, or at best very limited—is factually incorrect. The European Commission was instead a highly influential actor in advancing monetary integration; indeed, the role it played in bringing about monetary union was indispensable. I then consider the implications of this finding for understanding European integration more generally.

1. European monetary affairs: radical and conservative impulses

The third and final stage of EMU commenced on January 1, 1999, with the introduction of the euro as a financial currency.¹ This was in keeping with the terms of the Treaty on European Union, as agreed by Europe’s political leaders in December 1991 and formally signed in the Dutch city of Maastricht in February 1992. The adoption of a three-stage process for the introduction of EMU had been recommended prior to the intergovernmental conference that framed the treaty, by a committee of experts commissioned at a summit meeting of European Community heads of state and government in June 1989. Officially entitled “The Committee for the Study of Economic and Monetary Union,” the group was chaired by the sitting president of the European Commission, Jacques Delors, and came to be known (at least in some circles) as the Delors Report.

It is not my purpose to argue that the committee’s work reflected the preferences of Mr. Delors; far from it. Indeed the governors of the central banks of the Community’s member states, who together made up the majority of the committee’s membership, were generally displeased that the committee’s work ever came to be known as the Delors Report; they felt that this

¹ The introduction of physical euro notes and coins did not take place until January 2002.

appellation suggested a degree of influence by the Commission president over the work of the committee that in fact was not evident. To a very substantial extent, the committee's report instead reflected the governors' concerns, and not those of either Delors or the other "expert" members of the committee who were not members of the central banking fraternity.

Granting these points, my purpose here is simply to raise this question: why did Europe's political leadership authorize a committee to produce such a report in the first place? From where did the impulse to put together a plan for EMU arise?

Political patterns of European monetary integration

The immediate origins of the Delors Report date back to 1987, when speculative capital flows had obliged authorities in Paris to accept a realignment of the parity between the French and German currencies. French officials deeply resented this realignment, which they felt had not been justified.² France's economic fundamentals had not deteriorated, and French authorities were indignant that they had come under pressure from their partners—including West Germany—to accept a formal devaluation of the franc.

Two impulses resulted from this episode. The first such impulse, centered in the central banking community, was essentially conservative, aiming at preserving the existing system of European monetary relations by improving its institutions. The second response, however, was revolutionary. Rooted in different sources and inspired by a far more radical tradition, this alternative prescription reflected a desire to overturn the monetary status quo ante and replace it with something entirely different.

² Speculators were betting that France would adopt a set of inflationary policy measures in the run-up to local elections. In fact the French government resisted this temptation; but the speculative flows were sufficient to force a change in the FF-DM rate anyway.

The 1987 experience and its aftermath had certain parallels with events of some twenty years earlier. Beginning in the summer of 1968, exchange-rate tensions developed between the French franc and the German mark that would last for more than a year. As in the waning years of the Cold War, these tensions produced dueling impulses, conservative and revolutionary. Even the actors were very much the same. A technocratic response originated with Europe's central bankers and then worked its way through the formal institutional framework of the day. But a more radical approach, calling for more fundamental changes in the nature of European monetary relations, emerged as well, similar to the process that would lead to the Delors Report two decades later.

Of course there were important differences between the two periods as well, including the international exchange-rate regime and the degree of capital mobility. Focusing for the moment on the parallels, however, a recurrent pattern becomes evident. This pattern has to do in part with a contest between rival views of Europe's proper monetary destiny were manifested, as suggested above; but it also extends beyond this narrow sphere. Ultimately, it encompasses the broad intersection between the high politics of Franco-German reconciliation and the low politics of monetary integration.³ While a full account of these subjects is plainly beyond the scope of this paper, the broad outlines of their interaction can be briefly sketched here.

After the joint return of most major European currencies to more-or-less full convertibility on their current accounts in the final days of 1958, monetary relations between the member states of the European Economic Community, and in particular between France and Germany, were perennial tense. Occasionally these latent tensions rose to the surface, especially during the exchange-rate crises that periodically arose between the French franc and the German

³ The classic distinction between high and low politics was introduced by Stanley Hoffmann in "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe," *Daedalus* 95:3, pp. 862-915.

mark. From the beginning, these exchange-rate crises led in turn to competing proposals, some calling for modest reforms, others for more radical change. Typically incremental reform packages would be adopted, while more revolutionary proposals would be relegated to special commissions for further study.

Meanwhile, quite unrelated to these ongoing monetary problems, political crises of the highest order—especially crises having to do with unresolved aspects of West Germany’s international situation—occasionally burst on to the postwar scene. This was certainly the case in 1969, when a grand coalition between West Germany’s political left and right collapsed and a new chancellor, committed to Ostpolitik—a dramatic opening to the east that constituted a fundamental change in West German foreign policy—came to power. Likewise, in 1989 the fall of the Berlin Wall, and the imminent prospect of German unification, played a parallel role. Indeed, this is hardly coincidental, since the latter event can be said to have been the culmination of the former.

