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**FROM WESTPHALIA TO POST-WESTPHALIA:  
EUROPEAN INTEGRATION AND THE DEBATE ABOUT ECONOMIC AND  
MONETARY UNION, 1980 - 1991**

by

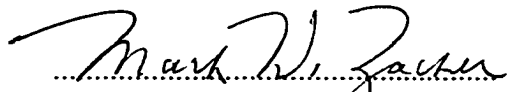

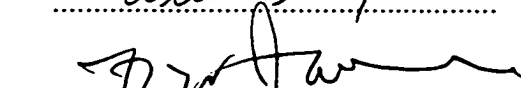
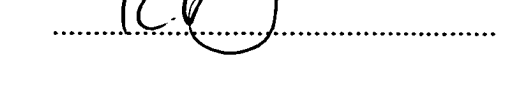

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M.A., Bowling Green State University, 1990

**A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY**

in

THE FACULTY OF GRADUATE STUDIES  
Department of Political Science

We accept this thesis as conforming  
to the required standard

  
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## ABSTRACT:

Most current studies of the EC/EU assume that the Realist *ratio scripta* of international relations no longer has anything important to say about politics in Western Europe. Three propositions are widely taken for granted. First, having been written in the language of power, Realism is no longer an appropriate guide to the interaction among Community governments. Especially economic integration represents the interests of societal actors who seek to maximize their material gains in the context of interdependence. Second, the Realist warnings of the dangers of international anarchy are irrelevant in the EC/EU. These governments have stopped to distrust each others' foreign policy intentions because they have come to believe in each others' commitment to the spirit of joint problem-solving. Third, the Realist proposition that states hold fast to sovereignty in order to preserve their self-help capabilities no longer applies to Western Europe. Responding to the popular cries for welfare benefits (broadly defined), Community governments have made their peace with the fact that the effective management of interdependence requires that the attributes of sovereignty are shared among a number of interlocking governmental and non-governmental actors.

Together these Idealist arguments support the thesis that the EC/EU has by now evolved beyond the international *state of nature* and become a *post-Westphalian utopia*: a transnational polity in which power politics, Hobbesian fear and sovereignty-consciousness play little role in shaping policy. I probe the descriptive power of this Idealist thesis in detailed case studies of the French, German and British policy debates about European monetary

integration and German reunification. I find that there are important strands of Idealism in the politics of integration. Yet, the EC/EU is not (yet) the post-Westphalian utopia portrayed by many students of integration. In short, Realism is not obsolete.

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## I. INTRODUCTION

### 1. Purpose and Research Design of the Thesis

Once upon a time, let's assume for convenience's sake it was in the 17th century, European policy-makers and scholars rediscovered a long-forgotten policy script. They polished it up, embellished it, and soon it became the discursive regime of truth of the new Westphalian international order; and its life-span turned out to be extraordinarily long. Over the centuries the story was given many names: Realism or *realpolitik*, for example. The defining feature of the narrative was a logocentric image: the Realist story-teller assigned the concept of order to social life within the state and that of disorder or anarchy to asocial relations among states. This move, when it began to be (re)deployed, constituted a radical break with Europe's recent past. It "marked man's abandonment of the idea of a hierarchical structure of [international] society and his option for a new system characterized by the coexistence of a multiplicity of states, each sovereign within its territory, equal to one another, and free from any external earthly authority."<sup>1</sup>

On the basis of the fundamental differentiation between the *domestic* and the *international* realms, the Realist story-teller elaborated a distinct policy script with directions to princes and others in power on how successfully to act on the international scene. The scathing criticism of discontents notwithstanding, this script has for centuries remained the *ratio scripta* of the modern practice of international politics, used by many a policy-maker, diplomat, academic and commentator to guide his actions and/or to make

sense of interstate interactions.<sup>2</sup>

Particularly before the first and the second world wars a number of counter-narratives vehemently challenged the supremacy of the Westphalian script.<sup>3</sup> They effected a deconstruction of its conceptual architecture, undoing first and foremost the established bifurcation between order/domestic politics, on the one hand, and anarchy/international relations, on the other. In both cases it seemed for a time likely that the Idealist attack on Realism would succeed in replacing the established *ratio scripta* with a new one. But each time war reasserted the authority of the established script: its portrayal of international relations was apparently still *realistic*. But since then doubt has reemerged about the *realism* of Realism.

Today, as in the 1950s and 1960s, the arguably most serious challenge to the Westphalian story about international politics comes from those engaged, either practically as decision-makers, or reflectively as academics, in the practice of peaceful international integration. Ever since the creation of the European Coal and Steel Community (ECSC) in the early 1950s there have been scholars who have regarded European integration, not simply as an innovative variant of traditional *realpolitik*, but rather as the most advanced manifestation of a structural transformation of the international system. Its essence is the withering away of the *international state of nature* - an essentially imperfect anarchical order based on power and separate interests - and the beginning of a perfectible transnational society based on norms and common interests. While there have been times when this thesis has not been overly popular among scholars, the 1990s are not among them. Indeed, there is ample evidence that by now the field of integration studies has effected an Idealist turn. Few are those in academia who nowadays have

doubts about the post-Westphalian, post-modern or (neo)Idealist quality of Western European politics.

The purpose of this study is to interrogate *certain* aspects of this Idealist turn in integration studies. Does Idealism really best describe what is going on in Western European politics today? Has Realism finally lost its hold on the political practices in this region? These are *big* questions. In order to find answers to them I have opted for the following research strategy. I will evaluate the descriptive power of competing Idealist and Realist hypotheses that provide answers to three research questions: what is the purpose of economic integration policy; what attitudes prevail in the relations among member-states of the European Community (EC); and what preferences do governments have with regard to the organization of political power in the EC? The method on the basis of which this evaluation is effected is the case study. While this method suffers from the limitation that its conclusions cannot (easily) be generalized beyond the empirical domain to which it is applied,<sup>4</sup> my choice of it does not exclude all feedback from the empirical findings unearthed in this study to the current thinking about European integration.<sup>5</sup> As Eckstein has argued, although a case cannot verify a theory, it "can impugn established theories if the theories ought to fit it but do not."<sup>6</sup> We will see which integration theory will thus be indicted for its lack of descriptive power: Idealism or Realism.

Within the confines of the case study method I employ a form of narrative policy analysis. Such an approach regards policy scripts as an investigable structure through which "meaning is generated and structured in a national context."<sup>7</sup> Policy scripts consist of those "premises and conclusions ... that are taken by [governmental and/or societal decision-makers]

as underwriting (that is, establishing or certifying) and stabilizing (that is, fixing or making steady) the assumptions for policymaking."<sup>8</sup> With the help of narrative policy analysis I want to determine the degree of correspondence between the premises and conclusions contained in policy scripts about the EC, on the one side, and Idealist or Realist premises and conclusions about European integration, on the other. The analysis will provide an answer to the question whether the arguments of Realist or Idealist students of European integration more accurately describe the discursive universe of Community policy-makers. The better the fit, the greater the descriptive power of the concerned academic arguments.<sup>9</sup>

One of the advantages of narrative policy analysis is that "it stays totally clear of any relationship to what people really think."<sup>10</sup> I thus avoid the methodological difficulties associated with probes into the minds of decision-makers. Another advantage derives from the fact that narrative policy analysis does not inquire into the relationship between policy scripts and the ideas and beliefs contained in them, on the one side, and "reality out there", on the other. I consequently do not have to deal with the tricky problem of trying to establish the causal influence of ideas and beliefs on policy-making. In this way I can avoid the methodological problem of "omitted variable bias", i.e., the false claim that ideas and beliefs determine policy whereas they only "*reflect the conditions* under which political actors operate."<sup>11</sup> From the above follows that narrative policy analysis of the sort I use it in this thesis is unrelated to either interpretive methods such as hermeneutics or to poststructural methods such as deconstruction. I am neither concerned with what decision-makers really think nor do I want to demonstrate the arbitrariness of narrative structures and uncover their

social effects.

## 2. The Empirical Domain of the Study

The empirical data to be analyzed are those policy narratives that meet the following criteria: they circulated in France, Germany and the UK during the 1980s, and they concerned the public policy debates about European monetary integration and the German question. For each country separately I will describe the relevant discursive scene by addressing the following questions: which policy stories clashed in these two debates; who formulated and told them; and, most importantly, on what arguments did the decision-makers rely to present their case? The description will squarely focus on those premises and conclusions that pertain to my three research questions: what is the purpose of economic integration policy; what attitudes prevail in the relations among EC member-states; and what preferences do governments have with regard to the organization of political power in the EC?

Why have I chosen this particular empirical domain? The two debates about European monetary integration and German reunification have without doubt been the two most conflictual and most consequential debates in the EC since at least the adoption of the Single European Act (SEA). The selected time frame ensures that the antecedents, the formative phase, and the (preliminary) resolution of these debates are fully covered. The beginning of the formative phase of the debate about the reform of the European Monetary System (EMS) dates back to about 1985. Initially somewhat limited in its scope - concerning, as it did, the widening and deepening

ing of the regime - the debate evolved by 1987/88 into a "history-making" debate about the pros and cons of a fundamental transformation of the EC structure of governance in the field of monetary relations. In December 1990 this led to the opening of an intergovernmental conference (IGC) in Rome, mandated with negotiating a treaty on an Economic and Monetary Union (EMU). One year later the Treaty on European Union, whose central part stipulates the creation of an EMU no later than 1999, was signed in the city of Maastricht by the EC heads of state and government. As to the equally important debate about German reunification, it began in earnest in the wake of the fall of the Berlin Wall in the autumn of 1989. Its resolution came a year later with the recreation of a single Germany.

The three countries - France, Germany and the UK - have been selected because in terms of economic and diplomatic-strategic power they are the most important members of the EC. Also, the pro-integration Franco-German axis is widely recognized as the motor of European integration, not least by virtue of its agenda-setting power in crucial EC debates. Both the debate about upgrading European monetary integration and about German reunification testify to the political predominance of the two countries. They also testify to the political marginalization of the Eurosceptic UK in many EC debates. The inclusion of Britain as a country-specific case study thus ensures that the policy narratives cover a range of voices in the EC, ranging from the most anti- to the most pro-European.



### 3. The Chapters that Follow

Before I proceed to the country-specific case studies I will, in the next chapter, take stock of the main theories of European integration in the period from the 1950s to today. But rather than describe each of these theories in detail, I focus on the answers each of them provides to my three research questions: what is the purpose of economic integration policy; what attitudes prevail in relations among EC member-states; and what preferences do governments have with regard to the organization of political power in the EC? The goal of this exercise is twofold. First, I want to demonstrate the development of the Idealist trend in integration studies over time and to support my claim that the field as a whole has adopted an Idealist outlook. Second, on the basis of the description of the theories put forth by the current generation of integration theorists - mostly Idealists, but also a few Realists - I then formulate the hypotheses that will be evaluated in the country case studies in chapters 3-5. In chapter 6, finally, I will summarize the overall empirical pattern that emerges from the case studies and try to answer the question of which theory best fits the evidence: the Realist or the Idealist one? I will end the thesis by drawing out some general theoretical conclusions about the construction of an adequate analytical framework for investigating Western European affairs in the 1990s.

## Notes

1. Leo Gross, "The Peace of Westphalia, 1648-1948," in *International Law and Organization: An Introductory Reader*, edited by Richard A. Falk and Wolfram F. Hanrieder (Philadelphia: J.B. Lippincott, 1968), p.54.

2. Compare *ibid.*, p.46.

3. For a good overview of some of the key figures of this Idealist attack on Realism see Jaap de Wilde, *Saved from Oblivion: Interdependence Theory in the First Half of the 20th Century. A Study on the Causality Between War and Complex Interdependence* (Aldershot: Dartmouth, 1991). There he reviewed the arguments put forth by Norman Angell, Ramsay Muir, Francis Delaisi, Charles Merriam and David Mitrany. For a trenchant critique of this and earlier Idealist attacks on Realism see Hans J. Morgenthau, *Scientific Man vs. Power Politics* (Chicago: University of Chicago Press, 1946), particularly chapters 3 & 4.

4. There are different views on the generalizability of the findings of a case study. On the one hand, there are those such as Charles Ragin who stress that the "case-oriented approach ... highlights complexity, diversity, and uniqueness." It is thus supposedly not suited for inferring "general statements about relations between aspects of cases considered collectively as populations of comparable observations." From this standpoint the case study method "is qualitatively different from the statistical method." See Charles Ragin, *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press, 1989), pp.xiii, 16. On the other hand, there are those who argue that the differences between these two methods "are only stylistic and are methodologically and substantively unimportant" since both "derive from the same underlying logic of inference." See Gary King, Robert O. Keohane and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994), p.4.

5. Given the disadvantage of the case study method, why do I employ it in this thesis? The answer is straightforward. It enables me to carry out a thicker (i.e., more detailed) and thus hopefully more insightful description of certain complex aspects of a handful of cases than would be possible with quantitative methods that rely on a large number of cases. Of course, what I gain in descriptive depth, I lose (primarily) in methodological efficiency. Compare King, Keohane and Verba, *Social Inquiry*, pp.63-74.

6. Harry Eckstein, "Case Study and Theory in Political Science," in *Handbook of Political Science*, vol. 7, *Strategies of Inquiry*, edited by Fred I. Greenstein and Nelson W. Polsby (Reading: Addison-Wesley, 1975), p.99. A disclaimer may be in order here. I do not pretend to carry out a crucial case study that could conceivably "score a clean knockout" over either Realism or Idealism. See *ibid.*, p.127. Rather than a crucial case study approach, I employ an approach that is close to George's method of structured, focused comparison. It is structured because I use hypotheses derived from established theories "to guide the data collection and analysis", and it is "focused because it deals selectively with only certain

aspects" of the investigated cases. See Alexander L. George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," in *Diplomacy: New Approaches in History, Theory, and Policy*, edited by Paul Gordon Lauren (New York: Free Press, 1979), pp.61-62.

7. Ole Wæver, "Resisting the Temptation of Post Foreign Policy Analysis", in *European Foreign Policy: The EC and Changing Perspectives in Europe*, edited by Walter Carlsnaes and Steven Smith (London: Sage, 1994), p.254. In the chapters that follow I often substitute the terms policy narrative, policy story and policy discourse for policy script. This is done for stylistic reasons only.

8. Emery Roe, *Narrative Policy Analysis: Theory and Practice* (Durham: Duke University Press, 1994), p.3.

9. Such an investigation is informed by the plausible assumption that any good social theory ought to be able, with some degree of accuracy, to describe the discursive universe of the social actors about which it theorizes. This at least, it seems to me, is one of the implications of the recovery of agency and language from under the rubble of collapsing structural theory edifices in the context of the agent-structure and constructivism debates in International Relations theory in recent years. The literature about both these debates is quite large now. One author, however, stands out because of his trend-setting impact on both literatures. See Alexander Wendt, "The Agent-Structure Problem in International Relations Theory," *International Organization* 41 (1987): 335-370; and idem, "Anarchy is What States Make of it: The Social Construction of Power Politics," *International Organization* 46 (1992): 391-425.

10. Wæver, *Resisting the Temptation*, p.254.

11. King, Keohane and Verba, *Social Inquiry*, p.191.

## II. IDEALISM IN INTEGRATION STUDIES: THE MAKING OF A TREND

The following discussion of the ascension of Idealism in integration studies is divided into three sections. Each of these deals with a distinct phase or wave in Idealist thinking. Starting from a situation in the 1950s when there was still a real contest for discursive hegemony between Realist and Idealist analysts, I describe the evolution of integration theories through today's integration scene in which Idealism holds sway. Yet before I turn to this task, it might be useful to first explain what exactly I mean by Idealism and why I use the term. Particularly in the Anglo-Saxon traditions of international relations this term has mostly been used with a negative connotation until recently. It was reserved for those theories about world politics that proliferated in the centuries before the Second World War and that, with hindsight, had little empirical content: their propositions were *unrealistic* and their predictions overly optimistic. The Idealist *provocateurs* were criticized for their faith in the power of reason and the harmony of interests, their belief in the primacy of ideas and knowledge over material facts and traditions and their predictions of the imminent end of war and poverty.<sup>1</sup> After 1945 students of world politics could simply point to the history of the 20th century as proof that Idealism was a faulty theory. Its central tenet that posits that international life is inevitably progressing towards utopia was quite obviously negated by the facts.

In the wake of end of the cold war, however, the term Idealism has experienced a modest revival in international relations theory.<sup>2</sup> Again Scholars dare to employ it to characterize particular theoretical approaches or to label particular trends in world politics. Used in this sense the term

is nearly synonymous with Liberalism, an anti-utopian reconstruction of the earlier Idealist schools. Yet, this relabeling is potentially more than a semantic operation. By conjuring up the old controversy between Idealists and Realists and the sharp dividing lines between the opposing camps it may actually prompt scholars who currently study world politics to distinguish their work more clearly in theoretical terms. At the moment there is a tendency to zero in on minor analytical differences and to blur the more fundamental disagreements that separate Liberalism/Idealism and Realism. In the field of integration studies, like elsewhere, this deplorable situation has "produce[d] narrow puzzles and ... conclusions that differ only at the margins."<sup>3</sup>

In this study, then, I employ the term Idealism - defined by its essentially *utopian* outlook - in order to signal my intention to go beyond these narrow puzzles. As mentioned above, I want to find answers to three research questions. Yet these questions can be seen as being aspects of one big question: what is the EC/EU? Is it still an anarchical international system - Westphalia for short - as Realists claim? Or has it become the utopia predicted by Idealists, the domesticized transnational polity in which Hobbesian fear, power politics and sovereignty-consciousness play little role in shaping policy? Put differently, I inquire into whether politics in the EC/EU is (still) politics *among* states, most fruitfully analyzed by international relations scholars, or whether it is (already) politics *within* a state, or quasi-state, best left to the comparativists. The latter proposition, as I will try to demonstrate in the remainder of this chapter, is clearly prevailing among students of the EC/EU at the present time.

## 1. The First Wave of Integration Theories

On 9 May 1950 Robert Schuman, the French minister of foreign affairs, announced to the world the plan of his government to effect the "transformation" of Western European international relations through the "construction" of a "solidly united" Europe.<sup>4</sup> In April 1951 that plan was put into practice when the Treaty of Paris, creating the ECSC, was signed. In the preamble of the treaty the six founding members declared that they were primarily animated by the desire "to substitute a fusion of their essential interests for their secular rivalries" in order to put an end to "the bloody divisions" that had for so long separated the nation-states of Western Europe.<sup>5</sup> Six years later, in March 1957, the Treaties of Rome were signed, thereby establishing the European Economic Community (EEC) and the European Atomic Energy Community. This time the Six spoke of their hope to realize an "ever-closer union between the European peoples" with this new integrative effort.<sup>6</sup>

The novel political practice of peaceful integration had its counterpart in an only slightly older academic practice: the construction of narratives to guide and make sense of the construction of a unified Europe. This first wave of integration theories, whose beginnings preceded that of the ECSC by a few years, lasted until around the late 1960s. A fierce competition for discursive hegemony characterized this period. The two main contenders were Idealist neofunctionalism and Realist intergovernmentalism. Although other theories were also put forth, they were soon marginalized as students of Western European international relations quickly coalesced around one of the two leading theory candidates.<sup>7</sup> While neither neofunctionalism nor inter-

governmentalism came close to establishing a discursive regime of truth in the new international relations subdiscipline of integration studies, the former enjoyed a somewhat higher popularity among academics than the latter. Not only did its optimistic account of progressive integration seem better to fit the facts, but it also had the additional advantage that its main proponents were at the cutting edge of the methodological social-scientific developments in the field of international relations. Conversely, the attractiveness of intergovernmentalism somewhat suffered from its inherent pessimism about the possibility of lasting progress in international relations and from its association with traditional historical-interpretive research methods. Both of these features were seen by many students of European integration to be at odds with the new *zeitgeist*.

The central tenet of neofunctionalism and other Idealist narratives about integration was that the emerging post-Westphalian utopia in Western Europe called for a new, non-Realist *ratio scripta* for at least three reasons.<sup>8</sup> *Primo*, having been written in the language of power, Realism could no longer be relied on to provide an accurate "signpost" to help policy-makers and scholars "to find [their] way through the landscape" of Western European interstate politics.<sup>9</sup> Integration was far removed from the pre-Idealist "struggle for power" that had for so long shaped the repertory of the diplomatic-strategic theaters on the continent.<sup>10</sup> *Secundo*, the fearmongering of the Realist narrative, its warnings of the irreducible dangers of international anarchy, failed to realize that integration amounted to the end of the traditional Hobbesian war system: Western European states no longer confronted each other in "the state and posture of Gladiators; having their weapons pointing, and their eyes fixed on one another."<sup>11</sup>

*Tertio*, the conceptual unity of nation-state/self-governing community, a central feature of Realism, was no longer tenable. Powerful transnational socioeconomic forces sapped the will and the capacity of governments to "hold fast to sovereignty - that is, to their [legal] freedom of action internally and externally."<sup>12</sup> The result: a novel form of supranational governance was in the process of displacing the established Western European nation-state system.

The thrust of these generic Idealist arguments can be summed up in this way: out of the ashes of the old war-prone Europe, destroyed once and for all by the Second World War, a new cooperative Europe was emerging like a phoenix. While this was the main thesis of all post-Westphalian stories about integration, the most detailed and persuasive elaboration of it was provided by neofunctionalism. Its most prominent proponents were Ernst Haas and his associates. Their theory identified a number of secular structural trends that accounted for the obsolescence of the traditional policies and politics of the *anciens régimes* in Europe. The two most important of these were political democratization and economic interdependence. The former included a bundle of closely related but distinct elements, in particular ideological homogeneity among political elites, the depoliticization of the masses and pragmatic interest group pluralism. Democratization transformed politics, independent of whether it concerned domestic or foreign issues, into "a kind of applied statistics": rational and peaceful.<sup>13</sup> Within and between democratic polities conflicts were settled through argument and compromise, not through violence and victory.

As to economic interdependence, Haas and his fellow neofunctionalists argued that modern industrial production inevitably led to the growing



"penetrability of the national shell" as foreign markets became ever more important to domestic producers.<sup>14</sup> The increasing volume of cross-border economic transactions undermined the capacity of states to control economic activities on their territory and created a legitimacy gap. Governments could only compensate for this loss of control and its democratic implications if they followed the lead of captains of industry and went beyond the nation-states in order to reassert their joint authority over the newly emerging regional marketplace at the supranational level.

Democratization and economic interdependence were thus not only the destroyers of Western Europe's *anciens régimes*, they were also the midwives of the new Europe. The date of its birth was the day when six Western European nation-states agreed to "mingle, merge, and mix" and form a novel structure of supranational governance.<sup>15</sup> According to neofunctionalism, life in this emerging transnational political space was characterized by three closely-related features. First, the interaction among governments no longer took the form of power-oriented "Grosspolitik in the expressive Bismarckian phrase."<sup>16</sup> That was "merely a phrase left over from a preindustrial setting." In the new Europe "the upward mobile citizen" was more likely to dream of a "new 'telly', Renault, or that trip to the blue Adriatic" than "national grandeur and national destiny."<sup>17</sup> In short, under the growing pressure of "cries for increasing welfare benefits"<sup>18</sup> the foreign policy of Western European states was being transformed into a "method ... to secure maximum welfare."<sup>19</sup>

Second, as the governments began to act "in terms of realizing the welfare state, of trimming world commitments and an independent foreign policy to the economic and fiscal demands of domestic welfare"<sup>20</sup> this could not but

effect the prevailing "operative rules governing the relations" among them.<sup>21</sup> Decision-makers no longer "confront[ed] each other only or chiefly as diplomatic gladiators; they encountered each other at almost every level of organized society through constant interaction in the joint policy-making contexts" of the EC.<sup>22</sup> As a consequence fear and suspicion disappeared as determinants of diplomacy. They were replaced by the expectation of mutual gains through integration. According to the new spirit of joint problem-solving governments were "attentive and responsive to each others' interests, preoccupations, and goals."<sup>23</sup>

Third, the construction of the supranational structure of European governance was the adaptive response of governments to the challenge of a "massive inflow of demands which could not be processed at the national level."<sup>24</sup> Threatened by a control- and legitimacy-gap, they did not hesitate to make their "peace with the fact of interdependence"<sup>25</sup> - the source of the demand overload - and to trade in "the factual attributes of sovereignty" for greater collective problem-solving capabilities.<sup>26</sup>

While the neofunctionalist narrative acknowledged that for the time-being the domesticization of the international system was by and large confined to Western Europe, it held out the hope that in time this civilizing process would affect the globe.<sup>27</sup> To the theorists of the uniting of Europe in the 1950s and 1960s regional integration was the portent of a global evolution of the traditional Westphalian state system into a new post-Westphalian utopia.<sup>28</sup>

The most sophisticated challenge to the Idealist story about European integration came from intergovernmentalism, a soft-line *reconstruction* of Realist international theory. It was told by the likes of Stanley Hoffmann,

Raymond Aron or Hans Morgenthau. *Contra* Idealists their basic premise was that Western Europe remained stuck in the international state of nature. Interaction in this diplomatic-strategic theater "had not entirely left the stage of the law of the jungle."<sup>29</sup> Instead of heralding a new era, they maintained that the policy of integration remained "within the realm of traditional interstate politics."<sup>30</sup> In particular, in the last instance its fate was determined by the international balance of power: here, like elsewhere in the anarchical international system, "the strong [did] what they [had] the power to do and the weak accept[ed] what they [had] to accept."<sup>31</sup>

From the proposition that Western Europe, notwithstanding the ECSC and the EEC, remained an anarchical interstate system, integovernmentalists drew the following three, closely-related, anti-Idealist conclusions, of which the last constituted in important ways an innovation in the argumentative arsenal of Realism. First, the language of power still had important things to say about politics in Western Europe. In the hierarchy of governmental foreign policy purposes, even under the condition of advanced modernity, the quest for welfare continued to be what it had always been: a second-order goal. The main stakes in the interaction among Community states were still "grandeur and prestige, rank and security, domination and dependence."<sup>32</sup> It was in this context of traditional interstate competition that the policy of integration was interpreted as a novel, indeed revolutionary, method of the quest for power. Particularly France, according to the theory, regarded European integration as a means to further its relative power capabilities vis-à-vis the Federal Republic of Germany. It behaved "defensively positional" and tried "to draw, as it were, Germany into [its] arms in order to disarm it and make the superior strength of Germany

innocuous."<sup>33</sup>

Second, the language of fear employed by Realism continued accurately to depict the attitudinal repertoire of Western European governments in their relations with each other. For the time-being integration had pacified the region, but it had not transformed the Hobbesian war system into a Deutschian security community. Security remained a scarce good in this diplomatic-strategic theater and fear continued to leave its imprint on the diplomacy of the area. In particular, the specter of the reemergence of a *Grossdeutschland* set on establishing its coercive hegemony over the continent haunted Europe's chancelleries. Intergovernmentalists thus interpreted European integration as a strategy to alleviate the Hobbesian fear associated with their insecurity by opting for "unification for survival or security."<sup>34</sup>

Third, sovereign nation-states or, more generally, territorially grounded exclusive political authorities which were supreme in their domain remained the main actors in Western European international relations. In this respect the Realist *ratio scripta* of international politics was not outdated either. Neither the growth of economic interdependence nor the triumph of democratic welfare politics had weakened the nation-state to such a degree that it had stopped being a "factor of international non-integration."<sup>35</sup> After all, the importance of sovereignty and policy autonomy derived from a central feature of the international system: self-help. As long as there was no supranational authority that could lay down the law to the member states of the Community, governments would continue to defend their *ultimate* responsibility over the key political and economic activities within their territories against the encroachments from extranational actors. The survival of

their countries depended on it.

"However useful relations transcending national borders among private individuals [might] be", Aron observed, "and whatever influence these individual relations [might] exert over a long term on the 'reserved domain' of relations between states, those relations still remain[ed] [in the 1960s] what they [had] been throughout history."<sup>36</sup> And as to the Idealist thesis about the growing control and legitimacy problems of the post-war Western European territorial polity, Hoffmann argued that the triumph of the democratic welfare state with its increased interventionist and regulatory capacity actually had the opposite effect. "[F]or the mythical common man, the nation-state [was] still the most satisfying - indeed the most rewarding - form of social organization in existence."<sup>37</sup> In short, the state was not at bay in Western Europe. It not only shaped the integration process, but it also fully retained the capacity to "undo or at least twist or halt" it.<sup>38</sup>

Nevertheless, despite these anti-Idealist assertions about the continued primacy of the nation-state in integrated Western Europe there can be little doubt that on the issue of sovereignty intergovernmentalists were parting company, at least implicitly, with *unreconstructed* Realists. The latter had always denied that international institutions could play any significant independent role in international affairs: "whatever powers international institutions exercise[d]", according to the traditional thesis, "[was] purely derivative."<sup>39</sup> Intergovernmentalists were no longer so sure of this. Particularly their thesis that integration was an attempt to make Germany's superior economic power innocuous through institutional *engrenage* implied that they believed that the Community, politically and legally, was a power structure that existed alongside, if not in certain ways, above its member-states.

## 2. The Second Wave of Integration Theories

At the end of the 1960s and during the 1970s the construction of a united Europe experienced some severe setbacks: France's empty-chair policy and the resulting Luxembourg Compromise in 1966 that resulted in the de facto veto power of governments on issues of national interest; the recalibration of EC decision-making to the disadvantage of the supranational Commission through the creation of the state-centric European Council in 1974; and the renationalization of economic policy-making in the 1970s that doomed the Werner Plan for an EMU.<sup>40</sup> These malintegrative developments called into question the accuracy of the neofunctionalist account of the inherently expansive logic of integration, notwithstanding the few positive developments that also occurred such as the creation of the EMS in 1979.<sup>41</sup> Among many academic observers the feeling began to spread that the transformative potential of European integration had been exhausted. Stagnation, if not reversal, now seemed better to describe what occurred in Western Europe. While the facts on the ground thus raised doubts about neofunctionalism, the opposite was true for intergovernmentalism. It saw its fortunes rise as its pessimistic account of integration now appeared to be correct. Yet while the growing popularity of intergovernmentalism inevitably meant a set-back for the Idealist trend-in-the-making in integration studies, it did not herald a reversal as we shall see.

The doldrums in European integration coupled with the growing criticism leveled at their theory forced neofunctionalists to update their research program.<sup>42</sup> But how could their inherently progressivist account of integration be adapted to a conservative reality? The solution to this puzzle was

as simple as it was elegant. Instead of abandoning their premise about the domesticization of international politics, neofunctionalists now argued that by the 1970s this transformative trend had migrated beyond the regional confines of Western Europe to the developed world at large. This shifted the locus of policy integration from the region "upward" to the international system and transformed the neofunctionalist toolkit from an "arcane set of notions applicable only to Europe" into "a highly important part of the literature on world politics" in the age of global complex interdependence.<sup>43</sup> As part of this "internationalization" of their theory neofunctionalists also discarded the argument that in Western Europe politics and economics were on the verge of being cut loose from the statist moorings to which they had been attached for so long: the state was here to stay as a central international actor for the foreseeable future, despite the growing number of sovereign-free challengers to its supremacy. This, however, was one of the few concessions made to Realism by the revised neofunctionalist theory that soon came to be classified as one of the schools within a new Idealist approach: interdependence theory.<sup>44</sup>

Second-wave neofunctionalism thus stuck to the original argument that integration was primarily animated by the desire of governments "to safeguard the welfare of their electorates" rather than by the pursuit of power.<sup>45</sup> Furthermore, the revised framework continued to insist that the attitudinal patterns associated with "the new international politics" of integration were sharply different from those of "the traditional politics of the Machiavellian world."<sup>46</sup> This could be attributed to the fact that in "[r]elatively intense relationships of mutual interdependence ... force [was] ruled out as an instrument of policy."<sup>47</sup> Despite all the conflicts and set-

backs the EC consequently remained a polity in which relations were "much more bureaucratic than ... diplomatic"<sup>48</sup>, characterized in particular by an "atmosphere ... of high mutual sensitivity and responsiveness" rather than Hobbesian fear.<sup>49</sup> In sum, while neofunctionalism lost some of its theoretical distinctiveness in the process of being adapted to the realities of the 1970s, it nevertheless retained its general Idealist thrust.

The same cannot be said with regard to the Realist identity of inter-governmentalism. Its account of the stagnation of European integration that came to dominate the integration scene from the late 1960s until the early 1980s fundamentally differed from both traditional Realism and first-wave intergovernmentalism. The new theory no longer made any reference to the logic of anarchy and its implications for diplomacy. Neither the quest for power nor Hobbesian fear appeared as determinants of politics in the EC. Only the sovereignty thesis about the continuing dominance of the nation-state in the EC was, in modified form, retained by second wave inter-governmentalism. This claim formed the core of the modified research program. It seems self-evident that such a focus hardly makes for a Realist theory of international relations. This observation inevitably leads to the following conclusion: the dominance of second-wave intergovernmentalism in the 1970s, rather than heralding the victory of Realism in integration studies, was really indicative of an emerging Idealist trend.

The main argument of second-wave intergovernmentalism, then, was that European integration, by the 1970s, had run into a roadblock: "the dogma of national sovereignty."<sup>50</sup> This was regarded as simply being the expression at the level of national policy-makers and administrators of the general tendency of social organizations to develop an interest in their own institu-



tional survival and well-being. It had no constitutive relationship with the "jungle out there" beyond the nation-state. During the founding phase of European integration, according to second-wave intergovernmentalists, this institutional self-interest had been swamped by the enthusiasm for "the dogma of the First Europe."<sup>51</sup> In this period Western European governments had consequently "lost" an important dimension of sovereignty through the pooling of it at the intergovernmental level of EC decision-making, especially if "compared with the general pattern of relations between governments in the 1930s and before."<sup>52</sup> Yet rather than leading to the withering away of sovereignty altogether, as first-wave neofunctionalists had argued, "the process of losing this much ... encouraged a watchful defensiveness" on the part of governments and the reassertion of their traditional sovereignty-consciousness.<sup>53</sup>

The result of this development was "a significant reinforcement of the pressures opposed to integration", i.e., the stagnation of the EC in the 1970s.<sup>54</sup> According to the theory this, in turn, demonstrated the accuracy of the long-standing intergovernmentalist argument "that the residual sovereignty of a member state could still upset the cumulative case in favor of progress towards integration."<sup>55</sup> Such a reversal could be effected all the more easily since even during the heyday of post-war integration governments had been careful "not to accommodate themselves to a [supranational] process which would diminish their ability to press authoritatively a national attitude on any [EC] proposal."<sup>56</sup> In sum, according to neo-intergovernmentalism the experience of the late 1960s and the 1970s unequivocally showed that the defense of national sovereignty on the part of EC member states was an irrepressible part of the integration equation.

### 3. The Third Wave of Integration Theories

In the mid 1980s a new *élan* began to shake up the EC.<sup>57</sup> In June 1985 the Commission published a White Paper entitled *Completing the Internal Market*. In the same month the European Council decided to set up an inter-governmental conference to rescue the EC from the stagnation into which it had plunged in the 1970s. A single European market without border controls for goods, services and capital as well as the institutional upgrade of the EC topped the agenda of the negotiators. In February 1986 the result of their work - the SEA - was signed. It came into force in July 1987. Particularly the extension of qualified majority voting to nearly all aspects of the functioning of the single market proved to be an important contribution to the constitutional evolution of the EC.<sup>58</sup> Just as the Luxembourg Compromise had been the symbol of the dark ages of integration, so the SEA soon became the symbol of its renewed vigor. Euro-optimism spread once again as the EC made quick progress towards the realization of the single market by the end of 1992.

Yet even long before that date, in 1987/88, France began a new diplomatic campaign to advance the unification of Europe. At first its call for the creation of an EMU met with resistance, particularly on the part of Germany and the UK. But at the end of 1989 Bonn effected an unexpected U-turn and joined Paris in demanding quick progress towards full monetary integration. The results are well known. Despite the continuing opposition of London the Twelve agreed to convene an IGC on an EMU in Rome at the end of 1990. One year later the European Council, assembled in the Dutch city of Maastricht, approved the draft treaty tabled by the IGC. In February 1992

the Treaty on European Union was finally signed. It entered into force in November 1993. By this time, however, the integrative *élan* had already come to an end again, and a new cycle of Euro-pessimism had begun. But this is another story.

In the late 1960s the neofunctionalists had been taken by surprise by the onset of Eurosclerosis. Their optimistic prediction about the inherently expansive dynamic of integration had suddenly seemed hopelessly *unrealistic*. In the 1980s second-wave intergovernmentalists experienced the same fate. The *relance européenne* evidently contradicted their pessimistic claim about the unsurmountable sovereignty-based "limits of integration". Consequently there followed the fall of intergovernmentalism. The impact on the field of integration studies of the resulting theoretical lacuna was quite profound: a hitherto unknown pluralism began to characterize the sub-discipline.

Some students of integration began to devote themselves to the revival of neofunctionalism, focusing in particular on upgrading two of its key tenets: the functional spill-over hypothesis and the independent integrative role of supranational actors.<sup>59</sup> Others fought against the decline of intergovernmentalism by deploying one of two strategies. They either devised ad hoc explanations as to why their theory had failed to anticipate the new integrative *élan* in the 1980s<sup>60</sup> or, revisiting the foundational period of European integration, they tried once and for all to demonstrate the explanatory power of intergovernmentalism.<sup>61</sup> The majority of the current generation of Europeanists, however, has opted for a new theoretical departure altogether, thus ensuring that the old intellectual duopoly has not been recreated. The main approaches nowadays are: 1) rational choice

institutionalism with its focus on the interaction between the strategic thinking of EC/EU players, their preferences, and the legislative rules that govern their relations<sup>62</sup>; 2) historical institutionalism which adds to the rational choice focus of new institutionalism, or supplants this focus with, a concern for the values, norms, and the *soft law* that pervade institutions and society at large and that are thought to shape the preferences of those actors that are associated with them<sup>63</sup>; 3) strategic choice approaches that resemble rational choice institutionalism in that they focus on how EC/EU actors chose political strategies on the basis of their payoff matrix in a given issue-area, but that differ from it by being not overly concerned with legislative rules<sup>64</sup>; 4) network analysis that investigates how and why sovereignty-free and sovereignty-bound actors form joint policy advocacy groups and how they are able to shape EC/EU policy-making on the issues of concern to them<sup>65</sup>; 5) federalism that conceptualizes the multi-level system of governance of the EC with its largely concurrent competences as a sort of federal state<sup>66</sup>; 6) variants of interdependence theory that stress that European integration is a response to the political economy challenge of cross-border flows of trade, money and knowledge as well as of corporate cross-border organizational links at the European and/or global level<sup>67</sup>; and finally 7) a growing number of approaches that defy easy categorization because they have only their theoretical eclecticism in common, but neither a *problématique* nor a set of premises and hypotheses.<sup>68</sup>

While it is easy to see in today's integration scene little more than a bewildering plethora of incompatible integration theories, this assessment would be unjustified. Increasingly the theoretical approaches are complementary or overlapping. More important still, most of them, including

third-wave intergovernmentalism, have a lowest common denominator. Their basic premise is that Western Europe, over the last forty or so years, has undergone a structural transformation. The region has evolved beyond the *international state of nature* in which it was stuck for so long: Community states do no longer distrust each others' foreign policy intentions, are no longer concerned about the security and status implication of the relative balance of power among them, and do no longer hold fast to national sovereignty at any cost. In short, Western European politics today *is* politics within a well-ordered state or quasi-state.<sup>69</sup> It is the utopia predicted by Idealists in the 1950s.

This, then, constitutes the Idealist turn in integration studies that has been in the making for a long time. Inevitably, Realist accounts of European integration à la Hoffmann or Aron have been marginalized because of it. Only a handful of scholars continues today this tradition of first-wave intergovernmentalism, arguing that Western Europe is best conceptualized as a Westphalian international system.<sup>70</sup> In the next section I will, in the form of hypotheses, present some of the central analytical elements of the current third wave of Idealist and Realist integration theories. Once again I use as criteria for selecting the relevant propositions my three research questions about the attitudes prevailing in relations among EC member-states, the purpose of economic integration policy, and the governmental preferences concerning the organization of political power in the EC.

#### **4. Six Hypotheses about European Integration**

##### **4.1. The EC/EU: A Zone of Peace or a Hobbesian War System?**

-Realism: The EC/EU is a Hobbesian war system in which the growth of the power of any member state leads, at a minimum, to alarm about the national security implications of this development among the neighboring governments. This hypothesis rests on the general Realist premise that in the international anarchical system power imbalances make for conflictual interstate relations.<sup>71</sup>

-Idealism: The EC/EU is a zone of peace in which governments have stopped distrusting each other's foreign policy intentions because they have come to believe in each other's commitment to the spirit of joint problem-solving. This hypothesis rests on the general Idealist premise that democratic regimes, transnational interdependence and international cooperation make for peaceful interstate relations.<sup>72</sup>

The comparative evaluation of these two hypotheses occurs on the basis of the policy debates about German reunification in the three selected countries. Applying the generic Idealist and Realist propositions to the debates leads to the following two hypotheses.

Realists would predict that the reaction of French and British policymakers to the prospect of German reunification would be that of the Hobbesian gladiator who, fearing for his life, warily monitors every move of

his opponent. Focusing on the impact on national security and European order of the impending shift in the relative balance of power among the reunited Germany and the rest of the EC, the reunification debates in France and the UK would be characterized by alarm about the growth of German power and distrust about the country's foreign policy intentions. As to Germany, Realists would posit that Bonn's foreign policy elites, cautiously at first, would consider how a fully sovereign and powerful Germany could use its new political status and power position to play a more active role in international affairs with a view soon to return to the stage of international *Machtpolitik*.

Idealists would project that French and British policy-makers would react to the prospect of the growth of German power without fear. Rather, they would express their trust in the peaceful and cooperative nature of the foreign policy of the reunited Germany. Both Paris and London would justify their belief that Western Europe after German reunification would remain free of war and coercive diplomacy by pointing to Germany's established democracy and the high degree of transnational interdependence and supranational cooperation among the member states of the EC.

#### 4.2. Economic Integration: A Quest for Welfare or Power?

-Realism: Economic integration is primarily innovative *realpolitik* designed to promote national power through the containment of the economic and/or diplomatic-strategic resources of a superior rival by means of institutional *engrenage*. If there is no (perceived) threat to national power,

or if there are functional alternatives to containment-through-integration that have a less debilitating effect on national sovereignty, governments are likely to oppose integration. Naturally, this also applies to the state that is the "target" of *engrenage*. This hypothesis rests on the general Realist premise that governments, having to operate in an international environment in which the survival and well-being of states depend on self-help, seek, at a minimum, to defend their relative national power capabilities vis-à-vis potential rivals.<sup>73</sup>

-Idealism: Economic integration is primarily welfare-oriented policy designed to secure optimal solutions to cross-border problems (negative externalities) that are created by unregulated transnational relations. In the absence of such problems governments are unlikely to support integration measures. This hypothesis rests on the general Idealist premise that foreign economic policy in pluralist democracies represents the preferences of societal actors who seek to maximize their material gains in the context of large cross-border economic flows.<sup>74</sup>

This time the empirical evaluation of the two hypotheses proceeds on the basis of the policy debates about European monetary integration in the three concerned countries. Applying the generic Idealist and Realist propositions to these debates leads to the following two hypotheses.

Realists would anticipate that in France, the driving force behind the push for greater European monetary integration, the debate would focus on the need to contain the monetary ascendancy of Germany and the associated



threat to the established relative balance of power among the two countries. In the absence of any cost-effective alternative such as exiting from the EMS, Paris would see in the creation of a new European central bank and the introduction of a new single European currency (i.e., in greater institutional *engrenage*) the best means to do away with the central bank and the national currency ruling European monetary affairs: the *Bundesbank* and the D-mark respectively. Naturally, Germany, the state so "targeted" by France, would oppose having its monetary domination overthrown. The German monetary integration debate, accordingly, would explicitly focus on the threat of an EMU to the country's hegemonic aspirations in Europe. As to the British resistance to the French scheme, Realists would forecast that London would justify it by pointing either to the absence of a power political threat emanating from the monetary status quo or to functional alternatives to containment-through-integration such as a balance of power policy.

Idealists would predict that the French EMU-NOW *démarche* would stress the need for controlling costly international externalities such as high interest rates and exchange rate variability associated with the existing weak regime that governed monetary relations in the EC. As to the monetary integration debates in Germany and the UK, they would center on the argument that an upgrade of the EMS, particularly the creation of an EMU, would carry with it greater economic risks, such as fiscal laxity and high inflation across the EC, than potential benefits.

### 4.3. Sovereignty in the EC/EU: Dispersed or Ultimately Contained in the Member-States?

-Realism: The EC/EU is a self-help system in which each government seeks to defend its *ultimate* responsibility over the key political and economic functions on its territory against the encroachments from extranational actors. This hypothesis rests on the general Realist premise that in the absence of a supranational political authority that can lay down the law to the member states of the EC/EU, Community governments - notwithstanding economic interdependence - refuse to have far-reaching restrictions imposed on their legal powers. Any other course of action would endanger their ability to act independently in the promotion of the national interest and the protection of their territorial integrity.<sup>75</sup>

-Idealism: The EC/EU is a dispersed polity in which national governments have made their peace with the fact that the effective management of interdependence requires that the material, though not necessarily the symbolic, attributes of sovereignty are shared among a great number of interlocking governmental and non-governmental actors located at different points in a series of intersecting policy networks. This hypothesis rests on the general Idealist premise that in a democracy in which sovereignty ultimately lies with the people, the legitimacy of the government depends on its ability to serve the welfare needs of its citizens.<sup>76</sup>

The evaluation of the descriptive power of these two hypotheses is based on the policy debates about the pros and cons of a supranational

EMU versus an intergovernmental one. Applying the generic Idealist and Realist propositions to this debate in the three concerned countries generates the following two hypotheses.

Realists would posit that the policy debates in all three countries would bear the heavy impress of governmental sovereignty-consciousness. The governments in Paris, Bonn and London would make it quite clear that they would not be prepared to envisage any scheme that would endanger their countries' self-help sufficiency in economic affairs. Consequently, Realists would project that the French policy-makers, the *demandeurs* of a new European central bank, together with their German and British counterparts would insist that the EMU would have to respect the ultimate responsibility of national governments for monetary and exchange rate policies.

Idealists would forecast that sovereignty-related arguments would play little role in the debate about the institutional architecture of the EMU. Years of jointly exercising formal policy-making powers in the territorially overarching governance structure of the EC would have accustomed the French, German and British governments to look at national sovereignty as a political good that could productively be cut up, pooled and transferred beyond the nation-state for the sake of greater economic welfare for all. Therefore, the debate about the pros and cons of a supranational EMU versus an intergovernmental one would be about welfare enhancement rather than the loss of sovereignty.

### Notes

1. I borrow the term "Idealist provocateurs" from Michael Joseph Smith, *Realist Thought from Weber to Kissinger* (Baton Rouge: Louisiana State University, 1990), pp.54-67.
2. Compare for instance Charles W. Kegley, "The Neoliberal Challenge to Realist Theories of World Politics: An Introduction," in *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, edited by Charles W. Kegley (New York: St. Martin's, 1995), pp.1-24; Idem, "The Neoidealist Moment in International Studies? Realist Myths and the New International Realities," *International Studies Quarterly* 37 (1993): 131-146; or Stanley Kober, "Idealpolitik," *Foreign Policy* 79 (1990): 3-24.
3. Jeffrey J. Anderson, "The State of the (European) Union - From the Single Market to Maastricht, from Singular Events to General Theories," *World Politics* 47 (1995): 455.
4. Robert Schuman, quoted in Jean-Luc Mathieu, *L'Union Européenne* (Paris: Presses Universitaires de France, 1996), p.4.
5. Preamble of the Treaty of Paris, *ibid.*, p.5.
6. Preamble of the Treaties of Rome, *ibid.*, p.6.
7. The other theory contenders were Idealist functionalism, Idealist transactionalism, and federalism. Compare David Mitrany, *A Working Peace System* (Chicago: Quadrangle Books, 1966); Karl W.Deutsch, *Nationalism and Social Communication: An Inquiry into the Foundations of Nationality* (New York: John Wiley & Sons, 1953); Karl W.Deutsch et al., *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton: Princeton University Press, 1968); and Carl J.Friedrich, *Trends of Federalism in Theory and Practice* (New York: Norton, 1968), particularly chapters 1, 2 & 23. Federalism was something of a theoretical hybrid. For an excellent overview of all these first-wave theories, plus neo-functionalism, see Charles Pentland, *International Theory and European Integration* (New York: The Free Press, 1973).
8. It is important to note that the following discussion of Idealist/neofunctionalist and Realist/intergovernmentalist arguments about the purpose of economic integration policy, the attitudinal repertoire of Community governments in their dealings with each other and, last but not least, the weight given to sovereignty/policy autonomy in decisions about integration is not intended to be an exhaustive description of either the Realist or the Idealist/Liberal tradition. It rather reflects the research focus of this study, i.e., its limited descriptive reach is only intended to clarify the theoretical propositions of Realist intergovernmentalism and Idealist neofunctionalism concerning my three research questions. For a more fully-rounded description of Idealism/Liberalism see for instance Robert O. Keohane, "International Liberalism Reconsidered," in *The Economic Limits of Politics*, edited by John Dunn (Cambridge: Cambridge University Press, 1989), pp.165-194; Andrew Moravcsik, "Liberalism and International Relations Theory," Working Paper, Center of International Affairs (Harvard University, 1992); or Mark W. Zacher and Richard A. Matthew, "Liberal International

Theory: Common Threads, Divergent Strands," in *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, edited by Charles W. Kegley (New York: St. Martin's, 1995), pp.107-150. For good descriptions of Realist international theory see Raymond Aron, "Qu'est-ce qu'une Théorie des Relations Internationales?" *Revue Française de Science Politique* 17 (1967): 837-861; Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (New York: McGraw-Hill, 1985), particularly chapter 1; Robert G. Gilpin, "The Richness of the Tradition of Political Realism," in *Neorealism and its Critics*, edited by Robert O. Keohane (New York: Columbia University Press, 1986), pp.301-321; or Robert O. Keohane, "Theory of World Politics: Structural Realism and Beyond," in *Neorealism and its Critics*, edited by Robert O. Keohane (New York: Columbia University Press, 1986), pp.158-203.

9. Morgenthau, *Politics*, p.5.

10. *Ibid.*, p.31.

11. Thomas Hobbes, *Leviathan* (Harmondsworth, 1968), quoted in Smith, *Realist Thought*, p.13.

12. Raymond Aron, "The Anarchical Order of Power," in *Conditions of World Order*, edited by Stanley Hoffmann (Boston: Houghton Mifflin, 1968), p.30. Compare also F.H. Hinsley, "The Concept of Sovereignty and the Relations between States," in *Defense of Sovereignty*, edited by W.J. Stankiewicz (Oxford: Oxford University Press, 1969), pp.275-288; John H. Herz, "The Territorial State Revisited: Reflections on the Future of the Nation-State," in *International Politics and Foreign Policy*, edited by James N. Rosenau (New York: Free Press, 1969), pp.76-89; Hans J. Morgenthau, "The Future of Europe," in *Truth and Power. Essays of a Decade, 1960-70*, (London: Pall Mall Press, 1970), pp.332-339.

13. Ernst B. Haas, "Technocracy, Pluralism and the New Europe," in *A New Europe?* edited by Stephen R. Graubard (Boston: Houghton Mifflin, 1964), p.70.

14. *Ibid.*, p.73.

15. Ernst B. Haas, "The Study of Regional Integration: Reflections on the Joy and Anguish of Pretheorizing," *International Organization* 24 (1970): 610.

16. Haas, "Technocracy," p.67.

17. *Ibid.*, p.71.

18. Ernst B. Haas, "International Integration. The European and the Universal Process," *International Organization* 15 (1961): 375.

19. Haas, "Technocracy," p.71

20. Ernst B. Haas, "The Uniting of Europe and the Uniting of Latin America," *Journal of Common Market Studies* 5 (1967): 322.

21. Leon N. Lindberg, "Decision Making and Integration in the European Community," *International Organization* 19 (1965): 79.

22. *Ibid.*, p.80.

23. Leon N. Lindberg and Stuart A. Scheingold, *Europe's Would-Be Polity. Patterns of Change in the European Community* (Englewood Cliffs: Prentice-Hall, 1970), p.96.

24. Leon N. Lindberg, "The European Community as a Political System: Notes Towards the Construction of a Model," *Journal of Common Market Studies* 5 (1966): 374.

