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**Paper Title: "The construction of the European monetary order:
A historical account"**

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Abstract

Monetary cooperation was a key issue since the early beginnings of European integration. After the Second World War the transatlantic Bretton Woods system had provided a stable framework that shielded the West from the communist bloc. However, in the late 1960s the system started to crumble. At the same time, ideas about a European currency union emerged. A concrete proposal, the Werner Plan, was put forward. The plan was however never put into force. Instead, it took another twenty years, when the Treaty of Maastricht was signed in 1992, for the EU member states to agree upon a monetary union. Why did the implementation of a European monetary union fail at the first attempt but was seen as legitimate and appropriate two decades later? The aim of this paper is to explore how and why a supranational monetary institution emerged in the European Union. Adopting an agenda-setting approach this paper suggests that the interaction of national interests and economic ideas are essential factors for the dynamics of integration.

1. Introduction

The means by which European states manage macroeconomic goals such as growth, price stability, and employment have gone through major changes since the Second World War. Particularly the delegation of various decision-making processes to the European level has enormously influenced the way states intervene to secure stable macroeconomic conditions. The case of monetary cooperation and integration is a prime example of this transformation: National governments do no longer possess the sovereign control over monetary decisions and instead supranational institutions manage them autonomously.

The idea to create a European monetary union was made public at the European Council Summit in The Hague (1969) where the German Chancellor, Willy Brandt, announced that the six member states were working on a plan for the creation of an economic and monetary union (The Hague Summit, 1969). Subsequent to the meeting at The Hague, a group of monetary and economic experts drafted a proposal, in which further steps towards a European currency union were elaborated. The so-called Werner Plan was published in 1970 but was never finalised.

The dissolution of the Bretton Woods system, which was confirmed by the ending of the dollar's convertibility into gold in August 1971, is often put forward as the main reason for why the Werner Plan was not implemented. It has been argued that it had triggered a feeling of crisis and uncertainty among the member states. A crucial question seems therefore why this situation was perceived as a crisis rather than as an opportunity to strive forward with EMU and to establish a stable European monetary order. Instead of taking this situation as a momentum for creating a monetary union, the currencies were floating for a while until the Snake (1972) and then the EMS was established in 1979.

In the late 1980s the idea to create a European monetary union with a single currency revived. Once more a group of experts was set up to draft a proposal. The result was the Delors Report, which was published in 1989. Although the underlying ideas of the Delors and the Werner Plan differ in many respects, both plans suggested three stages for creating a European monetary order with a single currency. This time, the proposal was pushed through: the Delors Report provided the foundation for the Maastricht Treaty in 1992 when the European states formally decided to proceed towards a single European currency.

Why did the establishment of a European monetary union fail in the 1970s but was seen as legitimate and appropriate two decades later? This paper analyses the evolution of European monetary cooperation from an agenda-setting perspective. By investigating the interaction of national interests (particularly with respect to Germany and France as the main powerful and forward striving actors) and dominant economic paradigms this paper attempts to shed light on why monetary integration occurred in the 1990s but had failed two decades earlier.

To study the case of monetary integration is a purposeful decision. First, monetary policy is an example of positive integration that requires governmental intervention. However, the way governments intervene is not straightforward but requires a considerable degree of consensus. Second, monetary integration was a key issue at hand since the onset of European integration. Yet, it was not decided to completely delegate this policy field to the supranational level until 1992. Monetary integration therefore provides a longitudinal case study that allows exploring under what conditions European cooperation failed and was pushed through respectively.

The main argument of this paper is threefold. First, national interests and power relations are main driving forces for changes occurring in terms of monetary cooperation. Second, economic paradigms and the role of monetary policy play a fundamental role. Is monetary cooperation dependent on the convergence of real economic indicators or is monetary policy first and foremost an independent tool to secure price stability? And finally, this paper suggests that soft forms of coordination may be a step towards further integration as they allow for a European problem-solving perspective to develop. The snake and EMS provided an institutional framework for common experience and thus for a consensus to emerge.