In both these periods, these developments constituted profound shocks to the European political system. These sudden changes in German policy (in 1969) and situation (in 1989) disturbed the underlying calculus of European international relations, and did so in ways that were profoundly unsettling to Bonn’s closest partners—especially to France. Accordingly, on both occasions national authorities from across Europe nervously sought assurances that, despite changes in the Federal Republic’s relationships with its eastern neighbors, Bonn remained firmly committed to the west, and especially to the principles and practices of Franco-German reconciliation at the heart of the postwar settlement.

Given the pressing nature of these international crises, national leaders had an understandable preference for off-the-shelf solutions: assurance mechanisms that had already

been agreed at the technical level, at least in terms of their initial premises, and that therefore merely awaited official endorsement. In both 1969 and 1989, the proposals that best fit this description—that is, integrative mechanisms whose designs were already reasonably well-developed but that required high-level political endorsement before they could be enacted—concerned monetary integration. On both occasions, initiatives for heightened monetary integration had been previously discussed at some length by the European Commission and the national central bank governors, in a framework outside the normal policy-making procedure outlined in the Treaty of Rome; and as a result of those discussions, some basis for forward movement had already been identified. In the late 1960s, the results of this process were crystallized in a memorandum composed by Raymond Barre, the future French prime minister who was then serving as the member of the Commission responsible for monetary affairs; in the late 1980s, the corresponding mechanism was the Delors Report on EMU.

Like the Delors Report, the Barre memorandum⁴ was originally intended as a discussion document for Europe’s political leadership—a leadership that remained deeply skeptical of the merits of monetary integration. Just as would be the case twenty years later, however, developments entirely unrelated to monetary affairs soon obliged Europe’s leaders to consider these proposals more seriously. When Willi Brandt became chancellor of West Germany’s first Social Democratic-led government in October 1969, his plans for reaching out to the German Democratic Republic called into question many of the central foreign policy assumptions that had informed European capitals since the divisive debates surrounding the Federal Republic’s

⁴ In fact there were two reports drafted by the Commission in immediate response to the monetary crisis of 1968, but the first of these was rejected out of hand by the Committee of Governors and never published. The second Commission memorandum written during this period contained important concessions to the central bank governors; it was this document, published in February 1969, that became known as the Barre memorandum. Somewhat confusingly, this document was later referred to as the “first Barre plan” when, following the December 1969 Hague summit, the Commission was asked to submit a revised report on the subject.

entry into NATO in 1955. Two months later, at the Hague summit of December 1969, Brandt joined his French counterpart, Georges Pompidou in endorsing European monetary unification as a medium-term goal. The new chancellor did so at least partly in order to offset concerns in France and elsewhere that West Germany, under his leadership, was no longer firmly committed to the west. Brandt was able to make this gesture, though, because of lower-level proposals that had already been mooted well before his assumption of the chancellorship.

Similarly, when the bipolar struggle that had been the central feature of global politics suddenly came to an abrupt end, Germany's pending unification created a sharp demand among political leaders for new integrative mechanisms; and at the Strasbourg summit of December 1989, barely a month after the Berlin Wall had been breached, the European Council agreed to convene an intergovernmental conference on economic and monetary union. Neither the resulting agreement, important aspects of which were deeply opposed by the Bundesbank, nor the accelerated fashion in which the treaty was negotiated can be understood except as a response to the international controversies stirred up by German unification. European leaders, including Germany's Helmut Kohl, were desperate to avoid a return to the past, when an oversized and unanchored German state had led to so much heartache. Echoing Thomas Mann, Kohl spoke repeatedly and fervently of a European Germany rather than a German Europe. His promise for a united Germany to participate in EMU became the central feature of the chancellor's commitment to the further Europeanization of the German state.

Origins of the radical impulse

Why was it that proposals on EMU were periodically available to sitting German governments seeking to defuse tensions with their neighbors? Some analysts have argued that

monetary unification was always available to ruthless politicians prepared to suggest it.⁵ But this argument greatly underestimates the technical difficulties associated with developing even a skeletal plan for what was bound to be both a controversial and a difficult undertaking. It is true that national leaders occasionally float trial balloons simply to see which way the political winds are blowing. But if the proposal is intended to be taken seriously, and not as a mere diversion, then not just any suggestion will do. This is especially so in a political crisis, when potentially unwelcome events are unfolding according to an inner logic and timetable of their own. Political authorities in such situations have a strong preference for off-the-shelf solutions—proposals that can be available for public announcement within a matter of days or at most weeks, rather than several months or even years down the line. This was the case both in 1969, at the Hague, when Germany's pursuit of Ostpolitik was offset by commitments to deeper monetary integration, and in 1989, at Strasbourg, when German political unification became linked to an intergovernmental commitment to pursue European monetary unification.