25. Haas, "Technocracy," p.71.

26. Haas, "Regional Integration", p.610.

27. Compare Haas, "International Integration."
28. *The Uniting of Europe* was the title of a seminal work by Haas on the international politics of the new Europe. See Ernst B. Haas, *The Uniting of Europe. Political, Social, and Economic Forces 1950-1957* (Stanford: Stanford University Press, 1958).
29. Aron, "The Anarchical Order," p.26.
30. Stanley Hoffmann, "Discord in Community: The North Atlantic Area as a Partial International System," *International Organization* 17 (1963): 531. Compare also Raymond Aron, "Old Nations, New Europe," in *A New Europe?* edited by Stephen R. Graubard (Boston: Houghton Mifflin, 1964), p.46.
31. Thucydides, *History of the Peloponnesian War* (Harmondsworth, 1972), quoted in Smith, *Realist Thought*, p.6.
32. Hoffmann, "Discord in Community", p.531.
33. Morgenthau, *Politics*, p.555. Compare also Stanley Hoffmann, "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe," *Daedalus* 95 (1966): 862-915. There he noted that for Paris "integration meant ... an avenue for leadership and the shaping of a powerful bloc" (p.894). The term "defensively positional" is from Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," in *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, edited by Charles W. Kegley (New York: St. Martin's, 1995), p.165.
34. Hoffmann, "Obstinate or Obsolete?" p.907. See also Aron, "Old Nations," p.48; and Morgenthau, *Politics*, p.555.
35. Hoffmann, "Obstinate or Obsolete?" p.862.
36. Aron, "The Anarchical Order," p.26. In a similar vein Aron spoke of the "great illusion" that post-war developments in Western Europe somehow "devalued 'political sovereigns', i.e., the existence of distinct states that want[ed] to be autonomous." See Raymond Aron, *Paix et Guerre entre les nations* (Paris: Calmann-Lévy, 1992), p.733.
37. Hoffmann, "Obstinate or Obsolete?" p.893. Aron made the same point when he argued that in Western Europe the "consciousness of the nation remain[ed] indefinitely stronger than a sense of Europe." See Aron, "Old Nations," p.60.
38. Hoffmann, "Discord in Community", p.529.
39. Georg Schwarzenberger, "The Forms of Sovereignty. An Essay in Comparative Jurisprudence," in Stankiewicz, *Sovereignty*, p.179. This essay was originally published in 1957.
40. On these issues see for instance Wolfgang Harbrecht, *Die Europäische Gemeinschaft* (Stuttgart: Gustav Fischer, 1984), pp.51-59, 94-100. See also Henry Krägenau and Wolfgang Wetter, "Europäische Wirtschafts- und Währungsunion (EWWU): Vom Werner-Plan bis Maastricht," in *Maastricht: Königsweg oder Irrweg zur Wirtschafts- und Währungsunion?* edited by Rolf Caesar and Hans-Eckart Scharrer (Bonn: Europa Union Verlag, 1994), particularly pp.58-62. For one of the few theoretically sophisticated analyses in the 1970s that came to the conclusion that the creation of the European Council was "integrative" rather than "malintegrative" in terms of the task performance of the EC see Juliet Lodge, "The Role of EEC Summit Conferences," *Journal of Common Market Studies* 12 (1974/75): 337-345. For a general overview of the EC developments in the 1970s see Paul Taylor, *The Limits of European Integration* (London: Croom Helm, 1983), particularly

chapter 3.

41. The UK was the only EC member state at the time not to join the new monetary regime.

42. As to the criticism leveled at neofunctionalism by non-Realist scholars who had much sympathy for the work of Haas and his associates see for instance Roger D. Hansen, "Regional Integration. Reflections on a Decade of Theoretical Efforts," *World Politics* 21 (1968/69): 242-271; Karl Kaiser, "The U.S. and the EEC in the Atlantic System: The Problem of Theory," *Journal of Common Market Studies* 5 (1967): 388-425; or Ronn D. Kaiser, "Towards the Copernican Phase of Regional Integration Theory," *Journal of Common Market Studies* 10 (1972): 207-232.

43. Robert O. Keohane and Joseph S. Nye, "International Interdependence and Integration," in *Handbook of Political Science*, vol. 8, edited by Fred I. Greenstein and Nelson W. Polsby (Reading: Addison-Wesley, 1975), p.365. A similar point was made by Ernst B. Haas, "Turbulent Fields and the Theory of Regional Integration," *International Organization* 30 (1976): 208-212. See also Richard W. Mansbach, Yale H. Ferguson and Donald E. Lampert, *The Web of World Politics. Nonstate Actors in the Global System* (Englewood Cliffs: Prentice-Hall, 1976). They, however, preferred to rewrite integration theory, not in terms of complex interdependence, but in terms of a "complex conglomerate system" (chapters 9 & 10).

44. Another important concession of second-wave neofunctionalists to Realism was to include external "catalysts" or "federalizers" in their stories, i.e., the impact of events and actors in the "external environment of world politics" on the integration process. Compare Joseph S. Nye, "Patterns and Catalysts in Regional Integration," *International Organization* 19 (1965): 870-884.

45. Caroline Webb, "Theoretical Perspectives and Problems," in *Policy-Making in the European Community*, edited by Helen Wallace, William Wallace and Carole Webb (Chichester: John Wiley, 1983), p.32. See also Philippe C. Schmitter, "A Revised Theory of Regional Integration," *International Organization* 24 (1970): 836-868. There Schmitter argued that "most integration processes [were] likely to get encapsulated long before they reach[ed] such touchy issues" as high politics where the pursuit of power rather than welfare determined political strategies. Consequently his model worked "best where the opportunity for all to gain without harming anyone (Pareto's optimal gain) [was] greatest." See *ibid.*, p.842. A similar point was made by Haas who tried to incorporate "dramatic-political", i.e., power-oriented goals of the sort pursued by de Gaulle into his theory, while continuing to maintain that the French *return to the past* was likely to remain an exceptional anomaly - a "deviant case" brought about by "a true nineteenth-century nationalist" - that did not require a fundamental reformulation of neofunctionalism. See Haas, "The Uniting of Latin America," p.319. A more thorough effort to grapple with the issue of power-oriented *realpolitik* was undertaken by Nye who acknowledged that most "important decisions affecting the integration process [had to] be channeled through the political legitimizing leadership." The electoral politicians making up this leadership, however, "tend[ed] to be guardians of the security and 'pooled self-esteem' aspects of national life that Stanley Hoffmann [had] referred to as 'high politics.'" Their "'normal' reaction," Nye predicted, would be opposition to further integration "the closer the issues [came] to the security and identi-

tive areas." In short, Nye's revised neofunctionalist model generated the prediction that integration "would slow down rather than accelerate over time." See Joseph S. Nye, "Comparing Common Markets: A Revised Neofunctionalist Model," in *Regional Integration: Theory and Research*, edited by Leon N. Lindberg and Stuart A. Scheingold (Cambridge: Harvard University Press, 1971), pp.197-198, 224-225.

46. Donald J. Puchala, "Of Blind Men, Elephants and International Integration," *Journal of Common Market Studies* 10 (1972): 282.

47. Keohane and Nye, "International Interdependence," p.389. See also Donald J. Puchala, "Patterns in West European Integration," *Journal of Common Market Studies* 9 (1970): 117-142. There he argued that Western European states in their interaction with each other had "ceased preparing for war against one another" and that the EC had therefore become a "'no war' community" (*ibid.*, p.118).

48. Puchala, "Of Blind Men," p.279.

49. *Ibid.*, p.282. See also Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization* (Boston: Little, Brown, 1971). Looking at a number of regional organizations, including the EC, Nye found "evidence for the regionalist claims that micro-regional economic organization [could] help to prevent violent conflict by raising its price and [could] promote resolution of conflict through integrative solutions or the creation of a sense of community" (*ibid.*, p.125).

50. Taylor, *The Limits*, p.87.

51. *Ibid.*

52. Paul Taylor, "The Politics of the European Communities: The Confederal Phase," *World Politics* 27 (1974/75): 338.

53. *Ibid.*

54. Taylor, *The Limits*, p.60.

55. Nina Heathcote, "Neofunctional Theories of Regional Integration," in *Functionalism: Theory and Practice in International Relations*, edited by A.J.R. Groom and Paul Taylor (London: University of London Press, 1975), p.49.

56. Helen S. Wallace, "The Impact of the European Communities on National Policy-Making," *Government and Opposition* 6 (1971): 529.

57. The descriptive literature about the *relance européenne* in the 1980s is large. Examples include Paul Taylor, "The New Dynamics of EC Integration in the 1980s," in *The European Community and the Challenge of the Future*, edited by Juliet Lodge (New York: St. Martin's, 1989), pp.3-25; John Pinder, "The Single Market: A Step Towards European Union," *ibid.*, pp.94-110; William Wallace, ed., *The Dynamics of European Integration* (London: Pinter, 1990); or Alberta M. Sbragia, "Asymmetrical Integration in the European Community: The Single European Act and Institutional Development," in *The 1992 Project and the Future of Integration in Europe*, edited by Dale L. Smith and James Lee Ray (Armonk: M.E. Sharpe, 1993), pp.92-109.

58. Compare Werner Ungerer, "Die neuen Verfahren nach der Einheitlichen Europäischen Akte: Eine Bilanz aus der Ratsperspektive," *Integration* 12 (1989): 95-106; Dusan Sidjanski, "Communauté Européenne 1992: Gouvernement de Comité," *Pouvoirs* 48 (1989): 71-80. For a somewhat more pessimistic assessment see Louis Dubouis, "Peut-on Gouverner à Douze?" *ibid.*, pp.105-118.

59. Compare David Mutimer, "1992 and the Political Integration of Europe:



Neofunctionalism Reconsidered," *Revue d'intégration européenne* 13 (1989): 75-101; Jeppe Tranholm-Mikkelsen, "Neo-Functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC," *Millennium* 20 (1991): 1-22; Anne-Marie Burley and Walter Mattli, "Europe before the Court: A Political Theory of Legal Integration," *International Organization* 47 (1993): 41-76; Dorette Corbey, "Dialectical Functionalism: Stagnation as a Bosster of European Integration," *International Organization* 49 (1995): 253-284; or Wayne Sandholtz, "Institutions and Collective Action: The New Telecommunications in Western Europe," *World Politics* 45 (1993): 242-270. Sandholtz's work has an affinity to neofunctionalism, but it also includes non-functional arguments.

60. Compare Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* 45 (1991): 19-56. Moravcsik attributed the agreement on the SEA to the convergence of economic interests between France and Germany and the ability of the two countries to pull the others, particularly the reluctant Britain, along. Yet, the crucial question as to *why* economic interests converged at around the middle of the 1980s was left open by Moravcsik. He confined himself to suggest, at the end of the paper and in rather an ad hoc fashion, a number of alternative mechanisms that might account for the convergence.

61. See Alan S. Milward, *The European Rescue of the Nation-State* (London: Routledge, 1994).

62. Compare Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organization* 46 (1992): 533-560; George Tsebelis, "The Power of the European Parliament as a Conditional Agenda Setter," *American Political Science Review* 88 (1994): 128-142; Fritz W. Scharpf, "Politische Optionen im vollendeten Binnenmarkt," in *Europäische Integration*, edited by Markus Jachtenfuchs and Beate Kohler-Koch (Opladen: Leske & Budrich, 1996), pp.109-140; Geoffrey Garrett and George Tsebelis, "An Institutional Critique of Inter-governmentalism," *International Organization* 50 (1996): 269-299.

63. Compare Paul Taylor, "The European Community and the State: Assumptions, Theories and Propositions," *Review of International Studies* 17 (1991): 109-125; Simon J. Bulmer, "The Governance of the European Union: A New Institutional Approach," *Journal of Public Policy* 13 (1994): 351-380. A somewhat broader institutionalist perspective is found in Michael Shackleton, "The European Community between Three Ways of Life: A Cultural Analysis," *Journal of Common Market Studies* 29 (1991): 575-601.

64. Compare Giandomenico Majone, "Redistributive und sozialregulative Politik," in *Europäische Integration*, edited by Markus Jachtenfuchs und Beate Kohler-Koch (Opladen: Leske & Budrich, 1996), pp.225-247.

65. Compare Adrienne Héritier, "Policy-Netzwerke als Untersuchungsinstrument im Europäischen Kontext: Folgerungen aus einer Empirischen Studie Regulativer Politik," in *Policy-Analyse: Kritik und Neuorientierung*, edited by Adrienne Héritier (Opladen: Westdeutscher Verlag, 1993), pp.432-447; John Peterson, "Decision-making in the European Union: Towards a Framework for Analysis," *Journal of European Public Policy* 2 (1995): 69-93; Beate Kohler-Koch, "The Strength of Weakness: The Transformation of Governance in the EU," in *The Future of the Nation State: Essays on Cultural Pluralism and Political Integration*, edited by Sverker Gustavsson

and Leif Lewin (London: Routledge, 1996), pp.169-219. A closely related approach is transnational relations theory. It too focuses on the policy-shaping role of non-governmental actors and the importance of supranational institutions in the EC/EU. See David R. Cameron, "Transnational Relations and the Development of European Economic and Monetary Union," in *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions*, edited by Thomas Risse-Kappen (Cambridge: Cambridge University Press, 1995), pp.37-78; or Thomas Risse-Kappen, "Exploring the Nature of the Beast: International Relations Theory and Comparative Policy Analysis Meet the European Union," *Journal of Common Market Studies* 34 (1996): 53-80.

66. Compare Fritz W. Scharpf, "The Joint-Decision Trap: Lessons from German Federalism and European Integration," *Public Administration* 66 (1988): 239-278; or J.H.H. Weiler, "The Transformation of Europe," *The Yale Law Journal* 100 (1991): 2403-2483.

67. Compare Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," *World Politics* 42 (1989): 95-128. These authors made much of structural changes in the international economy to which the 1992 project was a response. But they also emphasized the importance of such variables as supranational leadership and transnational coalitions in accounting for the *relance européenne*. They thus could be classified with some justification as neofunctionalists. Another border case is found in Wolfgang Wessels, "Staat und (westeuropäische) Integration: Die Fusionsthese," in *Die Integration Europas*, edited by Michael Kreile (Opladen: Westdeutscher Verlag, 1992), pp.36-61 and idem, "An Ever Closer Fusion? A Dynamic Macropolitical View on Integration Processes," *Journal of Common Market Studies* 35 (1997): 267-299. Wessels posited that the growth of economic interdependence is a secular trend which has shaped the general direction of the development of the EC/EU. A more straightforward example of the challenge-response framework is found in David M. Andrews, "The Global Origins of the Maastricht Treaty on EMU: Closing the Window of Opportunity," in *The State of the European Community*, vol. 2, *The Maastricht Debates and Beyond*, edited by Alan W. Cafruny and Glenda G. Rosenthal (Boulder: Lynne Rienner, 1993), pp.107-123. See also Margaret Sharp, "Technology and the Dynamics of Integration," in *The Dynamics of European Integration*, edited by William Wallace (London: Pinter, 1990), pp.50-68; or Albert Bressand and Kalypso Nicolaïdis, "Regional Integration in a Networked World Economy," *ibid.*, pp.27-49. As the title indicates Bressand and Nicolaïdis argued that cross-border organizational links between businesses in the Community have fueled political integration.

68. Compare Robert O. Keohane and Stanley Hoffmann, "Institutional Change in Europe in the 1980s," in *The New European Community: Decision-making and Institutional Change*, edited by Robert O. Keohane and Stanley Hoffmann (Boulder: Westview, 1991), pp.1-39. In this essay the authors described the nature of the EC in terms of networks, supranational decision-making and intergovernmental bargains. See also Andrew Moravcsik, "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach," *Journal of Common Market Studies* 31 (1993): 473-524. Moravcsik combined a liberal theory of governmental preference formation and an "intergovernmental" theory of strategic bargaining that focused on the relative power of the negotiating states. A less ambitious

approach that combined different theoretical perspectives in interpreting the SEA is found in Linda Cornett and James A. Caporaso, "'And it still moves!' State Interests and Social Forces in the European Community," in *Governance without Government: Order and Change in World Politics*, edited by James N. Rosenau and Ernst-Otto Czempiel (Cambridge: Cambridge University Press, 1992), pp.219-249. For detailed case studies employing a variety of theoretical tools see David R. Cameron, "The 1992 Initiative: Causes and Consequences," in *Europolitics: Institutions and Policymaking in the 'New' European Community*, edited by Alberta M. Sbragia (Washington: The Brookings Institution, 1992), pp.23-74; or Wayne Sandholtz, "Choosing Union: Monetary Politics and Maastricht," *International Organization* 47 (1993): 1-39.

69. For a theoretically sophisticated plea for conceptualizing politics in the EC as domestic politics and using the tool box of the comparativist to investigate it see Simon Hix, "The Study of the European Community: The Challenge to Comparative Politics," *West European Politics* 17 (1994): 1-30.

70. Compare Joseph M. Grieco, "Understanding the Problem of International Cooperation: The Limits of Neoliberal Institutionalism and the Future of Realist Theory," in *Neorealism and Neoliberalism: The Contemporary Debate*, edited by David A. Baldwin (New York: Columbia University Press, 1993), particularly pp.329-335; Idem, "State Interests and International Rule Trajectories: A Neorealist Interpretation of the Maastricht Treaty and European Economic and Monetary Union," (Duke University, 1994); Idem, "The Maastricht Treaty, Economic and Monetary Union and the Neo-Realist Research Programme," *Review of International Studies* 21 (1995): 21-40; John J. Mearsheimer, "Correspondence: Back to the Future, Part II: International Relations Theory and Post-Cold War Europe," *International Security* 15 (1990): 194-199; Idem, "Why We Will soon Miss the Cold War," in *Crosscurrents: International Relations in the Post-Cold War Era*, edited by Mark Charlton and Elizabeth Riddell-Dixon (Scarborough: Nelson, 1993), particularly pp.25-26; finally, for a more general Realist treatment of contemporary international institutions see idem, "The False Promise of International Institutions," *International Security* 19 (1994/95): 5-49.

71. This argument features prominently in the following Realist classics. Hans J. Morgenthau, *Scientific Man vs. Power Politics* (Chicago: University of Chicago Press, 1946); Morgenthau, *Politics*; Reinhold Niebuhr, *Die Kinder des Lichts und die Kinder der Finsternis* (München: Chr. Kaiser Verlag, 1947); Idem, *The Nature and Destiny of Man: A Christian Interpretation*, vol. I, *Human Nature* (New York: Charles Scribner's Sons, 1964); Martin Wight, "The Balance of Power and International Order," in *The Bases of International Order: Essays in Honour of C.A.W. Manning*, edited by James Alan (Oxford: Oxford University Press, 1973), pp.85-115; Kenneth N. Waltz, *Theory of International Politics* (New York: Random House, 1979); Aron, *Paix et Guerre*. A modification of this proposition forms the basis of hegemonic stability theory. This particular Realist approach to the study of international order posits that international conflict occurs primarily during the rise and fall of a hegemonic power, but not when it is at the apex of its might. See Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1988).

72. Compare Mitrany, *Working Peace*; Deutsch et al., *Political Community*; Robert O. Keohane and Joseph S. Nye, eds., *Transnational Relations and*

*World Politics* (Cambridge: Harvard University Press, 1972); James N. Rosenau, *The Study of Global Interdependence: Essays on the Transnationalization of World Affairs* (London: Pinter, 1980); Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986); Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Glenview: Scott, Foresman, 1989); Volker Rittberger and Michael Zürn, "Towards Regulated Anarchy in East-West Relations: Causes and Consequences of East-West Regimes," in *International Regimes in East-West Politics*, edited by Volker Rittberger (London: Pinter, 1990), pp.9-63; Beverly Crawford, "Toward a Theory of Progress in International Relations," in *Progress in Postwar International Relations*, edited by Emanuel Adler and Beverly Crawford (New York: Columbia University Press, 1991), pp.438-468; Mark W. Zacher, "The Decaying Pillars of the Westphalian Temple: Implications for International Order and Governance," in *Governance Without Government: Order and Change in World Politics*, edited by James N. Rosenau and Ernst-Otto Czempiel (Cambridge: Cambridge University Press, 1992), pp.58-101; Zeev Maoz and Bruce M. Russett, "Normative and Structural Causes of Democratic Peace, 1946-86," *American Political Science Review* 87 (1993): 624-638; Michael W. Doyle, "Liberalism and World Politics Revisited," in *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, edited by Charles W. Kegley (New York: St. Martin's, 1995), pp.83-106.

73. Besides the Realist authors mentioned in note 71 see also Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1990); Jack L. Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1991); Grieco, "Realist Critique." Compare also Arnold Wolfers, "The Pole of Power and the Pole of Indifference," in *International Politics and Foreign Policy: A Reader in Research and Theory*, edited by James N. Rosenau (New York: Free Press, 1969), pp.175-181. In this essay the Realist Wolfers acknowledged that some governments may be oblivious to the relative balance of power among states because they pursue the foreign policy goal of "self-abnegation". Yet such states are likely to "fall by the wayside", as another prominent Realist has pointed out. See Walt, *Theory*, p.118.

74. Compare Edward L. Morse, "The Transformation of Foreign Policies: Modernization, Interdependence, and Externalization," *World Politics* 22 (1970): 371-392; Idem, "Transnational Economic Processes," in *Transnational Relations and World Politics*, edited by Robert O. Keohane and Joseph S. Nye (Cambridge: Harvard University Press, 1972), pp.23-47; Keohane and Nye, "International Interdependence;" Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986); Helen V. Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton: Princeton University Press, 1988); Moravcsik, "Preferences and Power."

75. Compare Morgenthau, *Politics*, particularly chapters 19 & 27; J.D.B. Miller, "Sovereignty as a Source of Vitality for the State," *Review of International Studies* 12 (1986): 79-89; Moravcsik, "Single European Act;" Grieco, "Neoliberal Institutionalism;" Mearsheimer, "False Promise."

76. Compare Mitrany, *Working Peace System*; Mansbach, Ferguson and Lampert, *The Web*, particularly chapter 2; James N. Rosenau, *Turbulence in World Politics: A Theory of Change and Continuity* (Princeton: Princeton

University Press, 1990), particularly chapters 14 & 15; Taylor, "European Community and the State;" Joseph A. Camilleri and Jim Falk, *The End of Sovereignty? The Politics of a Shrinking and Fragmenting World* (Aldershot: Edward Elgar, 1992) particularly chapter 9; Joseph A. Camilleri, Anthony P. Jarvis and Albert J. Paolini, eds., *The State in Transition: Reimagining Political Space* (Boulder: Lynne Rienner, 1995), particularly chapters 1 & 13.

### III. THE DEMANDEUR: FRANCE AND EUROPEAN MONETARY INTEGRATION

#### 1. Trying to Buck the Trend: Socialism à la Française

On 10 May 1981 François Mitterrand won the second round of the French presidential elections against the sitting president Valéry Giscard d'Estaing. An historic event for France for more than one reason: the 5th Republic got its first socialist president, and for the first time in a major developed capitalist country communists entered the government as ministers. The new socialist-communist coalition government under prime minister Pierre Mauroy was a powerful symbol of French exceptionalism at a time when electorates in the US, the UK, Germany and elsewhere in the western world were shifting their allegiances in quite a different direction: political conservatism. Wherever they came to power, right-wing governments quickly began to effect a neoliberal turn in their economic policies. Not so the new French government. It tried to resist the international trend towards deregulation and austerity. Remaining true to their election promises, socialists and communists embarked on a program of economic expansion and social justice. A host of measures were thus implemented, ranging from the nationalization of key manufacturing and financial industries, over the reduction of working hours, to an increase of the minimum wage.<sup>1</sup> Employing the "classic Keynesian instruments" of economic policy-making<sup>2</sup>, the Mauroy government hoped to restart the slumping economy and, particularly important for the left-wing government, to reduce unemployment.<sup>3</sup> Since both international and French forecasts had predicted that international economic growth would pick up later in 1981, the government expected that its stimulus package

would soon be supported by the growing demand for French products abroad: international demand would thus limit the negative impact of domestic expansion on the current account and help to keep the French currency reasonably stable. However, these hopes were soon dashed.

Forecasters had predicted an average growth of the OECD economies of around 2% for 1981, but economic growth actually turned out to be negative: -0.5%.<sup>4</sup> The inevitable result was a growing French current account deficit. This problem was further aggravated by capital flight. Already at the end of February 1981 the *Banque de France* had informed the then Barre government that a growing number of investors were moving their liquid assets out of the French market in anticipation of a socialist victory in the upcoming presidential elections. Then, in the wake of Mitterrand's defeat of Giscard a "financial panic" took hold of the French money and capital markets.<sup>5</sup> The outward movement of capital accelerated dramatically. Between the 11 and 15 May 3 billion US dollars left the country. In the next 3 days the capital flight amounted to between 700 million and 1 billion US dollars per day.<sup>6</sup> While by the end of May this drain had been limited to a trickle with the help of reinforced exchange controls, the current account deficit continued to grow throughout 1981. It had to be financed by international loans, the sale of gold, and the currency reserves of the *Banque de France*. But as long as the policies responsible for the imbalance remained in place this was a never-ending Sisyphus task. Recognizing this, financial market operators had little confidence in the stability of the French currency: they continued to sell off francs and franc-denominated assets.

Despite the persistent weakness of the franc Mitterrand was determined not to opt for the easy way out. Immediately after the election victory he

told his prime minister that he would "not devalue the currency of a country that ha[d] just expressed its confidence in [him]."<sup>7</sup> The president made this pledge in the belief, fueled by his advisers, that the war chest of the *Banque de France* was large enough to defend the exchange rate of the franc for the foreseeable future.<sup>8</sup> Until the fall of 1981 this was indeed the case. Then the announcement of the budget for 1982 with its record deficit led to a new round of attacks on the franc. This time the government found it impossible to remain passive. Quickly "the central bank ... exhausted most of its options (high interest rates, strengthening of capital controls, and heavy use of the foreign exchange reserves)."<sup>9</sup> In October 1981 the franc had to be devalued against the D-mark and other European currencies.<sup>10</sup>

It soon turned out, however, that this was not the end. The assessment of many observers of the economic consequences of the socialist-communist coalition government after its first year in power was very bleak as they projected worsening budget and external deficits, slow economic growth, and a growing unemployment rate.<sup>11</sup> These observers had apparently come to the conclusion that the Mauroy government "had embarked on a path that would eventually lead it towards more controls, more dirigism and a break-away from the ... EEC."<sup>12</sup> Even president Mitterrand himself, in a press conference at the beginning of June 1982, had to admit that his government had "run into obstacles."<sup>13</sup> Only a few days later Paris had to agree to yet another devaluation of the franc. Also, the Mauroy government decided to send a signal to the markets that it would from now on play by their rules. The realignment was thus complemented by a modest austerity package designed to limit the expansionary stimulus of the earlier policies. The measures of finance minister Jacques Delors aimed at preventing inflation rates from



rising further and bringing some order into the public finances. The main policy instruments of this partial turnaround were price and wage controls, including the de-indexation of the salaries of public service workers.<sup>14</sup> Though this program would later be described by some observers as the "real turnaround of the *septennat*", this was not the impression of the markets at the time.<sup>15</sup> They remained skeptical about the firmness of the new commitment of the government to economic and monetary rigor. As a result of these persisting doubts the franc soon again came under pressure. The markets thus made it clear to the government that socialism à la française was incompatible with business as usual. It was time for Paris to make a decision.

## **2. What will it be Monsieur le Président: Economic Nationalism or the European Idea?**

By the beginning of 1983 the *Banque de France* had finally exhausted all its options - foreign exchange market interventions, interest rate hikes and capital controls - to defend the exchange rate of the franc. President Mitterrand thus had to make a choice between economic nationalism and the European idea, between continued membership in the EMS and exit from this currency club.

The EMS, which exists to this day, was created in 1979 as a result of a joint initiative by the French president Valéry Giscard d'Estaing and the German chancellor Helmut Schmidt. Their goal was to establish a "zone of monetary stability in Europe"<sup>16</sup> after the global Bretton Woods gold-exchange standard had finally collapsed in 1973, and after the experiment of the

European snake had failed to ensure exchange rate stability among EC countries.<sup>17</sup> To this end a regime of fixed but adjustable exchange rates was set up.<sup>18</sup> At its center was the so-called Exchange Rate Mechanism (ERM). Out of the nine EC members at the time only the UK refused to participate in it.<sup>19</sup> By joining the mechanism countries committed themselves to limit the fluctuations of their currencies vis-à-vis each other to a margin of 2.25% on each side of the agreed-upon bilateral central rates of the EMS parity grid.<sup>20</sup> The policy instruments to keep the currencies within these trading bands were adjustments of domestic monetary policy and foreign currency market interventions. A number of stand-by credit facilities of different maturities were set up to finance such central bank interventions. If despite adjustments and interventions foreign exchange market pressures persisted, then ERM members could, as a last resort, ask their partners to agree to a realignment of the parity grid. This, however, was made "subject to mutual agreement by a common procedure."<sup>21</sup>

Only a few years after its creation, president Mitterrand had to decide about France's future in the EMS and thus, ultimately, about the future of the system itself. How would he decide? On the one hand, he could, as one of the advocates of this option said, "bet on the reflexes of national independence" and break loose from the constraints of international monetary interdependence by exiting from the ERM. This would enable the government in Paris to pursue a policy of competitive devaluation, reduce the interest rates, and thus allow it to "implement a genuine industrial policy" with a view to "reestablish the competitiveness of [French] industry."<sup>22</sup> But the national option would also carry serious risks: other EC states might adopt French-style beggar-thy-neighbor policies. The resulting tit-for-tat behav-

ior might even escalate into commercial warfare.<sup>23</sup>

Alternatively, the president could accept the logic of the world market and seek to restore the competitiveness of the French economy by telling his government to pursue a policy of competitive disinflation. In this scenario the ERM would play a crucial role as a "réducteur d'inflation."<sup>24</sup> The government would commit itself to *harden* the French currency by resisting market pressures for its devaluation. By voluntarily submitting itself to the external discipline of the ERM, Paris, so the logic of the argument went, would over time be able to eliminate the inflation differential of the franc with the anchor currency of the EMS: the inflation-proof D-mark.<sup>25</sup> Furthermore, this could be achieved without too much sacrifice since by shadowing the German currency the socialist government and the *Banque de France* could borrow the anti-inflationary credibility of the *Bundesbank* that they themselves lacked.<sup>26</sup> In short, continuing ERM membership was according to this perspective the most cost-effective way of persuading the markets "of the permanence of [the French] will to defend the parity of the Franc through the durable and voluntary cleaning up of [the] finances and through the struggle for competitiveness."<sup>27</sup>

But this policy also had its costs. Until skeptical market operators were convinced of the credibility of Paris' new anti-inflationary commitment and the stability of the *franc fort*, French borrowers would have to pay exchange rate risk premiums added to their loans.<sup>28</sup> This would stifle investments and economic growth. Furthermore, by making its interest rate policy endogenous to the goal of a *franc fort*, Paris would de facto hand control over its monetary policy to the central bank with the strongest currency: the *Bundesbank*. The German central bank would continue to pursue

its independent monetary policy, and France would have to follow suit.<sup>29</sup>

Initially, Mitterrand was uncertain which option to choose.<sup>30</sup> In mid-March 1983, however, the president instructed his prime minister to "implement a bolder policy, particularly by exiting from the snake [i.e., the ERM] and by pursuing a growth-oriented strategy."<sup>31</sup> But Mauroy declined to head a government with such a program. He had for some time been convinced that a return to floating exchange rates would be disastrous for the French economy. Instead of increasing the government's liberty of action, he believed that the option of exiting from the ERM would actually "increase the constraints as it degrade[d] [France's] external trade and [its] prices."<sup>32</sup> Faced with the opposition of Mauroy and other key political players, the president, never comfortable with monetary decision-making, changed his mind.<sup>33</sup> Mitterrand was thus to remain true to the European calling that had guided French foreign policy since de Gaulle: France would remain a member of the ERM. Mitterrand now instructed his government to pursue a policy of competitive disinflation based on the *franc fort* in order to "bring down inflation to a rate compatible with [France's] competitors, ... restore within two years [the country's] external trade balance ... while maintaining the public deficit within its current levels."<sup>34</sup>

This U-turn in economic policy turned out to be permanent.<sup>35</sup> Since 1983 every French government has seen it as its "absolute priority [to defend] the stability of the franc, condition of the success of [French] economic policy."<sup>36</sup> Until 1986/87 the policy was quite uncontroversial. In an international exchange rate environment in which a strong dollar kept the external value of the D-mark down, Paris did not find it too difficult to shadow the German currency and bring down the inflation rate.<sup>37</sup> The attitude of most

French policy-makers towards the ERM and the policy of the *franc fort* was consequently one of benign neglect.<sup>38</sup> This, however, changed forever in the second half of the 1980s.

### 3. Running into Troubles: French Monetary Powerlessness

Between 1983 and 1986 the record of the new policy of competitive disinflation was quite impressive. The socialist governments of first prime minister Mauroy and, from 1984 onwards prime minister Fabius, not only successfully brought inflation under control, but they achieved this with steadily falling interest rates.<sup>39</sup> Yet in 1986 this harmonious situation changed abruptly. The new conservative government of prime minister Jacques Chirac, who came to power in the parliamentary elections of that year, was the first to experience a new kind of monetary powerlessness that would subsequently haunt successive French governments. The essence of that powerlessness was the loss of the ability of France to continue to pursue its policy of competitive disinflation while at the same time keeping interest rates at investment-promoting low levels. The Chirac government soon found out that "the margin of maneuver for an independent [French] interest rate policy [had] disappeared totally."<sup>40</sup> This governmental loss of control over a key economic variable and the resulting deteriorating macro-economic environment had a profound impact on the attitudes of French policy-makers towards the ERM. Harsh criticism began to replace the benign neglect that so far had characterized Paris' position on the European currency club.

Confronted with its new monetary powerlessness, Paris quickly identified

the spread of "international monetary disorders" as its root cause.<sup>41</sup> This was a politician's phrase to sum up and criticize the main result of complex developments in the international political economy. At the center of these developments was the rapidly growing mobility of capital in a world of floating exchange rates.<sup>42</sup> Driven by technical and financial innovations, on the one side, and political deregulation, on the other, cross-border capital flows started to explode in the wake of the collapse of the Bretton Woods exchange rate regime. With the increasing capitalization and sophistication of financial markets their power grew: the markets penalized governments for interventionist economic policies. This power was wielded by investors who were able to move huge amounts of capital from one country to another, from one asset into another, in response to political and economic "news" that could effect yields. One side-effect of this frenzied search for high-coupon countries was higher global exchange rate variability. This currency instability was further aggravated by the lack of strong and persistent macroeconomic policy coordination among the main global economic powers, most of whom reacted to global capital mobility by pursuing a type of policy that Richard Cooper once referred to as "exploitative." By this he meant that countries tried "to take advantage of the growing interdependence in ways which [were] successful if pursued by only a few countries, but which [could] not be generalized for the world economy."<sup>43</sup> In France, but not only there, the impression consequently spread in the 1980s that the "principal victims" of these developments were small and middle powers which had "to pay the bill" of the economic unilateralism of the big players.<sup>44</sup>

Before the 1992/93 ERM crises that resulted in the de facto return to floating exchange rates by the EMS member states in August 1993, the most

visible symbol of Paris' new monetary powerlessness was the 1986/87 franc crisis. This episode taught Paris two lessons. First, the ERM in its current form was incapable of isolating the French economy from the adverse effects of international monetary anarchy. Second, in monetary matters Germany tended to proceed "without paying much attention to what happen[ed] on the other side of the Rhine."<sup>45</sup> To French policy-makers of all *couleurs* these two lessons proved to be quite unacceptable.

#### 4. The Franc under Attack: The 1986/87 ERM Crisis

The 1986/87 franc crisis shattered the confidence of Paris in the benefits of ERM membership. In its wake Paris launched a diplomatic campaign to upgrade European monetary affairs that resulted in the Treaty on the EMU in 1991. What then triggered this major crisis in 1986/87? It was a combination of market forces and government policies that prompted financial market operators to begin to question the sustainability of the external value of the dollar. On the one hand, Reaganomics had saddled the US with a large and growing current account deficit and had turned the country into the largest debtor nation in the world. The finance ministers and central bankers of the G-5, for their part, added to the concern about the dollar by agreeing, in September 1985, to cooperate closely to bring about "the orderly appreciation of the main non-dollar currencies against the dollar."<sup>46</sup> Thus having more than one good reason to expect a devaluation of the US currency, financial investors, in search of a "safe haven" for their capital, began to substitute large D-mark denominated assets for dollar denominated ones. The German currency consequently appreciated vis-à-vis most other

ERM currencies. Even though the economic fundamentals of the French economy were good, the franc too came under pressure in the second half of 1986. This forced Paris to raise interest rates and to intervene on the foreign exchange markets in order to defend the D-mark exchange rate of the franc.<sup>47</sup> The French consensus was that the interest rate hikes that reversed the trend established since 1982 were "genuine economic nonsense" given the current state of the French economy.<sup>48</sup> However, the new conservative government had little choice in the matter. It was well aware that it would endanger the anti-inflationary credentials built up by the preceding socialist governments since the 1983 economic U-turn if it were to uncouple the franc from the D-mark at the first sign of economic hardship.

Even though Paris accepted that a continuation of the broadly supported policy of competitive disinflation required some sacrifices on its part, it also believed that the *Bundesbank* ought to aid it in the defense of the franc, particularly in view of the cooperative spirit of the ERM. As such help was not forthcoming, Paris began to lobby German monetary authorities to lower interest rates or, alternatively, to revalue the D-mark in order to make it easier for the *Banque de France* to defend the *franc fort*. Paris apparently even let Bonn and Frankfurt know that a "further divergence of currencies would endanger the common [monetary] system" by forcing Paris to temporarily take the franc out of the exchange rate mechanism.<sup>49</sup> But neither these veiled threats nor the pleas of prime minister Chirac and his finance minister Edouard Balladur changed the *Bundesbank's* hard line and the German government's support of it.<sup>50</sup> This left the *Banque de France* to fend for itself. Both in September and October it massively intervened on the foreign exchange markets in order to keep the franc within its trading



band with the D-mark. After stability had shortly returned to the exchange markets, the new attacks on the franc in December forced the *Banque de France*, having nearly depleted its war chest in the previous months, to rely largely on interest rate policy to defend the franc. Rates consequently were, as it was described in the French media, "brutally" raised in successive moves.<sup>51</sup>

Finally, on 12 January 1987 the combination of foreign exchange market pressures and political pressure, particularly from Paris, became so strong that Germany had to give in.<sup>52</sup> The government reluctantly agreed to a general ERM realignment which saw the revaluation of the D-mark vis-à-vis most other ERM currencies. A few weeks later the *Bundesbank* also succumbed to the international political pressure and lowered its interest rates. These measures, together with the decision in February by the six major industrial countries (G-6) to try to stop the further devaluation of the dollar, succeeded in calming the foreign exchange markets.<sup>53</sup> For the moment the tensions in the ERM abated. But the episode left Paris frustrated. The crisis of the franc had imposed on France "a heavy bill for supporting the franc and ... high interest rates."<sup>54</sup> Paris was determined not to let this happen again.

##### 5. The ERM under Attack: The French ERM Crisis Discourse

The immediate discursive reaction of French policy-makers to the 1986/87 franc crisis was twofold. On the one hand, politicians of all *couleurs* stressed the continuing importance of the *franc fort*, despite the economic hardship currently associated with the policy of competitive disinflation.

Both the options of exiting from the ERM and of devaluing the franc were thus categorically excluded by most French experts.<sup>55</sup> Finance minister Balladur repeatedly stated throughout the crisis that there would neither be "a change of economic policy nor a devaluation of the franc." On the contrary, the minister remarked that he was prepared to take "all measures, without excluding any one, to defend the franc."<sup>56</sup> This also was the position taken by president Mitterrand who declared himself in favor of the continuing "stability of the currency."<sup>57</sup> He consequently made it clear at the height of the crisis that he did not "expect a devaluation."<sup>58</sup>

On the other hand, French politicians did not mince words when criticizing Germany for its allegedly irresponsible behavior during the crisis.<sup>59</sup> Noting that the "objective facts concerning the health of [the French] economy [were] good", Balladur blamed the problems of the *franc fort* on Germany's tight monetary policy.<sup>60</sup> That policy, he pointed out, was one of the root causes of why international investors found the D-mark so attractive. "It [was] not the franc which [was] unhealthy", but rather "the mark which [was] too healthy", Balladur observed.<sup>61</sup> Given this assessment, the French finance minister found it discomfoting that the Germans refused to shoulder a greater burden of the costs of the ERM crisis management. They acted, he said accusingly, "without responsibility."<sup>62</sup> The same attitude was expressed by prime minister Jacques Chirac when he denounced Germany's "egotistical behavior." Bonn, he argued, was "not playing the game ... of the European monetary system."<sup>63</sup> In the months following the January 1987 realignment, the French government developed this ad hoc critique into a full-blown ERM crisis discourse.<sup>64</sup>

The new policy discourse led to a fundamental reinterpretation of the

ERM. Prior to this time it had been viewed as a facilitator of the fight against inflation and its debilitating consequences for the competitiveness of the French economy. Now the ERM began to be seen by both conservative and socialist policy-makers as a key contributing factor to low economic growth and high unemployment. This reinterpretation was based on two rhetorical moves. First, the practitioners of the ERM crisis discourse highlighted Paris' new monetary powerlessness. Second, they identified the main culprit for this frustrating state of affairs: the EMS that had surreptitiously turned into a D-mark zone. The main feature of that zone, according to the new narrative, was that Germany had "de facto the responsibility to fix the objectives of the economic and monetary policies of the whole system."<sup>65</sup> Together these two rhetorical moves gave the discourse a clear thrust. Instead of isolating France from the high interest rate policy of the *Bundesbank*, the ERM in its current form channeled and amplified the German monetary pressure on the French economy.

Finance minister Edouard Balladur was the government's most important official in developing and disseminating the premises and policy conclusions of the ERM crisis discourse. In his criticism of Germany's position of dominance in the EMS he focused both on the asymmetric rules of the currency club and on Germany's rigid monetarism. As to the former, two key problems were highlighted. One had to do with the practice of intramarginal interventions that had, by around the middle of the 1980s, become the preferred intervention mode for most ERM central banks. It aimed at discouraging speculative attacks against ERM currencies by seeking to stabilize them close to their central bilateral exchange rates.<sup>66</sup> Central bankers thus intervened on currency markets long before their currencies fell to the

bottom, or rose to the top, of the allowable trading bands. But while most EMS central banks engaged in this preemptive practice of intramarginal interventions in EMS currencies, the *Bundesbank* steadfastly refused any such actions. The only time it intervened in the foreign exchange markets for ERM currencies was when the EMS rules forced it to do so, i.e., when the D-mark threatened to veer beyond its trading band.<sup>67</sup> Balladur now began to argue that the inevitable result of this asymmetry in foreign exchange market interventions was that "the financial burden of [intramarginal] interventions [had to be] systematically borne by the central bank of that country whose currency [was] the least demanded."<sup>68</sup> Consequently, he complained, every time the franc lost ground against the D-mark, "the burden of intervention was always placed on the *Banque de France*." In short, the ERM crisis discourse stressed that the status quo of European monetary cooperation was "neither very egalitarian nor very perfect."<sup>69</sup>

The other rule-related reason for the asymmetry of the ERM was, according to the discourse circulated by Balladur, that the so-called divergence indicator had been allowed to become a dead letter. This formal EMS instrument, based on the basket currency ECU, had been designed "to single out the currency diverging from the mean."<sup>70</sup> Thus its declared function was to warn the monetary authorities responsible for the deviating currency of future monetary troubles should remedial action not be taken to bring the outlier in line with the rest of the ERM currencies. But because such remedial action was voluntary as long as the concerned currency remained within its margins, and because one of the "targets" of this particular mechanism, namely Germany, refused to heed its signals, the

divergence indicator was generally ignored. This non-observance of the warning signs, Balladur now argued, enabled any ERM member-state to "depart from the jointly fixed [monetary] objectives" without having to "rectify" its disruptive policy.<sup>71</sup> In the recent ERM crisis, for instance, Germany had been able, the minister noted, to continue its policy of expensive credit even after it had become clear that this would decouple the D-mark from most other ERM currencies and put serious stress on the parity grid.<sup>72</sup>

Germany's rigid monetary preferences were, according to the ERM crisis discourse, the second cause of why the EMS had evolved into a D-mark zone. Before the 1986/87 franc crisis French policy-makers had regarded the German preoccupation with price stability as a "resource" that an inflation-ridden country like France could tap by pegging its soft currency to the inflation-proof D-mark.<sup>73</sup> After the 1986/87 crisis the same German monetarism began to be described by Balladur and other practitioners of the new policy discourse as a liability in the search for economic growth in the EC rather than as a resource in the fight against inflation. This reinterpretation of the role of the *Bundesbank* was accomplished in three stages. First, the finance minister made it quite clear that the French government wanted to lower the existing "abnormally high" real interest rates.<sup>74</sup> Second, he admitted that on this matter, important as it was to the French economy, the government could not act without the *Bundesbank* because French interest rates were endogenous to the German rates: any attempt by Paris to cut interest rates unilaterally would immediately be translated into a *franc faible* because the French currency still lacked a strong anti-inflationary reputation.<sup>75</sup> Finally, the minister let it be known

that the French government found it unacceptable that it was forced to slavishly follow the "goals of that country that pursue[d] the most restrictive [monetary] policy."<sup>76</sup>

By May 1988 when the Chirac government had to hand over the reins of power to the new socialist government under prime minister Michel Rocard, the ERM crisis debate had become the unchallenged discursive regime of truth on the French political scene. This hegemonic status was quickly reaffirmed by the new finance minister Pierre Bérégovoy.<sup>77</sup> The minister began his term of office by emphasizing that on two key issues of monetary policy he shared the position of his conservative predecessor. First, the policy of competitive disinflation based on the *franc fort* would be continued. "The disinflation remained the key to [French] competitiveness" and economic success, the minister reassured the financial markets.<sup>78</sup> Second, Bérégovoy noted that there were "no fundamental differences" between his and his predecessor's analysis of the shortcomings of the ERM.<sup>79</sup> And indeed, soon the new finance minister and his governmental colleagues eloquently practiced the ERM crisis discourse that had been developed by the Chirac government. Bérégovoy thus let it be known that he too was "very preoccupied" with the overly tight monetary policy pursued by the *Bundesbank*.<sup>80</sup> As the *Bundesbank* continued to refuse to accommodate Paris' preference for lower interest rates, the minister became more outspoken in his criticism. Frankfurt's role of "cavalier seul" in matters of monetary policy was unacceptable, Bérégovoy said accusingly, both in light of its ERM membership obligations and the fact that German interest rates had repercussions far beyond Germany.<sup>81</sup> The German government, he warned, should not underestimate the "gravity of the consequences" of a continuation of

Frankfurt's rigid monetarism.<sup>82</sup> And the minister left no doubt that he wanted to see a fundamental reorientation of Germany's monetary policy. His advice was that the country should "do more for economic growth" in Europe.<sup>83</sup> Another active socialist adherent of the ERM crisis discourse was prime minister Rocard. "Germany [was] taking risks" with its uncooperative interest rate policy, he said in an uncharacteristically frank interview. The EC was "an interdependent system [and] what happen[ed] outside the country, especially in other European countries, [could not] be neglected." If the *Bundesbank* refused to heed his warnings and would go on to "hamper" economic growth in the EC, he concluded, this "might lead within a few years to a crisis in Europe."<sup>84</sup>

#### 6. Money Diplomacy: From Talk of Crisis to Talk of Reform

Already in 1987 the ERM crisis discourse was complemented by the rhetoric and diplomacy of monetary reform.<sup>85</sup> This discursive practice generated a number of proposals that sought to reduce the negative monetary externalities under which the French economy suffered by reforming international monetary affairs at one of three levels: the bilateral, the European, or the global level. On a bilateral level French diplomacy campaigned for closer institutional ties between French and German economic and monetary decision-makers in order to get some influence over Germany's monetary policy. On a European level Paris wanted to do away with Germany's privileged role in the ERM by calling for an upgrade of the ERM. As this strategy proved ineffective, French policy-makers began to develop a new project: the EMU. On the global level, finally, French diplomacy tried to

persuade its partners that putting an end to international monetary anarchy, which Paris regarded as the root cause of its monetary troubles, was in the interest of all concerned.

The French *démarche* to improve the cooperation between Paris and Bonn in monetary matters was the most obvious choice for policy-makers whose ERM crisis discourse identified Germany's rigid monetarism as a key contributing factor to France's new monetary powerlessness. Not long after the January 1987 ERM realignment the Chirac government thus pleaded with Bonn to agree to a D-mark/franc stabilization scheme. Its purpose, finance minister Balladur declared in a speech to the Chamber of Industry and Trade in Frankfurt in July 1987 should be closer fiscal coordination and the bilateral management of exchange rate policies vis-à-vis the dollar and the yen.<sup>86</sup> Yet to Bonn, jealously defending its monetary independence, the proposal, modest as it was, still went too far. Clearly preferring the monetary status quo, its response to the French *démarche* was negative. But the government in Paris was not so easily discouraged. It stepped up its rhetoric and began to call for a new institution charged with overseeing bilateral monetary affairs.

At one of the regular Franco-German summit meetings in November 1987 prime minister Chirac brought up the new project. He officially proposed to chancellor Kohl the creation of an economics and finance council mandated with the "coordination of currency issues."<sup>87</sup> President Mitterrand, also present at the meeting, fully supported Chirac's initiative. "[M]ore cooperation among allies in international financial politics" was needed, the president told the German chancellor, in order to replace the current "strategy of each for himself."<sup>88</sup> This time, being confronted with an official *démarche* of



both the Élysée and the Matignon, Bonn found it difficult to reject the initiative outright. Instead, it agreed to open negotiations on the issue. Within only a few months these negotiations resulted, on 22 January 1988, in the signing of a treaty establishing the so-called Franco-German Finance and Economics Council. Despite the impressive name, however, the new forum fell far short of what Paris had set out to achieve. Rather than being given, as Paris had demanded, real policy making powers, the new council, which was to meet four times a year, was limited to the exchange of views on economic and monetary matters. In short, Bonn had managed to take the sting out of the original French plan to get a *droit de regard* over German monetary policy by insisting that the new institution play only a consultative role. Bonn was satisfied with this outcome, but Paris remained frustrated.<sup>89</sup>

Two other monetary reform strategies pursued by Paris did not fare any better: an upgrade of the ERM and an upgrade of the global regime of floating exchange rates. Throughout 1987 French diplomacy explored both avenues of reforming international monetary affairs. As far as the ERM reform was concerned, it was clearly a spin-off from the ERM crisis discourse. Drawing conclusions from this discourse the Chirac government started to argue "that the mechanisms and the operation of the EMS [had] to be improved."<sup>90</sup> If ERM member states continued to resist limitations on their "decision-making autonomy in economic and monetary matters", the government warned, leaving little doubt that it was addressing the Germans, the EMS was in danger of losing "its substance, its cohesion and its effectiveness."<sup>91</sup> In its efforts to redress the shortcomings of the status quo of European monetary integration, the conservative government was fully

backed by Mitterrand, who was a long-standing believer in the need to "amplify" the EMS.<sup>92</sup>

The thrust of the French reform plan was straightforward. In light of the negative experience during the 1986/87 franc crisis, Paris called on its ERM partners to strengthen the obligation of ERM member central banks to aid each other in the defense of their currencies against unwarranted speculative attacks. To that end Paris envisaged the revival and reinforcement of the divergence indicator as well as the extension of credit facilities in order to strengthen the war chests of those central banks whose currencies were under attack.<sup>93</sup> At the insistence of Paris, the EC governments decided to ask the Committee of Central Bank Governors and the Monetary Committee to investigate how the operation of the ERM could be improved. These Community committees began their work in February 1987 and presented their reform recommendations in September of the same year. They were officially accepted by the Economics and Finance ministers at their meeting in Nyborg. Yet Paris, it soon turned out, was not overly happy with the Nyborg reform of the ERM.<sup>94</sup> Particularly frustrating for Paris, the reform package created no new obligations for strong currency countries to intervene more actively in support of weak ERM currencies. The only minor success scored by French diplomats during the negotiations leading to the Nyborg accord was the new "presumption that intra-marginal interventions in EMS currencies agreed to by the central bank issuing the intervention currency [would] qualify for very short-term financing via the EMCF", i.e., the European Monetary Cooperation Fund.<sup>95</sup> While such a "presumption" did not create automatic access to these EMS credits, it nevertheless would make it more difficult for the *Bundesbank* to refuse to participate in the

financing of intramarginal interventions of the *Banque de France* or any other ERM central bank. Balladur thus declared himself to be satisfied with at least this aspect of the Nyborg reform.<sup>96</sup>

While its diplomatic *démarche* to upgrade the ERM thus resulted in a modest reform, French efforts to put an end to international monetary anarchy failed altogether. Initially both the socialist president and the conservative government tried to convince their G-7 partners of the benefits of a return to the monetary world of the 19th century in which the management of monetary affairs was based on the gold standard.<sup>97</sup> But they quickly realized that such a far-reaching reform would find little support outside France. More realistically therefore, French policy-makers focused on improving the existing, albeit rudimentary, global cooperation in monetary affairs. The Louvre Accord of February 1987 with its commitment to (implicit) exchange rate targets had shown, finance minister Balladur argued, that the G-7 had the "capacity to organize and manage an orderly monetary system."<sup>98</sup> States had it in their hands to put an end to the endemic and debilitating instability on global foreign exchange markets. One small step in that direction, the French finance minister suggested, would be the creation of a "permanent secretariat of the Louvre Accord."<sup>99</sup> But to its chagrin, Paris soon realized that the G-7 could not even muster the necessary political will to act on such a rather modest proposal. It was thus no surprise that a slightly more ambitious scheme of globally managed exchange rates propagated by Balladur's successor Bérégovoy also met with failure. Going beyond what Balladur had proposed, the socialist finance minister called for reference ranges for the currencies of the G-7 plus the coordination of domestic monetary and fiscal policies.<sup>100</sup> Only this, he told

his foreign colleagues, would ensure lasting stability on international exchange markets. Yet, they remained unimpressed, and rejected the blueprint.