The paper is structured as follows: the second part discusses the agenda setting approach for studying European integration dynamics. The third part provides an overview of the role of monetary policy in the two competing economic paradigms: Keynesianism and Monetarism. In section four the agenda-setting approach is applied and the evolution of monetary integration in the EU is analysed in terms of the agenda-setting approach.

2. Theorising European integration: the Agenda-setting approach

Since the 1990s academics increasingly started drawing on approaches from domestic and comparative politics to analyse the European Union (EU). They placed less emphasis on studying European integration as a process and instead focused on the nature of the EU as such (e.g. Hooghe and Marks, 2001; Kohler-Koch, 1999). Concepts such as network governance and multi-level governance were put forward to describe the functioning of the supranational system. While it has remained debatable whether the EU is a fully fledged political system, it is unquestionable that she has far-reaching steering capacities. After all, it is hard to deny that it has become a dominant actor in public policy-making. However, not in all instances has the EU been able to establish a common problem-solving framework. Why has it failed in some cases and succeeded in others?

Agenda-setting as a theoretical point of departure can contribute to a better understanding of the problem-solving abilities of a political system. The approach originates in American political science and has only very dispersedly been applied to the European politics (e.g. Princen, 2007; Peters, 2001; Heise, 2005b). In principle, agenda-setting is about the attention given to the issues, which are considered for political action in a polity (Cobb and Elder,

1972). It explores why certain “issues” end up on the formal agenda¹ of a political system and others do not. As potential public issues usually exceed the capabilities of decision-making institutions to process all of them decision-makers need to prioritise which items to deal with. Thus, in every social system there is a competition among issue proponents to gain the attention of media, professionals, the public, and policy elites.

Agenda-setting not only involves a struggle for placing an issue on the agenda, it is also a struggle for the overall issue definition (Daviter, 2007). What are the competing interpretations of political problems and the alternative worldviews that underlie them? The concept of issue framing as well as the literature on policy-discourses (cf. Daviter, 2007 and Schmidt, 2002) is closely related to this question. The main idea is that issues are not pre-defined but that actors have different opinions, problem-definitions and solutions for a subject.

Whether an issue and its particular interpretation is placed on the European agenda is dependent on various factors. While the Commission is the only European institution, which can submit policy proposals under the EU’s first pillar, and is therefore the formal agenda-setter, it does not act in a vacuum. Instead, it is integrated in a network of different actors. Each Directorate General has regular contact with its working group in the Council and its parliamentary committee and the emergence of epistemic communities within policy sectors is a common phenomenon (Richardson, 2006). In other words, even though the Commission has the sole responsibility for proposing new legislation, the driving force for setting the formal policy agenda may lie outside the Directorate General.

Richardson (2006) suggests that it is possible to distinguish between two main sources: the external environment as well as actors’ motivations. The environment may provide a window of opportunity due to major political events, election outcomes, and new information stemming from socio-economic developments. On the other hand, actors have different motivations to advance a topic; they may act upon material interests or ideological convictions. Ideas are important as they serve to explain events and to legitimise political action. However, policy coordination can also be subject to strategic decisions by political actors who choose the venue most favourable to them. The interaction of ideas and interests seems therefore crucial and lies at the heart of the agenda theory. Scholars have however tended to focus on one dimension only. For example Marcussen (1999) and McNamara (1998) try to understand why there was so little controversy with respect to price stability, central bank independence and sound finances in the 1990s. Both agree in their analysis that policy coordination is to a large extent dependent on generating an ideational consensus.

¹ In literature two types of agendas are usually referred to. First, the formal agenda involves the items that decision-makers have formally accepted for serious consideration. And second the public agenda consists of those issues that have achieved a high level of public interest and visibility. When talking of the agenda, this project however refers to the formal European agenda as studying the public agenda exceeds the capacities of this paper.