If plausible proposals for monetary union were not easily worked up from scratch, then where did they come from? What actors were generating them? Perhaps it bears mentioning first of all where they did *not* come from. To begin with, and notwithstanding a certain Machiavellian interest on the part of West German governments in binding the hands of the Bundesbank, Bonn was not the source of the radical impulse in European monetary affairs. Of course there were suspicions of the government's motives in advancing EMU. This was especially the case with Brandt, who, as the Federal Republic's first leader to come from the left, could rationally anticipate future policy conflicts with the country's very conservative central banking establishment. After all, the relative independence of the West German central bank

⁵ For example, Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Ithaca: Cornell, 1998.

from national political control meant that the abandonment of a purely national monetary policy—a natural consequence of the process of European monetary unification—would disproportionately affect one of the German government’s main institutional rivals, rather than the government itself. In effect, Brandt was bargaining away the Bundesbank’s authority, not his own. Such concerns certainly colored domestic debates about the merits of EMU; but the fact remains that Germany was not the seed bed for monetary unification proposals. In the late 1960s as in the late 1980s, the preparatory work for eventual German initiatives regarding monetary union was done elsewhere, not in the German chancellery.

Likewise, and despite occasional appearances to the contrary, the most sustained source of the radical impulse in European monetary affairs was not the French government. Yes, French prime minister Edouard Balladur’s call for a reconsideration of EMU in the wake of the January 1987 realignment is generally credited with returning monetary union to the forefront of European public debate, following a hiatus of some ten years—although it was West German foreign minister Hans-Dietrich Genscher’s immediate and enthusiastic response to Balladur, providing substance to the French prime minister’s proposal and in the process upstaging his own chancellor, that really set the wheels in motion. Certainly other French leaders had likewise made significant interventions on the subject over the preceding decades, beginning back as far as the 1960s with a young finance minister by the name of Valéry Giscard d’Estaing. But as a general matter, and despite the evident interest of the French government in an end to the D-mark’s regional hegemony, proposals for monetary integration tended to tie the French political class in knots.⁶ The abiding French impulse in this as in other fields was for regional leadership; barring that, the aim was the preservation of national autonomy. EMU promised neither

⁶ On the French posture towards European integration more generally, see Craig Parsons, *A Certain Idea of Europe*, Ithaca: Cornell, 2003.

outcome, calling instead for a traditional national prerogative to be delegated to a genuinely independent supranational institution; and it was therefore always a highly problematic solution to French monetary woes. Realistically, neither leadership in European monetary affairs nor even genuine national monetary autonomy was on offer; but both France's population and her elected representatives required periodic reminders of that fact. Thus while there were strong advocates of EMU within France, the French government was far from the most consistent of EMU's champions. Indeed, during most of the 1960s France was the most ardent of EMU's opponents.

In the face of French perplexities, a more consistent source of the radical impulse in monetary affairs could be found in those states most unambiguously committed to deeper European integration across the board: the Benelux states and, to a lesser degree, Italy. For their part, Belgian political and monetary authorities self-consciously regarded themselves as a lobbying force for monetary integration, periodically introducing initiatives that would advance the cause of monetary union and regularly lending support to parallel proposals introduced by others.⁷ Dutch officials, though sharing some of their Belgian counterparts' concerns, tended to play a more circumspect role. On the one hand, monetary policy in the Netherlands tended to mirror German developments more closely than was the case in any other member of the Community, leading the Nederlandsbank to sometimes act as a surrogate for the Bundesbank. But the traffic was not all in one direction, as Dutch central bankers also played a key role in persuading their German counterparts to accept incremental decisions that helped shape an evolving discourse, in the Committee of Central Bank Governors and elsewhere, about the

⁷ For example, Belgian authorities played a key role, acting in concert with the Commission, in introducing language into the preamble of the Single European Act calling for the eventual establishment of EMU.

progressive Europeanization of monetary affairs.⁸ Italy's role was even less straightforward, especially after the lira developed a reputation as a perennially weak currency.⁹ Even so, the Banca d'Italia was the most respected of Italian political institutions; and Italy's central bankers tended to share the widespread national commitment, expressed by all but the most extreme of Italian political parties, to both the principle and practice of genuine integration. Thus despite sometimes mixed interests on this front, a succession of Italian prime ministers and finance ministers were prepared to lend their support, especially at critical moments, to proposals for deep monetary integration.

Nevertheless, the primary source of the radical impulse in European monetary affairs was neither Rome nor the Benelux countries but instead the institutional partner with which they regularly collaborated: the Commission of the European Communities. Though its advice was often marginalized, it was the Commission that served as the single most consistent and forceful advocate of EMU from the creation of the European Economic Community in 1958 until the introduction of EMU forty years later. Of course the Commission's support was not sufficient to bring monetary union to fruition; Berlaymont, the seat of the Commission, had no vote in the critical decision-making councils. Nevertheless, absent the Commission's almost continuous promotion of the project there would have been no framework proposal for monetary union available to the government of Willi Brandt in 1969, nor to Helmut Kohl in 1989. Had that been the case, the crises posed by Ostpolitik and later by German unification would have required altogether different solutions—or else they would have gone unresolved altogether.

⁸ It is noteworthy that Dutch central bankers served as both the first and last chairs of the Committee of Governors (Marius Holtrop and Wim Duisenberg, respectively), and on the whole Dutch governors chaired the Committee longer than the those of any other country. Another Dutchman, André Szász, was the longest serving member of the Committee of Alternates, where both preparation planning for the Governors' meetings and longer-term planning took place.