While all these projects tabled by the French at best met with only limited success, this did not apply to the most ambitious French reform plan of all: an EMU. After a long and energetic campaign during which French diplomacy had to overcome many obstacles, this project led finally to the 1991 Treaty on an EMU. The success of French diplomacy was all the more impressive since initially the demand for an EMU received a rather cool reception, especially by the Germans. Indeed, any other reaction would have been a great surprise given the thrust of the French EMU-NOW discourse.

#### **7. Doing Away with the Bundesbank: The French EMU-NOW Discourse and its Diplomatic Effects**

The EMU-NOW discourse, a spin-off from the ERM crisis discourse, began to be formulated only a few weeks after the Nyborg accord had been signed in September 1987. The Chirac government thus made it quite clear to its EMS partners that it considered Nyborg as only a stopover on the route to Frankfurt. The person to break the news was Bernard Bosson, minister for European affairs. His government, he announced, would soon begin a new diplomatic campaign with a view to create "a common [European] monetary authority ... mandated with the coordination of national monetary policies and having a *droit de regard* over the variation of monetary supply in the member states."<sup>101</sup> At the beginning of 1988 the EMU-NOW discourse began to be circulated in earnest by Paris. Just like the ERM crisis discourse, it

soon found widespread support among the political elite.<sup>102</sup> The new policy discourse had one overarching purpose. Having failed to get a *droit de regard* over the *Bundesbank* via the Finance and Economics Council and the upgrade of the ERM, the French practitioners of the discourse now wanted to solve the German monetary problem once and for all: they called for doing away with German monetary policy all together by substituting a single European currency for the D-mark and other ERM currencies, and by creating a supranational central bank responsible for managing the new currency.<sup>103</sup> Such a Europeanization of monetary policy-making, according to the logic of the EMU-NOW discourse, would eliminate three particularly costly consequences of the monetary status quo that had been identified by the ERM crisis discourse. First, an EMU would abolish the "irrational" D-mark/franc exchange rate variability and the associated costly interventions in support of the franc. Second, the growth potential of the French economy would no longer be retarded by overly high real interest rates, a result in part of the exchange rate risk premiums that the markets still required for credits denominated in francs. Third, an EMU would ensure that European monetary policy would be decided in light of overall economic conditions in the EC rather than the conditions prevailing just in Germany.

The official launch date for the dissemination of the EMU-NOW discourse was in January 1988 when Edouard Balladur started a public relations blitz on two fronts. First, he transmitted a memo to his EC colleagues in which he outlined his government's vision of Europe's monetary future. The minister opened the memo by repeating the well-known arguments of the French ERM crisis discourse: the system remained, even after Nyborg, inherently asymmetric because it "exempt[ed] any country [read: Germany] whose

policies [were] too restrictive from the necessary adjustment." He then went on to introduce his colleagues to the new French EMU-NOW discourse. The "rapid pursuit of the monetary construction of Europe [was] the only possible solution" to the current ills of the ERM, the minister told them.<sup>104</sup> Second, Balladur began to convey the same message to the French people in a series of announcements. If Europe was serious about creating a zone of monetary stability in which its economies could prosper, then "[t]he moment [had] come to examine the possibility of creating a European central bank that would manage a common currency, the ECU", the minister declared.<sup>105</sup>

The finance minister was not the only French policy-maker engaged in disseminating the EMU-NOW discourse. Both prime minister Chirac and president Mitterrand were active practitioners of the discourse who sought to win over France's EC partners to their new project. The prime minister, for example, made it quite plain that he considered the continuing "lack of effort in defense of the franc" on part of the *Bundesbank* to have become intolerable. The apparent lack of consideration given by German authorities to the monetary troubles of their neighbors when deciding monetary policy demonstrated, he observed, the need for the quick "creation of a common currency and a European central bank."<sup>106</sup> This was also the thrust of president Mitterrand's announcements on the issue. Indeed, already in 1987, i.e., even before the conservative government had begun to circulate its EMU-NOW discourse, the president had repeatedly called for "the creation of a common European central bank" in order to limit the "exchange rate volatility" in the ERM.<sup>107</sup> But at the time Mitterrand's scattered statements about European monetary reform had by and large been ignored both at home and abroad, not least because the *cohabitation* had significantly

weakened the president's political clout. By 1988, however, the situation had changed. Not only were government and president now in step on this issue, but there was also a good chance that the president would be reelected to a second *septennat* in March 1988 and that, on his coattails, the socialists would regain power in the *Assemblée nationale*. If this were to happen, Mitterrand would once again be in a position to shape governmental policy, including its money diplomacy. This prospect clearly made the president an important practitioner of the EMU-NOW discourse and gave his repeated calls for a "genuine European currency" in the first few months of 1988 added weight.<sup>108</sup>

And indeed, in May 1988 a new socialist government under prime minister Rocard was sworn in. As expected, it continued to practice without modification the EMU-NOW discourse of the reelected president and the outgoing conservative government. With a little prodding of the president, the initially somewhat skeptical new finance minister Pierre Bérégovoy quickly adopted the EMU-NOW discourse of his predecessor.<sup>109</sup> From that point onwards he did his best to convince France's ERM partners of the benefits of "a single EMU and a coordinated [monetary] policy rather than twelve policies side by side."<sup>110</sup> Prime minister Michel Rocard fully backed these efforts. A European central bank, he declared, was an "absolute necessity" for the French economy.<sup>111</sup> His government was therefore determined to do all it could "to complete the European monetary union of the EEC."<sup>112</sup>

The first major test for the ability of French diplomacy to gain new adherents to its EMU-NOW discourse, and to "pull the others along" on the road to an EMU, came at the European Council meeting in Hanover in June 1988.<sup>113</sup> Paris approached the summit from the standpoint that the time had

come for the Twelve to take a decision at the highest political level in favor of an "institutional leap" towards the quick realization of an EMU.<sup>114</sup> This, however, proved overly optimistic. Strong opposition, particularly from Germany and the UK, dashed French hopes to procure a firm commitment to an EMU by the heads of state and government. But even from the view from Paris the summit was not a total failure. The Twelve decided to entrust "to a Committee the task of studying and proposing concrete stages leading towards this [economic and monetary] union."<sup>115</sup>

The Committee presented its report in which it advocated a three-stage process towards establishing a single currency managed by a European central bank in April 1989. In France the report was well, though not enthusiastically, received by all major political parties, with the notable exception of the communists.<sup>116</sup> The lack of enthusiasm for recommendations that seemed to be generally in line with the French vision of the future of European monetary integration had to do with the report's silence on the tricky issue of a time schedule for the realization of the various stages. It was this question that would soon occupy the center stage in the diplomatic wrangling between Paris, London and Bonn. At first, however, the report had to be approved by the European Council meeting in Madrid in June 1989. The summit did approve it, not least because of the prodding of the French president and his foreign minister.<sup>117</sup> Yet to the chagrin of the French, the same summit also rejected their calls to set up a firm timetable for the negotiations on an EMU.<sup>118</sup> The root cause of this failure of French diplomacy was Germany's opposition.<sup>119</sup> Although in principle committed to the French project, Bonn had so far refused to lay down a schedule for its realization. In Madrid the only concession that France was able to obtain



from its EC partners on this issue was that the preparatory work for the organization of the IGC could begin right away.<sup>120</sup> For Paris this was far from satisfying. "We do not need a year for this preparation", president Mitterrand commented on the decision taken in Madrid. "We already know what we want. It is all there in the Delors Report."<sup>121</sup>

In the wake of the Madrid summit the French practitioners of the EMU-NOW discourse consequently focused on this one remaining stumbling block: a firm schedule for establishing an EMU. In their efforts French policymakers were aided by the fact that France now assumed the rotating presidency of the EC Council of Ministers. This gave them some control over the EC agenda during the second half of 1989. Paris made it quite plain that it would take full advantage of this opportunity to press ahead with its EMU project. As far as the government was concerned "[t]he goal [of an EMU] was no longer in question", foreign minister Roland Dumas declared. "Nothing [could] impede this new qualitative leap" in the construction of Europe.<sup>122</sup> In order to ensure the success of this "leap", Paris set up the so-called Guigou Committee as one of its first diplomatic initiatives during its presidency.<sup>123</sup> The committee, made up of the personal representatives of the foreign and finance ministers of the Twelve, worked in parallel with those EC bodies charged by the European Council session in Madrid with the preparation of the IGC. Its declared purpose was to strengthen the political impetus towards an EMU and to ensure its speedy realization.

After only a few months of work the committee was able, on 6 October, to present its consensual report to the governments of the Twelve. This was taken by the French presidency to indicate that the preparatory work for the IGC was sufficiently advanced to be able to take the next step and con-

vene the IGC. President Mitterrand consequently laid out the schedule for the realization of an EMU as envisaged by Paris. "I wish for my part ... that the conference for the new treaty is underway by the fall of 1990, and that this gives to the national parliaments the time to ratify the new treaty before 1 January 1993."<sup>124</sup> But the response Mitterrand received from Bonn was still the same: "*Nein* Herr president." It would take an unexpected external "catalyst" to change Bonn's objection to set firm deadlines for the creation of an EMU: the fall of the Berlin Wall in the fall of 1989.

Before turning to this new chapter in Franco-German relations, I want to first quickly compare the evidence unearthed so far with the competing hypotheses about the purpose of integration policy and about governmental preferences pertaining to the organization of political power in the EC. As to the research question about whether integration policy is best understood as a quest for power or for welfare, the assessment of the descriptive power of Idealism and Realism is a rather straightforward task. Despite the obvious economic power asymmetries between France and Germany, the theme of both the French ERM crisis and the EMU-NOW discourses was the quest for welfare. There are no rhetorical traces that would confirm the Realist expectation that French policy-makers feared that Paris' new monetary powerlessness, manifesting itself in particular in the form of the dependency of the franc on the D-mark, could harm the international *grandeur* or the power political aspirations of the *grande nation*. Nor is there any indication that the politicians suspected at any time that Bonn's uncooperative monetary policy might have power political motives. Nowhere did they accuse Bonn of pursuing a coercive D-mark diplomacy in order to set Germany up as Europe's politico-economic hegemon. In short,

between 1986/87 and the fall of 1989 French policy-makers engaged in discursive practices that sharply criticized the asymmetric ERM and Germany's role in it as a danger to growth and employment in France, but never as a danger to the balance of power between the two neighbors. This leads to the conclusion that the discursive orientation of successive French governments in this period reflects Idealist reasoning that describes economic integration policy as welfare-oriented policy that seeks optimal solutions to negative externalities that are created through unregulated transnational relations.

The same assessment of Realist and Idealist perspectives applies to the issue of how governments prefer to organize power in the EC. The French practitioners of the EMU-NOW narrative called for a far-reaching transfer of monetary sovereignty to a supranational European central bank managing a new European currency. Even within the EC this was quite a radical proposal since it would necessitate an unprecedented shift of positive policy-making powers from the national to the European level. The readiness of successive French governments, irrespective of their partisan composition, to engage in a policy discourse that aimed at the Europeanization of monetary policy-making quite obviously does not support the Realist hypothesis that in the EC, like anywhere else in the international self-help system, governments seek to defend their ultimate responsibility over the key political and economic functions on their territory. *Contra* the Realist expectation, then, French policy-makers, during the period of investigation and on this issue of European monetary reform, exhibited no sovereignty-consciousness. Again the Idealist perspective is supported by the debate and its outcome.

## 8. France and the Prospect of German Reunification

1989 was a history-making year: communism all over Central and Eastern Europe lay in its death throes. The cold war and the separation of Europe was drawing to an end. This, in turn, opened up a historic opportunity for German reunification. In May 1989 the Iron Curtain between Hungary and Austria was dismantled. This inconspicuous development had unexpected consequences for the Honecker regime in East Germany: with hindsight it has to be seen as the beginning of the process that ended in the creation of a single Germany on 3 October 1990.<sup>125</sup>

Quickly the East Germans learned about the possibility of crossing from Hungary to the West via the largely unpatrolled "green border". Although this border-crossing was illegal until September, many East Germans, disgruntled with their government, used their vacations in the socialist brotherland to flee to Austria, and from there to West Germany. When the Hungarian government decided to let all East Germans legally cross to the West, the trickle of refugees evolved into a mass exodus. In East Germany, meanwhile, unprecedented mass demonstrations against the communist government took place, and the first country-wide opposition groups were formed. On 18 October 1989 the mounting popular pressure against the East German regime forced its leader Erich Honecker to step down, only a few weeks after the 40th anniversary of the founding of the GDR. His successor, Egon Krenz, tried to placate the growing opposition by promising reforms while trying to preserve the socialist character of East Germany. But his efforts were in vain. Not even the decision on 9 November to tear down the Berlin Wall, a key symbol of communist oppression, could rescue the

regime.<sup>126</sup> Communism in East Germany, as all over Central and Eastern Europe, was quickly withering away under the pressure from the streets.<sup>127</sup> And at the same time the new rallying cry of the people of East Germany grew louder and louder: *Einheit!* - Unity!

But not everywhere in the West did the swelling calls for reunification in East Germany meet with joy. One of the countries where it did not was France.<sup>128</sup> To French policy-makers there was little doubt that the formation of a new great power in the heart of Europe was a danger to their country's national interests. They thus greeted the prospect of reunification with fear.

### 8.1. The French Fear Discourse or the "Return of the Boche"

The French fear of the implications of German unity was articulated and circulated in a new discursive formation: the fear narrative. Soon it dominated the French debate as all major political parties expressed their worries about the prospect of a reunited Germany.<sup>129</sup> The basic premise of the debate was taken out directly of the copy book of Realism: "the strong [did] what they [had] the power to do and the weak accept[ed] what they [had] to accept."<sup>130</sup> Applied to German reunification this premise generated two expectations. First, the foreign policy of a new powerful and reunited Germany would resemble that which the powerful and united Germany of the past had practiced for decades. Bonn would abandon its timid, sometimes even submissive, foreign policy stance in favor of an assertive, if not aggressive, quest for power. Second, this *return to the future* could not but threaten peace and stability in Europe. Based on these two expectations

the script of the fear discourse envisaged two possible scenarios for France. At best the *grande nation* would play the role of Bonn's junior partner in the *new Europe*. Naturally, this was an unacceptable prospect for a country that placed so much emphasis on foreign policy independence and its global power political aspirations.<sup>131</sup> Even less desirable, however, was the other scenario that assumed that, at worst, war between a declining France and a rising Germany would be inevitable. For French policy-makers there was consequently little doubt that Paris had to do all it could to prevent the realization of either of these scenarios.<sup>132</sup>

Despite the common elements of the fear discourse, there were of course differences in emphasis among the discourse adherents. Perhaps the most pronounced power political fear of reunification was expressed by the Communist party (PC). In an official party declaration on reunification the leadership described the reemergence of a "great Germany" as a "great danger" for France.<sup>133</sup> They attacked those who were so naive to believe that a reunited and capitalist Germany would be peaceful and cooperative.<sup>134</sup> On the contrary, a united Germany would in all likelihood become Europe's new bully and begin to throw around its newly acquired economic and politico-military weight in ways detrimental to French interests. The new Germany, PC leader Georges Marchais warned, would "crush" France.<sup>135</sup> The *grande nation* had "everything to fear for its economy, its standard of living, its security and its sovereignty from a united Germany of 80 million inhabitants."<sup>136</sup> And Central and Eastern European states, he added at another occasion, might find themselves demoted to Germany's vassals.<sup>137</sup> André Lajoinie, the leader of the parliamentary group of the PC, expanded on this theme of Germany's will-to-power by arguing that reunification

would spell the "end of stability for the whole EC."<sup>138</sup> In addition, a great part of Europe would probably fall "under the hegemony of an overly powerful Germany."<sup>139</sup> Already earlier he had compared Kohl's reunification policy with Hitler's policy of expanding the Reich.<sup>140</sup>

The parties of the center-right were only slightly less pessimistic about the destabilizing impact of German reunification. As far as the traditionally nationalist neo-Gaullist RPR was concerned, its leader, the former prime minister Jacques Chirac, described the newly emerging situation in post-cold war Europe as being "full of uncertainty and dangers."<sup>141</sup> The soon-to-be prime minister Balladur warned that reunification would destroy any hope that France could ever realize its long-standing ambition to become as strong economically as Germany.<sup>142</sup> Philippe Séguin, another top RPR politician, expressed his opinion that a reunited Germany "would radically change the facts of European security" in a direction unfavorable to France.<sup>143</sup>

Even some politicians in the traditionally German-friendly UDF saw reasons for concern in the prospect of reunification. Former president Valéry Giscard d'Estaing, for instance, harbored doubts whether a reunified Germany would be really peaceful and cooperative. In his opinion reunification and the resulting growth of German power would "pose a very great problem for the European Community, [and] for the security of the Soviet Union."<sup>144</sup> Jean François-Poncet, who had been foreign minister under Giscard, pointed out the possibility that reunification and the collapse of communism might lead to a general renationalization of politics in Europe. Given the new European balance of power, he believed that such a scenario would result in a "German Europe".<sup>145</sup> François Léotard, who would soon become

defense minister, put the prospect of reunification into an historical perspective. "Each time that Germany [had] one state", he observed, "the European continent was destabilized."<sup>146</sup> The UDF senators, finally, painted the specter of an emerging "German-Soviet bloc dominating Central Europe and marginalizing [France]."<sup>147</sup>

The governing party shared most of the fears voiced by the conservatives and the communists. Particularly the left-wing *courant* within the PS was worried about the growth of German power. One of its leaders, defense minister Jean-Pierre Chevènement, commented on the prospect of reunification by noting that the Europeans did "not want to lose their balance [of power] once again through a very great Germany."<sup>148</sup> Concerning the stability of the newly emerging post-cold war Europe with a united Germany at its center, the minister responsible for France's security was pessimistic. He predicted a "high likelihood of crises in Central and Eastern Europe."<sup>149</sup> Max Gallo, a socialist member of the European parliament, expressed a similar concern about the impact of the growth of German power on European affairs. In his opinion there was little doubt that the newly emerging Europe would be "under German leadership." A united Germany, he explained, would have superior economic and financial strength and might soon be tempted, whatever its leaders said at the moment, to build up a corresponding military might.<sup>150</sup> The president of the *Assemblée nationale*, Laurent Fabius, finally pointed out the risks that reunification posed for the future of the EC. The new Germany might become either "too powerful" for the EC or "too uninterested" in its operation, preferring instead to focus on Eastern Europe.<sup>151</sup>

Similar fears were expressed by president Mitterrand. In his public pro-



nouncements on the issue he practiced a moderate fear discourse whose main theme was the danger to international stability and peace resulting from a united Germany. The president stressed two threats. First, he expected that "numerous territorial claims" would be raised in the wake of reunification. Such revisionist claims would certainly be difficult to cope with given their symbolically charged nature.<sup>152</sup> There was even the possibility, according to Mitterrand, that Europe could "explode" just like in the 1930s.<sup>153</sup> Second, Mitterrand feared that the creation of a new great power in the heart of Europe would upset the basis of post-war stability. The post-war European order had been grounded in a "balance" of power which in turn had ensured an "armed peace, but peace nevertheless."<sup>154</sup> The growth of German power that would be the inevitable consequence of reunification would thus require the search for a "new balance" if Europe's long peace was to be prolonged.<sup>155</sup>

In his private conversations with foreign leaders and diplomats as well as with his advisers, president Mitterrand was not held back by diplomatic conventions and often employed a harsher rhetoric.<sup>156</sup> Particularly in his conversations with British prime minister Thatcher, an outspoken opponent of reunification, he openly expressed his distrust of the Germans and their political leadership. During one of their talks the president, for example, observed that "in history the Germans [had been] a people in constant movement and flux", before going on to criticize Chancellor Kohl's reunification policy as a "great danger" for Europe.<sup>157</sup> Yet the president painted an even more pessimistic future for Europe-after-reunification in his talks with his policy advisers. Not hiding his "instinctive, visceral prejudice"<sup>158</sup> against a united Germany, he warned that the growth of German power could "lead

to the alliance Great Britain - France - Soviet Union." This, he went on to predict, "would mean certain war in the 21st century."<sup>159</sup>

## 8.2. Looking for a Strategy to Contain Germany

The fear narrative gave rise to a number of competing policy scripts about the best way to contain the dangers associated with a united Germany. The communists and neo-Gaullists proposed a policy of self-help. The former, accusing the government of pursuing a "policy of submission [to Germany] and of decline", called for an assertive national *realpolitik* to "recapture" France's former great power role in Europe and the world.<sup>160</sup> Only in this way could the growth of German power be made innocuous. The discourse of the RPR had a similar thrust. Its leader Chirac warned the socialists not to cede control over France's "essential diplomatic, economic, monetary, military and political powers" to the EC at this historical juncture. Insisting that the preservation and promotion of national power was now more important than ever, he demanded instead that the government keep "the control over the [country's] fate, including all the necessary means, essentially in [national] hands."<sup>161</sup> Against this national option the UDF formulated a European solution to the German problem. Its politicians counselled to "tie Germany more securely to the EC" in order to prevent it from drifting dangerously between East and West. But this binding strategy could only succeed, the UDF warned, if the EC had first been deepened so that it would not collapse under the increasing political weight of the reunited Germany.<sup>162</sup>

Between these two discursive poles, one national and the other Euro-

pean, oscillated the containment narrative of the socialists, first and foremost articulated by the president himself. At first Mitterrand and his government aimed at delaying reunification. To this end they pursued a sort of rhetorical "minuet: one step forward to welcome the new situation, half a step back to warn of the dangers of uncontrolled changes."<sup>163</sup> They thus expressed their support in principle for German national self-determination, only to add that in their view the issue had little immediate relevance. In this matter, foreign minister Dumas bluntly told the Germans, one had to be careful "not [to] confuse principles with realities."<sup>164</sup> And the realities were, at least as seen from Paris, that "reunification was not a current problem."<sup>165</sup> "In ten years", president Mitterrand ventured to predict, this might be different, but for the foreseeable future the maintenance of peace and stability in Europe was incompatible with a united Germany.<sup>166</sup> What was needed at the moment in western capitals and particularly in Bonn, the president pointed out repeatedly, was prudent statecraft that avoided doing anything that would threaten *perestroika* in the Soviet Union and Central and Eastern Europe. In a newspaper interview, for instance, he told of a conversation he had had with Gorbachev in which the Soviet leader had said that on the day reunification would go ahead "a Soviet Marshall [would] take [his] place."<sup>167</sup> But undue haste on the issue of reunification, according to the president on another occasion, also carried with it a second danger. "If Kohl [went] on wanting to rape everybody, then they [i.e., the Soviets would] do in Dresden what they [had] done in Prague."<sup>168</sup>

Yet to its chagrin Paris soon realized that its efforts to delay reunification had proved ineffective in view of the overwhelming desire of the German people and the West German leadership to overcome the separation

of their country. That desire was powerfully symbolized by Chancellor Kohl's 10-point plan for a fast-track approach to reunification that he presented to the *Bundestag* on 28 November 1989. In France the plan, about which the government had not been consulted, was the straw that broke the camel's back.<sup>169</sup> Mitterrand consequently began to step up his pressure on Bonn in order to force it to pay more attention to international concerns about its current German policy and to prepare for the day when France had to confront a single Germany. The means to achieve this: the rhetoric and practice of the balance of power.

### 8.3. Back to the Future: The Rhetoric and Practice of the Balance of Power

In 1609 a British observer of continental politics had expressed his unease about the prospect of a united Germany. "If it were entirely subject to one monarchy", he had written, "[i]t would be terrible to all the rest."<sup>170</sup> In the 17th century it had been France that had seen to it that German lands remained divided up into small competing states. At the time Richelieu, the first minister of the French Crown and a founding father of *realpolitik*, had waged war against Ferdinand II to prevent the unification of Central Europe under Habsburg rule. Centuries later Paris still feared a reunited Germany and wanted to avoid, or at least delay, its reemergence as long as possible. Yet both morality and raw power calculations made war an extremely impractical option to achieve this goal. "One [could] not wage war against Germany in order to prevent its reunification", Mitterrand observed only half jokingly.<sup>171</sup> Another time-honored international practice, however,

was in Mitterrand's view not obsolescent: the balance of power. He consequently scripted a new German policy that was grounded in two premises. First, international history "demonstrat[ed] that a power that [came] into being always provok[ed] the creation of a power to balance it."<sup>172</sup> Second and closely related, "peace between nations [could] only exist on the basis of a real balance [of power]."<sup>173</sup>

The new discursive practice began to develop in the last two months of 1989. It served two functions. First, the discourse clearly aimed at increasing the political pressure on the German government in order to make it more sensitive to French concerns about the power political implications of German unity and to force it to slow down its drive towards unification. To this end the practitioners of the discourse, primarily Mitterrand, chose impressive diplomatic settings to utter carefully crafted check-the-power-of-Germany statements. Second, the discourse operated as a sort of metanarrative. It enabled French policy-makers to overcome their political differences with their counterparts in the Soviet Union and Great Britain and to forge a containment alliance with them by articulating their relations around a new common concern: reunification.

A highlight in the rapprochement between France and its former allies in the *entente cordiale* was president Mitterrand's visit of state to the Soviet Union in December 1989.<sup>174</sup> It was clearly scripted with one overarching goal in mind: to give utmost effect to the new French balance of power discourse. The Élysée, just like the government in Bonn, was well aware that Gorbachev had it in his hands to stop reunification. "I have no need to oppose [reunification], the Soviets will do that for me", Mitterrand had observed shrewdly shortly before going to the Soviet Union.<sup>175</sup> At another

occasion he had given the clear impression that he knew from his talks with the Soviet leadership that any German attempt to speed up the process of reunification would run into the political roadblock of an "absolute and fundamental veto of the Soviet Union."<sup>176</sup> Whether or not that was indeed what he had been told by the Soviets prior to his visit of state, that was without doubt the impression Mitterrand tried to convey to the German government from his diplomatic stage in the Soviet Union. After their meeting in Kiev, the French president thus stressed two points. First, he reminded the assembled media that "Russia and France [had] served as a balancing force throughout the centuries in difficult moments of history."<sup>177</sup> It would have been difficult at the time for an informed observer not to see in this statement a not-so-subtle warning to Bonn not to do anything against the express wishes of Paris and Moscow. Second, Mitterrand took pains to underline the "far-reaching agreement concerning the German question" between the two countries.<sup>178</sup> This meant in particular, the French leader made it quite plain, that he agreed with Gorbachev that the time was not yet ripe for reunification. The post-cold war European order could not be overthrown overnight, Mitterrand admonished Bonn: "one [could] not simply change the borders if one [wanted] to preserve the prospect of peace" in Europe.<sup>179</sup>

Another diplomatic rapprochement prompted by the prospect of reunification took place outside the limelight of the world's media. The common discursive universe of the check-the-power-of-Germany policy narrative created a strong (temporary) affinity between the socialist president Mitterrand and the arch-conservative prime minister Thatcher that enabled them to put aside the many conflictual issues that had soured their relations

during much of the 1980s. Both now agreed that, as Thatcher put it, the two countries had "to form a counterweight against Germany."<sup>180</sup> Mitterrand even went so far as to compare the current geopolitical situation of Europe to that before the Second World War. "They ha[d] to avoid", he told the British prime minister, "to find themselves again in the situation of Munich." He then went on to advise that they establish a "special relationship between France and Great Britain just as in 1913 and 1938."<sup>181</sup> It thus came as no surprise that the two leaders consequently agreed to have their "Foreign and Defense ministers ... talk over the issue of reunification and [to] also examine the scope for closer Franco-British defense co-operation."<sup>182</sup>

Two other countries of somewhat less importance that figured in the French balance-of-power script were East Germany and Poland. In December 1989 Mitterrand was the first western leader, with the exception of Chancellor Kohl, to pay a visit of state to the East Berlin regime. The French president used the occasion explicitly to oppose Kohl's fast track approach to reunification, thus indirectly backing the efforts of the discredited East German regime to preserve the sovereignty of the GDR. They had to understand, he pointed out to the restless East Germans, that the "German problem [was] also a European problem."<sup>183</sup> The international ramifications of the German question, however, needed time to be sorted out. Of particular importance in this context, Mitterrand told them, was to manage reunification in such a way that it would not threaten peace and stability in Europe. And this, he made it quite plain, could not be left to the Germans themselves. It was "the business of neighbors, together with the European balance to try to preserve the peace" in Europe.<sup>184</sup>

Besides East Germany, Poland was the second country of the former East Bloc that felt it had good grounds to fear that reunification might endanger its territorial integrity. The Polish government thus sought to enlist the support of western powers, particularly France and the UK, to put pressure on a reluctant Bonn to guarantee the inviolability of the Oder-Neisse line. Fitting well into their balance of power discourse, the socialist policy-makers quickly made the border issue into a test of Bonn's willingness to address international concerns about reunification. "It [was] necessary", declared foreign minister Dumas, "that the definitive character, i.e., the inviolability of the western border of Poland, [had] to be affirmed without reservation."<sup>185</sup> Mitterrand, for his part, described the Oder-Neisse line as "sacrosanct" and called on Bonn to demonstrate through a firm political pledge that it did not have any designs on Polish territory.<sup>186</sup> As the German government refused such a pledge, Paris stepped up its rhetoric. "It [was] incumbent upon the Germans", the president said, to settle this problem "before unification [was] completed."<sup>187</sup>

## **9. Forward to the Future: Money, Power and a Recast**

### **EMU-NOW Discourse**

Throughout most of the post-war period the main political players in France - the RPR, UDF and the PS - had regarded the EC as an important foreign policy instrument to enhance France's influence in Europe, to contain Germany, and to preserve peace and stability on the continent. The fundamental geopolitical changes in the East that began to unfold in 1989 seemed at first to shatter this post-war cross-party consensus. The initial



reaction of the leading figures in both the RPR and the PS, not to mention the PC, to the prospect of German reunification and the associated challenge of making the superior power of the rival innocuous was to opt for the traditional method of (internal or external) balancing. Yet in the case of the PS this preference was always precarious. Mitterrand in particular was quite uncertain as to the best way to contain the united Germany. Early in the fall of 1989, for example, when reunification had not yet been pushed to the top of the agenda of European policy-makers, the French president hinted at the possibility of using the EC as a means to render innocuous the power political ramifications of reunification.<sup>188</sup> In the following weeks, however, the president privileged the rhetoric and practice of the balance of power. But soon he returned to the containment-through-integration theme again, without, however, abandoning the balance-of-power policy script. It took some time before Paris recognized that integration and alliance policy were incompatible and discontinued the latter.<sup>189</sup>

At around the time of the fall of the Berlin Wall Paris began to inscribe the containment-through-integration theme in the long-standing EMU-NOW discourse. The recast policy script no longer focused primarily on the regulation of asymmetric monetary interdependence, but rather on the containment of German power.<sup>190</sup> The premise of the new policy narrative was straightforward. "It [was] necessary", Mitterrand declared, "to create Europe very quickly in order to defuse German reunification."<sup>191</sup>

Again it was the president himself who took the lead role in formulating and disseminating the discourse. He skillfully used both the diplomatic stage and the media to convey the message that reunification could only proceed in parallel with the deepening of the EC. At first Mitterrand's comments

were rather guarded. At the 54th Franco-German summit at the beginning of November 1989, for instance, he simply informed the German chancellor of the view of his government that the "construction of Europe [would] aid Germany to reunify."<sup>192</sup> And he did not leave the Chancellor in the dark about what this meant for Paris: a German commitment to the speedy realization of the EMU.<sup>193</sup> But as Bonn continued to refuse any such commitment, Mitterrand became more outspoken. After Kohl had presented his 10-point plan to the *Bundestag*, the president let the German government know that it was currently performing a dangerous balancing act. Germany had always prided itself in being "the motor of the process of European integration", Mitterrand observed coolly, but now it seemed to have suddenly turned into "a brake."<sup>194</sup> The same message was conveyed by foreign minister Dumas who complained to his German counterpart that Bonn "multiplied its reservations against the EMU" at a time when quick progress on the issue was more important than ever before.<sup>195</sup>

Consequently Bonn was warned in no unclear terms by Mitterrand that if it were to continue its current delaying tactic vis-à-vis the EMU, Europe would run the risk of "fall[ing] back into the mental universe of 1913."<sup>196</sup> In conversations with his advisers the president went one step further and pointed out what might happen if France's warnings were not heeded by Bonn. "Either German unity [was] realized after European unity, or [the Germans would] have to confront the triple alliance, and that [would] end in war." "If German unity [was] realized after that of Europe", according to the president, "then [France would] help" the Germans."<sup>197</sup>

French diplomacy consequently tried hard to increase the pressure on the German government in order to get it to agree to what it had so far

refused to accept: a firm date for the opening of an IGC on an EMU. Bonn was left in no doubt about the importance Paris attached to get such a commitment from its neighbor at the upcoming European Council in Strasbourg at the end of the year. "It [was] necessary to fix the date for the IGC as well as that for the completion of an EMU at Strasbourg", president Mitterrand declared.<sup>198</sup> In the end the constant diplomatic pressure exerted by Paris paid off: Bonn abandoned its delaying tactics. Three days before the opening of the council meeting in Strasbourg Kohl informed Mitterrand that he was now prepared to agree to have an IGC on an EMU at the end of 1990.<sup>199</sup> In Paris there was great relief. There could be no doubt that this was the breakthrough for which French diplomats and politicians had worked hard, not only since the fall of the Berlin Wall, but indeed since the start of the EMU-NOW campaign in 1987/88.<sup>200</sup>

Yet even after the successful completion of the European Council meeting in Strasbourg the government in Paris continued to keep up the rhetorical pressure on Germany.<sup>201</sup> The president and his government still feared that Bonn, being more and more preoccupied with intra-German affairs, might be tempted to backtrack on its pledge, thus undoing the precarious linkage between German unity and European monetary integration that had been forced on it. Only a few days after the Council meeting in Strasbourg Edith Cresson, the minister of European affairs, thus repeated an old accusation: Bonn, she said, was acting as a brake on the EMU.<sup>202</sup> A few months later Mitterrand expressed a similar concern. "I am of the opinion", the French president declared, "that the speeding up of the process of German reunification ha[d] to go hand in hand with the speeding up of the process of European integration."<sup>203</sup> Under no circumstances would

Paris tolerate, he made it quite plain at another occasion, that the Strasbourg compromise came undone, and that "the German problem" superseded the "problems of the Community."<sup>204</sup> This was also the message of finance minister Bérégovoy who reminded Bonn, a few days after the German government had submitted to East Berlin a proposal for intra-German economic and monetary union, of its obligation actively to support progress towards an EMU.<sup>205</sup> Foreign minister Dumas, finally, warned of the "looming danger of paralysis" of European integration in view of German reunification unless the EMU was realized earlier than originally planned.<sup>206</sup> While Paris did not succeed on this matter, its demand as well as its constant reminders to Bonn to honor the Strasbourg commitment to an EMU fulfilled a purpose: the French made it clear to the Germans that they still owed their part of the Strasbourg bargain.<sup>207</sup>

What does the discursive reaction of the French policy-makers to the prospect of German reunification say about the descriptive power of Idealism and Realism? Beginning with the research question about the attitudes prevailing in the relations between EC governments, there can be no doubt that the widely practiced fear discourse about the national security implications of German reunification confirms the Realist proposition. There are no traces in this narrative that demonstrate confidence on the part of the French government, or the opposition for that matter, in the joint problem-solving capacity that the Idealist expects to be displayed in a stable zone of peace. Rather what I found to dominate on the French domestic political scene was the rhetorical posture of the weary gladiator in a Hobbesian war system who fears for his life. Disregarding decades of cooperative relations between France and Germany as well as the unques-

tioned democratic tradition of the latter, president Mitterrand even went so far as to envisage the possibility, if not likelihood, of war between the rising power Germany and the declining power France. In short, the French discursive reaction to German reunification provides strong support for the Realist argument that below the Idealist superstructure of the supranational EC polity Western Europe remains what it has been for centuries: a deeply ingrained Hobbesian war system which continues to condition states to (occasionally) confront each other with "their weapons pointing, and their eyes fixed on one another."<sup>208</sup>

And what about the research question about the purpose of integration policy? As we have seen, before the fall of 1989 the French EMU-NOW *démarche* had a clear Idealist thrust. This, however, changed quickly as German reunification began to look ever more likely in the wake of the fall of the Berlin Wall. Both the containment-through-integration narrative that finally became the official discursive position of the socialist government, and the self-help discourses circulated by the conservative RPR and the communists, stressed the need to promote French national power in view of an emerging superior rival. They differed in their choice of method, not in their goal. And this goal was, as it had been in the 1950s, to prevent "the use of [the] superior German power for hostile purposes, especially for the creation of a new German hegemony on the European continent."<sup>209</sup> After some hesitation the government inscribed this goal in the EMU-NOW discourse which had been in circulation since 1987/88. This gave the discourse a new Realist thrust. Its main practitioners no longer justified the construction of the EMU primarily in terms of the quest for welfare, but rather in terms of the quest for power: by making the superior power of the

German rival innocuous through *engrenage*, France would be able to preserve the established equilibrium between the two neighbors. While this confirms the Realist power hypothesis, it disconfirms, at the same time, the Realist sovereignty proposition. Clearly, in the discursive universe of the French government the goal of "acquiring new techniques for resolving conflict" between France and a reunited Germany figured larger than preserving "the factual attributes of sovereignty" of the *grande nation*.<sup>210</sup> This is in accordance with the Idealist expectation rather than with that of Realism.

#### Notes

1. For a detailed description and evaluation of these measures see Pierre Favier and Michel Martin-Roland, *La Décennie Mitterrand: 1. Les Ruptures, 1981-1984* (Paris: Seuil, 1995), pp.119-257; Alain Fonteneau and Pierre-Alain Muet, *La Gauche Face à la Crise* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1985), pp.96-130; or Jeffrey Sachs and Charles Wyplosz, "The Economic Consequences of President Mitterrand," *Economic Policy* 17 (1986): 269-274.

2. Philippe Bauchard, *La Guerre des Deux Roses: Du Rêve à la Réalité, 1981-1985* (Paris: Bernard Grasset, 1986), pp.15-16.

3. In 1980 the unemployment rate was 6,3%. In the months before and after Mitterrand's election victory unemployment swelled on average by 36.000 people per month. See Sachs and Wyplosz, "Economic Consequences", p.264; Fonteneau and Muet, *La Gauche*, p.90.

4. Compare Fonteneau and Muet, *La Gauche*, p.96.

5. Favier and Martin-Roland, *Les Ruptures*, p.56.

6. See Bauchard, *La Guerre*, p.27; Fonteneau and Muet, *La Gauche*, p.163. Over the whole year capital outflows "amounted to 79 billion franc." Pascal Petit, "Expansionary Policies in a Restrictive World: The Case of France," in *The Political Economy of European Integration: States, Markets and Institutions*, edited by Paolo Guerrieri and Pier Carlo Padoan (Savage: Barnes & Noble, 1989), p.258.

7. Mitterrand, quoted in Bauchard, *La Guerre*, p.10. Compare also Favier and Martin-Roland, *Les Ruptures*, p.70.

8. See Bauchard, *La Guerre*, pp.17, 29.
9. Sachs and Wyplosz, "Economic Consequences", p.275.
10. Within the government the international pressure on the franc opened up a rift between those who wanted to abandon the current strategy of insular Keynesianism and those who wanted to stick to it. Compare Favier and Martin-Roland, *Les Ruptures*, pp.486-491. Over the next one and a half years this rift would become a major dividing line threatening to tear apart the government.
11. There is, however, some reason to believe that this negative assessment of the government's economic policy by the business community and others was somewhat exaggerated. In an econometric analysis Fonteneau and Muet, for instance, came to the conclusion that *without* the expansionary stimulus the performance of the French economy would have been significantly poorer than it actually was. Fonteneau and Muet, *La Gauche*, pp.123-130. Comparing the sacrifice ratio - i.e., the ratio of the increase in unemployment to the reduction in inflation - in France with that in Germany and the UK, Sachs and Wyplosz came to a similar conclusion: "France faced a more favorable inflation-unemployment trade-off than other European countries." Sachs and Wyplosz, "Economic Consequences", p.264.
12. Sachs and Wyplosz, "Economic Consequences", p.276.
13. Mitterrand, quoted in Favier and Martin-Roland, *Les Ruptures*, p.508.
14. For a summary of these austerity measures see Fonteneau and Muet, *La Gauche*, pp.192-193.
15. Jacques Attali, quoted in Éric Aeschmann and Pascal Riché, *La Guerre de Sept Ans: Histoire Secrète du Franc Fort, 1989-1996* (Paris: Calmann-Lévy, 1996), p.28. Yet, *contra* Attali's assessment there is good reason to believe that the skepticism of the markets at the time was justified. At the meeting of the French Council of ministers on 16 June 1982, when the austerity package was debated, Mitterrand made the following comment: "If we fail in this second phase [of austerity], a third one could lead us to exit from the EMS." Favier and Martin-Roland, *Les Ruptures*, p.517.
16. Daniel Gros and Niels Thygesen, "Resolution of the European Council of 5 December 1979 on the establishment of the European Monetary System (EMS) and related matters," in *European Monetary Integration: From the European Monetary System to the European Monetary Union* (London: Longman, 1994), p.59.
17. On the rise and fall of the Bretton Woods system of fixed exchange rates see Joan Edelman Spero, *The Politics of International Economic Relations* (New York: St. Martin's, 1987), pp.35-68. On the European currency snake - an arrangement by which the bilateral fluctuations of the currencies of the snake countries were limited to 4.5% - see Gros and Thygesen, *Monetary Integration*, pp.15-21. An in-depth history of the negotiations about the creation of the EMS is found in Peter Ludlow, *The Making of the European Monetary System: A Case Study of the Politics of the European Community* (London: Butterworth, 1982).
18. For detailed and non-technical descriptions of the EMS see Harmen Lehment, "The European Monetary System," in *The Harmonization of European Public Policy: Regional Responses to Transnational Challenges*, edited by Leon Hurwitz (Westport: Greenwood, 1983), pp.183-196; Jean-Jacques Rey and Jan Michielsen, "European Monetary Arrangements: Their Functioning

and Future," in *International Monetary and Financial Integration: The European Dimension*, edited by Donald E. Fair and Christian de Boissieu (Dordrecht: Martinus Nijhoff, 1988), pp.75-89; Francesco Giavazzi and Alberto Giovannini, *Limiting Exchange Rate Flexibility: The European Monetary System* (Cambridge: MIT Press, 1989), pp.29-42.

19. The UK, however, decided to take part in some of the other arrangements of the EMS: sterling for instance was factored into the ECU, the basket currency that was set up, primarily, as the accounting unit of the EMS.

20. Italy was allowed a broader band of fluctuation of 6% on each side of the central parity. In the wake of the rolling currency crises of 1992/93 the margin was extended to 15% for all participating countries.

21. Gros and Thygesen, "Resolution of the European Council of 5 December 1979," in *Monetary Integration*, p.60.

22. Jean-Pierre Chevènement, until 1983 minister of industry, quoted in Favier and Martin-Roland, *Les Ruptures*, p.532. See also *ibid.*, p.515. For the other key players in the "nationalist camp" as well as those in the opposing "European camp" see *ibid.*, pp.530ff. Compare also Bauchard, *La Guerre*, pp.140-141.

23. In addition, there was the danger that *l'autre politique*, as this scenario came to be known, would lead to a sharp drop in the external value of the franc which in turn would force the government to raise interest rates in order to prevent a drying up of the financial markets. Compare Favier and Martin-Roland, *Les Ruptures*, p.566.

24. *Le Monde*, 7 June 1988, p.55. This option would amount to the integration of the French economy into the world market without ifs and buts. It would thus sound the knell for "Mitterrand's long-term industrial strategy [which had aimed at] reorganiz[ing] activities so as to reduce the interdependence of the French economy." Petit, "Expansionary Policies," p.250. In his election platform for the 1981 presidential election Mitterrand had still promised to lower the share of external trade in the GDP from 23% at the time to 20% by around 1990. *Ibid.*, p.263, endnote 5.

25. "[I]t was thought that by maintaining the agreed-upon parity of the franc with the Deutschmark, France imposed on itself a monetary discipline which would contribute to the defeat of inflation." Christian de Boissieu and Marie-Hélène Duprat, "French Monetary Policy in the Light of European Monetary and Financial Integration," in *Monetary Implications of the 1992 Process*, edited by Heidemarie Sherman et al. (London: Pinter, 1990), p.71.

26. Compare *ibid.*

27. This is how Edouard Balladur who was at the time the finance minister described the rationale of the policy of the *franc fort*. The quote is from *Le Monde*, 1 March 1988, p.2. Compare also Favier and Martin-Roland, *Les Ruptures*, p.530ff. The theoretical and empirical literature interrogating the thesis that the ERM constituted in the 1980s a disciplinary instrument that could be used by inflation-prone countries to bring their monetary problems under control is large and its results are inconsistent. See for example Francesco Giavazzi and Alberto Giovannini, "The Role of the Exchange-rate Regime in a Disinflation: Empirical Evidence on the European Monetary System," in *The European Monetary System*, edited by Francesco Giavazzi, Stefano Micossi and Marcus Miller (Cambridge: Cambridge University Press, 1988), pp.85-107; Francesco Giavazzi and Luigi Spaventa, "The 'New' EMS," in *The European Monetary System in the 1990s*, edited by



Paul de Grauwe and Lucas Papademos (London: Longman, 1990), pp.65-85; Paul de Grauwe, *The Economics of Monetary Integration* (Oxford: Oxford University Press, 1992), pp.95-129; or Michele Fratianni and Jürgen von Hagen, *The European Monetary System and European Monetary Union* (Boulder: Westview, 1992), pp.43-57.

28. "The interest-rate differential between a member country [of the ERM] and Germany reflect[ed] expectations of devaluation of its currency *vis-à-vis* the D-mark." But it was exactly this "excess interest-rate differential" that, according to this view of the anti-inflationary logic of the ERM, imposed the necessary discipline on a soft currency country like France and helped it to bring inflation under control. Christian Bordes and Eric Girardin, "The Achievements of the ERM and the Preconditions for Monetary Union: A French Perspective," in *Economic Convergence and Monetary Union in Europe*, edited by Ray Barrell (London: Sage, 1992), p.102. On the general role of risk premiums in the determination of the French exchange rate in the 1980s see Rudiger Dornbusch and Pierre Jacquet, *La France et L'Union Economique et Monétaire* (Paris: Les Cahiers de L'IFRI, 1991), pp.25-26.

29. "The abandoning on the part of [France] of a part of [its] monetary sovereignty and the subordination of [its] monetary policy to the will of the *Bundesbank* was in fact the price that had to be paid in order to acquire a certain anti-inflationary credibility." Françoise Nicolas and Hans Stark, *L'Allemagne: Une Nouvelle Hégémonie?* (Paris: IFRI, 1992), pp.96-97.

30. "My opinion was not yet formed, and I wished to have enough arguments in order not to have to do so," Mitterrand later remembered. Favier and Martin-Roland, *Les Ruptures*, p.556.

31. Mitterrand, quoted in Bauchard, *La Guerre*, p.141. See also Jacques Attali, *Verbatim*, vol. 1, *Chronique des Années 1981-1986* (Paris: Fayard, 1993), p.408. [The book is a day to day account of Mitterrand's political life at the Élysée told by the president's former counselor. *Verbatim* is based on the daily journal Attali kept during his fourteen years at the Élysée. The idea of keeping such a journal with a view to have it later published came from the president himself]. Mitterrand's decision to exit from the ERM seemed to have been motivated by his desire to continue his socialist project. "I am divided", he remarked, "between two goals: that of constructing Europe and that of social justice. The EMS is necessary in order to achieve the former and limits my freedom to achieve the latter." *Ibid.*, p.399. Mixed into this consideration was also an electoral calculus as the following quote indicates. Referring to the austerity policy implemented by Mauroy, the president told his prime minister: "your policy is courageous, you are courageous, but this costs us dearly in political terms." Favier and Martin-Roland, *Les Ruptures*, p.562.

32. Mauroy, quoted in Attali, *Verbatim*, vol. 1, p.404. Finance minister Jacques Delors shared Mauroy's view on this subject, and as Mitterrand asked him to be the new prime minister and exit from the ERM he consequently declined. *Ibid.* pp.403-404, 410. Both Mauroy and Delors were convinced that the government had "to restore the state's power to exercise control over the evolution of fundamental monetary quantities: monetary growth, credit, and the value of the currency" if it wanted to overcome the economic *malaise* into which the country had plunged. Michael Loriaux, *France after Hegemony: International Change and Financial Reform* (Ithaca:

Cornell University Press, 1991), p.270.

33. One observer described the president as someone who had an aversion towards economic policy-making, as someone who was "always blocked on decisions of an economic, monetary or financial type, because he [was] aware, perhaps too much so, of his weaknesses." Bauchard *La Guerre*, pp.135, 138. A crucial role in this pro-European decision must probably be attributed to the minister of the budget. On 16 March 1983 Laurent Fabius, who had until then recommended exiting from the ERM, was asked by Mitterrand to "imagine that [he] was finance and economics minister." What would he do? The result of this role play: Fabius concluded that if France "exit[ed] from the EMS, then [this would] lead [the country] to an even greater austerity, since the franc [would] drop precipitously." Favier and Martin-Roland, *Les Ruptures*, p.566. Besides economics, the European ideal also played a role in Mitterrand's decision. Compare the president's statements that are quoted in *ibid.*, p.556, 586.

34. Mitterrand, quoted in Sachs and Wyplosz, "Economic Consequences," p.296. For a list of the new austerity measures put together to achieve these goals see Favier and Martin-Roland, *Les Ruptures*, pp.583-584. One of the political results of this economic U-turn of March 1983 was that a year or so later the communists left the government. They found it unacceptable to continue to support economic policies that had by now little in common with the initial socialist-communist electoral manifesto.

35. To some observers this U-turn and the preceding unsuccessful experiment of *socialism à la française* "showed in a striking way the limits of France's independence as regards its economic policy." de Boissieu and Duprat, "Monetary Policy," p.71. This, it seems to me, is a correct assessment, though it may be incomplete. For an interesting complementary structural political economy explanation of the apparent permanence of this economic policy U-turn see Loriaux, *France after Hegemony*, particularly chapters 1, 4 and 7.

36. Pierre Bérégofoy, then economics and finance minister, quoted in *Le Monde*, 1 February 1989, p.43. Already between 1984 and 1986, when Bérégofoy had been in charge of the public finances for the first time, he had been a "fierce votary of the *franc fort*" and of the "fight against inflation." Pierre Favier and Michel Martin-Roland, *La Décennie Mitterrand: 2. Les Épreuves, 1984-1988* (Paris: Seuil, 1991), p.185. The conservative Edouard Balladur, who succeeded Bérégofoy in 1986 at the top of the ministry, was also a convinced supporter of the *franc fort*. Compare *Le Monde*, 2 January 1987, p.15.