While Marcussen (1999:389) defines ideas as “*knowledge structures about macro-economic cause-effect relationships*”, scholars have suggested distinguishing between causal and normative ideas (Campbell, 1998; Goldstein and Keohane, 1993). The former specifies a cause-and-effect relationship of economic events. As economic theories such as Monetarism and Keynesianism differ with respect to their explanations also the solutions suggested by their proponents for securing a stable macroeconomic environment vary. In terms of the normative dimension, a policy reform needs to legitimise why the European level is most suitable. Agenda-setting in the EU does not only involve a struggle for problem definition but also about whether European institutions are considered the appropriate level. The following section briefly elaborates on the different ideas that can be ascribed to monetary policy.

3. The Role of Monetary Policy in Economic Paradigms

Economic theories provide a framework to describe and analyse how economies work and the means through which they can be regulated. According to the magic square, macroeconomic policy-making involves four main goals: to achieve price stability, full employment, satisfying economic growth and a balance of payment. The idea of the magic square may however be misleading; while it may be desirable to reach these four criteria simultaneously it is disputed that this is possible. The emphasis that is placed on each of these goals can therefore vary according to the economic theory under discussion. Moreover, economic paradigms provide different explanations for how these objectives can be achieved. This section briefly outlines the role monetary policy plays in two main competing paradigms.

On the one hand, there is Keynesianism also referred to as demand-side economics (cf. Keynes, 1936) and on the other hand, there is the so-called supply-side or monetarist theory (cf. Friedman, 1976). Their underlying ideas do not only provide different but also conflicting frameworks for how to achieve stable economic conditions. In other words, Keynesian and neoclassical economics differ with respect to their analysis of economic problems. Where do they come from, what has caused them and what are the appropriate measures to overcome them?

According to neoclassical theory, economies are self-regulating systems that allocate scarce resources efficiently and markets perform best when governments do not intervene². Also in terms of macroeconomic policies the state has a limited function. The reason for this lies in the underlying assumption that money is “neutral”: the monetary sphere simply hovers like a “veil” over the economic sphere but does not affect economic developments such as investment and employment in the long-term. Neoclassical economists therefore divide an economy into a monetary and a real economic sphere. Only in the short-run can monetary policy have an effect on the real economy. However, the consequences of actively using

² Except in cases of market failure e.g. to prevent monopolies etc. and for the provision of public goods (cf. Cornes and Sandler, 1995).

monetary policy for employment considerations are negative as a rise in employment is not sustainable and goes along with a higher inflation rate. In other words, the result of using monetary policy as a macroeconomic tool is not only neutral but in fact detrimental for the economy. The consequence of the dichotomy of two separable spheres is that monetary policy should be performed irrespective of economic developments and instead be geared towards securing price stability. This line of arguing is reflected in the quantity theory of money³. Since transactions vary with the level of income so will the demand for money. Consequently, central banks ought to regulate the amount of money in circulation. It is based on the assumption that it is possible to exogenously regulate the money supply of an economy.

For Keynes (1936) markets are not self-adjusting systems as in the neoclassical paradigm. In turn, they are inherently instable due to expectations, uncertainties and endogenously cumulating effects. Therefore institutions are needed to increase trust and stability within an economy. This line of arguing does not draw a separable line between the real and the monetary sphere. In fact, one of the main arguments is that the capital and the employment market are deeply intertwined and characterised by a hierarchical relationship. Changes on the money market influence outcomes of the real economic sphere such as investment and employment.

Keynes (1936) argued that people have the choice between holding an asset in form of money or in bonds. The cost of holding assets in the form of money is that interest income is foregone. Consequently, a rise in the interest rate will increase the incentives in favour of interest-bearing assets. Thus, decisions to invest are dependent on the interest rate as it influences the liquidity preferences. According to Keynes, monetary policy is therefore mainly interest rate policy and should not only be oriented towards price stability but should also try to regulate real economic outcomes of investment and employment.

Keynesian economics is often regarded as suggesting a trade-off between inflation and employment in the long-run as suggested by the Phillips Curve. From the 1950s many economists believed that there was a permanently stable relationship between inflation and unemployment. One implication of this was that governments could control unemployment and inflation within a Keynesian policy. However, in the 1970s unemployment and inflation were rising simultaneously. For example France had an annual inflation rate of more than 13% in early late 80s and Italy of over 20% (Mitchell, 2007). The German central bank had always placed an emphasis on price stability and inflation was less severe. However, the phase of stagflation also struck Germany. As a consequence the Keynesian paradigm and the idea that monetary policy should also be used to for production and employment was largely abandoned. In turn, monetarism and the emphasis on price stability gained dominance.