⁹ This was not always the case; during most of the 1960s the Banca d'Italia pursued a relatively conservative course. But by the mid-1970s Italy was debasing its currency enthusiastically.

The Commission as agenda-setter

Table 1 summarizes developments in the two periods, and the agenda-setting role of the European Commission is plainly evident. In the first period, exchange-rate tension between the franc and mark began with the street riots of May 1968 and continued intermittently for more than a year. The conservative response was to address this development within the confines of the Bretton Woods System; a realignment of the two currencies, pre-cooked by Europe's central bankers, was therefore presented to national finance ministers at an emergency summit in Bonn in November 1968. But the Bonn conference was a disaster, as the French representatives received instructions from President Charles de Gaulle to reject the carefully negotiated compromise.

The meeting ended with Franco-German relations at their lowest ebb, at least by some estimations, since the war. Successive unilateral currency realignments—by the French in August 1969 and the Germans two months later—relieved market tensions but did little to restore political cordiality between the two neighbors. When the rickety coalition government of Georg Kiesinger at last collapsed and Brandt took over the reins of government, relations threatened to become even more chilly: the French were not sure what to make of the young socialist leader and his plans to reverse central planks of West German foreign policy. Brandt's solution was to commit the Federal Republic to deeper European integration, and specifically deeper monetary integration—a proposal made possible by the work of Raymond Barre at the Commission, and that had been the subject of discussions between Barre and the Committee of Governors for the previous year.

Table 1:

Patterns of European monetary integration

	1960s/early 1970s:	Late 1980s/early 1990s
Monetary crises:	FF-DM tensions (1968-9) and realignments (Aug and Oct 1969)	FF-DM tensions (1986-7) and EMS realignment (Jan 1987)
<i>Conservative response:</i>	Bonn international monetary conference (Nov 1968)	Basel-Nyborg reforms (Sep 1987)
<i>Radical response:</i>	Barre memorandum (Feb 1969)	Delors Report (Apr 1989)
Political crises:	Collapse of grand coalition government (Oct 1969): Ostpolitik is a leading policy priority of the new Socialist chancellor	Fall of Berlin Wall (Nov 1989): prospect of imminent national unification under a Conservative chancellor
<i>Political response:</i>	EMU as a medium-term goal (Dec 1969: Hague summit)	EMU as a medium-term goal (Dec 1989: Strasbourg summit)
<i>Resulting policy actions:</i>	Werner Report (Oct 1970), ECOFIN resolution on EMU (Mar 1971), snake launch (Apr 1972), and EMCF launch (Apr 1973)	First stage of EMU (Jul 1990), TEU (Dec 1991), second stage of EMU and EMI launch (Jan 1994)

Twenty years later, the pattern was broadly similar. Tensions between the franc and mark culminated in the realignment of January 1987, as previously discussed; but there was widespread acknowledgement that this outcome had not been altogether satisfactory. The conservative response, again hatched by the Community's central bankers, was to improve the workings of the existing exchange-rate regime, in this case the European Monetary System (EMS). Those reforms, referred to as "Basel-Nyborg" in deference to the respective meeting places where the central bank governors and national finance ministers approved them, consisted

of marginal improvements in access to mutual financing facilities in order to defend currencies' parities within the EMS. But the January 1987 realignment also prompted a second and more radical response. This alternative line of inquiry ultimately resulted in the Delors Report; and when the Berlin Wall was breached in November 1989, the recommendations of the Delors Report were available to political leaders who suddenly found themselves in a desperate search for new mechanisms to bind a potentially united Germany to its Community partners.

What became of these political commitments? In the earlier period, the initiative undertaken at the Hague resulted in the Werner Report (building on the Barre memorandum), followed by a resolution of the Community's finance ministers providing political authorization for the creation of an intra-European exchange-rate mechanism—the European currency “snake”—and later the creation of the European Monetary Cooperation Fund. Both these latter initiatives were conceived as early steps in the creation of EMU, a process that was intended to be complete by 1980. That ambition was not realized; but the snake did serve as the precursor to the EMS, which itself formed a crucial background feature to the events of the second period.

In that second period, and as a result of the commitments undertaken at the Strasbourg summit of December 1989, European leaders announced at their July 1990 convocation that Europe would embark immediately on the first stage of EMU, as envisioned in the Delors Report—and this before the Intergovernmental Conference on EMU had even convened.¹⁰ The IGC eventually resulted in the Treaty on European Union, including its crucial monetary components; and by January 1994, with the formal creation of the European Monetary Institute, EMU's second stage was launched.¹¹ The latter period eventually saw the introduction of the

¹⁰ The preemptive move to the first stage of EMU was at the initiative of the July summit's Italian hosts; though somewhat controversial at the time, the decision was never revisited.

¹¹ In fact the EMI would have no premises in its Frankfurt home until much later in 1994, and hence held its earliest meetings in Basel—fittingly, since its membership was essentially identical to the Committee of Governors.

final stage of EMU as well, and this according to the schedule that had been adopted at Maastricht.