37. On the importance of the D-mark/dollar exchange rate for the operation of the ERM compare Bordes and Girardin, "Achievements of the ERM", p.99; or de Boissieu and Duprat, "Monetary Policy", p.69.

38. Bérégofoy who would later as finance minister become an ardent supporter of the ERM was one of the few top socialist policy-makers who opposed the March 1983 decision to pursue a policy of the *franc fort*. Another was Chevènement. Naturally, the communists opposed the new policy line. See Favier and Martin-Roland, *Les Ruptures*, pp.587-588.

39. The "EMS has undoubtedly contributed to the good performance of the French economy in terms of disinflation." Bordes and Girardin, "Achievements of the ERM," p.118. For a somewhat less positive assessment see Paolo Onofri and Stefania Tomasini, "France and Italy: A Tale of two

Adjustments," in *Economic Convergence and Monetary Union in Europe*, edited by Ray Barrell (London: Sage, 1992), p.96. There they argued that "France, in taking EMS discipline seriously, was able to converge to German performance without the EMS exerting a crucial role." Compare also Dornbusch and Jacquet, *L'Union Economique*, pp.28-31. They stress that, besides the EMS, incomes policy played an important role in bringing inflation under control. A similar argument is found in Patrick Artus and Henri Bourguinat, "The Stability of the EMS," in *30 Years of European Monetary Integration: From the Werner Plan to EMU* (London: Longman, 1994), pp.144-147.

40. Dornbusch and Jacquet, *L'Union Economique*, p.26.

41. Edouard Balladur, then economics and finance minister, writing in *The Wall Street Journal* (Europe), 23 February 1988, p.8. Alternatively Balladur spoke of monetary "anarchy." Edouard Balladur, *Passion et Longueur de Temps: Dialogues avec Jean-Pierre Elkabbach* (Paris: Fayard, 1989), p.169.

42. Compare John B. Goodman and Louis W. Pauly, "The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets," *World Politics* 46 (1993): 50-82; Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994); or David M. Andrews, "Capital Mobility and State Autonomy: Towards a Structural Theory of International Monetary Relations," *International Studies Quarterly* 38 (1994): 193-218.

43. Richard N. Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24 (1972): 168. This type of policy has led in turn to the emergence of the so-called competition state.

44. *Le Monde*, 7 November 1987, pp.1, 26. Balladur once described this state of affairs in this way. "In monetary matters [France and the rest of the world] has for decades suffered from the law of the strongest: the United States, then Germany and Japan, because of the import of their economies and their financial systems, have had a decisive influence on all the countries of the world." Balladur, *Passion*, p.329.

45. *Le Monde*, 12 January 1987, pp.1, 13.

46. Horst Ungerer et al., "IMF Survey," in *The European Monetary System: Developments and Perspectives* (Washington: International Monetary Fund, 1990), p.13.

47. During most of the 1980s this particular relationship between the D-mark/dollar exchange rate, the D-mark exchange rate of the franc and French interest rates was quite common. "[W]hen the dollar drop[ped], the Deutschmark usually [rose] against the franc, which [drove] the Bank of France to raise domestic interest rates in order to keep the parity." de Boissieu and Duprat, "Monetary Policy", p.69.

48. *Le Monde*, 6 January 1987, pp.1, 38.

49. *Frankfurter Allgemeine Zeitung*, 15 October 1986, p.13. See also *ibid.*, 9 October 1986, p.13. Another source, however, has raised doubts as to whether the government thought seriously about exiting from the ERM at the time. See Favier and Martin-Roland, *Les Épreuves*, p.556.

50. See *Frankfurter Allgemeine Zeitung*, 8 January 1987, p.9; *Le Monde*, 8 January 1987, p.23 and 13 January 1987, p.40. Bonn's unwillingness to aid France in its effort to defend the franc/D-mark exchange rate was probably at least in parts due to the general election set for 25 January 1987. With this deadline coming up, just sitting tight, refraining from either lowering German interest rates, thus looking soft on inflation, or from revaluing the

D-mark, thus hurting exporters, must have seemed to Bonn to be quite an attractive course of action.

51. *Le Monde*, 6 January 1987, p.1. See also *Frankfurter Allgemeine Zeitung*, 15 December 1986, p.13. For a time French expectations that Germany would act in support of the ERM had gained new momentum. At the end of 1986 the US and Japan had agreed to stabilize the dollar/yen exchange rate. Part of the deal had been a cut in the Japanese interest rates. Paris had hoped that the *Bundesbank* would follow the example of the Japanese monetary authorities. Compare *Frankfurter Allgemeine Zeitung*, 3 November 1986, p.13. This, however, had not been the case. On the contrary, at the end of December the German central bank had decided to *raise* interest rates. New attacks on the franc were the inevitable result.

52. As to the foreign exchange market pressure on the D-mark, on 6 January 1987 the *Banque de France* had decided to allow the franc to fall to the bottom of its band with the D-mark which, given the rules of the ERM, consequently forced the reluctant *Bundesbank* to intervene more actively on the foreign exchange markets in order to prevent the D-mark from crossing the top of its band with the franc. See *Le Monde*, 8 January 1987, p.23.

53. In February 1987 the finance ministers and central bank governors of the G-6 countries met in Paris and, in the so-called Louvre Accord, agreed to "cooperate closely to foster stability of exchange rates around current levels." Ungerer et al., *Monetary System*, pp.15-16.

54. *Times*, 9 January 1987, p.18.

55. There were, however, also exceptions. See for instance the statements made by Yves Guéna, a member of the gaullist RPR, that are quoted in *Le Monde*, 16 January 1987, p.27; or those of Chevènement that are quoted in *Frankfurter Allgemeine Zeitung*, 5 October 1987, p.15.

56. Balladur, quoted in *Le Monde*, 2 January 1987, p.15. See also Balladur's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 22 December 1986, p.13 and 8 January 1987, p.9.

57. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 7 January 1987, p.1.

58. *Ibid.*, 8 January 1987, p.9.

59. But Germany was not alone in being blamed by Paris. The US too was criticized for its uncooperative monetary and exchange rate policies. See the statements by Balladur that are quoted in *Le Monde*, 8 December 1987, p.43 and 8 January 1988, p.8.

60. Balladur, quoted in *Le Monde*, 2 January 1987, p.15. While in Paris the good performance of the French economy was stressed, on the other side of the Rhine the growing social unrest in France, involving first students and later the employees of various state-owned enterprises such as the railways and the shipyards, was seen as an important source of the ERM tensions. See *Frankfurter Allgemeine Zeitung*, 5 January 1987, p.9 and 8 January 1987, p.1. For a French account of the 1986/87 social unrest that shook the conservative government see Balladur, *Passion*, chapter 7.

61. Balladur, quoted in *Times*, 8 January 1987, p.17. See also *Frankfurter Allgemeine Zeitung*, 21 January 1988, p.11; or Balladur, *Passion*, p.144. There Balladur insisted that the "fundamental cause" of the weakness of the French currency, notwithstanding the massive demonstrations and strikes against the government at the end of 1986 and the beginning of 1987, was the international monetary anarchy. The anarchical situation, according to

Balladur, was characterized by "the appreciating D-mark" and "the fall of the dollar", both developments a "result of an American trade deficit that had reached its record level in November 1986."

62. Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 15 December 1986, p.13.

63. Chirac, quoted in *Le Monde*, 8 January 1987, p.23. See also his statements that are quoted in *Frankfurter Allgemeine Zeitung*, 8 January 1988, p.11. Indeed, the French government, on 6 January 1987, had decided to order the *Banque de France* to stop defending the franc, thereby letting the currency drop to the bottom of its ERM trading band vis-à-vis the D-mark, in order "to demonstrate to Germany that the responsibilities and the costs incurred in the management of the monetary system with which Europe had equipped itself had to be divided fairly." Paris, according to the government, had to do something in order not to "suffer constantly from the consequences of [Germany's] unilateral decisions." Balladur, *Pas-sion*, p.145.

64. While politicians took clearly the lead in formulating and circulating the new policy script, many of the important media outfits helped them in this task. *Le Monde*, for instance, explained to its readers that the record-high French interest rates were the result of yet another display of Bonn's unresponsiveness to "all calls to stimulate the economy." Equally sharp in its criticism, the economics magazine *Valeurs Actuelles* argued that the current *malaise* of the French economy was the result of the German dominance of the ERM. Monetary cooperation under German hegemony had proven to be a "terrible monetary handicap for the [French] industry." The ERM, the magazine added, was a "compulsory instrument" which was responsible for the "deindustrialization of France." Somewhat less polemical, *La Vie Française*, another economics magazine, simply noted that Germany imposed on France, via the ERM, "a policy of high interest rates in order to defend the franc", while Paris wanted to pursue a "policy of lowering interest rates in order to combat unemployment." All quotes are taken from *Frankfurter Allgemeine Zeitung*, 22 June 1987, p.13, 27 June 1987, p.12, and 22 June 1987, p.13 respectively.

65. Balladur, quoted in *Le Monde*, 15 January 1988, p.28. Germany, the minister said at another occasion, "forced its economic and monetary policy upon the whole European Monetary System." *Frankfurter Allgemeine Zeitung*, 20 January 1988, p.11. This dominance or asymmetry hypothesis of the EMS has been the subject of much academic commentary. Artus and Bourguinat summarized the debate in this way. "Most of the theoretical work on the EMS comes to the conclusion that its functioning was asymmetrical from 1979 to 1992: Germany defined independently its monetary policy and other countries stabilised the parity of their currency vis-à-vis the DM." Artus and Bourguinat, "Stability of the EMS", p.144. Examples that tend to support this assessment include the following authors. Nicolas and Stark spoke of the "domination of the *Bundesbank* of Europe as a whole" which in turn allowed it "to impose its economic and monetary policy" on the continent. Nicolas and Stark, *L'Allemagne*, p.95. Riché and Wyplosz argued that the "*Buba* decid[ed], the others follow[ed]." Pascal Riché and Charles Wyplosz, *L'Union Monétaire de l'Europe* (Paris: Seuil, 1993), p.58. Tsoukalis pointed out that in the ERM "only Germany set its monetary policy independently. The other countries had either to adjust or to leave the system." Loukas

Tsoukalis, "Economic and Monetary Union", in *Policy-Making in the European Union*, edited by Helen Wallace and William Wallace (Oxford: Oxford University Press, 1996), pp.288-289. For a study that rejected the German dominance hypothesis see Fratianni and von Hagen, *Monetary System*, pp.75-98.

66. Compare Rey and Michielsen, "Monetary Arrangements," pp.76-78.

67. The *Bundesbank* "never intervene[d] in EMS currencies unless the DM [was] at the margin", i.e., when it was forced by the rules of the EMS to take actions on the foreign exchange markets. Gros and Thygesen, *Monetary Integration*, p.138.

68. Balladur, quoted in *Le Monde*, 15 January 1988, p.28.

69. Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 13 January 1988, p.14. This was Balladur's "way of saying that France no longer tolerate[d] being subjected to the tough monetary policy of the *Buba*." Riché and Wyplosz, *L'Union Monétaire*, p.64. On the issue of asymmetry, i.e., "the unequal distribution of the burden of intervention" in the ERM see also Tsoukalis, "Monetary Union", p.288; Gros and Thygesen, *Monetary Integration*, pp.138-140. Riché and Wyplosz, finally, also pointed out that this asymmetry, although most pronounced in the case of intramarginal interventions, extended to obligatory interventions at the margins. "But the burden of the defense of the parities, in the end, [was] divided up unequally. The more the reserves of the *Banque de France* decline[d], the more it [became] clear that a realignment [was] near. The speculation [increased] all the more since the markets [knew] well that there [was] absolutely no risk in betting on the devaluation of the franc." Riché and Wyplosz, *L'Union Monétaire*, p.56. The costs associated with this sort of speculative attack on the franc had to be borne largely by the *Banque de France*. It had to sell foreign currencies in order to defend the D-mark parity of the franc at a price that, expressed in French francs, was lower than the one the markets would pay only a few days later once the expected realignment had taken place.

70. Giavazzi and Giovannini, *Exchange Rate Flexibility*, p.35.

71. Balladur, quoted in *Le Monde*, 15 January 1988, p.28.

72. *Le Monde*, 14 February 1887, p.26.

73. Compare *Le Monde*, 28 January 1988, pp.1, 28.

74. Balladur, quoted in *Le Monde*, 20 January 1988, p.44. See also *Le Monde*, 4 March 1987, p.34. While organized societal interests did not participate actively in the public debate about the shortcomings of the ERM, the investment-stifling high real interest rates at least were cause for public criticism by French industry. See *Frankfurter Allgemeine Zeitung*, 5 October 1987, p.15 and 1 December 1987, p.13. As to the economics of the "abnormally" high rates, see Artus and Bourguinat, "Stability of the EMS," p.147. "German [interest] rates", they observed, "remained continuously high between 1979 and 1992 ... hence a situation of persistently high real rates in France, which certainly contributed to slow down the accumulation of capital, to reduce potential output and to increase the share of imports in domestic demand." Besides the tight monetary policy pursued by the *Bundesbank* exchange rate risk premiums - an "insurance" against the risk of a devaluation of the franc required by the markets for financial instruments denominated in francs - were another reason for the high real interest rates. Compare de Boissieu and Duprat, "Monetary Policy", pp.78-79. Still another contributing factor to these "abnormally" high real interest rates

may have been "monetary illusion". Compare Jean-Paul Fitoussi, *Le Débat Interdit: Monnaie, Europe, Pauvreté* (Paris: Arléa, 1995), pp.67-69.

75. Finding it impossible to lower interest rates on their own, the French government consequently called repeatedly on Germany to lower their rates in order to do "more for economic growth" in Europe. Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1987, p.1. See also *Frankfurter Allgemeine Zeitung*, 13 January 1987, p.11 and 22 October 1987, p.13. The empirical evidence concerning the growing French loss of autonomy in the 1980s concerning interest rate policy is quite strong. "In the 1970s the correlation between the German interest rates and the French ones was moderate. In the second half of the 1980s it was already substantial. But by the end of the 1980s the correlation was practically perfect." Dornbusch and Jacquet, *L'Union Economique*, p.27. See also de Boissieu and Duprat, "Monetary Policy," pp.73-74. There they reported their finding that in the reaction function of the *Banque de France* the "weight given to German rates ... increased significantly with the creation of the EMS."

76. Balladur, quoted in *Le Monde*, 8 December 1987, p.43. This critique was indicative of an "[a]symmetry in collective preferences" between French and German policy-makers. "The objective function of German policy-makers [was] different from other EMS countries' objective functions: West Germany show[ed] the highest degree of aversion to inflation within the EMS." de Boissieu and Duprat, "Monetary Policy", pp.84-85. The negative consequences of this asymmetry could have been alleviated, if the *Bundesbank*, in the formulation of its monetary policy, had taken into account the objective economic situation of all those countries within the D-mark zone that were effected by the rates it set. But this the *Bundesbank* refused to do. Compare Riché and Wyplosz, *L'Union Monétaire*, p.61.

77. Indeed, already in opposition key socialist policy-makers such as Chevènement had strongly criticized the EMS, a "camouflage for a D-mark zone," for causing the "deindustrialization" of France. *Frankfurter Allgemeine Zeitung*, 5 October 1987, p.15. See also *Frankfurter Allgemeine Zeitung*, 27 June 1987, p.12. Unlike the government of the day, however, Chevènement drew a different conclusion from his frustration with the operation of the ERM. He called on the government to exit from the system.

78. Bérégovoy, quoted in *Le Monde*, 20 May 1988, p.37.

79. *Le Monde*, 16 May 1988, p.17.

80. Bérégovoy, quoted in *Le Monde*, 22 June 1988, p.43.

81. *Ibid.*, 22 July 1988, pp.1, 24. See also *Frankfurter Allgemeine Zeitung*, 2 February 1989, p.11 and 2 July 1988, p.12. Bérégovoy's critique was all the more severe since the *Bundesbank's* policy of expensive credit undercut his attempt to lower French interest rates. Shortly after coming to power the socialist government had cut interest rates in order to jumpstart the economy, hoping that Frankfurt would accommodate the French move by, at a minimum, refraining from raising its own rates. As this hope did not materialize and the *Bundesbank* tightened its credit policy it became clear, at around the middle of 1988, that Bérégovoy's policy was doomed to failure. Compare *Frankfurter Allgemeine Zeitung*, 12 August 1988, p.9. The policy was officially abandoned in October 1988 when the *Banque de France* was forced to reverse its earlier rate cuts in defense of the *franc fort*. *Ibid.*, 19 October 1988, p.13.

82. Bérégovoy, quoted in Aeschmann and Riché, *La Guerre*, p.41. The

quote is from a letter that Bérégovoy transmitted to his German counterpart Gerhard Stoltenberg.

83. Bérégovoy, quoted in *Frankfurter Allgemeine Zeitung*, 6 September 1988, p.13.

84. Rocard, quoted in *Financial Times*, 24 October 1988, p.26.

85. The topic of European monetary reform had already been broached earlier by France. For instance, during the negotiations on the SEA in 1985 Paris had called on its Community partners to strengthen the monetary governance of the EC. Yet, at the time the *démarche* had only resulted in a repetition, in the preamble of the treaty, of the long-standing *rhetorical* commitment of the Community to the goal of an EMU. It had not produced any material results.

86. Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 4 July 1987, p.12. On the issue of fiscal harmonization see *ibid.*, 10 January 1987, p.11.

87. Chirac, quoted in *Frankfurter Allgemeine Zeitung*, 14 November 1987, p.1.

88. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 14 November 1987, p.2.

89. Another French plan that aimed at overcoming the constraints that Germany's tight monetary policy placed on the growth potential of the French economy experienced a similar fate. The proposal by Balladur's successor Bérégovoy that Germany should transfer its persistent current account surplus to the EC in order to promote European economic growth came to naught. See *Frankfurter Allgemeine Zeitung*, 8 October 1988, p.14.

90. Balladur, quoted in *Le Monde*, 13 January 1987, p.41. According to Bernard Bosson, the minister responsible for European affairs, such an upgrade was one of the "essential priorities" of the Chirac government. *Le Monde*, 26 March 1987, p.36.

91. Balladur, quoted in *Le Monde*, 18 June 1987, p.36.

92. François Mitterrand, *Réflexions sur la Politique Extérieure de la France: Introduction à Vingt-cinq Discours, 1981-1985* (Paris: Fayard, 1986), p.202.

93. Compare *Le Monde*, 14 February 1987, p.26; 18 June 1987, p.36; and *Frankfurter Allgemeine Zeitung*, 4 July 1987, p.12.

94. See Balladur's comment to that effect that is quoted in *Times*, 14 September 1987 p.21.

95. Gros and Thygesen, "Press Communiqué of 18 September 1987 detailing the Nyborg reform package," in *Monetary Integration*, p.99.

96. See *Le Monde*, 15 September 1987, p.44. Compare also de Boissieu and Duprat, "Monetary Policy", p.84.

97. See Mitterrand's demand for a return to fixed exchange rates that he made during the G-7 summit in Venice in June 1987 and that is quoted in *Frankfurter Allgemeine Zeitung*, 11 June 1987, p.15 or the statements that are found in Mitterrand, *Réflexions*, pp. 206, 229-230. For the government's position on this issue see Balladur's article in *Le Monde*, 20 January 1988, pp.1, 44 and that in *The Wall Street Journal* (Europe), 23 February 1988, p.8. Indicative of the importance attached by French policy-makers of all *couleurs* to a global monetary reform is the following quote from Balladur: "I am convinced that the system of floating exchange rates ... is responsible for great harm and that the oil crisis, the financial [debt?] crisis, the inflation crisis [of the 1970s], and the [1987] stock market crisis were partly



caused by floating currencies." Ballardur, *Passion*, p.328.

98. Ballardur, quoted in *Le Monde*, 1 October 1987, p.32.

99. Ballardur, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1987, p.1.

100. Compare *Frankfurter Allgemeine Zeitung*, 20 July 1988, p.11; 26 September 1988, p.13; 26 May 1989, p.15; and *Le Monde*, 23 August 1988, p.19. Indeed, Bérégovoy had already called for a "new Plaza" agreement when the socialists had still been in opposition. *Le Monde*, 20 January 1987, p.42.

101. Bosson, quoted in *Le Monde*, 16 October 1987, p.3.

102. Despite the broad consensus among French policy-makers about the benefits of an EMU, there were also voices which warned of its dangers. For a particularly strong warning see the article by an anonymous high French civil servant in *Le Monde* in which the author warned that a European central bank would be little more than a European *Bundesbank* pursuing German-style monetary policies. *Le Monde*, 13 December 1988, pp.21, 23. Such arguments, however, always remained marginal in the French policy debate.

103. In the view of the large majority of the French politicians, irrespective of their partisan affiliation, the envisaged supranational bank had to be embedded in the political process of the EC. Compare Ballardur's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 21 January 1988, p.11 and those of Bérégovoy that are quoted in *Frankfurter Allgemeine Zeitung*, 19 April 1989, p.17. For the opposite view see the statements by Jacques de Larosière, at the time governor of the *Banque de France*, that are quoted in *Frankfurter Allgemeine Zeitung*, 16 June 1989, p.13. At the eve of the opening of the negotiations on the EMU at the end of 1990 the French Council of ministers reaffirmed its long-standing position on this matter by issuing a statement in which it declared that an independent European central bank was "only conceivable in a relationship of mutual dependence with a strong [European] economics government." *Frankfurter Allgemeine Zeitung*, 14 December 1990, p.19. In the end France was unable to overcome German resistance on this issue: the TEU stipulated the creation of a completely independent European central bank, but it did not even mention an economics government. Nevertheless, Paris has never given up hope that it might still be able to get its way. Ever since the TEU has entered into force succeeding French governments have called for the creation of an economics government to balance the powers of the new supranational central bank. So far, however, the French demand has run into the roadblock of the German veto.

104. Gros and Thygesen, "Europe's Monetary Construction: Memorandum to ECOFIN Council," in *Monetary Integration*, p.312. Ballardur's view of the necessity of an EMU was shared by most informed observers in France. See for instance Nicolas and Stark, *L'Allemagne*, pp.109-110. An EMU, they observed, appeared to France and other ERM members "as a means to limit this crushing influence of Germany since it would allow [them] to regain a part of their monetary sovereignty and to share it with Germany." Bordes and Girardin argued that an EMU would enable Paris "to weigh more efficiently on German monetary policy" and to "find, in both the monetary and fiscal fields, the room for manoeuvre which it now lack[ed]." Bordes and Girardin, "Achievements of the ERM," pp.114-115. According to de Boissieu and Duprat an EMU "would be a means of internalizing a part of the

external constraint associated with German monetary policy." de Boissieu and Duprat, "Monetary Policy," p.88. Riché and Wyplosz, finally, stressed that the "project of monetary union [implied] the sharing of monetary power that, at the moment, [was] only exercised by the *Bundesbank*." Riché and Wyplosz, *L'Union Monétaire*, p.58.

105. Balladur, quoted in *Le Monde*, 8 January 1988, p.1. See also *Le Monde*, 15 January 1988, p.28. Balladur's PR blitz came at a time when exchange markets displayed once again strong volatility and the D-mark exchange rate of the franc was yet again under pressure. This certainly enhanced the credibility of the arguments he deployed.

106. Chirac, quoted in *Frankfurter Allgemeine Zeitung*, 8 January 1988, p.11.

107. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 23 October 1987, p.15. See also *ibid.*, 23 October 1987, p.12.

108. *Ibid.*, 9 March 1988, p.13. See also *ibid.*, 13 January 1988, p.14.

109. Bérégovoy harbored particularly strong doubts about one aspect of an EMU: the full liberalization of intra-EC capital movements. The minister feared that the removal of exchange controls, a measure very dear to the Germans, might lead to capital flight given the comparatively high taxes on capital gains and interest payments in France. When he spoke to the president about his worries Mitterrand stopped him short by asking: "Eh, Bérégovoy, are you for or against Europe?" Bérégovoy never brought the issue up again. The exchange is reported in Aeschmann and Riché, *La Guerre*, p.49.

110. Bérégovoy, quoted in *Frankfurter Allgemeine Zeitung*, 11 September 1989, p.17.

111. Rocard, quoted in *Financial Times*, 24 October 1988, p.26.

112. Rocard, quoted in *Le Monde*, 11 November 1989, p.31. Much more so than in Germany and the UK the French debate about European monetary policy was dominated by and large by politicians and the media. Organized societal interest groups played little role in it. Sometimes, however, individuals, especially from the employer camp, intervened in the debate to voice their personal views on issues of particular concern to them. See Helmut Hubel, *Das vereinte Deutschland aus internationaler Sicht: Eine Zwischenbilanz* (Bonn: Europa Union Verlag, 1993), p.61.

113. Mitterrand, quoted in *Times*, 29 June 1988, p.1.

114. Élysée spokesperson, quoted in *Frankfurter Allgemeine Zeitung*, 28 June 1988, p.2. See also *Le Monde*, 27 June 1988, pp.1, 4.

115. Gros and Thygesen, "Conclusions of the Presidency presented after the European Council meeting in Hanover on 27 and 28 June 1988," in *Monetary Integration*, p.327. There was the suspicion at the time that this high-level working group, chaired by Commission president Jacques Delors and consisting primarily of central bankers, was a diversion, a clever tactic by EMU opponents to have the French *démarche* "kicked into the long grass." *Times*, 29 June 1989, p.17.

116. See *Le Monde*, 20 April 1989, p.29. For the text of the report see Committee for the Study of Economic and Monetary Union, *Report on Economic and Monetary Union in the European Community* (Luxembourg: Office for Official Publications of the European Communities, 1989).

117. See *Times*, 27 June 1989, p.1. Also, foreign minister Roland Dumas issued a joint press communiqué with his German counterpart Hans-Dietrich

Genscher in which he urged the Madrid summit to give a "decisive political push" towards an EMU "by beginning work on the Delors Report in its entirety." *Times*, 22 June 1989, p.9. For the key extracts of the conclusions of the European Council meeting in Madrid see Richard Corbett, *The Treaty of Maastricht - From Conception to Ratification: A Comprehensive Reference Guide* (Harlow: Longman, 1994) p.96.

118. Compare the account of Védrine, a close associate of president Mitterrand at the Élysée, of the Council meeting in Madrid and in particular of the exchange between Mitterrand and Kohl on the issue of the EMU. Hubert Védrine, *Les Mondes de François Mitterrand: A l'Élysée 1981-1995* (Paris: Fayard, 1996), pp.419-420.

119. The UK was also strongly opposed to setting a specific date for the realization of an EMU. This, however, was probably not crucial for the failure of France in Madrid to secure a firm date for the opening of the IGC from its partners since London, not least because of its well-known principled hostility to the EMU, never had much influence on this issue. Six months later, after Bonn's position on the EMU had changed, Britain was consequently unable to prevent the Eleven from deciding to set a date for the IGC.

120. In addition, it was also decided that the IGC would begin under no circumstances before 1 July 1990, the date when the first stage of the EMU, on which the Council meeting in Madrid had reached agreement and which prescribed the full liberalization of capital flows in the EC, would come into effect.

121. Mitterrand, quoted in *Times*, 28 June 1989, p.24.

122. Dumas, quoted in *Le Monde*, 29 July 1989, p.4. On the priority given by the French presidency to secure a firm date for the opening of an IGC on the EMU see also *Le Monde*, 12 July 1989, p.40; *Frankfurter Allgemeine Zeitung*, 28 July 1989, p.2; and Védrine, *Les Mondes*, pp.420-421. Paris even went so far as to threaten the UK and others reluctant to follow its lead on the issue of the EMU with the creation of a two-speed Europe, i.e., Paris made it clear that it was determined to realize the EMU whether or not all twelve EC countries wanted to take part in it. See the statements to this effect by Mitterrand and Dumas that are quoted in *Times*, 27 July 1989, p.11 and 28 July 1989, p.7 respectively.

123. See *Le Monde*, 27 September 1989, p.12. The committee was named after its French chairperson Elizabeth Guigou. Its creation was supported by the German foreign minister. Compare Wilhelm Schönfelder and Elke Thiel, *Ein Markt - Eine Währung: Die Verhandlungen zur Europäischen Wirtschafts- und Währungsunion* (Baden-Baden: Nomos, 1994), p.67.

124. Mitterrand, quoted in *Le Monde*, 27 October 1989, p.3.

125. For a detailed chronology of the events of this history-making process of reunification see Karin Lau and Karlheinz Lau, *Deutschland auf dem Weg zur Einheit: Dokumente einer Revolution* (Braunschweig: Westermann, 1990), pp.133-136.

126. For a description and analysis of the last few months of the communist regime before its collapse, particularly the growing loss of reality on the part of the aging leadership and the desperate last-ditch efforts to save the regime see Gert-Joachim Glaeßner, *Der schwierige Weg zur Demokratie: Vom Ende der DDR zur deutschen Einheit* (Opladen: Westdeutscher Verlag, 1992), particularly pp.55-83. For an insider perspective on this cru-

cial period that focuses on the SED - the East German communist party - see Gregor Gysi and Thomas Falkner, *Sturm aufs Große Haus: Der Untergang der SED* (Berlin: Edition Fischerinsel, 1990). (Gysi was to play a leading role in the PDS, the successor party of the SED).

127. For an explanation of the collapse of *real socialism* in East Germany see Rolf Reißig, "Der Umbruch in der DDR und das Scheitern des 'realen Sozialismus,'" in *Das Ende eines Experiments: Umbruch in der DDR und deutsche Einheit*, edited by Rolf Reißig and Gert-Joachim Glaeßner (Berlin: Dietz, 1991), pp.12-59; and Konrad Löw, ed., *Ursachen und Verlauf der deutschen Revolution 1989* (Berlin: Duncker & Humblot, 1991), particularly the contributions by Bernard Baule and Gerhard Wettig.

128. "On 9 November 1989 [i.e., the day when the Berlin wall came down] France awoke from its post-war dream of a French dominated Europe." Juliane List and Hans-Willi Nolden, *Zerrbild Deutschland: Wie uns Engländer, Franzosen and Amerikaner seit der Wiedervereinigung sehen* (Köln: Deutscher Instituts-Verlag, 1992), p.57. But other western allies of Germany got a rude awakening too. For years they had "[traded] in a rhetoric they never really [had] believed, [doing de facto] everything in their power to prevent the Wall from being dismantled." Christopher Coker, "At the Birth of the Fourth Reich? The British Reaction," *The Political Quarterly* 61 (1990): 281. The rhetoric the author referred to concerned the commitment of the West to German reunification that had been repeated ritually over the decades. Védérine explained the concerns of the West in this way: "For the the West as a whole it [had] been understood for roughly forty years that the only real *casus belli* in Europe [would] be German reunification." Védérine, *Les Mondes*, p.424. However that may have been, it is important to note that despite these concerns on the part of many in the West in general and in France in particular there was also "understanding and joy about the human dimension" of the collapse of an oppressive regime and the reemergence of a united Germany. Ingo Kolboom, *Vom geteilten zum vereinten Deutschland: Deutschlandbilder in Frankreich* (Bonn: Europa Union Verlag, 1991), p.44.

129. Yet, in all major parties, except in the communist party, there were also those who argued that there was no reason to be afraid of German reunification. See the statements by Louis Mermaz, the president of the parliamentary group of the socialists in the *Assemblée nationale*, and those of Pierre Méhaignerie, the president of the center-right CDS and a leading figure in the UDF, that are quoted in *Le Monde*, 16 November 1989, p.19. Indeed, even among the far-left there were those who regarded the prospect of reunification as something to be welcomed. See the statements by Arlette Laguiller, the leader of the *Lutte ouvrière*, that are quoted in *Le Monde*, 16 November 1989, p.19. Nevertheless, this was clearly a minority position. As to the French media, by and large it participated actively in the circulation of the fear narrative. Compare Kolboom, *Deutschland*, p.47. For a somewhat more positive assessment of the reporting of the French media see List and Nolden, *Zerrbild*, pp.58-59. The public, finally, seemed somewhat less worried about reunification than either policy-makers or the media. For the results of the main polls on this issue that were conducted at the time in France see Kolboom 1991, *Deutschland*, pp.30-33 and *Times*, 13 July 1990, p.2.

130. Thucydides, *History of the Peloponnesian War* (Harmondsworth,

1972), quoted in Smith, *Realist Thought*, p.6

131. Compare Stanley Hoffmann, "Mitterrand's Foreign Policy, or Gaullism by any other Name," in *The Mitterrand Experiment: Continuity and Change in Modern France*, edited by George Ross, Stanley Hoffmann and Sylvia Malzacher (Cambridge: Polity Press, 1987), pp.294-305.

132. While these power political fears and scenarios dominated the public debate about German reunification, economic considerations entered also into it. Pessimists argued that West Germany's effort to rebuild East Germany could lead to trade and investment diversion effects to the disadvantage of the French economy. See the statements by François Perigot, the president of the French employers' association CNPF, that are quoted in *Frankfurter Allgemeine Zeitung*, 13 March 1990, p.19 and 31 March 1990, p.14. For a somewhat more optimistic assessment of the economic consequences for the French economy of reunification see the statements by Beffa Jean-Louis, the boss of St. Gobain, and those of Michel Pebereau, the president of Credit Commerciale de France, that are quoted in *Frankfurter Allgemeine Zeitung*, 21 March 1990, p.19. See also Pierre Bérégovoy's assessment that is found in *Frankfurter Allgemeine Zeitung* 13 February 1990, p.2 and 9 April 1990, p.15.

133. *Le Monde*, 23 February 1990, p.12.

134. The communists stressed repeatedly that they recognized in principle Germany's right to national self-determination. The party thus implied that if the new Germany would be communist, it would welcome reunification. See the statements to this effect by André Lajoinie and Georges Marchais that are quoted *Le Monde*, 15 February 1990, p.10 and 16 February 1990, p.16 respectively.

135. Marchais, quoted in *Le Monde*, 16 February 1990, p.16.

136. *Ibid.*, 5 February 1990, p.5.

137. *Ibid.*

138. Lajoinie, quoted in *Frankfurter Allgemeine Zeitung*, 12 April 1990, p.2.

139. Lajoinie, quoted in *Le Monde*, 12 April 1990, p.10.

140. *Ibid.*, 15 February 1990, p.10.

141. Chirac, quoted in *Le Monde*, 12 April 1990, p.10.

142. Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 17 November 1989, p.4.

143. Séguin, quoted in *Frankfurter Allgemeine Zeitung*, 6 December 1989, p.6.

144. Giscard d'Estaing, quoted in *Frankfurter Allgemeine Zeitung*, 14 September 1989, p.4. See also *Frankfurter Allgemeine Zeitung*, 31 July 1990, p.4.

145. François-Poncet, writing in *Le Monde*, 6 October 1990, p.6.

146. Léotard, quoted in *Le Monde*, 17 November 1989, p.3.

147. *Le Monde*, 23 February 1990, p.12. This fear was a manifestation of "the specter of Rapallo" that has haunted France's German policy since the signing of the treaty of Rapallo between Berlin and Moscow in 1922. In the French *imaginaire* the treaty has come to symbolize the dangers of an anti-French alliance between Germany and Russia. Compare Nicolas and Stark, *L'Allemagne*, pp.131-134.

148. Chevènement, quoted in *Frankfurter Allgemeine Zeitung*, 5 January 1990, p.2. Making the same link between reunification, the balance of power, and stability the minister wrote in an editorial of *Lettre*, a publication of

one of the political clubs associated with the socialist party, that Germans had a right to self-determination, but that Europe had a "right to equilibrium and peace." *Le Monde*, 25 February 1990, p.9.

149. Chevènement, quoted in *Frankfurter Allgemeine Zeitung*, 31 May 1990, p.2. See also *Times*, 11 November 1989, p.10.

150. Gallo, quoted in *Le Monde*, 6 July 1990, p.2.

151. Fabius, interview in *Le Monde*, 12 October 1990, p.10. This was a variation of an old theme that in the past had often shaped French perceptions of German foreign policy: *les incertitudes allemandes* or Germany's alleged predilection to pursue a seesaw policy. See Georges-Henri Soutou, "Deutsche Einheit - Europäische Einigung: Französische Perspektiven," in *Wiedervereinigung in Mitteleuropa: Außen- und Innenansichten zur staatlichen Einheit Deutschlands*, edited by Josef Becker (München: Verlag Ernst Vögel, 1992), p.6.

152. Mitterrand, quoted in *Le Monde*, 17 November 1989, p.3. See also *Frankfurter Allgemeine Zeitung*, 24 November 1989, p.4.

153. Mitterrand, quoted in Jacques Attali, *Verbatim*, vol. 3, *Chronique des années 1988-1991* (Paris: Fayard, 1995), p.371.

154. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 24 November 1989, p.4.

155. *Ibid.* See also *ibid.*, 22 December 1989, p.2 and Anne-Marie Le Gloanec, "Mitterrand et l'Allemagne," *French Politics & Society* 9 (1991): 121-129.

156. This fact is captured nicely in the following quote by an unnamed head of government: "The prime minister [Thatcher] may have been tactless on this [i.e., reunification], but you should hear François Mitterrand talking about the Germans in private." *Times*, 16 July 1990, p.2.

157. Mitterrand, quoted in Margaret Thatcher, *The Downing Street Years* (London: Harper Collins, 1993), p.796. See also Hans-Dietrich Genscher, *Erinnerungen* (Berlin: Siedler Verlag, 1995), pp.678-680.

158. *Le Monde*, 9 October 1990, p.6.

159. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.333. See also *ibid.*, p.337 and Nicolas and Stark, *L'Allemagne*, p.63. There Nicolas and Stark observed that "Paris fear[ed] that the abandoning of the 'acquis communautaire' [on the part of Germany could be] the main cause of the return, in Europe, to the alliance policy" of the past. Védérine, on the other hand, while acknowledging that Mitterrand both in his public and private comments expressed strong fears about German reunification, argued that this was never "the expression of his genuine thinking" on the subject. Rather, the president engaged in "Socratic dialogues" to explore the possible implications of German unity. Védérine, *Les Mondes*, p.445. Mitterrand himself, in his own account of his German policy, tried to give the same impression. François Mitterrand, *De l'Allemagne, de la France* (Paris: Odile Jacob, 1996). There he wrote that he never really feared the European security implications of German reunification. Yet neither the president nor Védérine were very convincing in their efforts to reinterpret the historical evidence. And the evidence pertaining to Mitterrand's public and private pronouncements on this issue is quite large and consistent. In addition, there is also the testimony of those journalists, analysts and (foreign) policy-makers who closely observed Mitterrand during this crucial period and who agree, by and large, that the president was worried about the future of France in view of German reunification.

160. *Le Monde*, 23 February 1990, p.12.

161. Chirac, quoted in *Le Monde*, 12 April 1990, p.10. The same point was made by Balladur. See *Le Monde*, 29 February 1990, p.6. Yet, this position did not prompt Chirac and those who shared his view to object to all reforms of the EC, provided they did not undermine national sovereignty. See *Le Monde*, 7 May 1990, p.4. Other Gaullist, however, made it quite clear that they did not want to see any deepening of European integration. See Charles Pasqua's statements to this effect that are quoted in *Le Monde*, 4 January 1990, p.26.

162. *Le Monde*, 23 February 1990, p.12. See also the statements by Alain Lamassoure and Bruno Durieux that are quoted in *Le Monde*, 4 January 1990, p.26 and 23 February 1990, p.10 respectively.

163. *Times*, 25 July 1990, p.9. Compare also Le Gloannec, "Mitterrand," p.125.

164. Dumas, quoted in *Frankfurter Allgemeine Zeitung*, 10 November 1989, p.7.

165. Dumas, quoted in *Le Monde*, 17 November 1989, p.3. See also Chevènement's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 1 December 1989, p.2.

166. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 4 November 1989, p.1. See also *ibid.*, 24 November 1989, p.4. Foreign minister Dumas, for his part, spoke of "reckless dangers" resulting from undue haste. *Ibid.*, 14 December 1989, p.1. Prime minister Rocard added an intra-German reason for going it slow on reunification. The East German economy was simply too different from that of West Germany and the rest of the EC for it to be quickly assimilated into the EC. That would only damage the East German economy. *Times*, 10 November 1989, p.9.

167. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 27 November 1989, p.16. Védérine spoke of Gorbachev's "alarmisme" that affected Mitterrand at the end of 1989. Védérine, *Les Mondes*, p.442.

168. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.401. The president made the comment over lunch with the British prime minister.

169. For getting an impression of the French chagrin concerning the surprise announcement by the German Chancellor see Fabius' and Dumas' complaints that are quoted in *Frankfurter Allgemeine Zeitung*, 30 November 1989, p.3; 1 December 1989, p.2; and *Le Monde*, 2 December 1989, p.48 respectively.

170. Sir Thomas Overbury, "Observations on his Travels," in *Stuart Tracts 1603-1693*, edited by C.H. Firth (London: Constable, 1903), quoted in Henry Kissinger, *Diplomacy* (New York: Simon & Schuster, 1994) p.81.

171. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.322. The president made the statement during a meeting of the French Council of Ministers on 18 October 1989.

172. *Ibid.*, p.323.

173. Mitterrand, *Réflexions*, p.218. On this balance of power theme see also Mitterrand's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 24 November 1989, p.4 and those of Fabius that are quoted in *Le Monde*, 12 October 1990, p.10. Concerning the long-standing power-oriented foreign policy orientation of the socialist president, Petit noted that "[a]ccording to most outside observers, Mitterrand's policy of *grandeur* had stronger Gaullian characteristics than his predecessors." Petit, "Expansion-

ary Policies," p.254. Compare also Hoffmann, "Foreign Policy," pp.294-305. The explicit *realpolitik* rhetoric that the president employed to talk about German reunification led one observer to refer to him as "Mitterrand-Metternich." Paul Fabra, quoted in Nicolas and Stark, *L'Allemagne*, p.82.

174. The similarities between the French check-the-power-of-Germany diplomacy in 1989/90 and its precursors in the 19th century did not go unnoticed in Germany. List and Nolden, for instance, spoke of Mitterrand's effort to "preserve the existence of two German states" with the help of the "alliance policy of the 19th century." List and Nolden, *Zerrbild*, p.57. Compare also Ingo Kolboom's article in *Frankfurter Allgemeine Zeitung*, 9 October 1989, p.8. Also, Mitterrand's search for a new European equilibrium after the fall of the Berlin Wall included a policy of *rapprochement* with NATO: the president thought it necessary to strengthen France's ties with NATO and to ensure that a reunited Germany would be part of the alliance. Compare *Le Monde*, 21 April 1990, pp.1, 5.

175. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.350.

176. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 27 November 1989, p.16.

177. *Ibid.*, 12 December 1989, p.2.

178. *Ibid.*, 8 December 1989, p.1.

179. *Ibid.* This was a clear reference to both the intra-German border and the Oder-Neisse line separating East Germany from Poland. Mitterrand's only concession to the German desire for reunification was that he conceded that there was a "nuance" that made the intra-German border somewhat different from other borders. *Ibid.*, 12 December 1989, p.2. As to Michael Gorbachev, he told reporters after the meeting with the French president that he was, for the moment, opposed to reunification. "This question [i.e., reunification was] not acute today", he said. *Frankfurter Allgemeine Zeitung*, 8 December 1989, p.1.

180. Thatcher, quoted in Attali, *Verbatim*, vol. 3, pp.368-369. The prime minister made the statement in a private exchange with Mitterrand during the European Council meeting in Strasbourg in December 1989.

181. Mitterrand, quoted in *ibid.*, pp.369-370. The president made the statement at the same occasion. Védérine, without being able to substantiate his claim, maintained that this sort of rhetoric was only a ploy by Mitterrand to "finally rally [Mrs. Thatcher] to the reenforcement of Europe." Védérine, *Les Mondes*, p.441.

182. Thatcher, *Downing Street*, p.798. Security and defense cooperation was one of the main themes of follow-up meetings between prime ministers Rocard and Thatcher, and between Mitterrand and Thatcher. As to the former see *Times*, 26 March 1990, p.8, and as to the latter *Le Monde*, 7 May 1990, p.4.

183. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 22 December 1989, p.2.

184. *Ibid.*

185. Dumas, quoted in *Le Monde*, 14 December 1989, p.9. See also *Frankfurter Allgemeine Zeitung*, 2 March 1990, p.2.

186. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 12 December 1989, p.1. See also *ibid.*, 21 March 1990, p.7.

187. *Ibid.*, 12 March 1990, p.2.

188. See *ibid.*, 13 October 1989, p.3. Downplaying the importance of Mit-



terrands' balance-of-power policy, Védérine argued that the president realized early on that the best answer to the question: "quoi faire?" in view of the prospect of German reunification was to "focus on the relance européenne." Védérine, *Les Mondes*, p.425.

189. It was only when the alliance policy, in early 1990, led to an atmospheric low in the relations between France and Germany, thus undermining the efforts of French diplomacy to get Germany to support deepening the EC, that Paris gave up its attempt to return to the policies of the past. "We no longer speak to one another, it's a real catastrophe," one French foreign ministry official described the Franco-German relationship at the time. *Le Monde*, 21 March 1990, p.5. The subsequent foreign policy shift on the part of Paris was symbolized by the Kohl-Mitterrand letter from 20 April 1990 to their EC counterparts in which they urged the intensification of the preparation for the EMU as well as the creation of a Political Union to complement it. For the text of the joint letter see Corbett, *Maastricht*, p.126.

190. After the fall of the Berlin Wall French integration policy displayed once again that "uneasy mix of high and low politics" that had characterized it during the 1950s and 1960s. Loriaux, *France after Hegemony*, p.244. Tsoukalis, referring directly to the Maastricht debates, put it similarly. "Money was thus part and parcel of the European balance of power." Tsoukalis, "Monetary Union", p.292. Compare also Kolboom, *Deutschland*, p.46.

191. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.333. The president made the statement in a conversation with Attali at the beginning of November 1989. Yet not everyone in the socialist party supported fully the new policy. Defense minister Chevènement, for instance, stressed the need for self-help sufficiency just like the communists and the gaullist RPR. To him the nation-state had to remain the "corner-stone of the future Europe." *Le Monde*, 25 February 1990, p.9.

192. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.331.

193. Indeed, Mitterrand called on Kohl to support a deadline of 1 January 1993 for the ratification of the still to be negotiated treaty on the EMU. See *Frankfurter Allgemeine Zeitung*, 3 November 1989, p.2. See also the statements by Bérégovoy that are quoted in *Frankfurter Allgemeine Zeitung*, 8 November 1989, p.18.

194. Mitterrand, quoted in Genscher, *Erinnerungen*, p.678.

195. Dumas, quoted in Genscher, *Erinnerungen*, p.677. See also Dumas' speech in the *Assemblée nationale* that is quoted in *Frankfurter Allgemeine Zeitung*, 14 December 1989, p.1. It is worth noting that the gaullist RPR, the party that had been crucial in developing the French EMU-NOW discourse, departed from the original cross-party consensus on the EMU once it had been relegated to the opposition banks. In accordance with the party's self-help discourse about how best to cope with reunification, Jacques Chirac urged the government not to give up the franc for a single European currency. See *Frankfurter Allgemeine Zeitung*, 12 April 1990, p.17. In the same vein former finance minister Balladur called on his compatriots to stop dreaming about the "chimera of a currency union with ECU." *Die Welt*, 23 June 1990, p.2. This stance, however, seemed to have owed more to tactical considerations of a partisan nature than to a strategic reversal. Evidence supporting this interpretation stems from the fact that as soon as the RPR assumed again the reigns of power, it began to resume its old EMU-NOW discourse.

196. Mitterrand, reported in Genscher, *Erinnerungen*, p.678. At the same time Paris began to appeal to the British government "to set up a closer relationship by [the UK] joining EMU as a way of establishing a counterweight to Germany." Nicholas Ridley, *My Style of Government: The Thatcher Years* (London: Fontana, 1992), p.156.

197. Mitterrand, quoted in Attali, *Verbatim*, vol. 3, p.354. The president made the comment to Attali after talks with foreign minister Genscher at the end of November 1989.

198. *Ibid.*, p.333. Of course, the president conveyed this message also to the Germans. Compare Genscher, *Erinnerungen*, p.678. Furthermore, only a few days before the opening of the Strasbourg summit he transmitted a letter to his EC colleagues in which he urged them to use the upcoming meeting to set finally a date for the beginning of an IGC on an EMU. See *Frankfurter Allgemeine Zeitung*, 7 December 1989, p.1.

199. Compare Védérine, *Les Mondes*, p.431. See also *Le Monde*, 8 December 1989, pp.1-2; Françoise de la Serre and Christian Lequesne, "France and the European Union," in *The State of the European Community*, vol. 2, *The Maastricht Debates and Beyond*, edited by Alan W. Cafruny and Glenda G. Rosenthal (Longman: Lynne Rienner, 1993), p.146; or Andrews, "Treaty on EMU," p.112. While de la Serre and Lequesne spoke of "a quasi-explicit linkage" between European integration and German reunification, Andrews referred to the deal as an "informal quid pro quo."

200. Védérine placed the Strasbourg success in an even longer time frame. "[M]onetary union, the goal which French diplomacy [had] pursued since the first European summit convened by president Pompidou in 1969, [was] launched finally." Védérine, *Les Mondes*, p.433.

201. For the text of the official communiqué of the Strasbourg summit and for what it had to say about the EMU see Corbett, *Maastricht*, p.97.

202. Cresson, quoted in *Frankfurter Allgemeine Zeitung*, 29 December 1989, p.1.

203. Mitterrand, quoted in *Frankfurter Allgemeine Zeitung*, 15 February 1990, p.4.

204. *Ibid.*, 27 March 1990, p.2.

205. Bérégovoy, quoted in *Frankfurter Allgemeine Zeitung*, 9 February 1990, p.3.

206. Dumas, quoted in *Frankfurter Allgemeine Zeitung*, 21 March 1990, p.7. Dumas was not alone in calling for the moving forward of the IGC on the EMU. Mitterrand suggested that the conference could begin in the summer of 1990. "Why wait for December," he asked. *Times*, 15 February 1990, p.8. See also *ibid.*, 23 March 1990, p.9.

207. Indeed, even after the IGC had been opened and the negotiations were already under way France still worried about the firmness of the German commitment to the EMU. Compare Nicolas and Stark, *L'Allemagne*, p.83. There the authors quoted from a 1991 editorial in *Le Monde* that noted that in France the impression and the fear spread "that the Germans saw the *entente* with France less and less as an absolute obligation, but rather as an intolerable obstacle to [their] nationalist aspirations. This sentiment was fueled by the German evasiveness concerning the monetary union."

208. Hobbes, quoted in Smith, *Realist Thought*, p.13. As to the staying power of these fears, it is interesting to note that all the worries about the united Germany that were first articulated in the fall of 1989 played again a

key role during the French campaign for the referendum on the TEU in September 1992, two years after reunification had taken place. Compare Hubel, *Das vereinte Deutschland*, pp.57-64.

209. Morgenthau, *Politics*, pp.555-556.

210. Haas, "Regional Integration", p.610.

#### IV. THE RESISTER: GERMANY IN DEFENSE OF PRICE STABILITY

##### 1. A Tale of two Cities: The Hegemony of the Anti-Inflation Discourse

Monetary unilateralism and exchange rate anarchy or monetary cooperation and exchange rate stability, this was the alternative the major industrialized governments faced in the 1980s. Neither France nor Germany left any doubt what their preferred options were. For Paris the aim was the quick multilateralization of monetary policy-making. According to the dominant French economic discourse formation, this was the only way to put an end to the costly externalities that were generated by the myopic and self-centered monetary and economic policies of the power houses of the world economy. The government in Bonn and the *Bundesbank* in Frankfurt saw this quite differently. From within the German discursive universe the appreciating D-mark, which was a frequent target of the French criticism, was not so much a problem to be solved as an achievement to be proud of. What better confirmation of Germany's anti-inflationary credibility than a currency that was the undisputed "star on the foreign exchange market?"<sup>1</sup> Bonn and Frankfurt consequently preferred to leave things as they were: money and exchange rates should remain the *chasse gardée* of national authorities. This position found its expression in the German anti-inflationary discourse.