³ There are various problems with this approach: one of the main critiques is that if monetary policy has an influence on the real sphere in the short-run then it will change this sphere and also influence future developments in the long-run. For a more thorough discussion of the role of monetary policy in economic paradigms see Heine und Herr (1999)

However, the Keynesian line of thought is anything but extinct; predecessors such as the Post-Keynesianism have been elaborated and also the New Keynesian highlights the significant role of the state (or some a supranational actor) for securing a stable macroeconomic environment.

It becomes evident that the state has a different function in the paradigms. The supply-side highlights that the state should intervene as little as possible and that monetary policy should influence price stability. In turn, the Keynesian paradigm suggests that governmental action is desirable as markets are inherently instable. Monetary policy should help regulate investments according to cyclical economic developments. In other words, the paradigm shift centres on two key issues: the choice of monetary policy instrument and the choice of an active or passive policy. However, when investigating the delegation of economic policies towards the European level, there is the need to involve a further dimension: Which authoritative level should be in charge? Can the local, national or even the European level best perform a certain function?

In order to decide which governmental level can best carry out economic policies, it is essential to take into consideration who (individuals/region) is affected by a decision being taken. The theory of fiscal equivalence (Olson, 1969) therefore introduced externalities to distinguish between an economic and a political jurisdiction. While the former denotes the region that is *affected*, the latter refers to the governmental level that *decides* and *finances* an action (cf. Blankart, 2006 and Heise, 2005a). In other words, when investigating which authoritative level can most efficiently manage monetary policy decisions, we need to ask who is affected by a decision being taken (cf. Arce and Sandler, 2002; Kaul and Mendoza, 2003).

As the adjustment of exchange rate does not only affect the initiating country but has multilateral implications, the delegation to an international institution can provide a framework to coordinate decisions and to give incentives to comply with the agreed-upon goals. This way beggar-my-neighbour strategies or competitive devaluations can be dampened. Thus, while there are in fact substantial reasons for why public policies should be managed across different authoritative levels, in reality policy-making is an arbitrary matter. Wallace et al. (2001:43) depicted European policy-making therefore as a “pendulum” that oscillates between the member-states and the transnational arena. Agenda-setting in the EU therefore involve a struggle for whether European institutions are the appropriate level. It involves a discourse of scaling.

4. From a transatlantic to a European monetary order

This section identifies and compares the two main reform proposals: the Werner Plan (1970) and the Delors Plan (1989) with respect to their underlying ideas. What role does monetary policy have and why is the European level more appropriate? While economic ideas may help to legitimise and explain a reform, the delegation of major competencies to the supranational level can also be subject to strategic decisions by political actors. In other words, it is essential to include an analysis of historical background conditions and national interests to better understand why certain ideas gained dominance.

The public breakthrough of a European monetary union came at The Hague Summit in 1969 when Willy Brandt, the newly elected German chancellor, officially proposed to take steps towards EMU. Zimmerman (2001), who provides a detailed account of the historical background conditions of the Werner Plan, argues that the idea of a *European* system challenged the existing *transatlantic* framework with the US dollar at its centre. The Bretton Woods (BW) system was the post-war monetary system that had been created in 1944. It brought about a series of institutions and rules such as the International Monetary Fund and all major industrial countries linked the value of their currencies to the dollar. In turn, the value of the dollar was expressed in a fixed ratio to gold and guaranteed by an American promise to exchange dollars on request to gold. The system was therefore dependent on the US to manage its domestic economy to secure dollar stability.

There were both economic and political aspects that supported the transatlantic arrangement. In political terms, the BW provided a cooperative monetary framework that shielded the West from the perceived threat of the communist bloc. Moreover, dollars streamed into Europe for reconstruction and there was a feeling of US superiority. In economic terms, the 1950s and 1960s were largely characterised by economic stability and growth for the Western world. However in the late 60s, the dollar expansion within the system brought about scepticism as to whether the US would be able to repay with gold-reserves and speculations started to threaten the stability of system.