It is not the purpose of this paper to explain why the political initiative to found EMU proved successful in the second period and unsuccessful in the first (although several contributing factors have already been alluded to); rather, the focus here has been on identifying the impetus behind these commitments. In both periods, monetary initiatives were seized upon by national leaders because it suited their purposes. But these initiatives were available to them largely because of the indefatigable efforts of the Commission, which plainly served as the institutional locus of the radical impulse in European monetary affairs.

2. The Commission as catalyst for monetary integration

The role and significance of the European Commission as an independent actor in the process of European integration is the subject of fierce scholarly debate. Beginning with the functionalists and neofunctionalists, some have regarded the Commission's ability to act as an entrepreneur of both ideas and interests as a key feature, if not *the* key feature, of political developments in postwar Europe.¹² Others make the opposite case, maintaining that "the entrepreneurship of supranational officials...tends to be futile and redundant, even sometimes counterproductive."¹³

Stated in these extreme forms, neither of these views captures the essence of the situation. The Commission has indeed been an "engine of integration" in European monetary affairs, much

¹² The functionalist and neofunctionalist literature has a long pedigree. Among the most significant recent contributions are Wayne Sandholtz and Alec Stone-Sweet, editors, *European Integration and Supranational Governance*, Oxford: Oxford University Press, 1998, and Sandholtz, Stone-Sweet, and Neil Fligstein, *The Institutionalization of Europe*, Oxford: Oxford University Press, 2001.

¹³ Moravcsik, *The Choice for Europe*, p. 8.

as it has in other areas,¹⁴ if by this we mean that European monetary integration would likely have assumed a much different form (almost certainly not including monetary union) absent the Commission's influence. That said, the Commission only had this influence because its monetary proposals were understood to be at least consistent with, and at times even essential for, advancing the shared objectives of national leaders. Among the most important of these objectives was Franco-German political reconciliation; yet there were moments in postwar European politics when this objective appeared at risk. At such moments, when efforts to reconcile the erstwhile mortal enemies risked becoming seriously derailed, initiatives championed by the Commission—especially monetary initiatives—occasionally served to revitalize the process.

As a result, the political history of European monetary integration is a history of crisis, and especially of crises regarding Germany's place in Europe, as demonstrated in the previous section. But the deep history of European monetary integration—the behind-the-scenes developments that enabled monetary initiatives to play such a central role in renewing the European project—concerns, at least in major part, the Commission's interactions with the member states, and especially with their central banks. That deep history extends back well before the convocation of Europe's political leaders in the Hague in December 1969, and indeed to the very earliest days of the European Economic Community.

Monetary integration and the Commission world view

From its founding in 1958, the European Commission envisaged its role expansively, as agent for the realization not merely of the literal terms but also the implied vision of the Treaty

¹⁴ Mark A. Pollack, *The Engines of Integration: Delegation, Agency, and Agenda Setting in the EU*, Oxford: Oxford University Press, 2003.

of Rome. This meant pressing for change on a variety of fronts, including monetary affairs. The fact that the Treaty was practically silent on this subject was regarded as a grave oversight, an error in urgent need of remedy. The unilateral decision of the West German government to realign its currency within the Bretton Woods system in March 1961 (a realignment that was immediately matched by the Dutch authorities) provided the necessary pretext for introducing such remedies.

Protests of the German decision were immediately lodged by national governments in the Monetary Committee, a gathering of senior national finance ministry and central banking officials that was the only institution named by the Treaty with authority to comment on such matters. The infant European Parliament almost immediately held hearings on the subject, and later issued a report calling for the introduction of a European monetary union. For its part, however, the Commission was more circumspect, biding its time and framing its own proposal in a broad report calling for a range of new integrative measures on a number of fronts. This report, issued in October 1962, was entitled the “Action Programme of the Community for the Second Stage,” and it included plans for the centralization and ultimately the unification of European monetary policy.

The Action Programme for the Second Stage receives little attention in most scholarly histories of European integration. In the monetary field, the later creation of the Committee of Governors (or, more formally, the Committee of Governors of the Central Banks of the Member States of the European Economic Community) in April 1964 is generally regarded as its only concrete accomplishment.¹⁵ Otherwise, the Action Programme is widely regarded as an unmitigated failure, and an example of the excesses of the early Commission. After all, the

¹⁵ The creation of such a body was recommended in the Commission’s 1963 publication of a more detailed set of monetary proposals, pursuant to the Action Programme.

president of the Commission over whose signature the report was issued, Walter Hallstein, was later forced to resign from office; and his chief lieutenant, Robert Marjolin, later broke with Hallstein and became a severe critic of the initiatives associated with the Action Programme (and especially its monetary initiatives).¹⁶

Marjolin's critique tended to reinforce certain aspects of the conventional wisdom that had already developed, and that survives to this day, regarding the early Commission and its place in the history of European integration. That received wisdom holds that the exertions of the Hallstein Commission—as exemplified by the Second Action Programme—constituted an episode in administrative overreach that produced little lasting effect. On this view, once confronted by the irascible French president Charles de Gaulle, the delusions of grandeur that had animated Hallstein's actions were swept away like a morning's mist. Their only legacy was an increased realism, at least on the part of those who were not incurable romantics, about the limits of integration, and certainly about the very real and insuperable limits placed on the Commission as an agent of integration.