This narrative was grounded in the monetary stability culture that came to dominate the thinking of Germans of all walks of life in the new Federal Republic of Germany. Price stability was elevated by this culture to a sort

of "basic human right."<sup>2</sup> The historical roots of this conviction can be traced to "the monetary heritage" of the First and the Second World War.<sup>3</sup> The "complete destruction of saved monetary assets twice within a period of 30 years", first in the monetary reform of 1923 and then in that of 1948, left deep scars in the collective psyche of the Germans.<sup>4</sup> It fueled the post-war belief that stable money was, not only a *conditio sine qua non* of economic success, but also of a stable democratic polity.<sup>5</sup> Rhetorically this found its expression in an influential discursive formation: the anti-inflation discourse. It deployed two simple arguments. First, inflation was evil; price stability was good.<sup>6</sup> Second, the defense of price stability required an independent central bank.<sup>7</sup> A key conclusion drawn from these two premises was that international cooperation to stabilize exchange rates, if it went beyond ad hoc adjustments of misalignments, was against Germany's national interest, because it threatened the autonomy of the *Bundesbank* and thus the public goods of stable money and stable politics.<sup>8</sup>

In their explanation as to why there was a link between exchange rate stabilization and inflation, the practitioners of the anti-inflation discourse focused on the two main policy instruments available to limit the fluctuation of currencies: interventions on foreign exchange markets and manipulations of interest rates.<sup>9</sup> The inflationary danger of the former stemmed, according to their argumentation, from the fact that the D-mark had evolved into one of the strongest currencies in the world. In any currency stabilization scheme the German currency was thus likely, at one time or another, to appreciate beyond its target range. In order to alleviate this upward pressure on its currency the *Bundesbank* would have to sell D-marks on the foreign exchange markets. Intermediated through the commercial banking

system and other financial channels the sold currency would flow back into the German economy, which, in turn, would swell the money supply unless the *Bundesbank* succeeded, against all odds, in completely sterilizing the inflationary effects of its foreign exchange market interventions.<sup>10</sup> In addition, speculative capital inflows generated by market expectations of an imminent revaluation would add to the inflationary bias to which strong currency countries were subjected in a fixed exchange rate regime.<sup>11</sup>

As to the other policy instrument to stabilize exchange rates, the adherents of the anti-inflation discourse pointed out that interest rate manipulations had inflationary effects comparable to those of interventions. One could not make interest rate policy endogenous to the goal of achieving the agreed upon exchange rate targets without running the risk of fueling inflation. Sooner or later the *Bundesbank* would find itself in a situation where it would be forced to cut interest rates in order to dampen the international demand for the D-mark. This would prevent the currency from appreciating, but at the price of loosening domestic monetary policy. In short, the practitioners of the anti-inflation discourse argued that national monetary authorities had to make a choice between two incompatible goals: exchange rate stability or price stability. And they left no doubt what they preferred. To them inflation was clearly a much greater politico-economic evil than exchange rate fluctuations.

The most vocal practitioners of the anti-inflation discourse in the second half of the 1980s were Frankfurt's central bankers.<sup>12</sup> They tirelessly intervened in the public debate to propagate its premises. One of these *Bundesbank* story-tellers was Norbert Kloten, the president of the state central bank of Baden-Württemberg and as such a member of the policy-setting cen-

tral bank council in Frankfurt. The "stable domestic value of money", he thus declared, was a "conditio sine qua non for the realization of further macroeconomic goals."<sup>13</sup> And the *sine qua non* for price stability, in turn, was the meticulous observation of the "postulate of the strict independence of the central bank."<sup>14</sup> Karl Otto Pöhl, the bank's governor, fully concurred with this assessment, while also giving it a new twist. "[P]rice stability", he pointed out, was an "absolute value", not something on which the *Bundesbank* was willing to "make concessions to foreign partners."<sup>15</sup> "Agreements and fora whose purpose it [was] to ensure the international coordination of economic policies unnecessarily endanger[ed] the *Bundesbank's* freedom of action and its independence."<sup>16</sup> Directly addressing foreign criticism that the *Bundesbank* behaved as monetary egoist, unresponsive to the international repercussions of its policies, Pöhl coolly observed that in an international system of sovereign states it was quite "legitimate and customary that each country pursue[d] its own goals and prefer[ed] its own economic policies."<sup>17</sup> Pöhl's deputy at the *Bundesbank*, Helmut Schlesinger, was also strongly opposed to calls for closer international economic cooperation, particularly if the goal was to limit exchange rate variability. Floating exchange rates were in his words the "most important prerequisite for an effective central bank."<sup>18</sup> Those who wanted "monetary policy [to be] primarily determined by exchange rate developments," he warned, were endangering Frankfurt's "legal mandate to preserve domestic monetary stability."<sup>19</sup> And what was more, they failed to understand that it was absolutely imperative for the well-being of the German economy that the *Bundesbank's* credit policy was not made into "a bargaining chip to be used in the process of international cooperation."<sup>20</sup>

In addition to their preoccupation with the negative impact of exchange rate policy on domestic price stability, the German central bankers also harbored doubts about whether such a policy could really achieve its goal of stable currencies. Particularly as regards foreign exchange market interventions, the *Bundesbank* decision-makers declared themselves to be quite "skeptical about [their] efficacy."<sup>21</sup> They believed that in a direct confrontation between national monetary authorities and foreign exchange market operators, the latter came out on top in most cases. Given the huge volume of daily transactions on foreign exchange markets, so the argument went, the war chests of even well endowed central banks were simply too small to defend exchange rates against market trends. "Nobody," Karl Otto Pöhl lectured those hankering after international monetary cooperation, could for long "govern against the [foreign exchange] markets. The economic fundamentals ha[d] to be right."<sup>22</sup>

The large majority of the top politicians of the three center-right parties of the coalition government shared the *Bundesbank's* aversion against inflation. One of the most outspoken adherents of the anti-inflation discourse was finance minister Gerhard Stoltenberg from the CDU, the largest government party. He made it quite plain that he fully "share[d] the opinion of the *Bundesbank* governor that interest rates could not to be used primarily to stabilize exchange rates."<sup>23</sup> Any such commitment would be inimical to Germany's economic well-being, and he would therefore oppose it.<sup>24</sup> Explicitly addressing international calls for the multilateralization of Germany's monetary policy, he observed that to Bonn money was the "responsibility of national parliaments, governments and central banks", and that it was determined to see to it that this state of affairs was



"preserved."<sup>25</sup> Chancellor Helmut Kohl, the chairman of the CDU, expressed similar sentiments. His government, he declared, would not endanger the "confidence" in the D-mark by engaging in monetary "activism."<sup>26</sup>

Franz Josef Strauß, the chairman of the Bavarian based CSU, another party of the coalition government in Bonn, was another political heavyweight among the ranks of the practitioners of the anti-inflation discourse. At the symbol-laden 40th anniversary of the introduction of the D-mark in 1948, he insisted that it was of the utmost importance that German authorities did "not lose control over [the] exchange rate policy if the D-mark [was] to remain stable for another 40 years."<sup>27</sup> This was also the position of many in the FDP, the liberal coalition partner of the two Christian parties. Otto Graf Lambsdorff, the former finance minister and soon-to-be leader of the party, for instance, noted that "interventions on the foreign exchange markets [would] impede a stability-oriented monetary policy and [would] divert attention from the real sources of exchange rate divergences." Instead of calling for international remedies to excessive exchange rate variability, he added, the *demandeurs* of exchange rate stabilization schemes should first "bring their own house in order."<sup>28</sup>

The hegemonic status of the anti-inflation discourse was further strengthened by the fact that the peak organizations representing the main producer interests agreed, by and large, with its argumentative thrust. But even though they approached monetary policy-making from within the same discursive universe as the *Bundesbank* and most policy-makers of the ruling parties, the majority of these interest groups was nevertheless clearly less hard-line than the former. They thus never hesitated to express

their worries about the costs of overly rigid policies that privileged domestic price stability over all other considerations, whatever the costs to businesses in terms of interest rates or D-mark exchange rate levels. In particular, export-oriented industries repeatedly criticized the *Bundesbank* and the government for neglecting the negative impact of high interest rates or an appreciating D-mark on their price competitiveness in foreign and domestic markets.

The Central Federation of the Electrotechnical and Electronics Industry, just like the textile or the metal industries, argued that too much "turbulence on the currency and financial markets cast a shadow" on the growth potential of their member industries.<sup>29</sup> The Federation of German Industry echoed these concerns about the "handicap" of an appreciating D-mark for German exporters. The costs to the export industry of a high exchange rate, it suggested to the *Bundesbank*, should be lowered through interest rate cuts.<sup>30</sup> But while their vulnerability to currency volatility in general and a strong D-mark in particular pushed organizations representing export interests to support a modicum of exchange rate cooperation and to object to an inflexible monetarist policy, they left no doubt that they regarded inflation as the main enemy of the German economy, just like the rest of the adherents of the anti-inflation discourse. Efforts to limit currency fluctuations, the German Federation of Industry and Trade for instance made it plain, had to be ultimately "determined by price stability considerations" rather than by the goal of "exchange rate stability."<sup>31</sup>

This was clearly also the position of the financial industry. Though recognizing in principle that the D-mark could become too strong for the good of the German export economy<sup>32</sup>, commercial bankers, insurers and

other providers of financial services were really more concerned about domestic price stability. The public pronouncements of the industry in this regard are unequivocal. The Federation of Savings and Loan Associations, for instance, urged Bonn not to give in to international pressure and to engage in "exchange rate policy activism."<sup>33</sup> And the Association for the Protection of Depositors, a lobby group with close links to the banking and insurance industry, declared unmistakably that "the goal to stabilize exchange rates was incompatible with the goal to maintain price stability."<sup>34</sup>

The only real threat to the hegemonic status of the anti-inflation narrative came from a counter-story that had been in circulation since the 1970s. Its launch by the social democrats had been in part triggered by the monetarist turn of the *Bundesbank* in 1974, itself a response to high inflation and mass unemployment at the time in Germany as elsewhere in the developed world. Unlike the *Bundesbank* and the conservative government that came to power in 1982, the SPD practiced a Keynesian-inspired growth discourse in the 1980s. It had a twofold thrust. First, it addressed interest rate cuts as the priority task of monetary policy-making in order to fight unemployment, particularly at a time when price inflation was relatively low. Lower interest rates, according to the argument, would be a fillip to economic growth both inside and outside Germany. Repeatedly top SPD politicians such as the party's spokesperson on economic affairs, Wolfgang Roth, thus called on Frankfurt "to cut interest rates" in order to contribute to "more expansion and employment in Europe." It was high time, he added, that Germany took "more responsibility for the promotion of global economic growth."<sup>35</sup> A corollary of this pro-growth stance expressed by the SPD was the strong criticism leveled at the government and the *Bundesbank*.<sup>36</sup> Par-

ticularly the latter was accused of exaggerating the dangers of inflation. According to the influential SPD parliamentarian Uwe Jens this had made it a "prisoner of its monetary targets", unable to respond effectively to the new economic challenges of the 1980s.<sup>37</sup>

The second key argument of the SPD policy narrative posited a link between economic growth and managed exchange rates. Hans Apel, the deputy leader of the party, bluntly told the government that if it did nothing to put a *plafond* on the price of the D-mark on the foreign exchange markets, then it would be responsible for the negative consequences to "exports and the labor market."<sup>38</sup> Its current policy of letting the markets determine the external value of the D-mark had only resulted in making the German currency an "instrument of speculation, added Johannes Rau, the SPD candidate for the office of chancellor.<sup>39</sup> In short, the SPD insisted that it was high time that Bonn adopted an "effective policy to stabilize exchange rates."<sup>40</sup> Unlike the practitioners of the anti-inflation discourse, the SPD thus welcomed international calls for closer monetary cooperation provided they were compatible with the objectives of its growth discourse.

## 2. A Discursive Clash and its Effects: The German Anti-Inflation Discourse versus the French ERM Crisis Discourse

In 1986/87 the EMS experienced its first major crisis after years of relative calm. The appreciating D-mark exerted strong pressure on the ERM parity grid. Soft currency countries like France had a tough time defending the D-mark exchange rates of their currencies. Particularly in France this

gave rise to loud calls for action on the part of Germany in order to take the strain off the parity grid. Yet to the chagrin of the French government, both Bonn and Frankfurt strongly rejected its demands for a more "pro-European" interest rate policy. Especially the *Bundesbank* was adamant that it was out of the question to cut German rates in support of the franc. A "further monetary expansion [was] inappropriate given the strong economic growth and the strong increase of monetary aggregates" in Germany, governor Pöhl and his colleagues of the *Bundesbank* Council repeatedly pointed out.<sup>41</sup> At the height of the turbulence on the foreign exchange markets in December 1986 the central bankers in Frankfurt went one rhetorical step further. They announced that they had decided to pursue an even tighter monetary policy in 1987 in view of a policy in 1986 that, with hindsight, had proven to be too lax.<sup>42</sup>

This uncompromising position of the *Bundesbank* was largely backed by the government. Finance minister Stoltenberg, for example, told the *Bundestag* in the fall of 1986 that the government would neither "change its economic and financial course, nor urge the *Bundesbank* to lower interest rates."<sup>43</sup> The economics minister Martin Bangemann, for his part, dismissed the French argument that Germany's monetary unilateralism was a key contributing factor to the weakness of the franc. The attacks on the French currency, he lectured French policy-makers, were "solely the result of political reasons and of the current social climate in France."<sup>44</sup> Given the domestic roots of the franc crisis, French policy-makers were barking up the wrong tree when they called on Germany to implement "conjunctural actions", the minister pointed out on another occasion.<sup>45</sup> A similar point was made by chancellor Kohl. His message to the beleaguered French monetary

authorities was that Germany's monetary policy, rather than being the bane of the *franc fort*, was an "outstanding contribution of Germany" to the economic well-being of the EC.<sup>46</sup> Naturally, Paris remained unconvinced.

Throughout the fall and winter of 1986 Germany's monetary authorities resisted the economic and political pressure to change their policy.<sup>47</sup> But in January 1987 the combination of the growing criticism of French policy-makers and the new pressure on the D-mark that forced the *Bundesbank* to intervene massively on the foreign exchange markets finally persuaded the decision-makers both in Bonn and in Frankfurt to give up their resistance.<sup>48</sup> On 12 January Bonn agreed to an appreciation of the D-mark vis-à-vis the franc and other soft ERM currencies.<sup>49</sup> The central bankers in Frankfurt kept up their resistance a bit longer, but on 22 January they also had to give in to the persistent international pressure to loosen their monetary stance: the *Bundesbank* Council cut interest rates.<sup>50</sup> For the moment calm returned to Europe's currency exchanges. But the monetary relations between Paris and Bonn/Frankfurt remained tense.

In the wake of the EMS realignment French policy-makers began to develop a ERM crisis discourse that systematized their frustrating experience with Germany's uncompromising monetarism and France's monetary powerlessness during the recent franc crisis. The overarching theme of the new French policy narrative was that German hegemony in the EMS had become intolerable. It had to be replaced by a truly multilateral approach to monetary policy-making and, as far as the costs of foreign exchange market interventions were concerned, a fair burden-sharing arrangement between central banks. In short, the French practitioners of the ERM crisis discourse called for an upgrade of the monetary status-quo in the EC. Not

surprisingly, neither the government in Bonn nor the *Bundesbank* in Frankfurt appreciated the French *démarche*.<sup>51</sup>

Approaching the issue from within the universe of the anti-inflation discourse, the *Bundesbank* saw no need for a reform of the ERM. While acknowledging that the D-mark was the anchor currency of the system and the *Bundesbank* its lead central bank, Frankfurt's bankers strongly denied that this imposed any undue costs on the economies of the EMS member states. In their defense of the policy record of the *Bundesbank*, they emphasized two points in particular. First, they had never striven to set up Germany as Europe's monetary hegemon. Their goal was price stability of the D-mark, not power over Germany's EMS partners. The dominance of the *Bundesbank* in the EMS therefore simply was the result of its strong anti-inflationary credibility and the lack of confidence in the *Banque de France* and most other EMS member central banks. "The D-mark," governor Pöhl commented, "had not intentionally been made the 'anchor' of the EMS, rather this was the result of its stability, convertibility and its international use as a currency."<sup>52</sup> Furthermore, he hastened to add, the foreign critics of the *Bundesbank* tended to overlook that its dominance in the EMS was "not always a privilege, but also sometimes a burden."<sup>53</sup> This was a clear reference to the inflationary dangers of foreign exchange market interventions identified by the anti-inflation discourse.

The second argument in defense of the role of Frankfurt in the EMS addressed the positive system-wide effects of its leadership. The tight monetary policy of the *Bundesbank*, Pöhl observed, was "the decisive basis for the successful functioning of the system."<sup>54</sup> If Frankfurt were to loosen its monetary policy, as French policy-makers demanded, then this would be

"dangerous not only for Germany, but equally so for the other European partners."<sup>55</sup> Such a turn-around would endanger the recent price stability gains across the ERM member states and harm Europe's global competitiveness. The same negative consequences could be expected if the *Bundesbank* were to give in to its critics and engage in intramarginal interventions in EMS currencies in order to stabilize soft partner currencies. Such interventionist activism "would not strengthen the EMS, but it would weaken it because it would remove the adjustment pressure for [those] countr[ies] with a weak currency."<sup>56</sup> In sum, Frankfurt's central bankers argued that "[f]rom an economic and functional standpoint" the dominance of the *Bundesbank* had proven to be "very efficient."<sup>57</sup> They also offered an explanation for the apparent failure of the French and others to appreciate the benefits of German monetary leadership. This was the result, governor Pöhl declared, of "looking at the situation from a political standpoint" rather than from the more appropriate economic one.<sup>58</sup>

The government agreed, by and large, with Frankfurt's analysis of the costs and benefits of the existing monetary arrangement in the EC.<sup>59</sup> Unlike the *Bundesbank*, however, Bonn did not reject out of hand French EMS reform proposals. Finance minister Stoltenberg, for example, conceded that "one [could] improve the functioning of the EMS." Yet at the same time he also made it clear that any such reform would have to be limited in its scope so as to not threaten German price stability. In particular, the minister said, his government saw "no need for new [policy] instruments" such as compulsory intramarginal interventions.<sup>60</sup> The only senior cabinet member deviating from the official policy line was foreign minister Hans-Dietrich Genscher who indicated that he was favorably disposed to French proposals



to improve the workings and the institutional design of European monetary cooperation.<sup>61</sup>

In the end the material effect of the clash between the French ERM crisis discourse and the German anti-inflation discourse was a compromise. In September 1987 the economics and finance ministers agreed to the so-called Nyborg reform of the EMS.<sup>62</sup> Its centerpiece was an extension of the financing facilities available to ERM member central banks. As mentioned in chapter three, the agreement spoke of the presumption that central banks would from now on provide each other with credits for the purpose of carrying out intramarginal interventions. Although those in Germany who were active practitioners of the anti-inflation discourse would have preferred the *status quo ante*, the minimalist Nyborg reform was one which they could grudgingly accept since it hardly posed a risk to price stability.<sup>63</sup> The "process of money creation [would] remain fully under the control of the *Bundesbank*", governor Pöhl, who had himself played a leading role in the negotiations leading to the agreement, declared.<sup>64</sup>

Only a few weeks after the Nyborg agreement had come into force, the operation of the new ERM was unexpectedly tested. The US stock market crash on Black Monday of October 1987 caused once again turbulence on global currency markets as investors cut back on their dollar exposure and invested in D-mark denominated assets. The resulting appreciation of the German currency in the ERM laid the ground for a replay of the 1986/87 franc crisis. The script remained the same, as did the main actors. French policy-makers accused German authorities of having contributed to the crash with their restrictive monetary policy.<sup>65</sup> They consequently called on Bonn and Frankfurt to take immediate actions in order to aid the *Banque de*

*France* in the defense of the franc.<sup>66</sup> Both Bonn and Frankfurt rejected the demand because, as Pöhl put it, it was "neither justified nor based on facts."<sup>67</sup> Foreign minister Genscher once again took a markedly different position from the rest of the government and the *Bundesbank*. He openly expressed his sympathy for the French cause.<sup>68</sup> The *dénouement* of the new franc crisis was also scripted along the lines of the January 1987 developments: Germany gave in to international pressure. To this, however, there was added a twist reflecting the new realities of the post-Nyborg ERM. On 5 November 1987 Frankfurt reluctantly agreed to lower two of its key interest rates. In a display of the new cooperative spirit in the EMS, the German action was accompanied by the decision of the *Banque de France* to raise its own interest rates.<sup>69</sup> This, together with further German interest rate cuts, finally succeeded in calming the foreign exchange markets.

Yet French policy-makers remained unsettled. To them the new franc crisis was proof that the Nyborg reform did not go far enough in "tying the hands" of the *Bundesbank*. They consequently began to reopen the debate on improving monetary cooperation in the EC. This time, the French reform proposal envisaged a bilateral solution to the problem of persisting *Bundesbank* unilateralism. It called for the creation of a new institution through which the two countries would coordinate their economic and monetary policies. The result of this *démarche* was the creation of the Franco-German Finance and Economics Council on 22 January 1988 - the day of the 25th anniversary of the signing of the Élysée Treaty by de Gaulle and Adenauer. But instead of being endowed with far-reaching policy-making powers as hoped by Paris, the new council was no more than a high-profile forum for the exchange of views.

This was made quite clear by the German government which tried to assuage the fears, voiced by some of the more hard-line practitioners of the anti-inflation discourse, that the new institution could "hamper the legally based autonomy of the *Bundesbank*."<sup>70</sup> Finance minister Stoltenberg, for instance, reassured the skeptics that "the independence of the *Bundesbank* [would] not be restricted by the Franco-German agreement."<sup>71</sup> Chancellor Kohl, for his part, confirmed this view and argued that, instead of a threat to German price stability, the Financial and Economics Council should rather be seen as an opportunity for Germany to gain new adherents to its anti-inflation discourse. If the French could be made honorary members of the German policy narrative, then this would, more effectively than anything else, contribute to the "convergence of economic policy" between the two countries and the acceptance on the part of France of the "discipline of exchange rate policy."<sup>72</sup>

### 3. The Rhetoric of Opposition: The German EMU-Resistance Discourse

1987 was the year when an odd pair became the talk of France: money and Europe. Prompted by the frustrating experience of monetary powerlessness, French policy-makers began to call for an upgrade of European monetary cooperation. Two institutional innovations were the result of these efforts: the Nyborg reform of the ERM and the Franco-German Finance and Economics Council. Yet these successes of the French money talk-cum-diplomacy were more symbolic than material. At the beginning of 1988 the EMS was still a D-mark zone, and Paris still did not have an institutionally

anchored *droit de regard* over the *Bundesbank*. The rhetorical reaction on the part of the French government to this unsatisfactory state of affairs was the EMU-NOW discourse. Its declared goal was the forced withering away of the *Bundesbank* and the currency it managed. Naturally, the dominant response of Germans to this rhetorical attack on two of their key domestic institutions was cool. But the German practitioners of the anti-inflation discourse did not reject the French *démarche* out of hand. Rather they employed a clever rhetorical strategy that enabled them to say both "yes" and "no" to the call for an EMU.

The official policy line of both the government and the *Bundesbank* was to welcome the French EMU proposal in principle and to oppose any binding commitment to its quick realization. This "yes, but approach" was articulated in the bifurcated narrative structure of the EMU-resistance discourse. According to the discourse it was a good idea to create a single currency for the single market in order to do away with transaction costs, intra-EC exchange rate variability, and divergent national monetary policies. In this sense an EMU was simply a market-completion measure. Yet in practice, according to the argument, a single currency could only be the crowning end of the political and economic unification of Europe. An EMU was thus realistically no more than a long-term goal given the still large political differences between member states and the even greater economic divergence between member economies, both of which stood in the way of the quick realization of the United States of Europe.

Once again it was the *Bundesbank* that took the lead in countering the discursive initiative of the French.<sup>73</sup> Indeed, the *Bundesbank* did not only play a major role in publicizing the German EMU-resistance discourse, but it

also contributed most to the systematization of its arguments, particularly its "yes, but stance". Governor Pöhl explained that he and his fellow central bankers realized that some policy-makers in the EC regarded the full monetary integration of the EC as "a political goal of utmost importance."<sup>74</sup> The *Bundesbank* had to accept this, and it would, in due course, contribute its own ideas to the debate of how best to proceed with the "development [of the EMS] with a view of creating an EMU."<sup>75</sup> Yet he also cautioned that the "time was not yet ripe" for such an ambitious project and that any undue haste would result in its "failure."<sup>76</sup> An EMU was a "long-term objective" whose realization was still a "long way away."<sup>77</sup> "For the time being", Pöhl advised those politicians clamoring for EMU-NOW, EC governments should "prepare the ground and not reach for the stars."<sup>78</sup> During this preparatory phase, which could be expected to be a "long and difficult process"<sup>79</sup>, efforts should be concentrated on overcoming the current economic "convergence-gaps" between the EC member states.<sup>80</sup> Such an insistence on the careful preparation of the EMU, Pöhl took pains to underline, had "absolutely nothing to do with delaying or speeding up [the EMU]." To the *Bundesbank*, this was simply a matter of "making the right decision."<sup>81</sup> After all, what was at stake was the internal and external stability of the currency that would replace the D-mark.<sup>82</sup>

The *Bundesbank* relied on one key argument to explain its "yes, but stance" on the EMU. It had to do with the problem of imposing a single European monetary policy on economies with different underlying inflation rates. In principle two options, pertaining to both the institutional design of the future European central bank and the monetary policy it would pursue, were available to deal with this *divergence problem*. First, the new central

bank that would be in control of European monetary policy-making could be modeled on the *Bundesbank*. This would mean the creation of an institution that was independent of politics and mandated with the creation and preservation of price stability. Second, the future European central bank could be made accountable to politicians and charged with balancing the pursuit of price stability with the quest for exchange rate stability or economic growth.

The *Bundesbank* left no doubt what its preferred option was. "[T]he new currency [had] to be at least as good as the one [Germans had] at the moment", Frankfurt's central bankers insisted.<sup>83</sup> In their view it was therefore imperative that the European central bank should enjoy complete independence from national and supranational politics<sup>84</sup>, and be mandated to apply the same strict price stability-oriented standards as the *Bundesbank* to the management of the single currency.<sup>85</sup> Otherwise there was no guarantee for the maintenance of price stability in Germany and elsewhere in the EMU.<sup>86</sup>

It was this design requirement for the European central bank that, according to Frankfurt, explained why the EMU was best seen as a long-term goal. For the foreseeable future such a bank would impose heavy costs on inflation-prone countries. The reason: lack of monetary convergence.<sup>87</sup> In all those EC countries where inflation rates were significantly higher than in Germany, i.e., in most member states, private economic agents and governments would have to adapt immediately their inflationary expectations, and thus wages and prices, to the tight monetary policy of the new European bank.<sup>88</sup> In the absence of such a rather unlikely instant adjustment, many products and the labor force of the concerned economies would be

priced out of the single European market since the traditional option of compensating for uncompetitive prices by devaluing the national currency would no longer exist. The undesirable macroeconomic result of this would be, Pöhl warned, that the already weak EMU economies would become "ever weaker and the strong ever stronger."<sup>89</sup>

In short, in the policy narrative of the *Bundesbank* the convergence of inflation rates around German standards was addressed as the *sine qua non* of an EMU.<sup>90</sup> Such a convergence, if it were to be enduring, needed to be firmly grounded, on the one hand, in EC-wide stability-oriented "basic economic preferences and behavior patterns" such as existed in Germany<sup>91</sup>, and, on the other hand, in a "comprehensive political union."<sup>92</sup>

Most members of the government in Bonn participated in the dissemination of the EMU-resistance discourse developed by the *Bundesbank*. As in the case of the anti-inflation discourse, finance minister Stoltenberg proved again to be the strongest political supporter of the rhetoric of Frankfurt's central bankers: he fully agreed with their policy narrative. The minister thus made it quite plain that economic convergence had to come before monetary integration. It would be foolish, he declared in a thinly veiled reference to the French EMU *démarche*, to try to "put the cart before the horse." "[A]t first", he went on to expand on his metaphor, "the soft currency countries of the Community [would] have to ensure confidence-inspiring economic and financial policies, and only then [could] one talk about closer monetary cooperation."<sup>93</sup> A reversal of the order of these two steps would speed up the creation of an EMU, but at the cost of threatening Germany's price stability. To Stoltenberg, an outspoken adherent of the anti-inflation discourse, this was unacceptable. From the premise that con-

vergence was a *sine qua non* of an EMU the minister drew the conclusion, just like the *Bundesbank*, that the "creation of a European central bank [was] not urgent."<sup>94</sup> For the time being, priority should rather be given to "pragmatic" measures that would contribute to economic convergence, the finance minister proposed.<sup>95</sup> This was also the position of Stoltenberg's successor at the head of the finance ministry. Theo Waigel, who took office in April 1989, quickly established himself as an articulate practitioner of the EMU-resistance discourse. He thus stressed that a single European monetary policy would have to be based on the strict German standards, not on an "average stability level." And he also warned of "undue deadline pressure" concerning the creation of a European central bank.<sup>96</sup>

Chancellor Kohl, for his part, responded to the French call to press ahead quickly with full European monetary integration in roughly the same way as the *Bundesbank* and the finance ministry. He thus left no doubt that he concurred with the other adherents of the EMU-resistance discourse that the existing convergence-gap between the EC economies excluded any "giant steps" towards an EMU.<sup>97</sup> The EC countries were called upon first to "line up behind a common starting line", before the starting shot for the construction of the EMU could be fired.<sup>98</sup> The chancellor also made it clear that he regarded it as "self-evident that the exceedingly positive experiences" the Germans had made with the *Bundesbank* ought to be "the guideline for the European development." This meant that the European central bank would have to enjoy full "independence" and that it would have to be mandated with the maintenance of "price stability."<sup>99</sup> Yet Kohl's complete agreement with the central bankers and the finance minister on all of these issues did not extend to one other point. Unlike them the chancellor



stressed that an EMU seemed to be the most realistic way to proceed towards a goal in which he strongly believed: the United States of Europe. "One [could] come much closer to the goal of the political unification of Europe", he explained his position, "if an EMU [would] take shape."<sup>100</sup> And at another occasion he pointed out that his declared "aim of a political union [was] certainly very closely related with the aim of an EMU."<sup>101</sup> In short, Kohl practiced a soft version of the EMU-resistance discourse that was, for political reasons, somewhat less critical of the French EMU-NOW *démarche* than the version disseminated by the hard-line practitioners of the discourse.

A similarly moderate EMU-resistance discourse was circulated by the social partners, i.e., the peak organizations of capital and labor. Just like the narrative told by the chancellor, their outlook invoked the specter of inflation. An EMU was only acceptable to them, if price stability were guaranteed. "Stable money", the Federal Association of German Industry underlined, was simply "far more important than a single currency."<sup>102</sup> The German Federation of Industry and Trade fully concurred with this assessment, and called on the government not to make price stability "the object of compromise and negotiated solutions."<sup>103</sup> This was also the view of the Federal Association of Savings and Loan Associations. It would be "unacceptable", its president said, "if the D-mark [would be] traded in against a European soft currency."<sup>104</sup> Out of this fear of inflation the social partners consequently opposed the French EMU-NOW discourse. Hans Peter Stihl, the president of the German Federation of Industry and Trade, made this clear when he cautioned against "haste and feverishness" on the road to an EMU and advocated proceeding instead with "patience and

endurance."<sup>105</sup> The same message was conveyed in a joint declaration by the Federation of German Industry and the German Federation of Labor. In it both organizations insisted that the construction of an EMU ought to occur at "slow speed out of regard for price stability."<sup>106</sup>

As to the desirability in principle of the EMU, the representatives of most producer interests had a distinct view. Unlike the chancellor they focused on the economic rather than the political benefits of European monetary integration. And unlike the *Bundesbank* and the finance ministry they expected that these benefits would be sizable.<sup>107</sup> According to their version of the EMU-resistance discourse, a single currency would facilitate trade and investment in the common market and strengthen the global competitiveness of German businesses by reducing transaction costs and doing away with intra-EC exchange rate variability. The German Federation of Industry and Trade, for instance, pointed to the "reduction of costs in the international business" that could be realized by the introduction of an "EC-currency."<sup>108</sup> The president of the federation added that "without a European central bank, and without a single currency the common market would remain incomplete."<sup>109</sup> Leading German-based transnational enterprises such as Bosch or Daimler-Benz also spoke out separately on the issue. They would welcome the creation of a European central bank, they declared, because such a move would serve to "stabilize financial markets."<sup>110</sup>

#### **4. Hegemony Challenged: The Counter-Discourse of Foreign Minister Genscher and the Social Democrats**

**The effectiveness of the German EMU-resistance discourse in blocking**

the French EMU-NOW campaign was from the beginning hampered by rhetorical subversion. A key player in the Bonn government, foreign minister Genscher, as well as the main opposition party, the SPD, refused to support the official policy script.<sup>111</sup> Instead they wrote and circulated their own counter-discourse. This created the somewhat awkward situation that the government's official resistance against the French EMU *démarche* was challenged not only by the opposition, but also by a key minister. Both the SPD and the minister made, in effect, the case for EMU-NOW.

Not long after the French had started to circulate in earnest their EMU-NOW discourse in January 1988, the German foreign minister began his own pro-EMU campaign by issuing a memorandum in which he outlined concrete political steps to advance towards the goal of creating "a European currency space."<sup>112</sup> The upcoming European Council meeting in Hanover in June 1988, the foreign minister proposed, should install a group of experts mandated with carrying out three tasks. First, they should work out the principles that would govern the EMU. Second, they should write the statute of the future European central bank and, third, they should formulate a transition strategy that would allow the EC to move swiftly from the status quo to full monetary integration. The experts, Genscher suggested, should be given time until the end of 1988 to table their blueprint for the creation of the EMU.<sup>113</sup>

Not surprisingly Genscher's persistent public pronouncements in favor of "speedy progress on the way to a currency union"<sup>114</sup> and his repeated warnings that "An EMU [was] indispensable for the future of the Community"<sup>115</sup> did not go over well with the practitioners of the EMU-resistance discourse.<sup>116</sup> Yet the foreign minister steadfastly refused to effect

a narrative shift and to subscribe to the position of his government colleagues. On the contrary, he even went on the attack himself, accusing his domestic critics of being "narrow-minded defenders of the [monetary] status quo."<sup>117</sup> But this was only to be expected from a policy-maker who, already in 1981, had together with his Italian counterpart launched an initiative calling, among other things, for the creation of an EMU as a way to overcome the *malaise* into which the EC had sunk at the time.<sup>118</sup>

What then were the premises that underwrote Genscher's counter-narrative? The minister focused on two economic arguments, the first of which closely resembled the main argument deployed by the French EMU-NOW discourse. Situating the problem of monetary powerlessness raised by France's policy-makers in a larger context, the German foreign minister touted the EMU as a remedy against the erosion of the monetary policy-making powers not only of the French but of all EC governments. An EMU, Genscher argued, would put an end to the debilitating problem of the persistent "monetary turbulences" that threatened to tear apart the EMS, and it would be an effective political response to "the internationalization of the financial markets."<sup>119</sup> A single European monetary policy centered around a European central bank would be "in the interest of all EMS member states" because it would "reduce their dependency on the dollar and strengthen their monetary capacity to act."<sup>120</sup> The second argument in favor of the quick realization of an EMU put forth by Genscher was of a functionalist nature. A single currency, he declared, apparently referring to such problems as exchange rate uncertainty and the transaction costs associated with doing business in a market in which twelve currencies circulated in parallel, was an "economically necessary complement to the European single

market."<sup>121</sup> At another occasion he went even further and expressed the view that a "single market could not exist without a single currency."<sup>122</sup>

In sum, the EMU policy narrative told by foreign minister Genscher and the one told by the rest of the government were diametrically opposed. Yet there was one point on which both sides agreed: if a European central bank would be set up, it would have to be modelled on the *Bundesbank* in order to ensure the price stability of the single European currency that would be managed by the bank. This was a clear concession on Genscher's part to Germany's stability culture and its high priests, the practitioners of the anti-inflation discourse. In order to demonstrate that he was serious about his commitment to price stability, Genscher even proposed that the EMU should be based on a "Magna Carta of European stability policy." Its key principles, he added, should be the "basic elements of the *Bundesbank* law."<sup>123</sup> Yet despite this concession, the foreign minister failed to pick up support for his own pro-EMU discourse among those whose voice counted: his government colleagues, the *Bundesbank* or economic interest groups. Thus the social democrats remained the only other politically significant player in German politics, besides Genscher, who called for the quick creation of an EMU.

Although the two German counter-discourses that challenged the hegemony of the official EMU-resistance discourse had the same argumentative thrust, this was not the result of the social democrats copycatting the text of the EMU script of the foreign minister. Indeed, already in 1987 (i.e., before either Balladur or Genscher had circulated their EMU memoranda) SPD politicians had called for the creation of an EMU.<sup>124</sup> At the time, however, these scattered pronouncements had not been developed into a full

policy narrative. This changed as the EMU, not least because of Genscher's efforts, became a more salient domestic policy issue in 1988. The SPD now began to expand and systematize its EMU-NOW arguments and associated policy recommendations and to attack vehemently the government's stance on the EMU. Just like the foreign minister, the social democrats stressed two economic benefits that could be expected from an EMU.

First, "the realization of a European currency union" would, according to Hans Apel, reduce the vulnerability of Europe to the "erratic fluctuations of the global currency markets" with their negative impact on economic growth.<sup>125</sup> Second, there was a functional linkage between the smooth operation of the single European market and an EMU. Without the latter, Apel warned, the former would remain a torso, unable to generate the economic dynamic needed to promote growth and employment in the EC.<sup>126</sup> A similar message was conveyed by party leader Hans-Jochen Vogel. He noted that "a single currency [was] in the end part and parcel of European integration."<sup>127</sup> From its analysis of the gains to be had from European monetary integration, the SPD drew the conclusion that it was in Germany's national economic interest to support the French EMU-NOW *démarche*: in the words of Vogel, "the time was ripe" for an EMU.<sup>128</sup> Consequently the party called on the government to stop acting as "brakeman on the way to a European currency union,"<sup>129</sup> and on the *Bundesbank* to end its "delaying resistance."<sup>130</sup> Instead, SPD politicians urged Bonn to start working on setting "the political course for a single European currency and a common central bank."<sup>131</sup>

## 5. The Diplomacy of Opposition: Bonn's Delaying Tactics

The EMU-resistance discourse was the dominant rhetorical reaction of German decision-makers to the French EMU campaign between its launch in January 1988 and the fall of 1989. Neither foreign minister Genscher nor the SPD were able to gain enough adherents for their counter-discourse in order to displace the hegemonic policy narrative. Bonn's EMU diplomacy mirrored the "yes, but approach" of that narrative. Diplomatic activity both affirmed Germany's principled support for the goal of full European monetary integration, and its opposition to the French *démarche* to set an early deadline for its realization. Unable to count on the full backing of Bonn on this issue, Paris consequently found it impossible to build enough support among EC governments for its goal of a firm timetable for the formation of an EMU. Yet the French campaign was not a complete failure. It succeeded in rekindling the political debate about the EMU.

The first significant result of the new salience of the issue of European monetary integration was the decision by the European Council meeting in Hanover in June 1988 to set up an ad hoc committee - the Delors Committee - to carry out a feasibility study about the EMU. In April 1989 the committee published its report in which it came to the conclusion that the creation of an EMU was not only feasible, but indeed desirable. The Delors blueprint for the EMU consequently led to a hot debate among the EC heads of state and government at their European Council meeting in Madrid in June 1989. In the end all twelve governments, although some quite reluctantly, agreed to accept the report as a basis for further deliberations

about the EMU. Yet, despite the valiant efforts of French diplomacy<sup>132</sup>, the European Council refused to be committed to specific deadlines concerning the opening and closure of an intergovernmental conference to negotiate the EMU treaty. Largely responsible for the failure of the French *démarche* was Bonn's opposition.<sup>133</sup> The German delegation headed by chancellor Kohl was strictly "against an ill-considered rush into changing Germany's constitutional monetary arrangements."<sup>134</sup> In particular, the Germans insisted that the preparations for an EMU had to be "sufficiently far advanced" before formal negotiations could begin.<sup>135</sup>

In the wake of the Madrid setback, Paris redoubled its efforts to persuade Germany of the wisdom of the speedy realization of an EMU; but to no avail. The practitioners of the EMU-resistance discourse, including chancellor Kohl, refused to abandon their delaying diplomacy. It needed, as we have seen in chapter 3, a powerful "external catalyst" to change this.

Yet before turning to the discursive implications in Germany of the fall of the Berlin Wall I will first address the theoretical significance of the rhetorical reaction of the German politico-economic elite to the French EMU-NOW discourse. What does that reaction say about the descriptive power of the competing hypotheses about the purpose of integration and governmental preferences concerning the organization of political power in the EC? In both cases the evidence is unequivocal: the German monetary policy stories are in accordance with the Idealist expectations. Regarding the purpose of integration, the welfare orientation of the EMU-resistance and EMU-NOW narratives is beyond doubt. This was money talk, not power talk. As to the former, it deployed two economic arguments to explain its opposition to the French EMU-NOW *démarche*. First, there was the threat to



the price stability of the D-mark, and thus ultimately to the well-being of the economy, stemming from either an EMS reform that would make the regime more symmetric, or from a full-blown EMU without prior cross-national economic convergence. Second, the monetary status quo in Europe, far from producing cross-border problems to be solved, actually generated positive externalities in the form of an EC-wide convergence around German price stability standards. In short, there was from this point of view no reason for monetary change in Europe.

Conversely, being less preoccupied with price stability, foreign minister Genscher and the SPD came to a different assessment of the pros and cons of such a change. They regarded a reform of the EMS, indeed, even the creation of an EMU, as desirable: either way exchange rate stability and economic growth would be promoted. In none of these money narratives, then, are there discursive traces to be found that would point to a power political calculus. Germany's dominance in the EMS, while readily recognized, was thus never framed in terms of an aspiration for political hegemony in the EC. In sum, it was the quest for welfare, not the quest for power, that figured in the discursive orientations of governmental and societal actors in Germany towards European monetary integration.

As to preferences about the organization of political power in the EC, it may at first seem as if at least the EMU-resistance discourse circulated by the government, the *Bundesbank* and most economic interest groups confirms the Realist expectation that even in the EC sovereignty consciousness remains strong and governments continue to defend jealously their ultimate responsibility over key political and economic functions on their territories. But this is not so. Certainly, the practitioners of the EMU-resistance story

opposed what they considered to be a premature transfer of monetary sovereignty to a supranational central bank. But this was so, as they took pains to point out, because they thought that the most effective management of monetary interdependence in the EC was, at least in the short and medium term, the existing cooperative arrangement. Still stronger evidence for the Idealist hypothesis comes from the fact that both the adherents of the EMU-resistance and those of the EMU-NOW narratives made it quite clear that a future European central bank would have to be in complete control, without political interference from national governments, of all major aspects of monetary policy-making. This, according to the consensus view, was a *conditio sine qua non* for price stability under an EMU. Such a reasoning along functional lines is of course alien to the Realist sovereignty hypothesis, but the essence of its Idealist counterpart.

## 6. History in the Making: German Policy-makers and Reunification

During the summer and fall of 1989 the legitimacy crisis of the East German regime assumed dramatic proportions as the number of its citizens fleeing to the West continued to swell. The rottenness of the communist government, now clearly visible to the naked eye, coupled with the new Eastern European policy of the Soviet Union, created an historical opportunity for reopening the German question. The reaction of the major political players in West Germany was swift. By the fall of 1989 the hottest policy debate in the country centered on the future relationship between the two Germanies. Reunification: yes or no? This was the question that divided West Germans.

The anti-reunification camp was led by the Greens. The majority of their members in the *Bundestag* adopted what came to be known as the *realpolitische Position*.<sup>136</sup> Formulated under the leadership of Antje Vollmer and Ralf Fücks, the leaders of the parliamentary group and of the party respectively, the Greens, while fully backing the mounting opposition of East Germans to their government, rejected any calls for reunification. Instead they advocated the creation of an ecological confederation between the two German states based on the legal recognition on the part of Bonn of the principle of double statehood (*Zweistaatlichkeit*).<sup>137</sup> Such an arrangement was preferable to reunification because it would enable Bonn and Berlin to reap the benefits of close cooperation without making their neighbors feel insecure through the recreation of a "national great power" (*nationalen Großstaates*) in the heart of Europe.<sup>138</sup> Furthermore, since the two Germanies had followed completely separate development trajectories over the last 40 years, double statehood was the only realistic option. There was simply no longer any common economic or sociological foundation on which a reunified state could be erected. The very concept of reunification, according to Mrs Vollmer, was "historically outdated more so than ever before."<sup>139</sup> Both of these anti-reunification arguments were also employed by parts of the SPD leadership.<sup>140</sup>

An additional argument that would soon take center stage in the stance of the social democrats concerning reunification focused on the prospect of West Germany having to pay for the huge costs of the modernization of the backward East German economy and the cleaning up of its polluted environment.<sup>141</sup> Particularly Oskar Lafontaine, the party's candidate for the office of the chancellor in the upcoming general elections, made it quite plain that he

thought any hasty move towards reunification would be financially irresponsible. Just like the Greens he called for a slow rapprochement between the two Germanies, with possibly, a confederation at the end of this process.<sup>142</sup> Quite a different position, however, was taken by two former SPD chancellors: Willy Brandt and Helmut Schmidt. Both of them called for the quick reunification of Germany. "Now that [grew] together, which belong[ed] together", Brandt hopefully declared when the Berlin Wall came down, leaving no doubt about his vision of the future of the two Germanies.<sup>143</sup>

The pro-reunification camp was led by chancellor Kohl on behalf of the CDU/CSU and foreign minister Genscher on behalf of the FDP. Already in September the Chancellor told the CDU at the annual party congress that Germany had never [been] so close to the realization of this vision" of reunification.<sup>144</sup> A few weeks later, in his state of the nation address on 8 November, Kohl went one step further. There he made it quite clear that the collapse of the Honecker regime was an opportunity for reunification that his government was determined not to let slip by. This was no time, he told his audience, "to resign [oneself] to the double statehood of Germany."<sup>145</sup> On 28 November, finally, the chancellor surprised his compatriots and the world at large by announcing in the *Bundestag* a 10-point plan in which he outlined a fast-track approach to reunification. In point 5 of the program Kohl called for the setting up of "confederal structures between the two states in Germany with a view of creating a federation, i.e., a federal order in Germany."<sup>146</sup> Foreign minister Genscher, for his part, supported in principle, if not in all details, Kohl's position, and consequently "systematically promoted" the goal of the speedy reunification of Germany.<sup>147</sup> For him, just like for the chancellor, there was no doubt that "Germans [could] not be sepa-

rated forever from Germans"<sup>148</sup>, and that after forty years during which two states had existed on German soil, it was high time that this unnatural separation was drawing to an end.

Against the opposition of the Greens and the SPD the conservative government thus made quick reunification the key goal of its German policy.<sup>149</sup> But domestic opposition, it soon turned out, was not the only obstacle that stood between Bonn and a reunited Germany. Quickly the government realized that its reunification drive was in danger of running into the roadblock of a foreign veto.<sup>150</sup> The prospect of reunification stirred up old memories of *Grossdeutschland* in many European countries, prompting some of their governments to try to slow down or even prevent reunification all together. As a semi-sovereign country that was dependent on the green light of the Four Allied Powers before it could embark on the road to reunification, it was imperative for Bonn to address quickly these foreign fears about a *return to the future*. Otherwise the Kohl-Genscher vision of a united Germany would remain just that: a vision.

The government's reaction to the growing international unease about the security implications of its fast-track approach to reunification was to launch a sort of public relations campaign. Its goal was to appease the concerns of the international community in general and of France in particular. At the heart of the campaign were two distinct appeasement discourses: the *idealtolitik* narrative and the EMU-NOW narrative. The central premise of the former, an updated version of a policy narrative that had been in circulation since the creation of the Federal Republic of Germany, was that there was an ontological difference between the bad *old Germany* of before 1945 and the good *new Germany* ever since. The practitioners of this story

underlined that Germany had renounced *realpolitik* and *Machtpolitik* for good. Its new foreign policy credo was *ideapolitik*. The premise of the second appeasement discourse was that in addition to updating its *ideapolitik* narrative Bonn had also to effect a narrative shift on the issue of the EMU. Only in this way could its most important European ally, namely France, be persuaded to back the policy of speedy reunification.

### 7. Bonn's Idealpolitik Discourse: Foreigners Have No Fear

The busiest practitioner of the *ideapolitik* discourse was without doubt foreign minister Genscher.<sup>151</sup> Throughout the critical phase between the fall of 1989 and the fall of 1990, when international anxiety was at its peak, Genscher used every occasion to reassure the world that the new Germany was and would remain a civil state without any power political aspirations. Germany, he declared, had once and for all abjured a traditional national interest policy driven by "power, influence and status consciousness".<sup>152</sup> To Bonn, he said on another occasion, "power politics belong[ed] to yesterday's categories."<sup>153</sup> The time was long gone when the Germans had been keen on embarking on "nationalistic adventures" abroad.<sup>154</sup> There was consequently absolutely no danger that they might be tempted to return to the "outdated politics of confrontation and power" that the old Germany had practiced with so much passion.<sup>155</sup> In short, Genscher argued that Germany's foreign policy no longer followed the immoral precepts of *realpolitik* in the tradition of Bismarck or Hitler. Rather it now was guided by an ethic of responsibility.

Germany, the foreign minister explained, had become an "open, coopera-

tive responsibility state."<sup>156</sup> It was a partner on which its international friends could count, and a neighbor nobody needed to fear because its foreign policy - "responsibility policy"<sup>157</sup> - was designed with only one goal in mind: to "do justice to [Germany's] responsibility in Europe and the world."<sup>158</sup> In accordance with its deeply felt "responsibility for peace"<sup>159</sup> Bonn would therefore never use armed force for goals other than those that were "in accordance with ... the charter of the United Nations."<sup>160</sup> In sum, Genscher touted the foreign policy of the new Germany as "an exemplary policy", something the rest of the world ought to aspire to rather than be afraid of.<sup>161</sup>

By inserting Bonn's reunification policy into this foreign policy narrative of the utterly good new Germany, Genscher tried to frame German unity as a completely harmless issue. "Not national egotism and empty pathos" fueled the clamor of the German people and its political representatives for reunification, he observed, but rather "a sense of responsibility for [overcoming the political division of] Europe."<sup>162</sup> Those abroad who harbored fears that a united Germany might become a danger to peace and stability in Europe had to understand one thing about reunification: the Germans wanted to put an end to the separation of their country in order to be able "to live in unity, freedom and peace with [their] neighbors."<sup>163</sup> They had no intention "to harm other states."<sup>164</sup>

The evolving character of Europe played a key role in this narrative designed to create an international discursive environment in which Germany's neighbors would no longer associate unification with danger. The constraining ties of multilateralism, according to the foreign minister, would ensure that Europe was safe from a unified Germany. After all, the new

Germany had, once and for all, "embedded [its] fate inseparable with that of the whole of Europe."<sup>165</sup> This was not about to change with unification. Bonn had no intention to "de-Europeanize" its future foreign policy.<sup>166</sup> On the contrary, Genscher pledged, it would continue to pursue its foreign policy aims through "Nato and through further integration in the EC, through the CSCE process, the West-East stability partnership, the building of the common European house and through the creation of the ... pan-European peace order."<sup>167</sup> Given this firm German commitment to European institutions, in particular the EC - the "most beautiful victory in European history"<sup>168</sup>, - there was simply no reason for any European government to be afraid of reunification. The end of the cold war and with that the end of the division of Europe and Germany would see the emergence of a "European Germany, not a German Europe", Genscher reassured his international interlocutors.<sup>169</sup>

Another key practitioner of Germany's *idealpolitik* discourse was chancellor Kohl. There were consequently no major differences between his pronouncements on the German question and its international implications and those of his foreign minister. Kohl said that he realized that the prospect of a unified Germany caused some "distrust and fearfulness" among certain foreign government.<sup>170</sup> This instinctive aversion against reunification, he acknowledged, was in part fueled by "the history of this century" and the role Germans had played in it<sup>171</sup>, and in part by Germany's advantageous "geopolitical" location "in the heart of Europe."<sup>172</sup> Yet Kohl made it also clear that while Bonn took these fears seriously, it regarded them as rooted in an imaginary Germany, namely that of the pre-1945 era, not the present Germany. In the real Germany, he reassured Paris and other concerned capitals, "[n]o one having political responsibility" dreamt of



"Grossdeutschland"<sup>173</sup>; no one wanted to return back to the future, to the foreign policy of "Sonderwege and Alleingänge" (literally: peculiar and solitary policies);<sup>174</sup> and no one had the "intention of opening a debate on borders in the Europe of tomorrow."<sup>175</sup> All these revisionist goals, belonging to "the thinking in the classical categories of the nation-state", were alien to him and his fellow policy-makers in the government and the opposition. This type of thinking had been "overcome" by the leaders of the new Germany.<sup>176</sup>

The most potent symbol of Germany's new *idealpolitik* credo, Kohl stressed, again following the argumentative line of his foreign minister, was Bonn's unflinching European calling. Particularly important in this regard was the country's membership in the EC and NATO. Participation in both these institutions, the chancellor declared, had become an "indispensable component of the *raison d'État* of the Federal Republic of Germany", and this was not about to change with reunification.<sup>177</sup> Quite on the contrary, his government realized that the "German problems [could] only be solved under a European roof, not with an anti-European attitude."<sup>178</sup> It consequently intended to achieve its long-standing goal of German unity in the context of a "pan-European architecture" from which would "come works of peace, works of assistance and neighborliness."<sup>179</sup> Bonn's neighbors and partners should take this unshakable commitment of the new Germany to European multilateralism into account when analyzing the impact of unification on the future of Europe. They then would come to understand that the growth of power of Germany would cause them no harm. "Where power [was] exercised through common institutions, there [was] no place for nation-state rivalries and for the aspiration for domination of earlier times."<sup>180</sup> A single

Germany securely anchored in European institutions would thus "never be a threat" to its neighbors. Rather it would be "a gain for Europe and for all other partners", Kohl argued.<sup>181</sup>

The SPD did not, on this occasion, circulate its own counter-discourse, despite all its criticism concerning the economic costs of reunification, and the haste with which the government proceeded towards this goal. In particular, the party took pains not to challenge the argumentative thrust of the official *ideapolitik* discourse.<sup>182</sup> It thus refrained from exploiting the foreign fears about the German policy of the Kohl government for partisan gains. Instead the social democrats actively participated in the official effort to placate international worries about the dangers of reunification. Party leader Vogel, for instance, took pains to emphasize that the support of the SPD for German reunification had nothing to do with "national egotism" or "national triumph." True, it wanted "German unity," but "not as Bismarck [had] wanted the German Reich", i.e., as "an expression of the will-to-power." Rather, Vogel emphasized, he and his comrades regarded reunification as an important step "towards the United States of Europe."<sup>183</sup> Given this professed belief in the European idea the social democrats also fully backed the government's policy of "embedding" a reunified Germany in a pan-European peace order.<sup>184</sup> The party's candidate for the office of chancellor went so far as to predict that a single Germany would remain a "provisional arrangement" that would soon be "submerge[d] in a greater Europe."<sup>185</sup> In sum, the SPD joined the government's *ideapolitik* chorus that touted the sense of international responsibility of the new Germany.<sup>186</sup>

Yet, in spite of this widespread support for the *ideapolitik* discourse within Germany, its effectiveness on the international scene was limited.