The perception that the system did no longer support essential interests of the participants started to rise. In 1965 President de Gaulle announced that he would exchange every dollar for gold to force Americans for radical change. Although Germany, the Netherlands, Italy and the UK initially declared solidarity with the US, the transatlantic consensus, on which the system has been based, started to wane. Zimmermann (2001) and Dyson (1994) argue that especially France wanted was striving for more autonomy in setting domestic economic priorities. Slowly, the Europeans started to become “the others” in terms of monetary relations for the US.

At this time, proposals for a European monetary order had emerged. In February 1969, the Commissioner Raymond Barre submitted a memorandum to the Council on the coordination

of economic policies and monetary cooperation within the Community (Barre Report, 1969). The major concern was that strong currency fluctuations could endanger the running of the common market and the CAP. It had therefore been suggested to examine the possibility that to establish a system, in which currency parities can only be changed by common accord. The aim was to secure European-wide stability as a matter of common interest. The proposal had a clear European economic rationality perspective to facilitate commercial and financial relations within the Community. The implementation of a European unit of account should support these measures.

Different than the proposals suggested by the Commission, Willy Brandt and Georges Pompidou pronounced the idea of a European currency. In other words, their intentions to cooperate went further than those designed by the Commission. Although France had wanted to become more autonomous in monetary terms under president de Gaulle, due to major speculations it soon became evident that this was not sustainable. Moreover, one of the core projects pursued by Willy Brandt was the reconciliation with Eastern countries. This initiative could be perceived as a step against further progress within the EEC. In this context, Brandt suggested a European initiative for monetary cooperation at the Hague Summit, which cumulated in the Werner Report.

4.1. The Werner Plan 1970 – Monetary Policy in the Periphery

A group of experts had been set up, which was chaired by Pierre Werner, the former Prime and Finance Minister of Luxembourg, to draft a proposal for the establishment of an EMU (see also Figure 1). The team consisted of members of various economic and monetary committees with each state being represented. Their report, which was called the Werner Plan (WP), suggested a three-phase timetable to establish an *“area within which goods and services, people and capital will circulate freely and without competitive distortions, without thereby giving rise to structural or regional disequilibria.”* (WP:8).

While monetary cooperation was an integral part of this proposal, it is not at its centre. Therefore, it cannot be assessed in isolation but the policy discourse needs to be evaluated also with respect to its relation to economic policies. The WP placed particular emphasis on the first stage of the three-steps, in which concrete and important measures were to reinforce economic and monetary coordination. The ambitious goals should commence in 1971 and last 3 years. Particularly economic coordination was seen as crucial at this stage:

“Having regard to the marked differences existing between the member countries in the realization of the objectives of growth and stability, there is a grave danger of disequilibria arising if economic policy cannot be harmonized effectively.” (WP:5)

While the prime idea of the report was that economic and monetary cooperation should be settled simultaneously, economic harmonisation was in fact at the centre of the proposal. Particularly, the harmonisation of budgetary but also of tax and structural policies within the Community was seen as essential to ensure cohesion. Economic policy was to be decided in its broad outlines at community level in the first stage with binding rules and working towards unification in the final stage. While currencies should be placed within a narrower band monetary policy was to be centralised in final stage *dependent on* the progress of economic integration.

The importance of economic convergence was also reflected in the suggested institutional design, which demanded the creation of two central community organs: a Community System of Central Banks (CSCB) and a Centre of Decisions for Economic Policy (CDEP). The CDEP was to exercise in accordance with community interest a decisive influence over the general economic policy of member states. Also monetary policy should be decided centrally, there was however no specific reference to the exact goals and setup of the CSCB.