This interpretation of the period is not altogether wrong. But it is not altogether right, either. True, the Commission failed to achieve the ambitious objectives outlined in the Action Programme—a complex document that called not only for monetary unification but heightened economic coordination, the introduction of social and regional policies, and a host of other measures. Or, more properly put, the Commission failed to achieve those ambitious objectives in a timely manner. But there is little evidence that either the Hallstein Commission or any of its successors ever abandoned those objectives, either. True, over the next generation the technical

¹⁶ The first public hint of this break was in the 1975 report of an ad hoc committee chaired by Marjolin; but see also his memoirs (*Architect of Unity: Memoirs, 1911-1986*, London: Weidenfeld and Nicolson, 1989).

arguments mounted in support of EMU (or regional policy, or social policy) would change with the times, particularly as the Commission became more sympathetic to market mechanisms, and hence somewhat less *dirigiste*. Those changes were significant, and I do not mean to discount them. But the overall direction in which the Commission intended to push the Community seldom varied; and in this sense the Action Programme serves as a foundational document whose legacy remains profound.

In part this was because the Action Programme outlined not only a set of specific policy preferences but also a particular way of thinking about how those preferences related to one another, and to the process of European integration more generally. The text's discussion of the theory of *engrenage*, for example, is not entirely original nor is it especially profound. But it does represent the articulation not only of an official set of policy preferences but an official mindset. Over the course of the next half century different Commissions would pursue those preferences, and adopt that mindset, with different degrees of fervor. But there is nothing to suggest that future Commissions ever fundamentally rejected those goals, or the premises on which they were founded.

If there were to be the Action Programme's sole legacy, it would be considerable. But the influence of the Action Programme on the future of European integration, and on monetary integration in particular, was not only ideational, or ideological: it had important institutional manifestations as well. And among the most important of these was the Committee of Central Bank Governors.

The Commission and the Community's central bankers

As is typical of the tone that characterizes most commentary on the Action Programme, the creation of the Committee of Governors is usually dismissed as a purely technical development.¹⁷ The decision to create this new body is usually interpreted in entirely pragmatic terms, as providing a forum in which Europe's central bankers could meet to discuss matters of common interest, and in particular with respect to the EEC. But once again, this is only partly correct. The five central bank governors from EEC member states¹⁸ already met regularly at the Bank for International Settlements (BIS) in Basel. The BIS was already quite intimate, and was in fact at that time essentially a European club.¹⁹ So there was no genuinely pragmatic need for a new forum, and indeed the Community's central bankers were deeply reluctant to agree to its creation. Ultimately they agreed to do so only in order to fend off the Commission's other, even more far-reaching proposals.

Why were the governors so reluctant to participate in this new forum? Because they clearly understood its true purpose. It was not being created so that they would talk to one another—this they already did, in Basel. Rather, it was being created so that a representative of the Commission would be able to attend their meetings, sit in on their discussions, and engage them actively with the Commission's monetary agenda. That representative, they well understood, was to be Robert Marjolin; and his intention, they again correctly perceived, was to use this new forum to lobby them on EMU.

¹⁷ See, for example, Daniel Gros and Niels Thygesen, *European Monetary Integration: From the European Monetary System to European Monetary Union*, New York: St. Martin's Press, 1992, p. 10.

¹⁸ The sixth member state of the European Community—Luxembourg—lacked a central bank as it participated in a monetary union with Belgium with national monetary policy outsourced to the Belgian central bank (the National Bank of Belgium).

¹⁹ Though it was entitled to participate in the meetings of the BIS, the United States had rarely done so prior to the early 1960s; see David M. Andrews, "Kennedy's Gold Pledge and the Return of Central Bank Collaboration: The Origins of the Kennedy System, 1959-1962," in Andrews, editor, *Orderly Change: International Monetary Relations Since Bretton Woods*, Ithaca: Cornell, 2008, pp. 100-119.

The governors were entirely right to be concerned. Following its creation in 1964, the Committee of Governors became the central forum for the Commission to pursue, systematically and continuously, its radical agenda of European monetary unification. It was there that Marjolin laid out, in considerable detail, the Commission's plans for EMU. When Marjolin departed, it was there that his successor, Raymond Barre, expounded his own plans for enhanced monetary cooperation—plans that later inspired the Werner Report's proposed early stages of monetary unification, and provided an intellectual foundation for the later creation of the European currency snake.

Of course the Commission's efforts to promote EMU were not limited to this forum. Commission presidents raised the subject repeatedly, as when Roy Jenkins gave a major public address on the subject in the 1970s, and when Jacques Delors insisted that a commitment to monetary union be embedded in the Single European Act in the 1980s. But it was in the Committee of Governors that the Commission could pursue its goals most persistently, and indeed it did so—tenaciously—for the three decades between the Committee's creation in 1964 and its formal termination, as part of the transition to the second stage of EMU, in 1994.