Particularly in France, but also in Great Britain, the narrative proved unable to undermine the dominant fear discourses. One important reason for this lack of persuasiveness of the German policy narrative was that rhetoric and actions did not always coincide during the crucial period between 1989 and 1990. At least on two occasions chancellor Kohl acted in such a way so as to raise doubts about Germany's commitment to the "European idea".<sup>187</sup> The first blow to the credibility of the *idealpolitik* discourse came when the chancellor, in a surprise move at the end of November 1989, presented a 10-point plan to the *Bundestag* in which he outlined a fast-track approach to unification.<sup>188</sup> To some foreign leaders, including president Mitterrand and prime minister Thatcher, Kohl thus seemed to renege on his pledge to consult closely with them on all important issues related to reunification.<sup>189</sup> This assessment, in turn, strengthened their fears about the prospect of an united Germany acting as it saw fit without much concern for its neighbors and partners. Foreign minister Genscher travelled a few days after Kohl's surprise announcement to London and Paris, and tried his best to contain the damage caused by it. The minister declared that this was no harbinger of a new national assertiveness on the part of Germany coming at the expense of multilateral cooperation. Germany was "a member of the European Community and want[ed] to remain one; [it was] a member of the North-Atlantic Alliance and want[ed] to remain one", he pledged.<sup>190</sup>

The second and more damaging blow to the persuasiveness of the *idealpolitik* discourse was Kohl's refusal to cede to international demands that Germany recognize the inviolability of the Oder-Neisse line.<sup>191</sup> Kohl's argument that constitutional constraints made it impossible for him to commit Germany once and for all to the present border with Poland met with strong

criticism abroad.<sup>192</sup> Particularly Warsaw, Paris and London regarded Kohl's rejection of their calls for such a border guarantee as incompatible with Bonn's self-professed sense of international responsibility.

Throughout the fall of 1989 and well into 1990, it was up to the foreign minister to try to erase the impression that the united Germany might be tempted to recover land it had lost to Poland as a result of World War II. To this end he also clearly distanced his party and himself from the chancellor and the CDU/CSU.<sup>193</sup> On the domestic scene Genscher consequently criticized Kohl openly for failing to take decisive actions to dispel once and for all foreign doubts about Germany's unconditional recognition of its existing borders.<sup>194</sup> On the international scene the minister pursued a quasi-private foreign policy on this issue. In a speech to the UN, for instance, he reassured the Poles that Germany would "not now nor in the future question [Poland's] right to live in secure borders by making territorial claims."<sup>195</sup>

#### 8. Wooing France: The German EMU-NOW Discourse

Between the fall of the Berlin Wall on 9 November 1989 and the European Council meeting in Strasbourg in December of the same year the government in Bonn effected a significant narrative shift. It disengaged from the EMU-resistance discourse in order to take up a new discursive practice: Genscher's long-standing counter-narrative, a German version of the French EMU-NOW discourse. Two policy-makers were responsible for this rhetorical *volte-face*, chancellor Kohl and foreign minister Genscher. Pointing to the pronounced French fears of the united Germany, both politicians began to

highlight the danger that reunification might undo the privileged Franco-German relationship that had been so important to peace and economic development in post-war Western Europe. And they began to argue that the only way for Bonn to prevent such a dangerous development was to finally back the French EMU-NOW *démarche*.

Foreign minister Genscher was among the first German policy-makers to formulate and circulate the new EMU-NOW narrative, a spin-off from his earlier policy story.<sup>196</sup> The argumentation of the new script was straightforward: Bonn's support for the French EMU-NOW *démarche* had become, in the wake of the fall of the Berlin Wall, the "litmus test" of Germany's continuing commitment to the European idea and the Franco-German axis.<sup>197</sup> Were Bonn to fail the test, then it would not be able to count on French support for its fast-track approach to unification. The new theme of the EMU-NOW narrative was thus *engrenage*, not money. "Nothing would be more dangerous to German interests", Genscher consequently stressed, "than to lose the close rapport with France" because of Bonn's insensitivity to French worries about the united Germany. Bonn could only appease these fears, the minister told the practitioners of the EMU-resistance discourse, if it became the "motor of the Economic and Monetary Union of the EC."<sup>198</sup> Those who resisted such a policy shift, he warned, endangered the goal of German reunification.<sup>199</sup> If, however, Germany agreed to commit itself to an early date for the opening of the negotiations about an EMU, then "the unification of Germany [would also] be a contribution to a united Europe."<sup>200</sup>

One of those addressed by Genscher who began to disengage slowly from the EMU-resistance discourse and to practice the EMU-NOW discourse was chancellor Kohl. A first indication of the impending narrative shift of

the chancellor was the growing salience of the link between reunification and European integration in his speeches on the German question during the fall of 1989. Bonn, he insisted, had not only the national obligation to aid the reform movement in East Germany with a view to prepare the ground for the reunification of the two Germanies, but it also had the responsibility to reassure its EC partners in general and France in particular of its continuing commitment to the European idea. "Those who believe[d]", the chancellor warned, "that [Bonn could] afford to pursue the European unification process as a low-order priority because the policy towards the East and the German policy were now more important, were in reality harming the goals of [Bonn's] policy towards the East and [its] German policy."<sup>201</sup> At this historical juncture a prudent German policy had to "see the whole dimension of the world political, European and German development", he said at another occasion.<sup>202</sup> It did not take long before the chancellor went from attacking the political myopia of those who failed to see the international implications of German unity to fully distancing himself from one group of these myopes: the practitioners of the EMU-resistance discourse.

At around the time of the dismantling of the intra-German border at the beginning of November 1989 Kohl began to recast the issue of European monetary integration. He no longer addressed it as mainly a monetary policy issue, but rather as a matter of foreign policy. In the current international context, according to Kohl's new policy narrative, the government could no longer afford to assess the costs and benefits of an EMU on the basis of only its impact on the stability of the D-mark. What was now at stake in the EMU debate was the "precious friendship" between Paris and Bonn.<sup>203</sup> Pru-

dent statecraft therefore required that Germany decide about "progress on the road to an EMU ... in the awareness of [its] responsibility for the future development of the Europe of the Twelve."<sup>204</sup> By acting in this way, the chancellor pointed out, "German unity [would] prove to be the catalyst [that would] speed up the integration of Europe towards the European Union."<sup>205</sup> And such a deepening of the EC, including "in particular the single currency", was simply the "best recipe to alleviate fears of the Germans."<sup>206</sup>

Kohl also tried to calm those who remained unconvinced of this line of reasoning, i.e., the diehard practitioners of the EMU-resistance discourse.<sup>207</sup> Without compromising his new policy narrative, he assured them that he would do all he could to make sure that the EMU would be designed in such a way as to minimize the risk of inflation.<sup>208</sup> Yet he also left no doubt that the times when the German government could talk about an EMU as simply a money issue were once and for all gone. The conclusion he drew from this was straightforward: Bonn was now ready to agree to a concrete timetable with a view to "proceed in the 1990s step by step on the road to an EMU."<sup>209</sup> Clearly, by the end of 1989 Kohl had effected a discursive U-turn on the issue of the EMU. Just like his foreign minister, the chancellor now regarded the speedy realization of the EMU as being in Germany's national interest.<sup>210</sup>

The defection of the chancellor from the go-it-slow-camp led by the *Bundesbank* and the finance ministry to the make-haste camp led by foreign minister Genscher elevated the formerly marginalized counter-narrative of the latter to the new dominant policy discourse in German politics.<sup>211</sup> It did not take long before German diplomacy followed this discursive shift. After

having allied with London and other EMU-skeptics to inflict a "defeat [on] Mitterrand over [the EMU] deadline" at the European Council meeting in Madrid in June 1989<sup>212</sup> and after the persistent "[d]ifferences between France and [itself] over the pace of moves towards European monetary union" at the 54th Franco-German summit in November 1989<sup>213</sup>, Bonn finally backed down in December 1989.<sup>214</sup> Pulling together again, Mitterrand and Kohl consequently managed to persuade the other heads of state and government at the European Council meeting in Strasbourg to agree to convene an IGC "before the end of 1990."<sup>215</sup>

Having now described in some detail the two German policy narratives, what can be said about them from the standpoint of theory? Is the rationale of these policy stories with which Germans responded to the foreign fears about a united Germany indicative of an Idealist zone of peace in integrated Western Europe, or of a Hobbesian war system? There is no room for doubt here. There are absolutely no rhetorical traces of Westphalian thinking in these narratives. The meaning given to the EC in both the *ideapolitik* and the EMU-NOW discourses was clearly that of a stable zone of peace in which armed conflict and coercive diplomacy have become impossible. It was from within this horizon of meaning that German policy-makers, irrespective of *couleur*, approached reunification. Building on the assumption: EC = zone of peace, they employed a simple discursive formula in order to appease foreign fears about the impact of the united Germany on peace and stability in Europe: reunification plus Germany's commitment to the EC/EMU equalled no danger to Germany's neighbors and partners. And what about the purpose of the foreign policy of a reunited Germany? Are there rhetorical traces that at the time pointed to the upcoming return of Germany to the stage of



power politics and great power rivalry, as the Realist quest-for-power hypothesis suspects? The answer must be a resounding "no"! Particularly instructive in this regard is the argumentative thrust of the *idealpolitik* discourse which effected an interesting logocentric maneuver: it juxtaposed the *new Germany* against the pre-1945 Germany. The foreign policy of the *new Germany* was consequently described as utterly unconcerned with the goal of international power. The picture of Germany portrayed by this discursive strategy was that of a postmodern polity, a sort of Idealist utopia come true, rather than of a state in the traditional Westphalian sense. In conclusion, the German policy discourses that were circulated in response to the foreign fears of a reunited Germany unequivocally confirm the expectations of Idealism.

#### Notes

1. *Frankfurter Allgemeine Zeitung*, 3 January 1987, p.12.
2. Ludwig Erhard, economics minister under chancellor Konrad Adenauer, quoted in David Marsh, *Die Bundesbank: Geschäfte mit der Macht* (München: Goldmann, 1995), p.42.
3. Wilhelm Nölling, *Unser Geld: Der Kampf um die Stabilität der Währungen in Europe* (Berlin: Ullstein, 1993), pp.21ff. and 37-43.
4. Dieter Hiss, president of the state central bank of Berlin in the early 1990s, quoted in Marsh, *Bundesbank*, p.322. The two reforms were made necessary by the high monetary overhang which was both in the twenties and the forties a result of the deficit financing of a world war.
5. Compare *ibid.*, p.40. Of course historical memories alone can hardly explain the success of this stability culture. One also has to take into account the institutional structure within which it was disseminated. This is most obvious with regard to the *Bundesbank*. Without its independence the central bank could hardly have become such a formidable shaper of Germany's post-war politico-economic culture. A convincing case pertaining to the importance of structures in economic affairs was presented by Good-

man. Focusing on Germany's anti-inflationary success, rather than on its stability culture, he argued that "Germany's low rate of inflation [was] less the result of its prior experience than of its present institutional structure" of its central banking system. See John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca: Cornell University Press, 1992), p.58.

6. Compare Elke Thiel, "Macroeconomic Policy Preferences and Co-ordination: A View from Germany," in *The Political Economy of European Integration: States, Markets and Institutions*, edited by Paolo Guerrieri and Pier Carlo Padoan (Savage: Barnes & Noble, 1989), pp.202-230. "Price stability", she wrote, "[was] considered as an indispensable means to secure a social consensus regarding income distribution, to protect private savings and to prevent creditors from deprivation. This objective [had] always been strongly supported by all domestic groups, including the trade unions" (ibid., p.203).

7. Compare Heidemarie C. Sherman, "Central Banking in Germany and the Process of European Monetary Integration," in *Monetary Implications of the 1992 Process*, edited by Heidemarie Sherman et al. (London: Pinter, 1990), pp.16-50. "Given the bad experiences with a central bank subject to the instructions of the government (the old *Reichsbank* before 1924 and the new *Reichsbank* from 1933 on), which twice had led to the total destruction of the currency, the principle of an independent central bank after the war was never questioned" (ibid., p.20). On the contrary, the "broad political consensus in Germany that monetary stability is highly desirable, and that an independent central bank is necessary to safeguard stability, buttresses the Bundesbank's domestic status." Randall C. Henning, *Currencies and Politics in the United States, Germany, and Japan* (Washington: Institute for International Economics, 1994), p.85. This strong consensus led to quite an uncommon political economy which Henning described so: the "independence of the *Deutsche Bundesbank* is the single most important distinguishing feature of macroeconomic policy-making in Germany" (ibid., pp.84-85).

8. "[F]rom a German standpoint it [was] therefore most important to sustain the discretion in international macroeconomic policy co-ordination that provide[d] the means to eventually defend domestic economic priorities if objectives in macroeconomic policy co-ordination diverge[d] substantially." Thiel, "Macroeconomic Policy Preferences", p.226. Against this backdrop it is not surprising that the 1979 "decision to launch the EMS raised strong German domestic opposition" (ibid., p.217).

9. Of somewhat less importance was the argument that "in every system of stable exchange rates inflation is imported via international price relationships from countries with higher inflation rates to countries with lower ones." See Rolf Caesar, "German Monetary Policy and the European Monetary System," in *International Monetary and Financial Integration: The European Dimension*, edited by Donald E. Fair and Christian de Boissieu (Dordrecht: Martinus Nijhoff, 1988), p.122.

10. Foreign exchange market interventions constitute "processes of central bank money creation or destruction [that] are [in principle] beyond the control of central banks in a system of fixed exchange rates." Ibid., p.104. For a strong currency country like Germany this implies a great likelihood of positive liquidity effects that may be difficult to sterilize through money market operations, domestic monetary policy measures or other such

responses. As to the empirical evidence concerning the ability of the *Bundesbank* to effect such sterilization operations, it is somewhat ambiguous. While Caesar maintained that during the 1980s the *Bundesbank* was in general able to overcome these difficulties associated with the sterilization of the large foreign exchange market interventions in EMS currencies, Sherman argued that the "liquidity effects of these exchange purchases ... frequently posed serious problems for the *Bundesbank*", i.e., that they led to the overshooting of the monetary aggregates targeted by the *Bundesbank*. See Caesar, "German Monetary Policy," p.107 and Sherman, "Central Banking," p.38.

11. Compare Caesar, "German Monetary Policy", p.106.

12. This does not come as a surprise if one considers the "motto" of the *Bundesbank*. Karl Blessing, one of its former governors, once put it this way: "The defense of monetary stability is a daily battle." Marsh, *Bundesbank*, p.331. It is also worth noting that it was only in 1973, with the collapse of the Bretton Woods regime, that "the German *Bundesbank* gained discretion to defend price stability goals" even at the expense of exchange rate stability. Thiel, "Macroeconomic Policy Preferences," p.207.

13. Norbert Kloten, "Maximen einer europäischen Geldpolitik," in *Geldwertsicherung und Wirtschaftsstabilität: Festschrift für Helmut Schlesinger zum 65. Geburtstag*, edited by Norbert Bub, Dieter Duwendag and Rudolf Richter (Frankfurt: Fritz Knapp Verlag, 1989), p.318. The deputy governor of the *Bundesbank*, Helmut Schlesinger, put it similarly. "In the long run the purpose of all groups of the economy [was] best served by stability of price levels." Eddie A.J. George, "British Counterinflationary Experience," in *Geldwertsicherung und Wirtschaftsstabilität: Festschrift für Helmut Schlesinger zum 65. Geburtstag*, edited by Norbert Bub, Dieter Duwendag and Rudolf Richter (Frankfurt: Fritz Knapp Verlag, 1989), p.207.

14. Kloten, "Maximen," p.319.

15. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 16 October 1987, p.15. See also *Frankfurter Allgemeine Zeitung*, 30 May 1987, p.11.

16. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 20 September 1988, p.5B. This, however, did not mean that the *Bundesbank* ignored generally the exchange rate of the D-mark. Rather it "tried to pursue both internal and external monetary stability." Only if this was not feasible and a choice had to be made "between external and internal stability, [then] the *Bundesbank* targeted domestic monetary policy towards limiting inflation", provided of course that there was no legal obligation, deriving from an international accord, to act otherwise. See Henning, *Currencies*, p.248. This fits with Pöhl's statement that international cooperation in economic affairs could be a "corner stone of a stable international monetary system" provided that it did not force participants to take measures that would threaten price stability. See *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13.

17. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 20 September 1988, p.5B.

18. Schlesinger, quoted in Kloten, "Maximen," p.319. Schlesinger, like most of his colleagues in the *Bundesbank*, consequently objected strongly to proposals, floated in particular by the French, to return "to (largely) fixed exchange rates between the United States, Europe and Japan." Such ideas were in his "opinion unrealistic." Gottfried Haberler, "The International Monetary System, the European Monetary System (EMS) and a Single Euro-

pean Currency in a 'Single European Market,'" in *Geldwertsicherung und Wirtschaftsstabilität: Festschrift für Helmut Schlesinger zum 65. Geburtstag*, edited by Norbert Bub, Dieter Duwendag and Rudolf Richter (Frankfurt: Fritz Knapp Verlag, 1989), p.308.

19. Schlesinger, quoted in *Frankfurter Allgemeine Zeitung*, 25 May 1987, p.13.

20. Schlesinger, quoted in *Frankfurter Allgemeine Zeitung*, 12 November 1988, p.13. Just like Pöhl, Schlesinger also rejected the criticism that his monetarist stance made international economic cooperation virtually impossible. This was simply "incorrect." *Frankfurter Allgemeine Zeitung*, 1 February 1989, p.13. See also *Frankfurter Allgemeine Zeitung*, 9 December 1987, p.13. Nevertheless, there can be no doubt that the *Bundesbank* "railed against ... innovations in the international monetary system" such as the Louvre Accord with its exchange rate target ranges. See Henning, *Currencies*, p.206.

21. Schlesinger, quoted in *Frankfurter Allgemeine Zeitung*, 6 July 1988, p.14.

22. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 23 February 1987, p.13.

23. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 24 September 1988, p.13.

24. While Stoltenberg opposed any commitment to reference ranges or a return to a global fixed exchange rate regime, he, just like the *Bundesbank*, accepted that limited currency interventions of an ad hoc nature, i.e., "on a case by case basis", were sometimes in the interest of the smooth functioning of the world economy insofar as they contributed to limiting "extreme currency fluctuations." *Frankfurter Allgemeine Zeitung*, 20 August 1987, p.2.

25. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 20 September 1988, p.8B.

26. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 25 November 1987, p.6.

27. Strauß, quoted in *Frankfurter Allgemeine Zeitung*, 13 June 1988, p.2.

28. Lambsdorff, at the time the spokesperson of the FDP parliamentary group on economic affairs, quoted in *Frankfurter Allgemeine Zeitung*, 11 September 1987, p.15. Lambsdorff, like the *Bundesbank*, was also skeptical regarding the efficacy of measures to defend exchange rates against market forces. See *Frankfurter Allgemeine Zeitung*, 15 December 1986, p.13.

29. Rudolf Scheid, managing director of the Central Federation, quoted in *Frankfurter Allgemeine Zeitung*, 26 November 1987, p.13. For examples of similar complaints of the metal and textile industries, directed in particular at the appreciating D-mark, see *Frankfurter Allgemeine Zeitung*, 31 March 1987, p.13 and 6 April 1987, p.17.

30. *Frankfurter Allgemeine Zeitung*, 13 January 1987, p.11. See also Tyll Necker, president of the German Federation of Industry, quoted in *Frankfurter Allgemeine Zeitung*, 23 November 1987, p.13. Naturally, this advice was dismissed by those to whom it was addressed. On the one hand, the central bankers argued that "as far as the dollar [was] concerned, there exist[ed] no general threshold of pain for exporters." On the other hand, they pointed out that on macroeconomic grounds the appreciation of the D-mark was desirable given Germany's large current account surplus. See Leonhard Gleske, member of the *Bundesbank* Directorate, quoted in

*Frankfurter Allgemeine Zeitung*, 14 March 1988, p.13 and his colleague Bub Norbert, quoted in *Frankfurter Allgemeine Zeitung*, 21 November 1987, p.14.

31. Hans Peter Stihl, the president of the federation, quoted in *Frankfurter Allgemeine Zeitung*, 20 June 1988, p.13.

32. Compare the statement to this effect of the Federation of German Banks that is reported in *Frankfurter Allgemeine Zeitung*, 12 September 1986, p.13.

33. *Frankfurter Allgemeine Zeitung*, 22 January 1987, p.11.

34. *Frankfurter Allgemeine Zeitung*, 4 October 1989, p.17. One of the few top banking executives to deviate from his industry's preoccupation with price stability was Walter Seipp, the chairman of the board of the Commerzbank. See *Frankfurter Allgemeine Zeitung*, 27 November 1987, p.13.

35. Roth, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1987, p.2. For further examples of the many similar statements by Roth and other top SPD politicians such as Hans Apel, Peter Mitzscherling, Ingrid Mathäus-Meier and Norbert Wieczorek see *Frankfurter Allgemeine Zeitung*, 8 September 1986, p.13; 30 September 1986, p.13; 17 October 1986, p.13; 11 November 1987, p.7; or 4 March 1988, p.2.

36. Former chancellor Helmut Schmidt nicely expressed the anger of the SPD over what it regarded as the monetary self-righteousness of Bonn and Frankfurt. The government and the *Bundesbank* should "stop showing off [Germany's] stability policy and [stop] demanding that Europe and the world should take their clues from it." *Frankfurter Allgemeine Zeitung*, 21 April 1988, p.14.

37. Jens, at the time chairman of the SPD group in the *Bundestag* economics committee, quoted in *Frankfurter Allgemeine Zeitung*, 20 August 1988, p.12.

38. Apel, quoted in *Frankfurter Allgemeine Zeitung*, 16 January 1987, p.13.

39. Rau, quoted in *Frankfurter Allgemeine Zeitung*, 20 January 1987, p.1.

40. Dieter Spöri, chairman of the SPD members in the *Bundestag* financial committee, quoted in *Frankfurter Allgemeine Zeitung*, 28 November 1987, p.1. See also Roth and Mitzscherling, quoted in *Frankfurter Allgemeine Zeitung*, 11 November 1987, p.7.

41. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 10 October 1986, p.13. Compare also *Frankfurter Allgemeine Zeitung*, 19 September 1986, p.13; or 9 January 1987, p.11. This unresponsiveness of Frankfurt's central bankers to the plight of the French monetary authorities was not new. It followed an established pattern. In 1974, for instance, when the franc had come under pressure in the precursor of the EMS - the European currency snake - the *Bundesbank* had rejected French calls for an easing of its monetary policy by telling the French to "tighten their own monetary policy or, alternatively, withdraw from the snake." Goodman, *Monetary Sovereignty*, p.69.

42. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 19 December 1986, p.1. Among other things, governor Pöhl made the foreign exchange market interventions of the *Bundesbank* in support of soft currency countries like France responsible for the overshooting of the 1986 monetary targets. See *ibid.*, p.11. The announcement of the *Bundesbank* to adhere in the future more closely to its monetary targets prompted interest rates on the financial markets to rise, which in turn put further pressure on the franc.

43. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 17 October 1986 p.13. Compare also the comments by agriculture minister Ignaz Kiechle and government spokesperson Friedhelm Ost, quoted in *Frankfurter Allgemeine Zeitung*, 8 January 1987, p.9.

44. Bangemann, quoted in *Le Monde*, 8 January 1987, p.23.

45. Bangemann, quoted in *Frankfurter Allgemeine Zeitung* 1987, p.1. See also Stoltenberg, quoted in *Le Monde*, 9 January 1987, p.29.

46. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1986, p.14. It was this same "messianic" attitude that led economics minister Bangemann to express his satisfaction over the record low level of inflation in 1986 at the very moment that international criticism of Germany's "rigid monetarism" reached its peak. See *Frankfurter Allgemeine Zeitung*, 16 December 1986, p.13. In accordance with its growth narrative the SPD did not share the view of the government. "The German Social Democratic members of the European Parliament [thus] actually called for domestic expansion" during the franc crisis. See Thiel, "Macroeconomic Policy Preferences", p.221.

47. Germany even showed itself to be less cooperative than Japan which, finding itself in an economic position vis-à-vis the US that had at least some similarities with that of Germany vis-à-vis France, entered into an exchange rate stabilization accord with Washington that included, among other things, a commitment on part of Tokyo to cut interest rates. See *Frankfurter Allgemeine Zeitung*, 3 November 1986, p.13. This difference in the response of Japanese and German monetary authorities to the needs of their partners was not well received in France. Compare *Le Monde*, 6 January 1987, pp.1, 38.

48. The decisive reason for the pressure on the D-mark was the decision by the *Banque de France* on 6 January 1987 to stop its intramarginal interventions and to let the franc drop to its lower intervention point vis-à-vis the D-mark. This forced the *Bundesbank*, according to the rules of the EMS, to go beyond its so far rather modest interventions in support of the franc and to engage in unlimited interventions on the foreign exchange markets to prevent the German currency to veer beyond its trading band with the franc. See *Frankfurter Allgemeine Zeitung*, 8 October 1986, p.13.

49. Such a revaluation was unwelcome for at least two politico-economic reasons. First, there was the impact on agricultural prices within the framework of the Common Agricultural Policy (CAP) of the EC. A stronger D-mark translated into lower agricultural prices - because in the price management regime of the CAP they were centrally fixed by Brussels and expressed in the basket currency ECU - and thus into lower farm incomes in Germany. On this concern see the minister of agriculture, Ignaz Kiechle, quoted in *Frankfurter Allgemeine Zeitung*, 8 January 1987, p.9; or 10 January 1987, p.11. Second, Bonn was probably also worried that, by hurting farmers and exporters, an appreciation of the D-mark could lead to an electoral backlash in the general elections scheduled for 25 January 1987.

50. Governor Pöhl was quite explicit about the link between these interest rate cuts that were, according to the bank, unjustified on domestic grounds and the political pressure on the *Bundesbank* to contribute to the stabilization of ERM exchange rates. See *Frankfurter Allgemeine Zeitung*, 23 January 1987, p.1.

51. The SPD, on the other hand, backed the *démarche* insofar as its

general thrust was compatible with its own growth-promoting goals. "Complaints on the part of the EMS community that German macroeconomic policy [was] too restrictive in view of low inflation but high rates of unemployment in all EMS countries ... received a favorable response in circles close to the Social Democrats." Thiel, "Macroeconomic Policy Preferences", p.221.

52. Pöhl, speech before the Overseas Bankers Club in London, quoted in *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13. This, however, was quite a misleading statement. During the international negotiations and intra-German discussions about the creation of the EMS in 1978/79 the *Bundesbank* had insisted that the ERM be based on bilateral exchange rates rather than on the basket currency ECU. This ensured that the strongest EMS currency (read: D-mark), rather than being the one that would deviate from the average EMS exchange rate as measured by the ECU, would become the anchor currency of the system. Indeed, Pöhl later prided himself in having been a key player in making sure that "the original concept" of the EMS that would have made the ECU the anchor was "turned from the head to its feet" and that "the strongest currency was made the standard of the system." Marsh, *Bundesbank*, p.301. The same point was made by Sherman. "That the Deutschmark [became] the centre or anchor currency [was] no accident. It [was] the natural consequence of the Bundesbank's monetary policy which ... consistently achieved greater price stability" than the other ERM central banks. Sherman, "Central Banking in Germany," p.38.

53. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13.

54. Pöhl, writing in *Frankfurter Allgemeine Zeitung*, 28 May 1988, p.15. At another occasion the governor declared: "We owe it to ... the stable D-mark and to all who trust in it that we do everything to convince our European partners of the benefits of a stable currency." *Frankfurter Allgemeine Zeitung*, 13 June 1988, p.2.

55. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 28 May 1988, p.15. Marsh once described appropriately the officials of the *Bundesbank* as "the evangelists of world finance" who had "the sincere wish that others [might] follow" their example of good monetary policy-making. See Marsh, *Bundesbank*, p.25.

56. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 28 May 1988, p.15. See also *Frankfurter Allgemeine Zeitung*, 27 August 1987, p.11; or Caesar, "German Monetary Policy," p.120. There the author wrote that "the *Bundesbank* criticized [intramarginal interventions] as a factor reducing the scope for interest rate-induced capital flows and thus, indirectly, its own room for manoeuvre in interest rate policy."

57. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 9 November 1989, p.17.

58. Ibid.

59. Compare Council of Experts to the Federal Ministry for Economic Affairs, *Gutachten des Wissenschaftlichen Beirats beim Bundesministerium für Wirtschaft. Thema: Europäische Währungsordnung* (Bonn, 1989), pp.1437-1472. In the opinion it said: "The Federal Republic would to its partners in the EC no service, if it accepted that the status quo was undermined by an inflationary adjustment." Ibid., 1445. (The Council of Experts is a highly prestigious and influential advisory body in Germany. There is no equivalent to it in the US.)

60. Stoltenberg, quoted in *Le Monde*, 7 April 1987, p.44. See also Lambsdorff, quoted in *Frankfurter Allgemeine Zeitung*, 11 September 1987, p.15 and Council of Experts, *Gutachten*, p.1459. There it said that foreign "demands ... to reduce the asymmetric adjustment constraints in the EMS, say through larger credit facilities, interventions in Community currencies, common financing of intramarginal interventions [etc.], [had] to be resisted - for the sake of stability, political self-help, and the common goal." Also, the *Gutachten* recommended "[n]ot a softening, but rather a hardening of the necessarily asymmetric constraint" in the EMS. Ibid. p.1457. Compare also Henning, *Currencies*, p.209. There he noted that "[t]he *Bundesbank* and federal government were concerned about the liquidity effects within Germany of extending D-mark financing for intramarginal EMS interventions."

61. See Genscher, *Erinnerungen*, p.387. For a statement to this effect made by the foreign minister at the time see *Frankfurter Allgemeine Zeitung*, 4 November 1987, p.4.

62. The negotiations leading up to the reform were started in the immediate wake of the January 1987 ERM realignment. At the time the EC governments, acting on the demand of France, had decided to ask the EC Monetary Committee and the EC Committee of Central Bank Governors to examine how the operation of the ERM could be improved.

63. Compare Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 15 September 1987, p.15; or Otto Wolf von Amerongen, president of the German Federation of Industry Trade, quoted in *Frankfurter Allgemeine Zeitung*, 14 September 1987, p.13. The only utterly negative assessment of the Nyborg agreement came from the Association for the Protection of Depositors and thus, indirectly, from the banking and insurance industry which supported it. The association's managing director, Werner Steuer, rejected the agreement on the grounds that it "gave the soft currency countries a lever to exert even stronger pressure on the German stability policy." *Frankfurter Allgemeine Zeitung*, 15 October 1987, p.14).

64. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 15 September 1987, p.15. The same message was conveyed by Stoltenberg. *Frankfurter Allgemeine Zeitung*, 14 September 1987, p.13. See also *Times*, 14 September 1987, p.21.

65. Compare Balladur, quoted in *Frankfurter Allgemeine Zeitung*, 22 October 1987, p.13; Chirac, quoted in *Frankfurter Allgemeine Zeitung*, 29 October 1987, p.14; Juppé, at the time minister of the budget, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1987, p.1. Black Monday hit the French government particularly hard because the stock market crash derailed its privatisation plans and prompted a new round of attacks on the franc. See *Frankfurter Allgemeine Zeitung*, 11 November 1987, p.13; or 12 November 1987, p.3.

66. This time, however, Washington joined the French attacks on Bonn's monetary policy. US finance minister James Baker, for instance, accusingly pointed his finger at the *Bundesbank's* "rigid monetarists ... who [saw] everywhere inflation and nothing else" and who "pursue[d] a policy of high interest rates" without regard for global economic growth. *Frankfurter Allgemeine Zeitung*, 3 November 1987, p.13.

67. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 2 November 1987, p.13. Compare also *Frankfurter Allgemeine Zeitung*, 3 November 1987, p.13.



Finance minister Stoltenberg concurred fully with the position of the *Bundesbank*. See *Frankfurter Allgemeine Zeitung*, 28 January, p.13. Economics minister Bangemann, for his part, also regarded the French critique of Frankfurt's monetary stance as unjustified. The turbulence on the currency markets was due to "the high US budget deficit" rather than an overly restrictive German interest rate policy. *Frankfurter Allgemeine Zeitung*, 30 October 1987, p.1.

68. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 4 November 1987, p.4.

69. In order to further reassure the financial markets and to put an end to the speculative attacks against the franc, Stoltenberg and his French counterpart Balladur issued a joint declaration in which they reaffirmed their commitment to existing ERM parities. For the text of the declaration see *Le Monde*, 7 November 1987, p.27.

70. This was the position expressed by the *Bundesbank* itself. Compare *Frankfurter Allgemeine Zeitung*, 22 January 1988, p.1. See also Klaus Methfessel, *Wenn die D-mark geht: Wie Sie nicht zum Verlierer durch die Europäische Währungsunion werden* (Düsseldorf: Econ, 1996), p.34; or Henning, *Currencies*, p.210. Among policy-makers, Mr. Lambsdorff was one of the most vocal critics of the new council. He called on the *Bundestag* to ensure that the "responsibility of the *Bundesbank* for securing price stability [would] be explicitly reaffirmed in the preamble of the agreement about the Financial and Economics Council." *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13. Yet his motion did not find the necessary support. As to the German banking industry, it warned Bonn against allowing the French to instrumentalize the new council for their own monetary ends, thus threatening the domestic stability of the D-mark. Compare the statement to this effect by Wolfgang Röllner, the president of the Federal Association of German Banks, quoted in *Frankfurter Allgemeine Zeitung*, 22 March 1988, p.13. Finally, the Association for the Protection of Depositors feared also that Paris would try to use the new bilateral forum as a "means ... to influence the course of German monetary policy." *Frankfurter Allgemeine Zeitung*, 6 April 1988, p.13.

71. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 28 January 1988, p.13.

72. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 23 January 1988, p.2. See also his statements that are quoted in *Frankfurter Allgemeine Zeitung*, 5 February 1988, p.13.

73. While resistance to the French EMU-NOW discourse was the motto of the large majority of the *Bundesbank* members and the bank's official position, there were also a handful of central bankers who ostentatiously refused to practice the EMU resistance discourse. Among them was for instance Johann Wilhelm Gaddum, who declared that the "demand for a single currency" was both "logical" and of the "highest political relevance." *Frankfurter Allgemeine Zeitung*, 13 April 1989, p.14. Another pronounced proponent of monetary integration among the *Bundesbank* brass was Claus Köhler who, already in 1987, had advocated the creation of a European central bank. See *Frankfurter Allgemeine Zeitung*, 14 November 1987, p.13. For a later pro-EMU statement by Köhler see *Frankfurter Allgemeine Zeitung*, 5 October 1988, p.13.

74. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 28 May 1988, p.15.

75. Pöhl, speech before the "Overseas Bankers Club" in London, quoted in *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13.

76. Ibid., 6 May 1988, p.13.

77. Ibid., 22 January 1988, p.13. This message, enshrined in the 1988 Annual Report of the *Bundesbank*, was repeated again and again by Frankfurt's central bankers. See for instance *Frankfurter Allgemeine Zeitung*, 20 September 1988, p.5B; 25 January 1988, p.11; 14 April 1989, p.18; 19 April 1989, p.17.

78. Pöhl, speech before the "Overseas Bankers Club", quoted in *Frankfurter Allgemeine Zeitung*, 3 February 1988, p.13.

79. Ibid.

80. Schlesinger, quoted in *Frankfurter Allgemeine Zeitung*, 6 June 1989, p.15.

81. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 2 November 1990, p.4

82. Henning described the position of the *Bundesbank* in this way: it "warned and argued about timing, terms, and conditions [of the EMU], but did not publicly criticize the government for committing itself to the final objective of monetary union." Henning, *Currencies*, p.230. For an interesting position by an economist that differed markedly from that of the *Bundesbank* see Peter Bofinger, "Stabilitätsinsel Deutschland oder Stabilitätszone Europa?" in *Der Vertrag von Maastricht in der wissenschaftlichen Kontroverse*, edited by Rudolf Hrbek (Baden-Baden: Nomos Verlagsanstalt, 1993), pp.77-88. While as concerned about price stability as the central bankers, Bofinger argued that it was a mistake to look at the dangers of an EMU without comparing them to the dangers of the two main alternative monetary arrangements in Europe: a continuation of the status quo or a return to floating exchange rates. Both options, according to Bofinger, would pose greater risks to German price stability in the 1990 than an EMU with a European central bank that was modelled on the *Bundesbank*. Ibid., 84-87.

83. Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 18 October 1990, p.17. See also *Frankfurter Allgemeine Zeitung*, 13 June 1988, p.2 and 26 October 1990, p.19. For similar pronouncements by other *Bundesbank* officials see Lothar Müller, the governor of the state central bank of the state of Bavaria, who is quoted in *Frankfurter Allgemeine Zeitung*, 10 May 1988, p.19; or Helmut Schlesinger, quoted in *Frankfurter Allgemeine Zeitung*, 12 November 1988, p.13.

84. See for instance Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 22 January 1988, p.13; Lothar Müller, quoted in *Frankfurter Allgemeine Zeitung*, 10 May 1988, p.19; or Deutsche Bundesbank, "Stellungnahme der Deutschen Bundesbank zur Errichtung einer Wirtschafts- und Währungsunion in Europa," in *Auf dem Weg zu einer Europäischen Wirtschafts- und Währungsunion*, edited by Wolfgang Neumann (Stuttgart: Sparkassenverlag, 1991), p.98. (The *Stellungnahme*, i.e., the opinion of the *Bundesbank* was originally published in 1990). For quite a different position by a *Bundesbank* official see Claus Köhler who argued that the complete autonomy of any institutional economic decision-maker would actually impede the pursuit of a successful monetary policy. Instead of independence he advocated an informal *engrenage* among the various institutional players participating in economic policy-making. See *Frankfurter Allgemeine Zeitung*, 5 October 1988, p.13. This, however, remained a minority view in the *Bundesbank*.

85. See for instance Pöhl, quoted in *Frankfurter Allgemeine Zeitung*, 28 May 1988, p.15; Karl Otto Pöhl, "Pressegespräch nach der Zentralbankratsitzung am 5. Mai 1988 in Frankfurt am Main," in *Deutsche Bundesbank: Auszüge aus Presseartikeln*, no.33 (1988): 3; or Bundesbank, "Stellungnahme," pp.97-98. Some, like the president of the state central bank of Hesse, even went so far as to demand that the future European central bank should be given greater powers than the *Bundesbank* in order to avoid the "shortcomings" of the latter. See *Frankfurter Allgemeine Zeitung*, 4 September 1990, p.15.

86. A number of observers pointed out that the demands by the Bundesbankers were motivated not only by a concern for price stability. They argued that since the Bundesbankers did not dare to openly oppose the EMU, they opted for a subtler strategy. By demanding that the future European central bank should be modelled on the *Bundesbank* they, according to this argument, expected to kill the project since they were convinced that neither the Italians nor the French would ever agree to such a bank. Compare Methfessel, *Wenn die D-mark geht*, p.23; or Marsh, *Bundesbank*, pp.316-317 and 431-432, endnote 37. Marsh also added the following comment: the *Bundesbank* did apparently not understand that its strategy was doomed to failure, since "the French and Italians were ready to accept nearly any concession if they could thus free themselves from the grip of the D-mark." *Ibid.*, p.318.

87. In its official opinion on the EMU the *Bundesbank* took pains to stress that the divergence-gap between EC member economies was actually becoming larger again after earlier progress towards monetary convergence. See Bundesbank, "Stellungnahme," p.97. Compare also Sherman, "Central Banking in Germany", p.42. There she wrote that "[c]onsiderable differences continue[d] to exist among the individual EC countries ... . These [stood] in the way of uniform interest and exchange rates", i.e., an EMU. On the debate among economists whether prior convergence is in theory necessary or desirable before proceeding towards a full-blown EMU see for instance Paul de Grauwe and Guiseppe Tullio, "The Exchange Rate Changes of 1992 and Inflation Convergence in the EMS," in *30 Years of European Monetary Integration: From the Werner Plan to EMU*, edited by Alfred Steinherr (London: Longman, 1994), pp.192-200; or Andrew Crockett, "The Role of Convergence in the Process of EMU," in *30 Years of European Monetary Integration: From the Werner Plan to EMU*, edited by Alfred Steinherr (London: Longman, 1994), pp.171-183. While the former doubt the wisdom of insisting on prior convergence, the latter is convinced of its necessity.

88. It is a generally accepted proposition in standard economic theory that "[d]iscrepancies in the locational and production conditions must, at fixed exchange rates, be compensated primarily by a flexible and differentiated wage policy." Sherman, "Central Banking in Germany", p.42. Compare also Gros and Thygesen, *European Monetary Integration*, pp.234-240.

89. Pöhl, "Pressegespräch," p.2. This was an often repeated warning. See for instance Pöhl's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 6 May 1988, p.13; 19 April 1989, p.17; 2 September 1989, p.14. Compare also Marsh, *Bundesbank*, p.315; or Renate Ohr, "Koreferat," in *Der Vertrag von Maastricht in der wissenschaftlichen Kontroverse*, edited by Rudolf Hrbek (Baden-Baden: Nomos Verlagsanstalt, 1993), pp.89-102. There she wrote that "if there exist[ed] very different [national] economic struc-

tures and a single monetary policy was implemented, then this [was] metaphorically speaking like tailoring a 'monetary coat' that [was] too big for some regions and too tight for others. Where it [was] too big, purchasing power [augmented], prices and inflation rose. Where it [was] too tight, there [was] not enough purchasing power and unemployment [was] created." Ibid., p.91. Later Pöhl used the example of the experience of monetary union between the two Germanies to warn the EC governments not to repeat the same mistake of seeking to integrate the monetary policies of countries with divergent economies. The intra-German EMU, he pointed out, had led to the "virtual destruction of the Eastern German economy." If the EC wanted to "avoid things like that", it should first "aim for a very high degree of convergence." *Times*, 20 March 1991, p.32.

90. In accordance with this concern the *Bundesbank* insisted that the only decision criterion for the transition to a full-blown EMU should be the convergence of the EC economies, not some artificial deadline. *Bundesbank*, "Stellungnahme," p.100. This of course brought Frankfurt in conflict with Paris which sought to secure a commitment from its partners to precisely such a deadline.

91. Ibid., p.97. The *Bundesbank* thus called for "a further convergence of the 'philosophies' of economic policy", particularly a "greater convergence in the ranking of economic policy goals" around, of course, German preferences. Sherman, "Central Banking in Germany", p.43. Compare also Ohr, "Koreferat," p.96. In Germany, the author pointed out, price stability was the result of a "societal stability consensus" that enabled the *Bundesbank* in "cooperation with the parties to wage agreements, the government [and] the other societal groups" to pursue stability-oriented monetary policies. Since this societal stability consensus did "not yet exist in Europe", an EMU would entail grave inflationary risks.

92. *Bundesbank*, "Stellungnahme," p.96. Compare also Pöhl, "Pressegespräch," p.3. Political union was regarded as desirable for at least two reasons. First, only a strong political center could impose the necessary budgetary discipline if burgeoning public deficits of national or subnational public authorities threatened price stability. (For an interesting opposing view see Bofinger, "Stabilitätsinsel Deutschland", pp.81-82). Second, political union was also seen as necessary in order to design effective redistributive policies that would cushion the social costs that poor EMU members would incur if a single currency were to be introduced. See Marsh, *Bundesbank*, pp.314-315; or, on a more general note, Tsoukalis, "Monetary Union", p.298. There he argued that "[t]he most fundamental question [about the EMU] relates to the feasibility of monetary union without political union, and indirectly to the issue of legitimacy. Can [the EC] have a central bank with absolute authority in terms of monetary policy at the European level, whose decisions will have a direct impact on unemployment in Andalusia or Attica, without a corresponding political authority and the political system that it implies?"

93. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 11 February 1988, p.13. Compare also Wilhelm Schönfelder and Elke Thiel, *Ein Markt - Eine Währung: Die Verhandlungen zur Europäischen Wirtschafts- und Währungsunion* (Baden-Baden: Nomos, 1994), p.34.

94. Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 17 November 1988, p.13. See also Council of Experts, *Gutachten*, p.1452. There it said that

"[t]he time was not yet ripe for a European monetary union."

95. Gerhard Stoltenberg, "The further development of monetary cooperation in Europe" (memorandum), quoted in *Frankfurter Allgemeine Zeitung*, 18 March 1988, p.13. See also his comments that are quoted in *Frankfurter Allgemeine Zeitung*, 17 November 1988, p.13. The minister stressed in particular the full liberalization of intra-EC capital movements and the membership of all EC countries in the ERM as prerequisites for the creation of an EMU.

96. Waigel, quoted in *Frankfurter Allgemeine Zeitung*, 11 September 1989, p.17. See also *Frankfurter Allgemeine Zeitung*, 11 August 1989, p.12. On the issue of the "securing of the purchasing power of the European currency" and the independence of the European central bank see also Council of Experts, *Gutachten*, p.1451.

97. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 13 April 1989, p.5.

98. Ibid., 10 June 1988, p.6. On the need to close the convergence-gap before pressing ahead with an EMU see also the comments by the chancellor that are quoted in *Frankfurter Allgemeine Zeitung*, 22 January 1988, p.2 and 18 June 1988, p.13.

99. Ibid., 13 June 1988, p.1. See also the statements on these "design" issues that Kohl made in a speech before the European Parliament and that are quoted in *Frankfurter Allgemeine Zeitung*, 7 July 1988, p.1; or his comments in an interview with the French television station FR3 that are reported in *Frankfurter Allgemeine Zeitung*, 19 October 1990, p.8.

100. Ibid., 10 March 1988, p.2.

101. Ibid., 18 June 1988, p.13.

102. Necker Tyll, the president of the association, quoted in *Frankfurter Allgemeine Zeitung*, 16 October 1990, p.15. See also Dieter Spethmann, the vice president of the federation and chief executive of Thyssen AG, quoted in *Frankfurter Allgemeine Zeitung*, 26 May 1989, p.16.

103. Hans Peter Stihl, the president of the federation, made the plea in a letter to Chancellor Kohl. It is quoted in *Frankfurter Allgemeine Zeitung*, 24 June 1989, p.13. See also *Frankfurter Allgemeine Zeitung*, 26 October 1989, p.17. For the preference of the Federation of Industry and Trade for stable money over a single currency see Stihl, quoted in *Frankfurter Allgemeine Zeitung*, 20 June 1988, p.13; a more programmatic statement to this effect is found in *Deutscher Industrie- und Handelstag, Europas Zukunft: den Gemeinsamen Markt stärken - den Binnenmarkt vollenden. Forderungen des Deutschen Industrie- und Handelstages zur europäischen Wirtschaftspolitik* (Bonn, 1988), pp.31-32.

104. Wolfgang Grüger, quoted in *Frankfurter Allgemeine Zeitung*, 17 October 1990, p.19.

105. Stihl, quoted in *Frankfurter Allgemeine Zeitung*, 6 December 1989, p.18.

106. *Frankfurter Allgemeine Zeitung*, 1 August 1989, p.9. By late 1990, however, the unions had clearly effected a narrative shift. In a declaration in October 1990 the Federation of Labor thus called on the government to "finally give up its reserve vis-à-vis a binding timetable for the realization of an EMU ... and free itself from the dependence on the *Bundesbank*." Nölling, *Unser Geld*, p.138.

107. For the generally favorable attitudes of German entrepreneurs towards the goal of an EMU see the study carried out by the Association for Monetary Union, an industry lobby group. The results were reported in

the *Frankfurter Allgemeine Zeitung*, 26 September 1989, p.17. Perhaps least convinced of the desirability of an EMU was the financial services industry. Though the industry itself did not openly speak out against the project per se, the Association for the Protection of Depositors did. The association made it clear that it was set dead "against the creation of a single European currency" now and for the foreseeable future. See the statement to this effect by Achim Zink, the chairman of the association, that is quoted in *Frankfurter Allgemeine Zeitung*, 31 January 1989, p.13.

108. Industrie- und Handelstag, "Europas Zukunft", p.32.

109. Stihl, quoted in *Frankfurter Allgemeine Zeitung*, 20 June 1988, p.13.

110. *Frankfurter Allgemeine Zeitung*, 8 February 1988, p.11.

111. The only other member of the government who, from the beginning, fully supported Mr. Genscher in his EMU drive was the junior minister at the foreign ministry, Irmgard Adam-Schwaetzer. For her pro-EMU position see for instance *Frankfurter Allgemeine Zeitung*, 28 April 1988, p.1. A further noticeable "dissident" who did not adhere to the EMU resistance discourse practiced by his colleagues was the chief executive of the *Deutsche Bank*, the largest German bank. He called on the government to take "energetic actions" to quickly create an EMU. Alfred Herrhausen, quoted in *Frankfurter Allgemeine Zeitung*, 8 May 1989, p.13. Herrhausen justified his strong EMU views with a functionalist argument. A "single European currency and a European central bank were essential to the deregulated Common Market foreseen after 1992." *Times*, 22 February 1989, p.28.

112. Hans-Dietrich Genscher, "Memorandum: Für die Schaffung eines europäischen Währungsraumes und einer europäischen Zentralbank - Eine Diskussionsgrundlage", *Europäische Zeitung*, April 1988, p.30. Indeed, already in the fall of 1987 Genscher had responded to the growing French frustration over the operation of the ERM by supporting calls for "courageous steps towards a monetary union." *Frankfurter Allgemeine Zeitung*, 19 September 1987, p.6. At the time, however, he had not further pursued the issue.