The WP reflects to a large extent the main economic ideas mainly supported by Germany and the Netherlands. Different than France and Belgium, who believed that monetary policy serves as the driving force for further economic integration, Germany persisted on a plan that required economic convergence. The German plan (Stufenplan, 1969) states that:

„Der Übergang zur vollen Wirtschafts- und Währungsunion, könnte theoretisch schon heute vollzogen werden... In der Praxis würde der Versuch (...) jedoch eine politische und ökonomische Überforderung der EWG Länder bedeuten (...) Die wirtschaftlichen und gesellschaftlichen Strukturen in den Mitgliedsländern sind noch zu verschieden (...). Diese Unterschiede können selbst bei besten politischem Willen nur langsam abgebaut werden.“ (Stufenplan, 1969:2)

The German viewpoint built upon economic ideas related to the Keynesian perspective of monetary policy, which does not separate the economic and the monetary sphere into two independent parts. Instead it was considered essential to achieve substantial economic convergence in terms of interest and inflation rates prior to the establishment of a currency union. Karl Schiller, who was the German Minister of Economics at this time, had introduced the Keynesian paradigm into the Social-democratic party, which is evident in the German proposal. The French and the Belgian monetary integration plans approached the matter from a monetarist viewpoint, in which monetary policy can be introduced irrespective of economic developments (Interim Report, 1969).

Although the states entered the first period of the WP by establishing the Snake in 1972, monetary integration was never finalised as had been proposed. The dissolution of the Bretton Woods system, which was confirmed by the ending of the dollar's convertibility into gold in August 1971, is often put forward as the main reason (Zimmermann, 2001; Verdun, 2001). It is argued that it triggered a feeling of crisis and uncertainty. A crucial question seems

therefore why this situation was perceived as a crisis rather than as an opportunity to strive forward and to establish a stable European monetary order?

First, the international political economy was characterised by drastic changes: the era was marked by instability and uncertainty due to rising unemployment, inflation rates and strong currency fluctuations (Mitchell, 2007). It became evident that the beginning of the second stage of the WP was postponed when France dropped out of the Snake for some time in 1974. Second, the ideas of the WP, which constituted a compromise of the two main positions of the member states, were such that the establishment of a supranational monetary authority was closely linked to the success of economic cooperation. Any fast progress in terms of monetary cooperation alone was therefore not possible.

4.2. The Delors Plan and Price Stability

After years of heavy currency fluctuations, it was decided to dissolve the Snake at the European Council in Copenhagen in 1968. It was to create a new arrangement, in which the European Currency Unit would be used more extensively. In 1979 the EMS was introduced to narrow the exchange-rate margins and to avoid major fluctuations. Although no currency was designated as an anchor, the D-Mark and the German central bank soon became the heart of the EMS due to its relative strength and the low-inflation policies. Although the EMS was widely accepted as it had helped countries with high inflation rates to better secure price stability, the German leadership role brought about dissatisfaction.

When the communist bloc started opening up it was largely feared that Germany might tighten its relations with the east and consequently loosen its relations with west. France and the UK both strongly opposed a re-unified Germany. The close relationship of François Mitterand and Helmut Kohl started deteriorating. That EMU was established in this context is certainly no coincidence. Also Dyson (1994) argues that the step to monetary integration can be regarded as a commitment and a guarantee for Germany's ambitions for European cooperation.

At the European Council meeting in Hanover in 1988 the member states appointed a committee, which consisted of high ranking officials of the national central banks and some experts, and was chaired by Jacques Delors, President of the European Commission, with the aim to draft a proposal (see also Figure 1). Just as the WP, the Delors Plan (DP) outlined three stages. Nonetheless, the proposed steps as well as the overall institutional set-up of EMU differed by far and wide. The first stage was to serve the completion of the internal market and to increase convergence within the existing framework. Thus, the first stage merely emphasised the existing conditions. The basic organs and institutions were to be set up to monitor, evaluate and strengthen coordination in the second stage. Finally, in the last stage it was to lock the exchange rates and to introduce binding rules for budgetary policy.