The Committee of Governors and the Committee for the Study of EMU

Nothing in the foregoing should be taken to suggest that the Commission dominated the proceedings of the Committee of Governors. In fact the opposite was the case, as the Commission's efforts to pursue its radical agenda were routinely rebuffed. Jealous of their prerogatives, the governors did not suffer fools gladly, and they did not hesitate to point out flaws in the various schemes brought before them. True, the Commission now had a vehicle with which to pursue its objectives, and a platform from which to expound its vision. But

despite having pressed for the creation of the Committee, the Commission was in no position to control its actions.

Instead, the governors had ambitions of their own—and especially so in the late 1970s and 1980s. During this period monetary authorities’ instinctive preference for discipline developed increased intellectual resonance, and the central banking profession grew in prestige across the world. Always skeptical of the Commission’s plans, in this new environment the governors became increasingly assertive in advancing their own ideas. Thus when Delors, in the wake of the January 1987 realignment, concluded that it was time for the Commission to renew its campaign for EMU, it was plain that the Committee of Governors was not going to be fertile ground.

It was this fact that led Delors to press, at the Hanover summit of June 1989, for the creation of a special, ad hoc committee with largely the same membership as the Committee of Governors but that he would chair.²⁰ His wish was granted, and the Committee for the Study of Economic and Monetary Union was born. But the governors were not so easily convinced. They had no intention of acceding to Delors’ leadership, and to having their own committee reconstituted under his direction, regardless of whom the heads of state and government had designated as chair of the special committee. The governors were intransigent; and was only by acceding to their demands—that the committee meet in Basel, not Brussels; that its meetings be conducted in English, which Delors could hardly speak; and that the Governors select the committee’s rapporteur—that the Commission president was eventually able to persuade the Governors to participate constructively. Not surprisingly, the report they fashioned outlined the central banking community’s views about how a monetary union ought to function, and

²⁰ The governors of the member states’ central banks were invited to sit on the committee, but “in a personal capacity”—meaning that they were neither to request nor accept direction from either their governments or indeed from the national central banks that they governed.

especially how the commitment to price stability would be maintained. The Commission's contributions were negligible.

But even this constituted a triumph of sorts, and a reversal of the situation that had obtained in the early 1970s. Then, the central banking had expressed its dissatisfaction with important elements of the Werner Report, in an addendum to the report—the so-called “Ansiaux annex,” so named after the then-chair of the Committee of Governors, Baron Hubert Ansiaux of the National Bank of Belgium. This was embarrassing, to say the least, but it did not constitute an insuperable obstacle to the Community's adoption of the Werner Report. In part this was because Europe's central bankers did not enjoy, in the early 1970s, the prestige and influence that they would come to have by the late 1980s. By then, a report on monetary union that was given the cold shoulder by the central banking community—and especially by the Bundesbank, which was acting in many respects as Europe's central bank—would have little chance of adoption.

But, in what was to prove his most effective tactical maneuver, Delors managed to avoid the embarrassment of having the Community's plans for its future monetary policy disowned by the present custodians. At the June 1989 summit he had seen to it that the mandate of his special committee was quite specific: it was to recommend the manner in which monetary union ought to be constructed, in the event that Europe's political leaders later decided to embark on such a project. In other words, the committee was not to evaluate the merits of EMU, merely to propose how best to achieve it. The governors, who composed the bulk of the committee, were loathe to act on this mandate unless they were persuaded that the report would plainly state their abiding concerns about this project, and especially that EMU might prove to be less effective at resisting price inflation than was the existing system of (Bundesbank-dominated) monetary cooperation.

It was only when Delors acceded to their wishes that they agreed to fulfill the committee's mandate.

That the governors eventually did so also reflected their belief, or at least the belief of some of them, that the heads of state and government would never accept a report that was so clear and demanding in terms of the requirements for EMU to be a success—principally that it would require the establishment of a European central bank with at least as much autonomy from political direction as was already the case in West Germany, with the Bundesbank. But in fact their political masters did embrace the report, at least partly for reasons that the governors could not have foreseen—the sudden and decisive collapse of European communism, opening the prospect to a united Germany. Delors had not foreseen this development either; but the tactical alliance he had managed to construct on his special committee—an alliance between the monetary disciplinarians on the Committee of Governors and the European integrationists at the Commission—soon emerged as the lynchpin around which Europe's new political and monetary order would be built. These odd bedfellows had together provided the best available solution to the problems imposed by the sudden shift in international circumstances, with the integrationists establishing the general direction, and the disciplinarians dictating the specific terms of the trajectory.

The resulting fusion of the cultures of Brussels and Frankfurt proved surprisingly enduring. How it endured the 1990s, in the face of severe challenges, is another story for another time. But before leaving the subject, one last comment bears mentioning regarding the Werner and Delor Reports. Although these two expert reports on EMU are often compared with one another—and little wonder that they would be—they in fact played very different roles in their respective time periods. As Table 1 makes clear, the Werner Report was issued *in response* to a

high-level commitment to pursue monetary unification, whereas the Delors Report was issued in the hopes of *provoking* such a commitment. In this respect, the functional analogue to the Delors Report was not the Werner Report but its antecedent, the Barre memorandum. But while Barre chose to work discreetly, in discussions with the central bank governors that were practically invisible to the outside world, Delors chose to engage them directly, and visibly. This gamble almost backfired; but in the end it worked marvelously well. The eventual result was a political initiative to pursue monetary union according to a fixed time table—a revolutionary proposal—but a proposal to which the central banking community had already committed itself, and which in fact derived much of its authority from their imprimatur.