113. Genscher, "Memorandum."

114. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 2 April 1988, p.13. See also Hans-Dietrich Genscher, "Programm der deutschen Präsidentschaft in der Europäischen Gemeinschaft," in *Bulletin des Presse- und Informationsamts der Bundesregierung*, no.9 (22 January 1988): 63-64; or Genscher, quoted in *Times*, 14 June 1988, p.6.

115. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 18 November 1988, p.2. See also *ibid.*, 8 June 1989, p.4.

116. Mr. Pöhl was so angered by Genscher's counter-discourse that he took the unusual step of downplaying its significance by pointing out that in the view of the *Bundesbank* Genscher practiced the discourse only in his capacity "as FDP representative" rather than as a member of the government. *Frankfurter Allgemeine Zeitung*, 11 March 1988, p.13. The finance minister was also quite unhappy about his colleague's pro-EMU stance. Compare Stoltenberg's own EMU memorandum that is quoted in *Frankfurter Allgemeine Zeitung*, 18 March 1988, p.13; or *ibid.*, 17 November 1988, p.13.

117. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 11 April 1988, p.4.

118. The so-called Genscher-Colombo initiative was the basis for the

"Solemn Declaration on European Union" that was adopted by the EC heads of state and government in 1983. For a critical evaluation of the contents of the initiative see Joseph H.H. Weiler, "The Genscher-Colombo Draft European Act: The Politics of Indecision," *Revue d'intégration européenne* 6 (1983): 129-153. Genscher's own assessment of the significance of his initiative was more positive. Without empirically substantiating his claim he argued that there developed a functional spillover dynamic from his initiative in 1981 to the SEA in 1985 and finally to the TEU in 1991. The "Genscher-Colombo initiative", he wrote in his memoirs, "had launched a sort of three-stage rocket: Stage I: the "Solemn Declaration" of Stuttgart in June 1983. Stage II: the treaty on the Single European Act ... Stage III: the treaties of Maastricht in 1991." Genscher, *Erinnerungen*, p.368.

119. Genscher, "Memorandum." On the argument concerning the link between the survival of the EMS and progress towards an EMU see also Genscher, *Erinnerungen*, p.387.

120. Genscher, "Memorandum."

121. Ibid.

122. Genscher, *Erinnerungen*, p.387. Chancellor Kohl shared this view. An EMU, he repeatedly argued in good functionalist manner, was ultimately "a question of economic logic." *Frankfurter Allgemeine Zeitung*, 16 March 1988, p.13. See also *Frankfurter Allgemeine Zeitung*, 5 February 1988, p.13 and 31 May 1988, p.1. Lutz Stavenhagen, the minister in the Office of the Chancellor, described the EMU as "the logical second step after the completion of the internal market." *Frankfurter Allgemeine Zeitung*, 24 October 1990, pp.17, 19. This argument was strongly rejected by the hard-line practitioners of the EMU resistance discourse. A "communitarization of monetary policy was in no way economically required" to prop up the common market, governor Pöhl noted. *Frankfurter Allgemeine Zeitung*, 23 June 1989, p.15. The *Bundesbank* also did not believe in the transaction cost savings of a single currency. See Pöhl's address to the Mont Pèlerin Society that is quoted in *Frankfurter Allgemeine Zeitung*, 4 September 1990, p.15. Finance minister Stoltenberg remained equally unconvinced of Genscher's and Kohl's functionalist argument. For some of his comments to this effect see *Frankfurter Allgemeine Zeitung*, 11 February 1988, p.13; 18 March 1988, p.13; or 17 November 1988, p.13.

123. Genscher, "Memorandum." See also Adam-Schwaetzer, quoted in *Die Welt*, 19 June 1990, p.9.

124. See for instance Hans-Jochen Vogel, quoted in *Frankfurter Allgemeine Zeitung*, 28 October 1987, p.3.

125. Apel, quoted in *Frankfurter Allgemeine Zeitung*, 26 November 1987, p.5.

126. Ibid., 7 April 1988, p.13.

127. Vogel, quoted in *Frankfurter Allgemeine Zeitung*, 13 February 1988, p.11.

128. Ibid., 13 June 1988, p.2.

129. Helmut Schmidt, quoted in *Frankfurter Allgemeine Zeitung*, 21 April 1988, p.14.

130. Vogel, quoted in *Frankfurter Allgemeine Zeitung*, 13 February 1988, p.11.

131. Apel, quoted in *Frankfurter Allgemeine Zeitung*, 7 April 1988, p.13. As to the European central bank, Apel took pains to reassure the prac-

tioners of the EMU resistance discourse that the SPD would also insist on its independence.

132. Seconded were these French efforts by foreign minister Genscher. On the eve of the Madrid summit he had for instance called for an agreement at the upcoming meeting on an early date for the EMU. See *Frankfurter Allgemeine Zeitung*, 8 May 1989, p.13.

133. Compare *Times*, 28 June 1989, pp.1, 24. Already in its work program for 1989, outlined at the beginning of the year, the cabinet had given a clear indication that it would continue to oppose the speedy realization of an EMU. The program had ostentatiously failed to list European monetary integration among those economic policy issues on which Bonn would focus its political energies during the year. See Bundesregierung, "Jahreswirtschaftsbericht 1989 der Bundesregierung," in *Bulletin des Presse- und Informationsamts der Bundesregierung*, no. 7 (25 January 1989): 50.

134. *Financial Times*, 28 June 1989, p.1.

135. Kohl, quoted in *Financial Times*, 27 June 1989, p.1.

136. Compare Annette von der Heyde, "Deutschlandpolitik der GRÜNEN," in *Handwörterbuch zur deutschen Einheit*, edited by Werner Weidenfeld and Karl-Rudolf Korte (Frankfurt: Campus, 1992), pp.209-211.

137. In a resolution the parliamentary group of the Greens thus stated that it saw "no reason to depart from its [long-standing] position of supporting a double statehood." *Frankfurter Allgemeine Zeitung*, 22 September 1989, p.3. See also von der Heyde, "Deutschlandpolitik der GRÜNEN", p.210.

138. *Ibid.*, p.215, endnote 9.

139. Vollmer, quoted in *Frankfurter Allgemeine Zeitung*, 9 November 1989, p.2.

140. The SPD major of Berlin, Walter Momper, for instance, declared that there was "no need for a new nation-state of the Germans in the heart of Europe." And just like the Greens he also believed that the people in East Germany who were protesting against the communist regime did in any case "not want a simple copy of the Federal Republic." *Frankfurter Allgemeine Zeitung*, 23 October 1989, p.4. They were too self-assured of their country's achievements, he stressed at another occasion, to simply want to join West Germany. *Frankfurter Allgemeine Zeitung*, 17 November 1989, p.2. On the SPD concerns about the insecurity implications of reunification see Rudolf Horst Brocke, "Deutschlandpolitik der SPD," in *Handwörterbuch zur deutschen Einheit*, edited by Werner Weidenfeld and Karl-Rudolf Korte (Frankfurt: Campus, 1992), pp.223-224.

141. *Ibid.*, p.226.

142. Compare *ibid.* See also Lafontaine, quoted in *Frankfurter Allgemeine Zeitung*, 15 March 1990, p.2. Another top social democrat, Egon Bahr, urged his compatriots to recognize that the two separate Germanies would continue "to exist for quite some time" and to act accordingly. *Frankfurter Allgemeine Zeitung*, 6 October 1989, p.2. See also Erhard Eppler, quoted in *Frankfurter Allgemeine Zeitung*, 16 October 1989, p.2; or Vogel, quoted in *Frankfurter Allgemeine Zeitung*, 30 October 1989, p.2.

143. Brandt, speech on 10 November 1989 in Berlin, quoted in Brocke, "Deutschlandpolitik der SPD", p.224. Compare also Christian Hacke, "Deutschlandpolitik der CDU/CSU," in *Handwörterbuch zur deutschen Einheit*, edited by Werner Weidenfeld and Karl-Rudolf Korte (Frankfurt: Campus, 1992), p.198.



144. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 12 September 1989, p.6.
145. Helmut Kohl, "Bericht zur Lage der Nation im geteilten Deutschland," in *Die deutsche Einheit: Reden und Gespräche* (Bergisch Gladbach: Gustav Lübbe, 1992), p.91.
146. Helmut Kohl, "Neue Chancen und neue Herausforderungen in der Deutschland- und Europapolitik: Das Zehn-Punkte-Programm," in *Die deutsche Einheit: Reden und Gespräche* (Bergisch Gladbach: Gustav Lübbe, 1992), p.128.
147. Peter Juling, "Deutschlandpolitik der FDP," in *Handwörterbuch zur deutschen Einheit*, edited by Werner Weidenfeld and Karl-Rudolf Korte (Frankfurt: Campus, 1992), p.206.
148. Hans-Dietrich Genscher, *Unterwegs zur Einheit: Reden und Dokumente aus bewegter Zeit* (Berlin: Siedler, 1991), p.200. See also *ibid.*, p.224.
149. Not all in the CDU/CSU and the FDP, however, backed this policy of Kohl and Genscher, at least not initially. Compare the statements of Max Streibl, at the time the CSU governor of the state of Bavaria, that are quoted in *Frankfurter Allgemeine Zeitung*, 28 September 1989, p.2; or of Otto Graf Lambsdorff, chairman of the FDP, that are found in *Frankfurter Allgemeine Zeitung*, 12 October 1989, p.2. For the most part these critics, as well as those in the opposition parties, abandoned their stance during the course of the first half of 1990 and began to back, more or less enthusiastically, the Kohl-Genscher goal of speedy reunification. Compare von der Heyde, "Deutschlandpolitik der GRÜNEN", p.215; and Brocke, "Deutschlandpolitik der SPD", p.225.
150. This did not come as a complete surprise to at least some top policy-makers in the coalition government. Compare *Frankfurter Allgemeine Zeitung*, 28 September 1989, p.2.
151. The long-serving foreign minister was no novice in this regard. Already during the 1970s and early 1980s he had disseminated the *idealpolitik* credo. Compare his speech before the 32nd General Assembly of the UN in New York on 29 September 1977, quoted in Genscher, *Unterwegs zur Einheit*, pp.43-51; or his speech in the *Bundestag* on 17 February 1985 that is quoted in *ibid.*, pp.117-126. In the crucial period of 1989/90, however, the minister clearly stepped up his rhetorical efforts. In his memoirs he recalled that at the time some ridiculed him because of it. He, however, was convinced that it was now more important than ever before to demonstrate to the world the sincerity of Bonn's *idealpolitik* credo. Genscher, *Erinnerungen*, p.681. On Genscher's long-standing *idealpolitik* orientation see also Hubel, *Das vereinte Deutschland*, p.9; or Coker, "Fourth Reich?", p.279. There he observed that "Hans-Dietrich Genscher ... was prepared to pursue the cause of peace with an almost missionary zeal." In this regard Genscher was the representative of those Germans who, "[d]enied any other role [in international affairs], found in environmental security and a concern for human rights, but above all in an affirmation of East-West détente, a role of their own choosing."
152. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 14 September 1990, p.2. Part of this radical break with its own power political past, Genscher stressed, was Germany's condemnation of its Nazi past. The Germans, he pointed out, were "united in [their] will that all this [would] never again

be allowed to happen." *Frankfurter Allgemeine Zeitung*, 27 September 1990, p.1.

153. Ibid., 7 April 1990, p.2.

154. Ibid., 13 December 1989, p.4.

155. Ibid., 1 August 1990, p.1. The quote is from an article that Genscher wrote for the Soviet *Literaturnaja Gaseta*.

156. Ibid.

157. Ibid., 7 April 1990, p.2.

158. Genscher, *Erinnerungen*, p.881. The quote is from a speech delivered to the UN general assembly in September 1990.

159. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 14 September 1990, p.2.

160. Ibid., 2 October 1990, p.5.

161. Genscher, *Erinnerungen*, p.881. The quote is from a speech delivered to the UN general assembly in September 1990. It is interesting to note that Genscher rationalized his thesis of the coming death of "traditional *Machtpolitik*" and the global victory of "responsibility policy" by pointing to the "commonalities and the interdependence ... of the new age." Genscher, *Unterwegs zur Einheit*, pp.212, 221. The quote is from a speech delivered at a conference of the Institute for East-West Security Studies on 19 October 1989.

162. Genscher, *Erinnerungen*, p.823. The quote is from a speech delivered to the *Bundestag* in June 1990.

163. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 18 July 1990, p.1. See also Genscher, *Erinnerungen*, p.744.

164. Ibid., p.772. The quote is from a speech delivered in May 1990.

165. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 15 September 1989, p.3.

166. Ibid., 20 October 1989, p.2.

167. Genscher, *Erinnerungen*, p.754. For a few of the many contemporary statements on this see the quotes in *ibid.*, p.714; in *Frankfurter Allgemeine Zeitung*, 1 February 1990, p.2; 3 February 1990, p.2; or 21 September 1990, p.8.

168. Ibid., 15 September 1989, p.3.

169. Ibid., 14 February 1990, p.1.

170. Helmut Kohl, *Bilanzen und Perspektiven: Regierungspolitik 1989-1991*, vol. 1 (Bonn: Presse- und Informationsamt der Bundesregierung, 1992), p.322. The quote is from a speech delivered to the Chamber of Industry and Commerce of North Black Forest on 5 December 1989.

171. Ibid., p.360. The quote is from a speech delivered at a rally in Dresden on 19 December 1989.

172. Ibid., p.137. The quote is from an interview with the *Süddeutsche Zeitung* from 19 August 1989.

173. Ibid., p.402. The quote is from a speech delivered in Paris on 17 January 1990. In particular, the chancellor strongly rejected any suggestions that Bonn pursued reunification with a view to establish "a predominant Germany in the middle of Europe." *Frankfurter Allgemeine Zeitung*, 12 December 1989, p.2. See also Kohl's interview with the French broadcaster *Antenne 2*, reported in *Frankfurter Allgemeine Zeitung*, 30 March 1990, p.4.

174. Kohl, *Bilanzen*, vol. 1, p.377. The quote is from an article by the

chancellor that was published in the *Handelsblatt* on 29 December 1989, p.377. At another occasion he reaffirmed that Germans were no longer "wanderers between the worlds", i.e., between the East and the West. *Financial Times*, 4 November 1989, p.1.

175. Kohl, *Bilanzen*, vol. 1, p.402. The quote is from the speech in Paris on 17 January 1990. Compare also the statements that he made at the end of the 55th Franco-German consultations and that are quoted in *Frankfurter Allgemeine Zeitung*, 27 April 1990, p.2.

176. Kohl, *Bilanzen*, vol. 1, p.267. The quote is from a speech delivered at the University of Lublin, Poland, on 13 November 1989.

177. *Ibid.*, p.266. See also his speech in Davos at the World Economic Forum on 3 February 1990 that is quoted in *ibid.*, pp.407-408.

178. Kohl, speaking at the 54th Franco-German summit in Bonn, quoted in *Frankfurter Allgemeine Zeitung*, 4 November 1989, p.2.

179. Kohl, *Bilanzen*, vol. 1, p.322. The quote is from the speech delivered to the Chamber of Industry and Commerce of North Black Forest on 5 December 1989.

180. Helmut Kohl, *Bilanzen und Perspektiven: Regierungspolitik 1989-1991*, vol. 2 (Bonn: Presse- und Informationsamt der Bundesregierung, 1992), p.699. The quote is from an article by the chancellor that appeared in the *Financial Times* on 29 October 1990.

181. Kohl, quoted in *Die Welt*, 22 June 1990, p.6.

182. The same could not be said of the Greens. However, their counter-discourse remained marginal throughout the process of reunification. Representative of the *fear discourse* practiced by the Greens is the following statement by the chairwoman of the parliamentary group in the *Bundestag*, Oesterle-Schwerin. She accused Kohl of a policy designed to "return to the Reich" and argued that Germany's neighbors had good reasons to "be afraid of reunification." *Frankfurter Allgemeine Zeitung*, 29 November 1989, p.5.

183. Vogel, quoted in *Die Welt*, 22 June 1990, p.6. See also Lafontaine's statements that are quoted in *Frankfurter Allgemeine Zeitung*, 18 September 1990, p.2.

184. Vogel, quoted in *Frankfurter Allgemeine Zeitung*, 7 February 1990, p.4.

185. Lafontaine, quoted in *Frankfurter Allgemeine Zeitung*, 18 September 1990, p.2.

186. A partial exception to this discursive solidarity of the social democrats with the government was their position on the issue of the Oder-Neisse line. They strongly attacked the governmental policy of refusing to make it absolutely clear once and for all that the united Germany would recognize the inviolability of Poland's western border. For a flavor of this criticism see for instance the SPD *Bundestag* resolution that is quoted in *Frankfurter Allgemeine Zeitung*, 1 December 1989, p.4; or the statements by Lafontaine that are found in *Frankfurter Allgemeine Zeitung*, 4 December 1989, p.2 and 24 February 1990, p.1.

187. One analyst spoke of the "bullnecked insensitivity Kohl ha[d] shown at crucial stages" of the unification process. Roger Morgan, "Germany in Europe," *The Washington Quarterly* 13 (1990): 152.

188. The foreign minister had not been informed of the plan either. Genscher, *Erinnerungen*, p.671.

189. Kohl had promised such consultation on the day East Germany had

opened its western borders. *Frankfurter Allgemeine Zeitung*, 11 November 1989, p.2. A nice example of the international frustration and anger about this lack of consultation about the 10-point plan is president Mitterrand's reaction to it. "But he has not told me anything! Not anything! I will never forget this!" Attali, *Verbatim*, vol. 3, p.350.

190. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 2 December 1989, p.4. See also *Frankfurter Allgemeine Zeitung*, 1 December 1989, p.2. While the membership of the unified Germany in a reinforced EC was of particular importance to Paris, London, as we will see in chapter 5, regarded Germany's continued membership in NATO as being of the highest importance for the stability of post-cold war Europe.

191. On the damage caused by Kohl's stance see Genscher, *Erinnerungen*, pp.663, 846. There the former foreign minister argued that the refusal to recognize the inviolability of the Oder-Neisse line was a diplomatic *faux pas* of the first order that caused "great damage" to Bonn's reunification policy. For an overview of the various international and domestic legal and political ramifications of this particularly emotional border issue see Dieter Blumenwitz, "Oder-Neiße-Linie," in *Handwörterbuch zur deutschen Einheit*, edited by Werner Weidenfeld and Karl-Rudolf Korte (Frankfurt: Campus, 1992), pp.517-527.

192. Irrespective of the legal merits of Kohl's position on the border issue, there is little doubt that his stance was motivated largely by electoral considerations. Kohl did not want to anger the influential expellee associations, i.e., those voters whose ancestral origins lay in the eastern parts of the former German *Reich* and who, after 1945, came to constitute an important electorate of the CDU/CSU. But unlike some of the members of these expellee associations Kohl himself was not a revisionist. He thus never openly questioned the existing western border of Poland. See for instance his report on the state of the nation on 8 November 1989 or his declaration in the *Bundestag* on 16 November 1989 regarding his recent visit of state to Poland. Both are quoted in Kohl, *Bilanzen*, vol. 1, pp.234, pp.275-285. For a flavor of the controversial intra-German debate generated by Kohl's refusal to recognize without any ifs and buts the inviolability of Poland's western border see Lafontaine, quoted in *Frankfurter Allgemeine Zeitung*, 4 December 1989, p.2; Alfred Dregger, chairperson of the CDU/CSU parliamentary group, quoted in *Frankfurter Allgemeine Zeitung*, 6 December 1989, p.5; Lambsdorff, quoted in *Frankfurter Allgemeine Zeitung*, 18 December 1989, p.4; Rita Süßmuth, member of the CDU and speaker of the *Bundestag*, quoted in *Frankfurter Allgemeine Zeitung*, 2 January 1990, p.1; or, finally, Roman Herzog, president of the constitutional court, quoted in *Frankfurter Allgemeine Zeitung*, p.4.

193. The FDP went so far as to make the demand for a clear guarantee by Bonn of the Oder-Neisse line a plank in its program for the federal elections in 1990. *Frankfurter Allgemeine Zeitung*, 26 January 1990, p.4.

194. See for instance Genscher's criticism of Kohl's 10-point plan for being silent on the Polish border issue. *Frankfurter Allgemeine Zeitung*, 4 December 1989, p.2. Genscher also rejected Kohl's constitutional argument against such a "premature" recognition of the future eastern border of the united Germany. *Ibid.*, 8 January 1990, p.2.

195. Genscher, *Erinnerungen*, p.653. The speech was delivered to the UN in September 1989. In the end the combination of strong domestic and inter-

national pressure prompted Kohl to change his position on the border issue. This opened the way on 21 June 1990 for a joint resolution of the *Bundestag* and the East German *Volkskammer* in which both houses accepted the Oder-Neisse line as sacrosanct for now and the future. For the text of the resolution see Ingo von Münch, ed., "Gemeinsame Entschließung des Deutschen Bundestages und der Volkskammer der Deutschen Demokratischen Republik zur deutsch-polnischen Grenze vom 21. Juni 1990," in *Dokumente der Wiedervereinigung Deutschlands* (Stuttgart: Alfred Kröner, 1991), pp.280-281.

196. A particularly important factor in causing Genscher to recast his EMU-NOW narrative seemed to have been the meetings that he had with president Mitterrand and foreign minister Dumas in the wake of Kohl's announcement of his 10-point plan. Compare Genscher, *Erinnerungen*, pp.676-680. There Genscher described the conversation with Mitterrand in which the president made it clear to him that in the view from Paris there was a linkage between European integration and German reunification as the "most important" of the many discussions he ever had with the French president. Compare also Attali, *Verbatim*, vol. 3, p.354.

197. Genscher, *Erinnerungen*, p.390. See also *ibid.*, p.387.

198. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 13 January 1990, p.2.

199. *Ibid.*

200. Genscher, *Erinnerungen*, p.823. The quote is from a speech delivered to the *Bundestag* on 21 June 1990. The two pillars of such a united Europe, the minister made a point of emphasizing, would be Political Union and Economic and Monetary Union. *Frankfurter Allgemeine Zeitung*, 21 September 1990, p.8.

201. Kohl, *Bilanzen*, vol. 1, p.178. The quote is from an interview with the *Stuttgarter Zeitung* on 16 October 1989.

202. *Ibid.*, p.251. The quote is from a speech given at a rally on 10 November 1989.

203. *Ibid.*, p.394. The quote is from a speech delivered in Paris on 17 January 1990. For an earlier example of this new argumentative thrust see his speech to the diplomatic corps in Bonn that is quoted in *Frankfurter Allgemeine Zeitung*, 18 November 1989, p.4.

204. Kohl, *Bilanzen*, vol. 1, p.308. The quote is from a speech delivered to the *Bundestag* on 28 November 1989.

205. *Ibid.*, p.496. The quote is from Kohl's declaration on 9 May 1990 on the 40th anniversary of the announcement of the Schuman-Plan.

206. Kohl, *Bilanzen*, vol. 2, pp.637-638. The quote is from a speech given to the *Initiative Internationale Partnerschaft* on 13 September 1990. For some of the many similar statements by the chancellor see Kohl, *Bilanzen*, vol. 1, p.545; *Frankfurter Allgemeine Zeitung*, 11 January 1990, p.3; 24 March 1990, p.1; 19 July 1990, p.3. Compare also Marsh, *Bundesbank*, p.303.

207. Yet these diehards that were found mostly in the *Bundesbank* and the finance ministry were not naive. "Let's not have any illusions", Wilhelm Nölling, at the time governor of the state central bank of Hamburg, said, "at stake in the current controversy over the new monetary order in Europe are power, influence and the pursuit of national interests." Marsh, *Bundesbank*, p.304. Nölling made the comment to a group of US and German economic policy-makers on 7 March 1991. From this assessment the diehard

practitioners of the EMU resistance discourse drew the conclusion that the government ought not to shy away from defending aggressively German interests in this struggle over Europe's monetary future. During the IGC on the EMU in 1991 some *Bundesbank* officials consequently urged the government to resist foreign "political pressures" to agree to the quick creation of the EMU as the price for the earlier acceptance of German reunification on the part of the EC. Ibid. The quote is from a speech given by Hans Tietmeyer on 11 June 1991. Tietmeyer was at the time a member of the *Bundesbank* directorate.

208. For some of the many statements to this effect see Kohl, *Bilanzen*, vol. 2, p.695 or *Frankfurter Allgemeine Zeitung*, 19 October 1990, p.8.

209. Kohl, *Bilanzen*, vol. 1, p.201. The quote is from a speech delivered to the German Federation of Industry and Trade on 25 October 1989. See also *ibid.*, pp.307-308.

210. And just like Genscher Kohl also insisted that the EMU had to be part of a larger reform project that included the political upgrading of the EC. Despite its new-found enthusiasm for an EMU, he declared, the government intended to "stay true to [its long-standing] goal of political union." Ibid., p.408. The quote is from a speech given at the World Economic Forum in Davos on 3 February 1990. Indeed, already in his letter to the French president on the eve of the European Council meeting in Strasbourg in December 1989 Kohl had explicitly linked the EMU to the upgrading of the European Parliament. *Frankfurter Allgemeine Zeitung*, 8 December 1989, p.5.

211. Compare Tsoukalis, "Monetary Union," p.293. There he pointed out that "[i]n purely economic terms, there was in fact precious little for the Germans in a monetary union. What later tipped the balance was the perceived need to reaffirm the country's commitment to European integration in [view] of German unification. ... Thus the German decision (Helmut Kohl's to be precise) to proceed with the EMU was highly political." See also Henning, *Currencies and Politics*, pp.228-229. Bonn, he wrote, "emphatically reaffirm[ed] its commitment to European integration", not least in order to placate "anxieties among western partners" over German unity. "Chancellor Kohl and Foreign Minister Genscher [consequently] made Economic and Monetary Union a central element of that commitment."

212. *Times*, 28 June 1989, p.1.

213. *Financial Times*, 3 November 1989, p.1.

214. According to Brigitte Sauzay, president Mitterrand's former German interpreter, chancellor Kohl and her boss agreed to a secret deal. The German chancellor would support the EMU, thus agreeing to do away with the D-mark, and the French president in return would stop opposing German reunification. Mrs. Sauzay dated the deal to the beginning of 1990. Methfessel, *Wenn die D-mark geht*, p.35. At least the second part of her story, however, is unconvincing since by 1990 the matter had already been settled.

215. Corbett, "Council held in Strasbourg on 8-9 December 1989," p.97. The Strasbourg agreement, however, did not settle the issue of the length of the transition period to a full-blown EMU. Throughout 1990 this issue would remain a minor source of friction between Paris and Bonn. While Paris insisted that the second stage of the EMU should begin on 1 January 1993, Bonn was against any such deadline. Compare *Times*, 19 September 1990, p.9.

It was only in October 1990 that a compromise on this issue emerged. The second stage, Paris and Bonn agreed, ought to come into force on 1 January 1994. Compare *Frankfurter Allgemeine Zeitung*, 19 October 1990, p.8 or *Times*, 20 October 1990, p.8. As to the decision that the transition to a full-blown EMU would occur no later than 1999, this was decided shortly before the Maastricht summit in December 1991. Compare Marsh, *Bundesbank*, p.306-307; or, for a slightly different version, Methfessel, *Wenn die D-Mark geht*, pp.38-45.

## V. THE MAVERICK: BRITAIN IN DEFENSE OF POUND STERLING

### 1. The Battle Against Inflation: Monetarism the British Way

During its last days in power the Labor government of prime minister James Callaghan made a decision whose repercussions would be felt throughout the 1980s: he opted to keep Britain out of the ERM when it entered into force in March 1979.<sup>1</sup> At the time this decision was not overly controversial even though Britain was the only EC country to make it.<sup>2</sup> When in May 1979 the Conservative party regained power, the policy towards the ERM was consequently one of the few economic policies the new Thatcher government was happy to continue.

The Tories came to power on a platform whose main plank was the promise to arrest "the cycle of the country's relative economic decline."<sup>3</sup> Initially there was a controversy within the new cabinet between the *dries* and the *wets* as to how best to achieve this.<sup>4</sup> But through her grip on the formation of economic policy, and with the help of a small number of allies - including senior cabinet ministers such as her chancellor of the exchequer Geoffrey Howe, junior ministers such as Nigel Lawson and advisers such as Alan Walters - Margaret Thatcher was able to impose her solution on the problem: the "single-minded pursuit of low inflation."<sup>5</sup> The prime minister made it quite plain why she thought inflation was at the root of the English disease. "Inflation destroy[ed] nations and societies as surely as invading armies [did]. Inflation [was] the parent of unemployment. It [was] the unseen robber of those who [had] saved."<sup>6</sup> The conquest of this "pernicious evil"<sup>7</sup>, according to her monetarist credo, required two things: political



stamina and control over interest rates. Quickly the prime minister set out to demonstrate that her government had both.

Monetarism had won ground in the economic profession during the 1970s when stagflation called the conventional economic wisdom of demand management into question. Formulated by Milton Friedman and others the core thesis of the theory posited that there was a stable relationship between the money supply and prices or nominal incomes. Thus, by controlling the growth of money, governments could control inflation. Stable prices, in turn, would reinvigorate economic growth and bring down unemployment.<sup>8</sup> The 1979 Tory election manifesto had expressed this credo so: in order "to master inflation, proper monetary discipline [was] essential, with publicly stated targets for the rate of growth of the money supply."<sup>9</sup> Once in power the government wasted no time in enacting the manifesto. £M3 was chosen as the monetary aggregate targeted to effect "the progressive reduction in monetary growth."<sup>10</sup> The instruments of control were "changes in interest rates, taxes and public expenditure."<sup>11</sup> The new policy found its full expression in the so-called Medium Term Financial Strategy (MTFS) that was published in 1980.<sup>12</sup> Its economic consequences were close to catastrophic, just like those of the French experiment of Keynesian demand stimulus carried out at around the same time. By raising interest rates, cutting public expenditure through the reduction of the Public Sector Borrowing Requirement, and increasing indirect taxes - most of it in the name of the battle against inflation - the government contributed to a severe recession of the British economy.<sup>13</sup>

Under the impact of the economic crisis as well as the mounting criticism concerning the validity of £M3 as a measure for the money supply,

the government had to abandon its hard-line monetarism.<sup>14</sup> After little more than a year the "stance of the policy was, gradually and reluctantly, changed."<sup>15</sup> In particular the single-minded effort to control £M3 was relaxed. In his 1981 budget the chancellor of the exchequer Geoffrey Howe thus admitted "that £M3 had been giving a misleading signal and that the conduct of monetary policy required attention to a variety of indicators, including M1 as well as £M3, not forgetting the exchange rate and interest rates."<sup>16</sup> But although the budget ushered in a new, softer, monetarist policy, this was still monetarism, and the control of money supply was still the name of the game. This was made quite clear by Nigel Lawson, Howe's financial secretary. "It [was] scarcely surprising", he said, "that in the sophisticated modern world, and in particular for a country as financially advanced as the UK, monetary control [was] a highly complex matter. But that [was] no reason for getting it wrong, still less for abandoning the task altogether."<sup>17</sup>

One of the constant features of both hard-line and soft-line monetarism as practiced by the British government at the time was its insularity (i.e., its neglect of the exchange rate of the pound) whose determination was left to the markets. At the beginning of the 1980s this hands-off approach happened to lead to the strong appreciation of sterling. "The present government", according to Lawson, "[had] no exchange rate policy as such - for the simple reason ... that the attempt to have such a policy greatly complicate[d] (if [it did] not make it impossible) the difficult enough task of pursuing a sound monetary policy."<sup>18</sup> Yet this non-policy vis-à-vis the exchange rate did not go over well with export-oriented industries. Particularly the Confederation of British Industry (CBI) was adamant that the

neglect of the external value of sterling, far from being benign, was causing its members "an appallingly difficult time."<sup>19</sup> Yet industry was not alone in criticizing this particular aspect of the government's monetary policy. In response to the overvaluation of the pound a coalition was formed in favor of exchange rate targets that included strange bedfellows, ranging from monetarists to Keynesians, from the Labor opposition to the Tory wets.<sup>20</sup>

Not surprisingly, the growing prominence of the exchange rate issue began also to rub off on the issue of ERM membership.<sup>21</sup> But before either of these topics could have an impact on policy-making, they once again became largely irrelevant in the public policy debate. The reason was that by the end of 1982 sterling started to fall precipitously on the foreign exchange markets. This continued through the first few months of 1983 before the British currency recovered somewhat. By the end of this year, however, and through 1984, the pound depreciated again. With the disappearance of the problem of overvaluation, the first successes on the inflation front, and a recovering economy, the policy option of ERM membership quickly lost any attraction as an alternative to insular monetarism that it might have had at the height of the recession in 1981.<sup>22</sup> But this state of affairs changed once and for all in the second half of the 1980s when most observers began to agree that "the link between interest rates and the monetary aggregates was clearly broken."<sup>23</sup> Naturally, those who believed this also thought that monetarism had become obsolete, and that the government needed a new polestar to guide its anti-inflationary interest rate policy. The second round of the debate about exchange rate targets and the ERM was thus rung in. And this time round the gloves were off in the fight over the future course of Britain's monetary policy.

## 2. The Debate about the EC: Sovereignty versus Interdependence

In the second half of the 1980s two major monetary policy debates - one about the ERM, the other about an EMU - split British policy-makers and economic interest groups into two camps. Yet far from merely being technical debates about the economic costs and benefits of these European monetary arrangements, both the debates were strongly influenced by two stories that at first sight may seem to have little bearing on monetary policy-making. They centered on the relationship between national sovereignty and international interdependence, on the one hand, and the powers of the EC, on the other. Although the interdependence discourse was practiced by political heavyweights in nearly all parties, it was the sovereignty discourse which shaped monetary policy-making in the second half of the 1980s. Its premise was rather straightforward. The sovereign state was the highest form of political organization. Its defense against the encroachments from extra-national actors was a duty of the highest patriotic importance. The policy conclusion drawn from this was that only limited intergovernmental cooperation in the EC that left the main policy-making powers of the state intact was reconcilable with the national interest. Supranational integration had to be resisted even at the cost of political isolation in Europe's councils.

This theme of the European threat to British sovereignty only became a lodestar in the discursive universe of the Tories by around the middle of the 1980s. Largely responsible for the new rhetorical focus was the prime minister who responded to the supranational *élan* that began to once again pervade the EC after more than a decade of Eurosclerosis.<sup>24</sup> Thatcher

pursued a two-track strategy in presenting the sovereignty discourse. On the one hand, she took pains to assert that her government did "not dream of some cozy, isolated existence on the fringes of the European Community."<sup>25</sup> On the contrary, Britain was determined to participate actively in "build[ing] a successful European Community."<sup>26</sup> On the other hand, the prime minister left no doubt about her strictly intergovernmental vision of the European construction. European integration, she warned, should not be mistaken as an exercise in state-building. The construction of Europe ought to be confined to the "willing and active cooperation between independent sovereign States."<sup>27</sup> It ought to proceed "in a way which [would] preserve ... the different traditions, parliamentary powers and sense of national pride in one's own country."<sup>28</sup> In short, in her pronouncements on the EC the prime minister followed a simple credo: "Let Europe be a family of nations."<sup>29</sup>

But Thatcher did not limit herself to a model of European intergovernmental cooperation. She also began to criticize with increasing insistence the supranational alternative that would, she asserted, make of the government in London a *dépendance* of Brussels.<sup>30</sup> Such a "super-state", she warned, would "submerge [British] identity and snuff out [its] sovereignty."<sup>31</sup> In their place Eurocrats would create "some sort of identikid European personality"<sup>32</sup> and exercise their "dominance from Brussels", telling the British people what they could and could not do.<sup>33</sup> The UK had not joined "Europe to be swallowed up in some bureaucratic conglomerate, where it [was] Euro this and Euro that and forget about being British."<sup>34</sup> As long as she occupied Number 10, Thatcher pledged, London would therefore be a bulwark against these supranational temptations. Her government would

oppose with all its strength the drive towards the United States of Europe and other such "Utopian goals"<sup>35</sup>, such "airy-fairy"<sup>36</sup> schemes. In short, under her leadership Britain would "raise the flag of national sovereignty ... - and fight."<sup>37</sup>

Many members of cabinet and the parliamentary Tory party shared, though often with less fervor and radicalism, the prime minister's discursive orientation towards the EC. The pure Thatcherite creed was largely confined to the backbenches of the House of Commons. There quite a few MPs opposed "the creeping federalism of the Community"<sup>38</sup> that threatened to "reduce national parliaments to rubber-stamping machines"<sup>39</sup>; "expand the powers of the EC over national governments"<sup>40</sup>; effect "an unacceptable transfer of sovereignty, influence, power and decision-making" from the national to the supranational level"<sup>41</sup>; or lead to the "lowering of the curtain on [British] history as an independent nation."<sup>42</sup> The gist of these warnings was nicely summed up by one Tory backbencher: the UK had "simply got to hold on to what sovereignty [it had]."<sup>43</sup> In cabinet, however, most preferred a less aggressive nationalism. Representative in this regard was Nigel Lawson who had in 1983 succeeded Howe as chancellor. His "idea of Europe", he emphasized, "was that of de Gaulle's *Europe des patries*, a Europe of states, rather than the single federal superstate, or United States of Europe, which some espoused."<sup>44</sup> He wanted to "transfer ... sovereignty not to Brussels, but to the people."<sup>45</sup> Later John Major, after having been appointed chancellor himself, expressed a similar sentiment. National sovereignty, he declared, "was fundamental to Britain's Parliamentary constitution and practice ... not a matter that [could] be bargained away or cast aside" for the sake of the European ideal.<sup>46</sup>

But not only Tories were adherents of the sovereignty discourse. Indeed, long before the Tories began to discover their Eurosceptic side, the Labor party had gone through various bouts of strong anti-EC sentiments. But in the second half of the 1980s Labor's efforts to modernize its policies and public image in order to increase its electoral attractiveness led it to adopt a more pro-European policy narrative. Nevertheless, the old rhetoric withered away only slowly, and Labor's old anti-Europeanism occasionally erupted onto the political scene. Among the more prominent figures who warned of being "sucked into" the European integration machine<sup>47</sup>, of robbing Britain of its "independence"<sup>48</sup> by delivering it, "bound hand and foot, to the European decision makers"<sup>49</sup> were Peter Shore on the right wing of the party and Tony Benn on the left wing.<sup>50</sup> Equally split on the sovereignty issue was the Social Democratic Party (SDP), a splinter party whose founding members had in an earlier incarnation been right-wing Labor politicians who had separated from the party because of its left-wing turn. SDP leader David Owen, a former Labor foreign secretary, for example, warned that if a "federalist model was forced on Europe it would eventually split itself apart."<sup>51</sup> But this was not an opinion shared by all his colleagues.

Opposition to the sovereignty discourse came from the adherents of the interdependence discourse. This camp consisted of Tory dissidents, some members of the SDP, a growing number of Labor politicians, and the large majority of the Liberal Democrats. The premise of their policy story was that interdependence in the EC, particularly of the economic kind, called for the pooling of sovereignty among member states. Only in this way could the benefits of interdependence be maximized and its costs be minimized. From

this assessment the practitioners of the counter-narrative concluded that the UK had to pursue an active integration policy in order to have its interests taken into account in the construction of the supranational EC.

Among the leading adherents of the interdependence discourse in the second half of the 1980s were a handful of senior Tory politicians. One of them was Geoffrey Howe, foreign secretary from 1983 to 1989. Like the other practitioners of the interdependence discourse Howe was quite critical of those who argued, like the prime minister, that on EC matters one had to choose between national sovereignty and a European super-state. Howe argued that this was a "false antithesis, a bogus dilemma"<sup>52</sup> because it overlooked that "[s]overeignty [was] not like virginity" which you either had or did not have.<sup>53</sup> On the contrary, sovereignty was "divisible - and exploitable in the interests of the nation."<sup>54</sup> It was therefore "a serious error" to talk always about European integration "in terms of 'surrendering' sovereignty."<sup>55</sup> Rather than a zero-sum game between Brussels and the national capitals, the EC represented "the coming together of twelve different skeins of silk, each of which retain[ed] its unique quality, but all of which gain[ed] in strength by being engaged with each other."<sup>56</sup> It was for this reason, he declared, that he wanted "to see a strong Britain in a strong Europe."<sup>57</sup> To this end it was essential that London remain "at the centre of the European partnership, [and play] the sort of constructive role which command respect."<sup>58</sup> Only in this way could the government ever hope "to win arguments before positions [became] entrenched."<sup>59</sup>

The same sort of argument was deployed by Michael Heseltine, until the beginning of 1986 defense minister and then, as a simple MP, one of the main critics and challengers of the prime minister. "In the world today", he



lectured the prime minister, "sovereignty was no longer capable of being exercised on a national scale, because the scale of power necessary in the modern world had outstripped the capacity of medium-sized nations to control it." In this new world the "arrangement for the European power structure ... provide[d] a way in which British self-interest could be exercised."<sup>60</sup> But such a synergy between London and Brussels could only be generated if London became "a European Community 'power-broker'", able to influence joint policies "instead of standing on the sidelines."<sup>61</sup> Other senior Tories who actively participated in the interdependence discourse included the former prime minister Edward Heath and the former EC Commissioner Lord Cockfield. The latter for instance castigated the practitioners of the sovereignty discourse as displaying an "almost paranoid attachment to an outdated concept of national sovereignty."<sup>62</sup> The former directed his critique directly against Thatcher whom he accused of "attack[ing] Community institutions with an aggressive and nationalistic rhetoric that [was] pointlessly at odds with reality."<sup>63</sup>

Among the three opposition parties the Liberal Democrats were without doubt most actively engaged in disseminating the interdependence discourse. Their leader Paddy Ashdown expressed the party's credo when he noticed that "Britain's best long-term interests could not be fulfilled except in an increasingly integrated Europe which came together politically, economically and socially".<sup>64</sup> Britain ought to be "part of, and help ... to shape, European integration and not always [be] a block and a barrier to it."<sup>65</sup> A continuation of this obstructionist policy, Ashdown warned, would "cost Britain its future."<sup>66</sup> Only some in the SDP were equally fervent adherents of the interdependence discourse. One of them was Ian Wrigglesworth who accused

the practitioners of the competing policy narrative to "pursue a chimera of national sovereignty as though [the UK] was able to control affairs in the economy on its own without regard to what was happening in other parts of the world."<sup>67</sup>

Unlike these voices, those coming from the Labor party were clearly less pro-European, even though Labor's critique of those on the government benches who were practitioners of the sovereignty narrative was equally sharp as the one which was voiced by the other opposition parties. The former chancellor of the exchequer, Denis Healey, for instance, mocked the government for failing to come to grips with modern realities. This was "a world of information technology and abolished exchange controls which had robbed countries of economic sovereignty." It was "ludicrous that the government should be split in a 'Punch and Judy show' on theoretical arguments [about sovereignty and the EC] which had no relevance in the modern world."<sup>68</sup> Equally sarcastic, his colleague Brian Sedgemore called on the government "to spurn small minded, shrivelled isolationist views" in their approach to Europe.<sup>69</sup> The same point was made by deputy leader Roy Hattersley although he gave his statement a positive spin. "Sometimes", he lectured the government, "sovereignty was increased when it was pooled."<sup>70</sup> This was also the opinion of the shadow chancellor John Smith. "Britain would have to 'pool' some of its sovereignty", he said, "to retain control over aspects of its economy."<sup>71</sup> In short, according to the official Labor narrative on the EC, it was, as one MP noted, "in the interests of the British people and of other European nations to join together in common policies and institutions."<sup>72</sup>

### 3. Stories about the ERM

The debate about whether or not Britain should join the ERM was one of the central policy debates in the period from around 1985 to 1990 when the country finally joined the European currency club. It proved to be extremely divisive, not least because it was conducted with much passion. The body most to suffer from this divisiveness was the ruling party. Even though the Tories did not self-destruct over the issue, they certainly came close to it, and there can be little doubt that the ERM was one of the key factors, if not the most important one, that caused the downfall of Margaret Thatcher. Her close ideological ally during these years, Nicholas Ridley, put it this way: "When Margaret Thatcher is dead and opened it will be those three letters 'ERM' that will be lying in her heart."<sup>73</sup>

The ERM debate was organized around two competing policy narratives: one anti-ERM, the other pro-ERM. Not surprisingly, the practitioners of the interdependence narrative showed a quasi-natural affinity for the pro-ERM camp. To them the notion of monetary sovereignty in an interdependent world was suspect, both on principled and practical grounds. The main representatives of this particular pro-ERM camp were the foreign secretary Geoffrey Howe and the opposition parties. Yet interestingly enough, the pro-ERM camp also successfully recruited supporters from among the adherents of the sovereignty discourse. Those affiliated with both these narratives saw ERM membership as being merely a technical issue, largely unrelated to such general concepts as sovereignty or interdependence. The chief spokesperson of these pragmatists was chancellor Nigel Lawson who held this post from 1983 to 1989. Finally, there was the rather small anti-ERM

camp that found its supporters among the most fervent practitioners of the sovereignty discourse. To its members the ERM represented an unacceptable transfer of policy-making powers from the national to the European level. The undisputed leader of the anti-ERM camp was the prime minister herself.

### 3.1. The Challenger: The ERM-NOW Discourse

By 1985 British monetarism was a shadow of its former self. What had started out as a straightforward exercise in observing and controlling £M3 had within little more than a year evolved into the highly complex and arcane effort to control a diffuse monetary target set on the basis of a number of different money supply indicators. None of these proliferating monetary targets, however, proved to be a reliable lever to control inflation.<sup>74</sup> The result was a sort of "monetarism without the money supply."<sup>75</sup> This was a frustrating situation for the chancellor of the exchequer to find himself in. Being convinced that interest rate policy needed to be based on "adherence to known rules" rather than on "discretionary economic management"<sup>76</sup>, Lawson consequently searched for a functional alternative to money supply targets. What he came up with was the ERM and its exchange rate targets. Quickly the chancellor set about to present and propagate his ideas about "exchange rate monetarism" in a new policy narrative.<sup>77</sup>

The new story that began to be told by the chancellor in 1985 systematized and complemented arguments that had for some time circulated at the margins of the public policy debate in Britain. Its main premise was that a "fixed exchange rate against countries [such as Germany] who share[d] [Britain's] resolve to reduce inflation [was] a pretty robust way of

keeping domestic monetary policy on the rails."<sup>78</sup> The main policy conclusion Lawson drew from this was that it was in Britain's best interest to become a member of the ERM as soon as possible.

Lawson developed his premise in three rhetorical moves. First, he took pains to present the ERM as simply "an agreement between independent sovereign states."<sup>79</sup> Membership in it should therefore not be misconstrued as a threat to British sovereignty. Second, he pointed out that "the measures of money" that he attempted to control in order to bring inflation down went "through a prolonged period of instability." As a result, the chancellor argued, "the money numbers [could] not be taken at their face value."<sup>80</sup> Thus being "disabled ... from steering by sterling M3" as well as other aggregates, the government had to look for a new polestar that could guide its interest rate policy.<sup>81</sup> And this, according to Lawson, ought to be the ERM.

Given that the "petro-currency problem - the tendency of sterling alone among European currencies to move in line with the price of oil - [was] a shadow of its former self", Lawson noted that there was no longer any practical obstacle to join the ERM.<sup>82</sup> On the contrary, it had become imperative to do exactly this since membership alone could now "reinforce the discipline and commitment inherent to the MTFs."<sup>83</sup> Echoing the arguments used by pro-ERM French policy-makers in the 1983 debate about whether or not France should exit from the system, Lawson pointed out that the ERM would help London fight inflation in three ways. First, British entry would "signally enhance the credibility of [the government's] anti-inflationary resolve" with the markets.<sup>84</sup> Second, it would impose a welcome external "exchange rate discipline" on the economy, thus "underpinning the [internal discipline

of the] Medium-Term Financial Strategy."<sup>85</sup> Finally, ERM membership would also remove a "very important part of the transmission mechanism through which monetary policy influence[d] inflation": a floating exchange rate.<sup>86</sup> By permanently "hardening" the pound, the government would no longer have to cope with the "direct impact on the price level and on inflationary expectations" of a periodically weak currency.<sup>87</sup>

In addition to the central argument that the ERM was an anti-inflationary device the government could no longer do without, Lawson also deployed a number of supplementary pro-ERM arguments of lesser salience.<sup>88</sup> One was that the current policy of letting the markets determine the exchange rate of sterling put British exporters at a comparative disadvantage vis-à-vis their EC competitors who operated within a zone of monetary stability. This, according to the argument, made the British "reluctant to invest and sell since they feared the exchange rate [might at any time ] rise."<sup>89</sup> The ERM would counter this fear and thus "give ... industry what it want[ed]" and, indeed, needed.<sup>90</sup> Lawson offered another point in favor of ERM membership once the Delors Report on the EMU had been tabled at the beginning of 1989. Not hiding his strong aversion to the proposed EMU project - fueled by a fear for Britain's sovereignty - the chancellor argued that London's "[i]nfluence on these matters [relating to the EMU] would be greater" if sterling were to be "within the Exchange Rate Mechanism."<sup>91</sup> It thus would give the government a better chance to divert the EC from that particular road to monetary integration. In sum, by 1985 the former convinced free-floater Lawson had effected a complete U-turn: he now supported a narrative whose key theme was that "benign neglect" vis-à-vis the exchange rate of the pound and the ERM was no

longer "an option."<sup>92</sup>

It did not take long before Lawson's new ERM-NOW position found a growing number of adherents both among policy-makers of all *couleurs* and among economic interest groups. In the cabinet and the parliamentary Tory party there was soon a solid majority that backed the Lawson *démarche* to make the pound a member of the ERM. Among them was one of the party's rising stars: John Major. Although he was, like Lawson, a practitioner of the sovereignty discourse, he was also in favor of British ERM membership. After having replaced Lawson at the Treasury in 1989, Major thus employed the same pro-ERM arguments as his predecessor: the "EMS had helped the participating countries to bring far greater stability in exchange rates and to reduce inflation"<sup>93</sup>; it consequently could be expected to also "reinforce [Britain's] counterinflationary policies"<sup>94</sup>, not least because of the "undoubted discipline of the exchange-rate mechanism with the Deutschmark providing the anchor"<sup>95</sup>; and ERM entry would give the UK a greater voice in shaping the future of European monetary integration.<sup>96</sup> Less prominent and influential support for Lawson's pro-ERM stance came from Tory backbenchers in the House of Commons and from conservative Lords.<sup>97</sup> In addition, Tory-dominated committees in both Houses of Parliament issued reports in which they urged the government to join the ERM.<sup>98</sup>

Of those Tories who did not adhere to the sovereignty discourse, Geoffrey Howe was perhaps the most vocal, certainly the most prominent, supporter of British entry into the ERM.<sup>99</sup> In accordance with the interdependence discourse he dismissed as inappropriate the argument that membership in the European currency club would mean yet another "surrender of British sovereignty." Rather, Howe continued, entry would mean a "com-

mitment to share in the management of a wider system."<sup>100</sup> And such a commitment, he pointed out, relying on the technical arguments developed by Lawson, was all the more called for in view of monetary aggregates that "were proving increasingly less reliable indicators [of inflationary pressure] than the exchange rate."<sup>101</sup> It was therefore imperative to discard the outdated notion of national sovereignty and its corollary of insular monetarism and to realize that the government needed to "be helped in that battle [against inflation] by joining the Exchange Rate Mechanism", not as a "substitute, but as a buttress, for monetary and fiscal policy."<sup>102</sup> Finally, Howe too stressed that the "more closely [the UK was] participating in the ERM the more likely [it would] have a substantial influence on what [was] happening" in the EC, including the negotiations on the EMU.<sup>103</sup>

On the opposition benches the two smaller parties, the SDP and the Liberal Democrats, were also actively engaged in supporting the ERM-NOW discourse. Deploying the same arguments as Lawson and company<sup>104</sup>, they strongly criticized those who continued to oppose British entry into the European currency club. According to the leader of the SDP this stance "seemed to owe more to a fear of losing economic sovereignty than to a hard-headed calculation of how British economic interests [could] best be protected."<sup>105</sup> Such a calculation showed that not being part of the ERM "cost [Britain] heavily".<sup>106</sup> His party's policy-conclusion and that of the Liberal Democrats was clear: Britain ought to join the ERM ... now!