The economic ideas of the DP were largely based on Monetarism, which favoured above all the establishment of price stability. Even though it was stressed that both economic and monetary union were seen as two integral parts of a single whole, which should be implemented in parallel, the DP placed monetary integration at its centre and it was no longer dependent on further progress of real economic events. Only coordination of fiscal policy was seen as essential as this might endanger the price stability of the Euroarea. These new ideas were also reflected in the institutional set-up suggested. While monetary policy was to be managed centrally by the European System of Central Bank (ESCB), it was no longer suggested to establish a common European economic authority. Instead, the report specifies that the fundamental goals of the ESCB were primarily to preserve price stability and only secondary to support general economic policies. It appears that the ideas had changed in such a way that monetary policy coordination could progress without being bound to the success of economic policies.

Figure 1: Monetary Policy Discourses

Criteria	Werner Report (1970)	Delors Report (1989)
External environment	Customs Union Bretton Woods - Crisis	Single Market EMS - Crisis
Actors involved	Monetary and financial experts representing the states	Central bankers and experts
Causal	Keynesianism	Monetarism
Policy aim	To contribute to stability, growth, employment	To create a zone of price stability
Problem definition	Competitive distortions and structural/ regional disequilibria	Exchange rate volatility Uncertainty and transaction costs
Normative	National interest perspective	European efficiency perspective
Institutional set-up	Monetary and economic supranational authority	Supranational monetary institution but no economic authority

5. Conclusion: From economic to monetary union

It is uncontested that the EU has increasingly gained influence in public policy-making. In fact, Hix (1999) argues that the EU sets over 80 per cent of rules that govern the exchange of goods, services, and capital in the member states’ markets. However, particularly positive integration, in which member states need to decide upon common measures to intervene as for example in the macroeconomic sphere, has gained little attention. Under what conditions do member states delegate major decision-making competencies to supranational institutions? By adopting an agenda-setting approach the main goal of this paper was to better understand the problem-solving capabilities of the EU. Based on a historical perspective, the paper compared two attempts of monetary policy integration in the EU: The Werner Plan (1970) and the Delors Plan (1989). While the former failed the latter was pushed through.

It was essential to integrate an analysis of the historical background conditions of both reform proposals to better understand why they ended up on the EU agenda at the given time. Major political events and power relations had clearly triggered the move towards monetary integration in both cases. Particularly changing relations between Germany and the Eastern bloc provided incentives for strengthening European cooperation. However, also economic reasons of uncertainties, instability and speculations clearly encouraged changes in terms of existing monetary relations.

It becomes evident that various factors facilitated monetary integration in the 1990s. First, the threat of a perceived German super power became much greater in 1990s when the Berlin wall came down than two decades early when Brandt started the reconciliation package. However, also economic ideas played a major role. While both the Werner and the Delors Plan suggest the creation of a European monetary authority, the stories told about this issue differ to a large extent. The Werner report largely reflected the ideas highlighted by Germany and The Netherlands. They built on a Keynesian perspective, in which monetary integration was dependent on economic policy convergence. Monetary policy was regarded as a tool that should and can be used to influence overall macroeconomic events such as growth and employment. Any fast progress in term of monetary policy alone was therefore not possible in the early 1970s.

Twenty years later, a monetarist consensus had emerged, in which monetary policy was regarded as first and foremost to control price stability. The neoliberal consensus made the delegation of decision-making competences to European institutions easier as monetarism regards monetary policy mainly as a regulative framework that can exogenously be steered by the central bank. The monetary sphere is merely “wrapped around” the real economic sphere. Thus, the strong connotation of monetary policy as an interventionist tool that is to be applied dependent on economic developments was no longer present. Monetary policy had become more technocratic and less politicised issue area.

Moreover, leading to the negotiation of Maastricht, the member states had already cooperated in the monetary sphere. The Snake and the EMS allowed for a European problem-solving perspective to emerge and to counteract concerns resulting from a loss of national sovereignty. It appears that soft forms of coordination have served as a step towards further integration as they allowed for a European consensus to develop (Figure 2).

Figure 2: Evolution of Monetary Cooperation

Ideas Coordination	National autonomy preserving	European problem-solving perspective
Hard coordination	T1: Werner Plan	▲ T2: Delors Plan
Soft coordination	Snake and EMS (soft)	▶ EMS (hard)

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