Conclusions

In this paper I have outlined an explanation of radical impulse in European monetary affairs. I have suggested that the perennially tense monetary relationship between France and Germany resulted in two impulses, one conservative and one radical. Generally national decision-makers were content to pursue the conservative course promoted by the Community's central bankers. But occasionally, and especially when crises involving German foreign policy and Germany's international status prompted high-level demand for integrative measures, the Community's political leadership was prepared to endorse the more radical proposals championed by the Commission of the European Communities.

The structure of this argument will be familiar to some readers: it resembles a policy stream model.²¹ Of course policy stream models, and the garbage can models from which they

²¹ John Kingdon, *Agendas, Alternatives, and Public Policies*, Boston: Little, Brown, 1984.

are derived,²² do not enjoy a good reputation in EU studies. They are routinely criticized, despite—or perhaps because of—their almost complete absence from the literature.²³ Much of that criticism misses the mark, however. Garbage can models do not posit irrational behavior, nor do they imply that policy decisions are entirely random and unpredictable. Rather, they are consistent with notions of bounded rationality,²⁴ and they rightly suggest that policy outcomes will depend upon a confluence of factors.

Garbage can models are subject to at least one legitimate criticism: the approach sometimes tends towards purely *ex post* descriptions rather than providing *ex ante* explanations. But this is only the case when the sources of the various streams,²⁵ and the dynamics governing them, are not identified. Here I have identified the primary “problem stream”—that is, the underlying source of “problems in search of solutions”—as the bilateral monetary relationship between France and Germany under conditions of German regional monetary hegemony. The “policy stream”—the source of “solutions in search of problems”—is two-fold, with the central banking community providing conservative solutions (“muddling through”) and the Commission catalyzing more radical solutions. The “politics stream”—the circumstances that can make political leaders interested in seeking unconventional solutions—is provided by occasional

²² Michael D. Cohen, James G. March, and Johan P. Olsen, “A Garbage Can Model of Organizational Choice,” *Administrative Science Quarterly* 17:1-25.

²³ Defenses of garbage can modeling of European integration are few in number; but see Jeremy Richardson, “Policy Making in the EU: Interests, Ideas and Garbage Cans of Primeval Soup,” in Richardson, editor, *European Union: Power and Policy Making*, London: Routledge, 1996; and BI Guy Peters, “Bureaucratic Politics and Institutions of the European Community,” in Alberta Sbragia, editor, *Euro-Politics: Institutions and Policy-Making in the ‘New’ European Community*, Washington: Brookings, 1992, pp. 75-122. For dismissals of the approach, see Liesbet Hooghe and Gary Marks, “Making of a Polity: The Struggle over European Integration,” in Herbert Kitschelt, Gary Marks, Peter Lange, and John Stephens, editors, *Continuity and Change in Contemporary Capitalism*, Cambridge: Cambridge University Press, 1999, pp. 70-97; and Andrew Moravcsik and Kalypso Nicolaïdis, “Explaining the Treaty of Amsterdam: Interests, Influence, Institutions,” *Journal of Common Market Studies* 37:1, pp. 59-85.

²⁴ As suggested by Herbert A. Simon in “A Behavioral Model of Rational Choice,” *The Quarterly Journal of Economics*, 69:1, February 1955, pp. 99-118, and further explored by Simon in other works.

²⁵ See especially the 1992 second edition of Kingdon, *Agendas, Alternatives, and Public Policies*, New York: Harper Collins, 1995.

difficulties associated with unresolved aspects of Germany's international status after World War II. Those problems were always latent, but occasionally erupted to the surface—as they did in both 1969 and 1989. Under those circumstances, Europe's political leadership was prepared to seriously consider the radical solution to regional monetary affairs regularly put on offer by the Commission and its allies: EMU.

In utilizing this approach, I am not arguing that it should displace all others, all the time. We have every reason to believe that neofunctionalist models will work well when the decisions at issue are routine, incremental, and taken at a fairly low level of political authority. Political economy models like those widely employed to account for European monetary integration will work well when private actors have well-defined interests regarding the issue-area in question, and when the state agencies governing those issues have been captured by these interests. Both these sets of circumstances are fairly widespread; hence these approaches have real explanatory power.

By contrast, garbage can models will work best when decisions are not routine and are at least potentially not incremental; when decisions involve trade-offs and package deals across multiple issues; and when, for the proceeding reasons, decisions have been sent well up the chain of command. The postwar history of European monetary unification efforts matches these criteria rather well; but it is not the only subject of which this can be said. Indeed, some of the most interesting and important aspects of European integration could benefit from a parallel analysis.