A rather more hedged position was taken by the Labor party, at least until the end of the 1980s. Even this hedged support for the ERM-NOW discourse, however, was far from the party's original outright opposition to the mechanism. After all, it had been a Labor government that had refused



to join the ERM when it was set up in 1979. In 1985 the situation was different. Already engaged in an effort to modernize the party, the leadership seized on the ERM as an issue that would demonstrate to the electorate how far Labor had come since the early 1980s. In particular, adherence to the ERM-NOW discourse was seen as a good strategy to publicize the party's new commitment to price stability and the European idea. But there was one major hitch. By 1985 the traditionalists in the party were still a force to be reckoned with, and their worries about the deflationary consequences of ERM membership had therefore to be taken seriously.<sup>107</sup> The leadership responded to this challenge to have to reconcile Labor's old commitment to fiscal expansionism with its new commitment to monetary prudence by declaring that the party was a conditional practitioner of the ERM-NOW discourse: a future Labor government would join the mechanism, but only if its rules had first been changed. Shadow chancellor Hattersley consequently proposed a number of reform measures for the ERM. Central among them was a "commitment by EMS members to adopt policies aimed at reducing unemployment and promoting expansion."<sup>108</sup>

By 1989, however, the modernization of the Labor party had progressed sufficiently to enable it to practice the ERM-NOW discourse without any ifs and buts.<sup>109</sup> Party leader Neil Kinnock even announced that ERM entry would now be a "first priority" of a new Labor government.<sup>110</sup> The new Shadow Chancellor John Smith explained the reasoning behind this pledge.<sup>111</sup> The party now recognized, he declared, that the "ERM entry [would be] central to [its] efforts to persuade the country at the next elections that [it had] an anti-inflationary strategy." A future Labor government, he added, would welcome "the prospect of stable currencies and lower inflation that member-

ship of the EMS [could] provide."<sup>112</sup>

As to the major economic interest groups, they were rather fervent practitioners of the ERM-NOW discourse. "Full membership of the EMS", the *Institute of Directors* argued, would be "in the best interests of British industry."<sup>113</sup> Organized labor fully concurred with this assessment. "Britain's manufacturing industry would be a major beneficiary of such a policy", the TUC pointed out.<sup>114</sup> This was also the position of the CBI, the producer lobby most actively involved in disseminating the ERM-NOW discourse. Its policy recommendation was clear. "UK business [should] not allow itself to be disadvantaged by isolation from the exchange rate mechanism of the EMS."<sup>115</sup> It justified this position by employing two pro-ERM arguments that also figured in Lawson's policy narrative: the positive effects of membership in the European currency club on interest and exchange rates. The ERM, the organization stressed, would "act ... to reinforce low inflation in the long term."<sup>116</sup> This would give industry the low interest rate environment it needed to finance its investments. Furthermore, the currency mechanism would "cushion business from the negative effects of fluctuating exchange rates."<sup>117</sup> This would finally put an end to damaging swings in competitiveness associated with the pound's volatility on the foreign exchange markets. Naturally both these points were of less importance to the financial industry. It formulated a novel argument in favor of ERM entry that soon became part and parcel of the ERM-NOW discourse. British entry into the currency mechanism was imperative if the City of London wanted to go on attracting financial business from abroad. Failure to act on that imperative, the chairman of the London Stock Exchange warned, would end up undermining "London's natural role as Europe's leading financial centre."<sup>118</sup>

This view was echoed by the City's leading financial institutions.<sup>119</sup>

This, then, was the solid phalanx of practitioners of the ERM-NOW discourse: a large majority of Tories, all opposition parties and the main economic interest groups. Normally their clamor for British entry into the ERM ought to have drowned out the battle cry of their opponents: ERM-NEVER. But this was not the case. And this was largely the work of one person: Margaret Thatcher.

### 3.2. The Defender: The ERM-NEVER Discourse

From its inception the ERM-NEVER discourse suffered from a lack of adherents. Until 1990, however, this quantitative disadvantage was compensated by a decisive qualitative advantage. The main practitioner of the discourse was the person actually having the authority to decide whether Britain would or would not join the ERM: Margaret Thatcher.<sup>120</sup> The prime minister and her few political allies on this issue deployed a number of economic and political anti-ERM arguments. While the political thrust of the ERM-NEVER discourse was largely the work of Thatcher herself, the economic arguments against ERM entry were mainly supplied by her influential economics adviser Alan Walters.<sup>121</sup> Yet as the ERM debate evolved during the second half of the 1980s these technical objections began to play less and less a role in the prime minister's pronouncements on the ERM, and she began to focus nearly exclusively on the importance of the sovereignty obstacle to British entry into the currency club.<sup>122</sup>

The technical case against ERM membership rested largely on three premises that directly challenged those of Lawson's ERM-NOW discourse.

First, according to the argumentation there were no serious problems with the government's existing monetary policy and its framework, the MTFs. At the very time that the chancellor began to get increasingly concerned about the "irrational" behavior of the monetary aggregates targeted in the MTFs and the resulting inflationary risks, Walters wrote a memo to the prime minister in which he assured her that there was no need to listen to the Cassandra voices. "If monetary growth (M0) [was] held at its present level (i.e., virtually zero) for a period of two or three years, then it [would be] likely that inflation [would] fall to about zero before the end of the 1980s and perhaps even by 1988. At last [the UK would] have price stability."<sup>123</sup> The implication of this happy state of affairs was obvious. Lawson was wrong to advise the prime minister "to bolster the anti-inflationary policies [of the government] with pseudo-fixed parities of the kind practiced in the EMS."<sup>124</sup> This argument was consequently taken up by Thatcher. There was no need for the government to "tie its hands" through ERM membership in order to upgrade its reputation as a tough inflation-fighter, she observed coolly. The government had enough anti-inflationary credibility with the markets, not least because it "had built up over the last ... years a well-founded reputation for [monetary] prudence."<sup>125</sup> The manipulation of interest rates was therefore all that was required for effectively coping with inflation: there was simply no need for an additional policy-instrument.<sup>126</sup>

The second premise put forth by Walters was that the ERM was unlikely to deliver what Lawson and company promised: lower inflation. On the contrary, Walters argued, by "staying out of the European Monetary system Britain ha[d] experienced ... a steeper reduction in inflation than countries

constrained by the rules of the EMS." There was therefore no reason to "get enmeshed in such a dubious system with such a dismal record."<sup>127</sup> Part of the reason for this weak performance of the ERM was, Walters argued, again directly contradicting Lawson, that the "exchange rate [was] much affected by anticipations, expectations, and uncertainties, which [were] in turn affected by political events, rumor, and report." It would therefore be foolish to make "[e]xchange rate movements ... indicators of monetary conditions" and, more foolish still, to steer monetary policy by them.<sup>128</sup> In somewhat modified form, this point was again echoed by Thatcher. Any attempt to "buck the [foreign exchange] market" by fixing the external value of sterling, she warned, would be costly and ultimately futile.<sup>129</sup>

The third and most important technical argument against the ERM was that joining it would, in the case of Britain, actually be counterproductive: it would carry with it the risk of putting upward pressure on inflation rates. This argument came to be known as the "Walters critique". It pointed out that in a country with no exchange controls such as the UK, ERM membership, by removing the ability of the government to conduct an autonomous interest rate policy, could have "perverse influences."<sup>130</sup> Entry into the currency regime would automatically lower the exchange rate risk premiums on sterling interest rates as financial market operators gained confidence in the stability of the British currency. Such a drop in the cost of credit, in turn, would translate into the growth of the money supply. Thus, instead of aiding the government in combating inflation as the ERM-NOW discourse proclaimed, British ERM membership would actually seriously undermine that effort. "Ironically", Walters concluded, "the ERM mechanism work[ed] well when there [were] the same inflation and interest rates in all

countries - but, then", he asked rhetorically, "why bother?"<sup>131</sup> The "Walters critique" also found its way into the argumentative arsenal of the prime minister, who declared herself to be against joining the ERM because it would "increase interest rate volatility"<sup>132</sup> and leave the government "no discretion on interest rates, thus threatening the paramount goal of winning the fight against inflation."<sup>133</sup>

As these objections to ERM membership failed to generate any significant support for the ERM-NEVER discourse, the prime minister began to emphasize a more value-laden and symbolic argument: entry into the ERM would mean a deadly blow to British sovereignty. By the late 1980s this threat theme was clearly at the center of Thatcher's ERM-NEVER discourse.<sup>134</sup> Those who called for joining the ERM, according to the prime minister, were endangering the proud Westminster tradition of parliamentary supremacy. They were prepared to relieve parliament, and through it the British government, from the responsibility of establishing an appropriate monetary framework for the economy. And what was more the proponents of ERM membership even failed to realize the consequences of "abdicat[ing] control over [British] monetary policy, in order to have it determined by the German *Bundesbank*."<sup>135</sup> To the prime minister there was little doubt that such a transfer of powers to Frankfurt would be a deadly threat to Britain's national sovereignty. After all, she stressed, the "[a]bility to run an independent monetary, economic and fiscal policy [lay] at the heart of what constitute[d] a sovereign state."<sup>136</sup> This threat to national sovereignty, Thatcher further noted, was all the more real since to the "European Commission and others" the ERM had never been more than a stopover on the "path to EMU."<sup>137</sup>

Clearly, by the end of the 1980s Thatcher had deliberately effected a discursive reordering of the arguments of the ERM-NEVER story. A policy narrative that had started out to be primarily about money was transformed into one being primarily about sovereignty. Success in this effort to frame ERM membership in terms of the defense of British sovereignty might have rescued Thatcher from her political isolation on the ERM issue, given the large following of the sovereignty policy narrative among the Tories. But the prime minister ultimately failed in her reinterpretation of what was at stake in the ERM debate. The "mad clamour to join the European Monetary system", as a journalist sympathetic to her ERM-NEVER discourse described it, consequently continued becoming ever louder.<sup>138</sup>

#### 4. The Power Struggle over Britain's ERM Policy

In the cabinet the narrative split over the ERM soon developed into a highly personalized power struggle over who was to determine the principles of British monetary policy. The three main protagonists were the three most senior members of the cabinet: the prime minister, the foreign secretary, and the chancellor of the exchequer. The conflict started rather inconspicuously. On the initiative of Lawson a series of high-level meetings took place throughout 1985 in which the chancellor, in tandem with Howe, tried to convince Thatcher that the time was now ripe to join the European currency club.<sup>139</sup> Yet, despite finding herself in the minority during these policy debates, the prime minister remained strictly opposed to such a move. After the last meeting in November, Lawson thus had to concede defeat, at least for the moment. The prime minister had ended the session by repeat-

ing her categorical opposition to ERM membership: "If you join the EMS, you will have to do so without me."<sup>140</sup>

Unable to persuade the prime minister to join the ERM, Lawson consequently decided to make sterling an unofficial member of the mechanism. From around March 1987 to March 1988 the Chancellor tried to maintain a D-mark exchange rate of sterling of about 3:1, without ever making an official announcement to this effect.<sup>141</sup> This policy of shadowing the D-mark had its roots in two developments. The first was the rapid devaluation of the pound during 1986 when the decline of the oil price put downward pressure on the British petrocurrency. Concerned about the inflationary consequences of this, Lawson decided to have the Bank of England engage in massive foreign exchange market interventions in defense of sterling. And with the additional help of the *Bundesbank* Lawson was really able to buck the market: sterling recovered at the end of the year. Indeed, by 1987 it was the steady appreciation of sterling that caused the chancellor headaches. The second development that contributed to the policy of shadowing the D-mark was the Louvre Accord of the G-7 in February 1987. The purpose of the agreement was to stop the further devaluation of the dollar. To this end unofficial reference ranges between the American currency, on the one hand, and the D-mark and the yen, on the other, were set up.

While the exchange rate policy in defense of the pound in 1986 set the precedent for the "DIY"-ERM membership of the next year<sup>142</sup>, the Louvre Accord provided the umbrella under which Lawson could set about shadowing the D-mark under the guise of stabilizing the dollar. In the wake of that accord the chancellor decided to keep the pound within an exchange rate range of around 2.80 to 3.00 D-mark. The policy instruments used to



achieve this target consisted of "an appropriate mixture of interest rates and intervention in the foreign exchange markets."<sup>143</sup> "Keeping the pound in line with the Deutschmark", Lawson explained the rationale behind his policy, "[was] likely to be over the medium term a pretty good anti-inflationary discipline."<sup>144</sup> At first sight this seemed a strange justification for the policy since sterling was, throughout most of 1987, gaining rather than losing value vis-à-vis the D-mark.<sup>145</sup> But, as Lawson explained in his memoirs, "[b]y resisting *upward* pressure on the pound [he] sought to create credibility for a commitment to resist renewed *downward* pressure", which he thought was inevitable given that the "underlying UK inflation rate remained stubbornly above that of [Britain's] main competitors."<sup>146</sup>

But before sterling could acquire a reputation for stability on the foreign exchange markets, Lawson was forced to abandon his policy. Ironically, the reason was that the policy contributed to the inflationary pressure in the British economy that had been building up since the end of 1986. The massive sales of sterling on the foreign exchange markets needed to prevent the currency from rising above D-mark 3.00 threatened to further swell the money supply, despite Lawson's efforts to sterilize the interventions.<sup>147</sup> While this was a problem inscribed in the policy of shadowing the German currency, another source of inflationary pressure was the product of bad luck. In October 1987 stock markets around the world collapsed. In the wake of Black Monday Lawson, like the finance ministers of the world's leading economic powers, lowered interest rates in order to avoid a feared world-wide recession. In the context of an economy already on the verge of overheating, these cuts proved fatal for price stability and the chancellor's DIY-ERM membership.<sup>148</sup>

The prime minister had already for some time worried about the inflationary consequences of the large-scale currency interventions ordered by her chancellor. But his political popularity among the parliamentary Tory party, whose members saw him as the chancellor whose successful policies had played a decisive role in winning the 1987 general elections for the Tories, had long prevented her from insisting that the interventions be stopped.<sup>149</sup> But by March 1988, with the threat of rising inflation looming large, the First Lord of the Treasury was no longer willing to let her chancellor of the exchequer proceed as he saw fit. In a meeting on 4 March, that Lawson would later describe as "unpleasant", she bluntly told him to abandon his attempt to keep the pound below the threshold of D-mark 3.00. This, then, was the end of the policy of shadowing the German currency.<sup>150</sup> Thatcher had won a battle, but, as it soon turned out, not yet the war.

Neither the chancellor nor the foreign secretary was prepared to give up their campaign for ERM membership. Lawson in particular was convinced that the "uncapping of the pound [had] removed a major plank of [his] counter-inflationary policy", thus contributing to the rise in inflation in 1988 and the high interest rates needed to slow down its growth.<sup>151</sup> He still yearned for the external discipline the ERM could give him. Meanwhile Geoffrey Howe became increasingly concerned about London being sidelined in the crucial debate about the EMU that began to heat up in the spring of 1989. He regarded it as vital "to demonstrate beyond doubt the good faith of [London's] commitment to join the ERM" in order to maximize Britain's influence in the pre-negotiations on the EMU.<sup>152</sup> Shortly before the European Council meeting in Madrid in June 1989 Lawson and Howe thus decided to make their most forceful attempt yet to try to force Thatcher's hand on the

ERM.

Both men threatened to resign unless the prime minister pledged to join the ERM by a given date - they suggested the end of 1992 - at the upcoming European Council.<sup>153</sup> Thatcher was furious about what she later described as the "ambush before Madrid."<sup>154</sup> But in view of her political isolation on the ERM, she could hardly afford to lose her two most senior cabinet members over the issue. She consequently was obliged to make concessions to the demands of Lawson and Howe. Instead of committing herself to an entry date in Madrid, Thatcher used the occasion to spell out for the first time with some precision what was to be understood by the government's formula that Britain would join the ERM "when the time was right". This soon came to be known as the Madrid conditions. They included a reduction of British inflation, the elimination of exchange controls across the EC, and the completion of the single European market.<sup>155</sup> At first this seemed like a victory for the pro-ERM camp: the prime minister had both reaffirmed and specified Britain's commitment to the European currency club.<sup>156</sup> Yet it soon became apparent that Thatcher had only made a tactical concession. Substantively her opposition to the ERM had not softened a bit. She was no more willing to join the ERM after Madrid than she had been beforehand. On the contrary, after the "ambush before Madrid" the ERM question became even more a personal war between Thatcher, on the one hand, and Howe and Lawson, on the other, in which neither side was ready to surrender.

The next move was made by the prime minister. Only a few weeks after the European Council meeting in Madrid she removed Geoffrey Howe, whom she regarded as the driving force behind the recent plot, from the foreign

ministry and made him Lord President of the Council and leader of the House of Commons.<sup>157</sup> Politically speaking this was a demotion, and Howe certainly took it as such.<sup>158</sup> Not long after Howe's demotion Lawson decided to leave the cabinet of his own free will in October 1989. He thus drew the conclusion from the persistent disagreement between himself and the prime minister over the conduct of monetary policy in general and the ERM in particular.<sup>159</sup> In his place Thatcher appointed John Major. But to her chagrin the new chancellor too became increasingly convinced that there was much to gain from joining the ERM, both domestically and internationally. The ERM would impose a much needed external discipline on the British economy and end the country's isolation on the issue of European monetary integration.<sup>160</sup> This belief was also fully shared by the new foreign secretary Douglas Hurd. They consequently both reenacted the script developed by their predecessors, i.e., they set about to persuade the prime minister to commit Britain to the ERM.<sup>161</sup>

Having been politically damaged in her ERM battles with Geoffrey Howe and Nigel Lawson, Thatcher was in no position to fight a new long drawn-out war with their successors. "There [were] limits to the ability of even the most determined democratic leader," she would later write in her memoirs, "to stand out against what the Cabinet, the Parliamentary Party, the industrial lobby and the press demand[ed]."<sup>162</sup> In June 1990 she thus told Major in private that she was ready to enter the ERM.<sup>163</sup> After waiting a few months for a propitious moment, sterling finally was made a member of the ERM in October.<sup>164</sup> But for the prime minister the policy U-turn came too late. Over the years her anti-ERM stance had alienated too many people inside and outside the Tory party. For the discontent caused by this, as

well as by such unpopular measures as the poll tax, she now had to pay the price. Only one month after Britain's accession to the ERM Thatcher failed to win enough votes in a Tory leadership contest against her pro-EC challenger Michael Heseltine. On 28 November 1990 she drew the consequences and resigned.

## 5. The EMU Controversy

### 5.1. The Sterling-First Discourse and its Challenger

In the debate over the ERM Margaret Thatcher had tried to frame British membership in the currency club in terms of national sovereignty. But her arguments had found few takers despite the fact that most Tories were active practitioners of the sovereignty discourse. In her response to the French push for an EMU, Thatcher employed a similar sovereignty-based discursive strategy.<sup>165</sup> Its key move was to turn the "golden rule" of neofunctionalism on its head. This rule postulates that an apolitical policy of *integration by stealth* is more likely to contribute to the unification of Europe than an outright constitutional "attack" on the nation-state. One corollary of this postulate is that policy-makers ought to stress the technical practicalities of integration rather than its implication for statehood, national identity or other such symbol-laden issues. It was this neofunctionalist advice that Thatcher took pains to ignore by making the sovereignty-loss implications of the EMU the main theme of her anti-EMU policy narrative. This time her sovereignty-based rhetorical strategy proved a success. Most Tories found the argument that the French call for a Euro-

pean central bank and a single currency would be a threat to the survival of the UK as an independent state convincing. In short, this time round Thatcher managed to make the debate over money into a "shorthand for the debates over sovereignty."<sup>166</sup>

The British EMU debate really began to heat up after the Delors Report was tabled in the spring of 1989. It was immediately attacked by the prime minister. The concentration of economic policy-making powers in the hands of a European central bank envisaged in the report raised questions that "went to the very heart not just of the debate about Europe's future but about Britain's future as a democratic, sovereign state."<sup>167</sup> If the EMU were ever to be realized in this form, Thatcher warned, Westminster would become an impotent local debating club because the project would require the transfer of "certain fundamental rights over the Budget, Budget deficit, economic structure and monetary policy to another group" in the future capital of a federalized EC.<sup>168</sup> This would deprive the British government of the "control over the future of its own economy."<sup>169</sup> In particular, London would find it impossible "to run an independent monetary, economic and fiscal policy." And since, she continued, the levers with which these policies were conducted were "at the heart of what constitute[d] a sovereign state"<sup>170</sup>, a Delors-style EMU had to be seen as what it really was: no less than an outright attack on "parliamentary democracy."<sup>171</sup> After all, Thatcher pointed out, if a country lost "sovereignty over monetary and budgetary policy, [it had] not got much sovereignty left."<sup>172</sup> In short, the prime minister did her rhetorical best to paint the Delors Report as an attempt by Europhiles to create a "federal Europe through the backdoor"<sup>173</sup>, and thus to ring the death knell for the nation-state. From this loss-of-sovereignty

argument she concluded that it would be "totally and utterly wrong [to] abolish the pound sterling, the greatest expression of sovereignty" in exchange for a single European currency.<sup>174</sup> Those like her who did "not share the dream of a United States of Europe with a single currency" should stand together and make it clear to Britain's European partners: so far and no further.<sup>175</sup>

Most Tories agreed with both the prime minister's premise concerning the stakes in the EMU debate and the policy conclusion she drew from it. She even could rely on the support of Lawson and, to a lesser degree, of Howe, despite their on-going controversy over the ERM. An EMU à la Delors, the Chancellor made clear, "represent[ed] a concept of the European Community which [he did] not share"<sup>176</sup> since it was "incompatible with independent sovereign states with control over their own fiscal and monetary policies." It implied "nothing less than a European government - albeit a federal one - and political union: the United States of Europe." Just like the prime minister, the chancellor thought that this was "simply not on the agenda now, nor w[ould] it be for the foreseeable future."<sup>177</sup> In much the same words foreign secretary Howe expressed his opposition to the project.<sup>178</sup>

The large majority of the cabinet members shared this discursive orientation towards the EMU. John Major, for instance, after having been appointed chancellor, quickly adopted the rhetoric of sovereignty when talking about the issue. "The Delors route [was] quite simply the wrong way for the future development of Europe", he declared, because it was based on a "bureaucratic and centralized plan" and would lead to "disruptive constitutional change" in the EC.<sup>179</sup> In particular, "the Delors proposal for a

Stage 3 would involve transfer of sovereignty from the United Kingdom Parliament of a sort neither Government nor Parliament would find themselves able to accept."<sup>180</sup> The Secretary of State for Trade and Industry, Lord Young, employed somewhat more colorful language. He referred to an EMU as a "nightmare" since it would inevitably lead to the Europeanization of economic policy-making. This would result in "national parliaments [being] turned into local councils or museums."<sup>181</sup> His successor at the ministry, Nicholas Ridley, put a new twist on the loss-of-sovereignty argument. He described the EMU as a "German racket designed to take over the whole of Europe."<sup>182</sup> As to the parliamentary Tory party, it also largely adhered to the sterling-first discourse of the prime minister.<sup>183</sup>

While the main theme of the anti-EMU policy narrative was the sovereignty issue, it also raised objections of a more technical nature against this monetary integration scheme. Two of these gained some limited salience in the EMU debate. The first worry had to do with the ability of any future European central bank to ensure price stability. Some senior cabinet members thought that there was a real risk that an EMU would lead to higher inflation than that currently prevailing in the most inflation-averse EC countries. Major, for instance, warned that a "single monetary authority would not be able to deliver the necessary ... low inflation performance" because it would not be accountable to national governments or national parliaments.<sup>184</sup> The second technical objection to an EMU was based on the argument that successful monetary integration required prior economic convergence. Just like the German EMU skeptics, the adherents of the British sterling-first discourse concluded from the apparent lack of such a convergence that a full-blown EMU would have to be postponed for the



foreseeable future. "A move to a single currency which was not backed up by convergence between the economies of the member states of the Community", John Major noted, "would be a recipe for economic disaster."<sup>185</sup>

In sharp contrast to the hegemonic sterling-first discourse, the argumentative thrust of the only counter-narrative was primarily economic in nature. According to the pro-EMU discourse, which was clearly influenced by the spirit of the sovereignty discourse, it was in Britain's national economic interest to support the creation of a European central bank and a single European currency. This pro-EMU stance was disseminated by the Labor party, the Liberal Democrats and certain industrial interests.<sup>186</sup> Labor argued that on economic grounds an EMU was both necessary and desirable.<sup>187</sup> As to the necessity of the EMU, it was framed in functionalist terms. "[P]rogression towards [an EMU]", a Labor policy paper on Europe said, was "a logical outcome of the Europeanization of production and finance."<sup>188</sup> It was a necessary complement to the single market which, without an EMU, would remain an "illusion."<sup>189</sup> As to the desirability of an EMU, it would, as deputy leader Hattersley pointed out, enhance the global competitiveness of European enterprises by "establish[ing] monetary stability throughout Western Europe." In particular, "investment would be encouraged, and currency speculation would be eliminated" through full monetary integration.<sup>190</sup>

In short, Labor maintained "that it would be against the national interest if Britain allowed itself to be excluded from full monetary union and the establishment of a single currency."<sup>191</sup> Based on this assessment, the party consequently endorsed a tight timetable for the creation of a full-blown EMU.<sup>192</sup> A similar economically-rooted pro-EMU position was taken by the

Liberal Democrats.<sup>193</sup> Party leader Ashdown, for instance, strongly backed the EMU on the grounds that it "would make trade and cross-border capital flows easier, improve the efficiency of European capital movements, and make the City a force for constructive investment."<sup>194</sup>

British industry, finally, while nearly unanimously pro-ERM was split on the issue of an EMU. Among those actively practicing the pro-EMU discourse was the CBI. The industry lobby pointed out "that a commonly accepted single currency would be an extension to exchange rate stability, greatly benefiting British industry."<sup>195</sup> An EMU, according to CBI's director of economic affairs, was the one "vital ingredient" that was still missing to complete the single European market.<sup>196</sup> CBI's director general, John Banham, consequently warned of the comparative disadvantage to British industry if the UK would fail to participate in the EMU.<sup>197</sup> Furthermore, he urged the government to stop using the loss-of-sovereignty argument "as a way of attempting to preserve privileges that [were] certainly outdated."<sup>198</sup>

The City, on the other hand, was far less enthusiastic about the EMU. The financial industry was apparently uncertain whether it would incur greater costs if Britain stayed outside the EMU, or if it fully participated in it. Some in the industry sided with the CBI and adhered to the pro-EMU narrative. They argued that if the UK were not to take part in the EMU, then this would pose a "threat to the pre-eminence of London among Europe's financial centres."<sup>199</sup> Conversely, there were those in the industry who saw the same danger arising if the UK were in the EMU. A Delors-style EMU with its provisions for an independent European central bank, they predicted, "could lead to the erosion of the City as a financial centre."<sup>200</sup>

## 5.2. From Rhetoric to Action: London's EMU Policy

The launch of the French EMU-NOW discourse at the beginning of 1988 pushed the issue of monetary integration to the top of the EC agenda. This became clear when Germany indicated to its partners that at the upcoming European Council in June 1988 it would table a proposal that called for the creation of a group of experts to study the ways and means to proceed towards an EMU. London, determined to stick to the script of its sterling-first policy narrative with its categorical "no" to the supranationalization of monetary policy-making, feared that this might set in motion an integrationist dynamic that would be difficult to stop later on. Realizing that it could not prevent the setting up of an EMU study group altogether<sup>201</sup>, the government devised a strategy for Hanover that it thought might succeed in kicking the EMU project "into the long grass."<sup>202</sup> According to the plan, the UK would insist that the study group be made up of the EC central bank governors rather than independent experts. This, it was expected, would enable the governor of the Bank of England, Leigh-Pemberton, in tandem with his German colleague, "the skeptical Herr Pöhl, ... to put a spoke in the wheel of this particular vehicle of European integration."<sup>203</sup>

While London managed to push successfully through the first part of the plan that concerned the composition of the study group - the European Council meeting in Hanover set up the Delors Committee - it soon discovered that the second part did not work out as expected.<sup>204</sup> In the spring of 1989 the committee tabled a report that outlined a detailed plan for "the pro-

gressive realization of economic and monetary union"<sup>205</sup>, including the "transfer of decision-making power from member states to the Community."<sup>206</sup> London was of course "opposed root and branch to the whole approach of the Delors Report."<sup>207</sup> At the European Council meeting in Madrid in June 1989 the British government did its best to persuade its partners to reject the report. But to no avail, the Council gave the EMU blueprint its blessing and asked the competent bodies "to carry out the preparatory work for the organization of an Intergovernmental Conference" on the issue.<sup>208</sup> But all was not yet lost. London, in close cooperation with Bonn, managed to thwart the French *démarche* to set a binding date for the opening of the IGC. And there was hope in Britain that the Anglo-German axis on this issue still might succeed in indefinitely postponing the EMU.

As part of this new delaying tactic the UK government consequently began to set about formulating its own EMU blueprint as an alternative to the Delors plan. Developed by Lawson and his Treasury team, the proposal was "based on the Hayekian idea of competing currencies."<sup>209</sup> In November 1989 the new chancellor John Major tabled the results of his predecessor's initiative. The centerpiece of the so-called parallel currency approach was the creation of a single financial area in which households and firms would be free to choose between competing national currencies on the basis of their inflation performance. The plan had at least three advantages over the one proposed by the Delors Report. First, it created a strong incentive for governments "to pursue non-inflationary policies in line with the best in the Community."<sup>210</sup> Otherwise their currencies would be displaced. Second, the approach was "centred upon national monetary authorities" and "involve[d] no major constitutional change."<sup>211</sup> From the view from London,

this was without doubt the crucial advantage. Finally, the government maintained that there was "no reason to believe [its] approach [would] lead to EMU more slowly than that set out in the Delors Report."<sup>212</sup> Its *démarche*, London hoped, would appeal to those in Germany, Denmark and elsewhere who were skeptical about the Delors route to the EMU and kill the French-supported Delors plan.<sup>213</sup> However, despite some initial positive rumblings on the continent the proposal ultimately failed to garner enough support to constitute a challenge to the Delors Report.<sup>214</sup> Economics was one reason for this rejection.<sup>215</sup> But, as we shall shortly see, it was not the only one, indeed, not even the main one.

In the second half of the 1980s British politicians and societal actors recited four policy narratives about European monetary integration: the ERM-NEVER, the ERM-NOW, the sterling-first, and the pro-EMU discourses. What can be said about them from the standpoint of theory? Perhaps most obvious, the evidence is not consistent. While both the ERM-NEVER and the sterling-first narratives confirm partially the Realist power hypothesis, the ERM-NOW and the pro-EMU narratives bear the impress of Idealism. Interpreting economic integration as a containment policy, the Realist proposition predicts that in the absence of a challenge to their relative power from an EC member state Community governments will oppose any far-reaching positive integration measure that would take away too much of their sovereignty. In accordance with this projection the prime minister and those who shared her position refused to hand over monetary sovereignty either to the German *Bundesbank* by joining the ERM or to a new European central bank by agreeing to an EMU with a supranational design. On the latter issue the prime minister could count on widespread support among the

Tories. But even many of those who criticized the government's rigid position on the EMU were themselves not overly enthusiastic about the entangling scheme.

Yet, *contra* Realism the British government did not justify its opposition to European monetary integration in terms of *Machtpolitik*. Rather, London simply objected to the loss of monetary sovereignty that would result from membership in the ERM or EMU. This fits badly with the Realist emphasis on the power calculus in decisions about economic integration.

Turning to the ERM-NOW discourse that was supported by most British decision-makers, it was framed in terms of the quest for welfare. Lawson argued that the ERM would generate positive externalities for the British economy, in particular lower interest rates and a less volatile pound. Yet despite all his efforts the chancellor was unable to persuade the prime minister of the benefits of joining the ERM. During most of the 1980s the government consequently recited and implemented the Realist ERM-NEVER policy script. Only at the end of the decade this state of affairs changed. In 1990 Lawson's narrative with its Idealist theme of the quest-for-welfare became the official policy discourse of the government. In short, the case of Britain's policy towards the ERM and EMU provides mixed evidence concerning the descriptive power of the Realist power and the Idealist welfare hypotheses. Neither of the two is supported or rejected fully.

The comparison of the competing hypotheses about governmental preferences for the organization of political power in the EC with the empirical record concerning policies towards the institutional architecture of the EMU leads to an assessment that is only slightly less equivocal. True, as the Realist sovereignty proposition expects, the practitioners of the sterling-

first narrative strongly objected to the supranational blueprint presented by the Delors Committee. Indeed, they made it clear that London would only be prepared to agree to an EMU under one condition: the arrangement would have to leave intact the *ultimate* legal responsibility of national authorities over key monetary functions on their territories. London consequently tabled its own alternative EMU blueprint in order to demonstrate to its continental partners that an EMU architecture that did not require any substantial sacrifice of national monetary sovereignty was indeed feasible. This part, then, of the story script confirms the Realist sovereignty hypothesis. Yet there is also another side to the story.

According to the Realist sovereignty hypothesis, at least in the formulation I have adopted in this thesis, the sovereignty-consciousness of governments is rooted in the self-help nature of the international system and its survival imperative: those governments which cede too much sovereignty to extra-national actors, when it comes to the crunch, will not be able to provide for the survival of their states. Yet, *contra* the Realist prediction, I could not uncover any rhetorical traces that would demonstrate that the adherents of the sterling-first discourse had this survival imperative in mind when they formulated their sovereignty-based opposition to a supranational EMU. Rather, some of their pronouncements seem to indicate that they simply wanted to preserve their own policy prerogatives in monetary matters.<sup>216</sup>

## 6. The UK and the Prospect of German Reunification

### 6.1. The British Fear Discourse or the "Return of the Kraut"

While London's stance on European monetary integration was seen by many on the continent as bordering on the eccentric, few would have ventured the same assessment with regard to London's fear of a reunited Germany. On the German question the British government found itself in rare agreement with many of its European partners. Indeed, the British fear discourse resembled very closely the one that the French recited. Both policy narratives had the same premise: "the strong [did] what they [had] the power to do and the weak accept[ed] what they [had] to accept."<sup>217</sup> A reunited Germany could thus be expected to exploit to the fullest its new power advantage in Europe, notwithstanding more than 40 years of peaceful and close cooperative relations between Germany and its EC partners and post-war Germany's exemplary democratic institutions and politics. And just like the French policy-makers, those in the UK concluded from this premise that in the interest of peace and stability in Europe as well as of Germany's neighbors it was imperative to take precautionary measures in order to keep Germany in check once it was unified.<sup>218</sup>

One of the most vocal practitioners of the British fear discourse was the prime minister.<sup>219</sup> Her somewhat idiosyncratic rendition of the discourse stressed two constants in German history that, in her view, made reunification all the more dangerous: geography and national character. As to the former, she noted that Germany's central position on the continent made the



country "by its very nature a destabilizing rather than a stabilizing force in Europe."<sup>220</sup> Geopolitically it neither belonged to the West nor to the East. As to Germany's national character, Thatcher observed, "Germany ha[d] veered unpredictably between aggression and self-doubt" since unification under Bismarck.<sup>221</sup> In post-war Europe this explosive mix of geographic opportunity and psychological predilection had not caused aggressiveness because one key ingredient had been missing: power. Reunification would change this, the prime minister warned, by creating "a country in Europe which [would] be stronger than all others."<sup>222</sup> Since this would be a country "simply too big and powerful to be just another player within Europe"<sup>223</sup>, it could be expected to "dominate" European interstate relations and EC affairs.<sup>224</sup> From such a position of dominance, Thatcher feared, "nothing good could ever come."<sup>225</sup>

While the prime minister certainly did not mince her words when speaking out on the dangers of German reunification, her pronouncements on the issue were niceties when compared with those of Nicholas Ridley. His hardcore fear discourse was all the more noticed at home as well as abroad, since he was not only a senior cabinet member, but was also widely considered to articulate what the prime minister really wanted to say, but did not dare given diplomatic *étiquette*.<sup>226</sup> The minister of Trade and Industry made it absolutely clear that he regarded the prospect of reunification as a nightmare. To him there was no doubt that a united Germany would in due time try to establish its coercive hegemony over Europe, including the UK. The Germans, he predicted, would "soon be coming here and trying to say that this [was] what [the UK] should do on the banking front and this [was] what [British] taxes should be." And "soon", he predicted, they would

be "trying to take over everything." Ridely even went so far as to liken the government of chancellor Kohl - "this lot", he called it - to that run by Hitler.<sup>227</sup> Indeed, he declared, he was not quite sure whether he really preferred the Federal Republic to the Third Reich. In the 1940s the UK had at least had "the chance to fight back" against Hitler's military attack, but now in the 1990s the country was in danger of insidiously "being taken over by ... economics."<sup>228</sup>

Most in the Tory party distanced themselves from Ridely's anti-German tirade. Yet many did so, not because they felt that he was wrong, but rather because they thought his interpretation of the fear discourse was exaggerated.<sup>229</sup> "[A]part from the way in which Mr Ridley said it, some of the things he said, some of them, not all of them, were in tune with people's feelings", the prime minister pointed out.<sup>230</sup> Among those cabinet members actively participating in the circulation of the fear discourse was, for instance, deputy prime minister Geoffrey Howe. Although no longer in charge of foreign affairs, he nevertheless found it necessary to underline the potential threat of reunification to "the stability and security that the West had built up" after 1945.<sup>231</sup> The new foreign secretary, Douglas Hurd, fully shared these "genuine worries" about the consequences of a united Germany for European affairs.<sup>232</sup> He repeatedly criticized Bonn for failing to alleviate international concerns about "Europe's balance and stability, or the fears in the minds of the people who ha[d] a right to be concerned."<sup>233</sup> "[I]t would not be in the interest of the German people", he warned the German government, "to achieve unification in circumstances which aroused anxieties or sent nerves jangling throughout Europe."<sup>234</sup>

Outside the cabinet other prominent Tories voiced similar views. The

chairman of the Commons Select Committee on Foreign Affairs, David Howell, for instance, declared that, as far as Europe's well-being was concerned, "[t]wo separate republics of Germany, rather than one of 80 million people, would be better for the foreseeable future."<sup>235</sup> In the House of Lords his colleague Lord Pym concurred. Otherwise the century-old "rivalries and hatreds would arise" once again between Germany and its neighbors, leading possibly to "conflict and bloodshed."<sup>236</sup>

Initially similar voices of fear could also be heard from the Labor leadership. Neil Kinnock thus spoke out against a "Greater Germany" on the grounds that European stability would be better preserved by two separate sovereign German states.<sup>237</sup> By early 1990, however, the party had effected a narrative shift. The new pro-reunification narrative was no longer informed by the belief that the emergence of a single Germany ought to be prevented because of its risks to Europe's stability and peace, but rather by the belief that reunification was both an "inevitability and a chance to establish social democracy as a leading force in European politics."<sup>238</sup> In accordance with its new discursive orientation, Labor consequently began to sharply criticize the government for continuing "to rattle old skeletons in the face of the two Germanies."<sup>239</sup>

While both the Tories and the Labor party managed to remain by and large united on the issue of German unity, this was not the case as far as the Liberal Democrats were concerned.<sup>240</sup> While some of their members adhered to the dominant fear discourse, others were disseminating Labor's counter-narrative. Lord Bonham-Carter, for instance, worried about "political and economic domination by Germany. The nightmare was that Germany would be a 'shifting cargo' in the centre of Europe and a permanent cause

of instability."<sup>241</sup> The Liberal Democratic spokesperson on Europe, Sir Russell Johnston, on the other hand, dismissed such fears as unfounded. There was little danger of a return to the past in Europe, he declared, and consequently no need for the UK to "be over-cautious" in its dealing with the continent.<sup>242</sup>

## 6.2. Seeking to Contain the German Threat: Rhetoric and Practice

The British fear narrative about the national security implications of the growth of German power was a copy of the one that circulated in France. The same was true as far as the other British story about German unity was concerned: the containment narrative. At first its focus was on trying to delay reunification. In late 1989 the prime minister, who personally took charge of London's German policy, thus began to multiply her pronouncements on reunification in which she warned of the dangers of quick and uncontrolled changes.<sup>243</sup> It was imperative, Thatcher underlined, "to consider [reunification] in the wider context."<sup>244</sup> This was not simply a local issue of national self-determination. On the contrary, at stake was the future of Europe. The "captive nations" of Eastern Europe, the prime minister explained, were not yet free from the yoke of the Soviet Union: its "Soviet captors could still turn ugly." The West had to realize that "nothing was more likely to stir up old fears in the Soviet Union - fears which the hardliners would be anxious to exploit - than the prospect of a reunited, powerful Germany, possibly with renewed ambitions on its eastern flank."<sup>245</sup>

Against this backdrop of domestic and geopolitical instability in the East, Thatcher warned Bonn in no uncertain terms that this was no time "to

act under the influence of euphoria or emotion."<sup>246</sup> The fast-track approach to unification favored by the German government, the prime minister pointed out, carried the risk of putting "the goal of democracy [in the East] in jeopardy."<sup>247</sup> This should not be allowed to happen, according to Mrs. Thatcher, since to the West a free Eastern Europe was certainly a greater political good than a reunited Germany. "The most important thing", she said, was "to secure democracy in all East European countries and throughout the Soviet Union and not to raise questions of borders until that [was] complete."<sup>248</sup> London's policy recommendation flowing from this assessment was simple. The "Teutonic lust" for reunification had to be reigned in before it could reach its climax.<sup>249</sup> This called for a cooling down period of "considerable" length of time.<sup>250</sup> During this transition period there ought to be "massive consultation[s]" between all the countries effected by reunification in order to make Europe safe for the recreation of a united Germany.<sup>251</sup>

Yet London soon experienced the same reactions as did Paris: the German government was not overly impressed by these warnings. It pressed ahead with its unification policy. The British government thus tried to increase its influence by beginning to recite and enact an old foreign policy script: balance of power diplomacy. Through the formation of an anti-German alliance of those "front-line states" that would most directly be effected by reunification, the government wanted to force Bonn to do what it would not do voluntarily: to slow down its drive toward unification. This original focus, however, changed over time as London had to acknowledge that Kohl's unification policy had developed such a momentum that it could no longer be slowed down, let alone stopped. The containment of the unified

Germany thus became the new focus of the British rhetoric and diplomacy of the balance of power.<sup>252</sup>

The premises of this return to the discursive practices of the past were the same as those that had initially structured the French reaction to the prospect of a unified Germany. First, the growth of power of one state called for a counter-balance of roughly equal weight. Second, if such an equilibrium failed to materialize, then international peace and stability were in danger. Applying this *realpolitik* logic to the case at hand, the prime minister made it clear that as "Germany [became] more dominant in Europe by the day, [it was] necessary ... to form a counterweight against [it]."<sup>253</sup> The main targets of this alliance policy were the Soviet Union, Poland, the US and France. In Moscow British diplomacy found an interlocutor at least as apprehensive about the prospect of a united Germany as London. Like the UK the eastern superpower had no interest in seeing the quick creation not far from its borders of a new great power. At a meeting between Gorbachev and Thatcher in the fall of 1989 that was dedicated to the German question there was thus broad agreement between the two leaders that reunification was not something they wanted to occur at the moment.<sup>254</sup> In Warsaw London found another natural ally for its German policy. Poland, as already mentioned, was concerned that a united Germany might be tempted to revise its eastern border with Poland that had been imposed on Germany by Stalin in the wake of World War II. The government in Warsaw thus called for a treaty between Germany and Poland that would once and for all settle the border question. Like Paris, London fully backed this demand and strongly criticized Bonn for its unwillingness to agree to such a binding commitment. London also supported the Polish demand to be given a greater

voice in those international negotiations between the two Germanies and The Four Allied Powers that dealt with the international ramifications of reunification.<sup>255</sup>

Yet while Soviet and Polish support for the British position on the German question was important, London knew that ultimately the success of its discursive practice of trying to slow down and contain the growth of German power depended on agreeing on a joint approach with its western partners. In this regard the US seemed to be an obvious choice given its traditionally strong influence on Germany and the special access to the White House Britain had enjoyed in the past. But London soon found out that the new Bush administration had other plans. In the wake of a review of US policy towards Europe in 1988, Washington had begun to downgrade slowly its privileged relations with London in favor of closer ties with Bonn. Relations between Bush and Thatcher cooled down further when the US president left no doubt that he was in general favorably disposed to plans to deepen the EC.<sup>256</sup> Given this realignment of Washington's Europe policy that seemed now more in line with that of Bonn than with that of London, the prime minister soon found out "that there was nothing [she] could expect from the Americans as regards slowing down German reunification."<sup>257</sup>

This left France as the only other western power of some influence on Germany. Indeed, the chances for a joint Anglo-French approach towards reunification seemed quite good. After all, both Paris and London were avid practitioners of the fear discourse. British diplomacy thus did its best to persuade the French that the prospect of a reunited Germany called for closer relations between the two countries with a view to form a check-the-power-of-Germany alliance.<sup>258</sup> Repeatedly foreign secretary Hurd told Paris

that his government was convinced that in the new geopolitics of post-cold war Europe French and British foreign policy interests had become "nearly identical."<sup>259</sup> According to London such a convergence of interests had taken place regarding European affairs in general and German reunification in particular. As to the former, according to the British argument, the two Western European nuclear powers had especially strong common concerns in the field of European security which Germany did not share. "It [was] self-evident", the British ambassador to France declared, referring to these security issues, "that in this exciting, but potentially dangerous world, [both countries'] interests coincide[d] as never before."<sup>260</sup> There consequently was now, as Hurd did not tire to point out, a firmer basis than ever before for "closer relations" between them.<sup>261</sup>

As far as the German question was concerned, London argued that an Anglo-French axis would give both countries a good chance to delay reunification or, should this fail, to make the superior power of the united Germany innocuous. In a number of meetings with the French president Mrs. Thatcher made it clear that she stood ready, waiting for a sign from France, to try to "check the German juggernaut."<sup>262</sup> Together, she sought to reassure the hesitating Mitterrand, the two countries would be "sufficient to balance German power."<sup>263</sup> She even pleaded with Mitterrand: "He [i.e., Kohl] steps on our feet. Stop him! He wants everything! Not only does he want to swallow the GDR, but he also wants us to pay for reunification."<sup>264</sup> Less dramatically, the British government even hinted that it would be ready to compromise on the issue of European integration and support French calls for a limited deepening of the EC, if Paris agreed to break with Bonn and to form an alliance with London.<sup>265</sup> In sum, London tried hard to convince



Paris that an Anglo-French alliance would be able to "mold the new Europe" according to the common goals of the two countries.<sup>266</sup>

Yet, in the end the foreign policy restructuring proposed by London proved too radical a move for Paris.<sup>267</sup> Although France agreed with Britain that Europe's new geopolitical landscape called for closer cooperation between the two countries, it also made it clear, after some hesitation in the beginning that this would not come at the expense of the Franco-German axis.<sup>268</sup> London was disappointed that the French president had failed on such a crucial issue "to follow his and French instincts and challenge German interests."<sup>269</sup> But with neither the US nor France supporting its German policy, London was forced to concede defeat: its policy of trying to return to the policies of the past in order to make the superior power of the united Germany innocuous turned out to be an "unambiguous failure."<sup>270</sup> But worse was still to come. Although Paris had rejected the British overtures, this did not mean that it was no longer worried about the power implications of reunification. Rather, it now decided to try to check the German power through institutional *engrenage* in the EC. This could not but give new impetus to the long-standing French drive for the creation of an EMU and further isolate Britain that continued vehemently to oppose it.

#### **7. Nothing New in the UK: The Sterling-First Discourse after the Fall of the Berlin Wall**

In the wake of the fall of the Berlin Wall Paris tried to convince London that the new geopolitics of the emerging post-cold war Europe made the quick realization of an EMU more important than ever before. Not only was

the EMU still the best response to the problems created by unregulated monetary interdependence, but in view of German reunification, according to the French, it was now also the best response to the growth of German power. The British government, however, remained unconvinced. The prime minister repeatedly made it clear in no uncertain terms that even in light of reunification she continued to be "strongly opposed to the holding of an IGC on economic and monetary union."<sup>271</sup> Foreign secretary Hurd, like most top Tory policy-makers, concurred, declaring that he rejected the argument "that a proposition such as Stages Two and Three of the Delors plan, which to [the government had] appeared to be flawed as centralized and bureaucratic, suddenly [would] lose those flaws because the Berlin Wall ha[d] been breached."<sup>272</sup>

But London's outright rejection of the French strategy of containment-through-integration was more than the continuation of its old sterling-first discourse. It was also based on the argument that Paris made a grave mistake is assuming that the superior economic and political power of the united Germany could be made innocuous through supranational institutions. A supranational Europe would simply be ruled by Bonn. In the prime minister's words: "[t]he more Europe was federated, the more Germany would be dominant."<sup>273</sup> Somewhat more diplomatically, Hurd declared that he too had "doubts about the wisdom of trying to imprison Germany in the Community" in order to check its power. Germany's influence in the Community "[would] be very great independent of the nature of the European institutions."<sup>274</sup>

The British thinking about the implications of the emerging geopolitical landscape in the East on Western European integration was quite different from that of France. London used the collapse of communism in East

Germany and the rest of the east bloc as a new rationale for its opposition to the EMU.<sup>275</sup> The centralization of monetary policy-making was against the *zeitgeist*. "It was ironic", the prime minister pointed out, "at a time when Eastern Europe [was] moving towards greater democracy, that some in the Community want[ed] to take economic and monetary policy away from [the] national parliaments ... and hand them over to a body which [was] not democratically accountable."<sup>276</sup> But what was more, the EMU project was not only out of date, Western Europe's preoccupation with it had actually become dangerous: it threatened to exclude Eastern Europe from the EC for the foreseeable future. More than once the prime minister appealed to her continental colleagues not to forget, over their concern with the EMU, "that Prague, Warsaw and Budapest [were] important European cities, which [had] always been at the center of the history of [the] continent."<sup>277</sup> Any moves to deepen the EC at this critical juncture, London warned, would inevitably raise the barriers which countries such as Czechoslovakia, Poland and Hungary would have to climb before they could join the EC. This could not but threaten their chances of successful economic and political reconstruction.<sup>278</sup> In short, London did its best to paint the EMU as a myopic project that fell far short of meeting the historic challenge of helping to make the East safe for democracy.

Yet the British reinterpretation of what was at stake in the EMU debate found no takers on the continent. Largely responsible for this was Bonn's unexpected espousal of the French EMU-NOW *démarche* by the end of 1989. Until shortly before the European Council meeting in Strasbourg in December London was still "optimistic that the Germans would support [its stance] in calling for "further preparation" before the IGC met."<sup>279</sup> But London had

apparently underestimated Bonn's sensitivity to international, particularly French, concerns about the power political implications of reunification. With a view to alleviating the "worries and fears in the West about a German Sonderweg"<sup>280</sup> after unity had been achieved, Bonn decided to become "the motor of the Economic and Monetary Union of the EC."<sup>281</sup> This would be the best proof of Germany's continued commitment to the European ideal. In Strasbourg chancellor Kohl thus committed Bonn to an IGC on the EMU at the end of 1990. This was a sweet victory for Paris, but a bitter defeat for London.

London was, however, not deterred by its defeat at the European Council meeting in Strasbourg. It continued to do all it could to prevent, or at least delay, a Delors-style EMU. The British government thus formulated yet another counter-proposal to the Delors Report. The centerpiece of the new blueprint was again the idea of freely circulating national currencies, but this time London also proposed having a new "hard ECU" enter the competition. Unlike the existing basket currency, the new "hard ECU" would come with a no-devaluation guarantee. This would make the currency attractive to governments, businesses and households, thus ensuring its widespread use. In the "very long term, if peoples and governments so [chose]", the chancellor of the exchequer Major declared, the "hard ECU" could even develop into a single currency.<sup>282</sup> The second important departure from the earlier competing currency approach was that London now conceded that a new supranational institution was needed to progress towards an EMU. The government proposed that a European Monetary Fund would be in charge of issuing the "hard ECU" and of ensuring its price stability. But London's second alternative to the Delors Report met the same fate as its predeces-

sor.<sup>283</sup>

This time round the reason for the rejection of the British proposal was no longer primarily related to money, but rather to power. By the end of 1989 continental EC members, and in particular France and Germany, had shifted their perspective on the EMU. Instead of looking at it primarily as a monetary proposition, they now began to regard the Europeanization of monetary policy-making as a means to make innocuous the anticipated growth of German power. London's battle against Delors-style monetary integration thus became the victim of the concern in Europe's chancelleries of the power political consequences of German reunification.

This new failure prompted London to modify its stance on the EMU. The government finally recognized that it had to accept as fact the determination of a majority of its continental partners to proceed towards the EMU on the base of the Delors Report.<sup>284</sup> Instead of opposing what it could not prevent, it decided to play by the rules laid down by its partners in order to avoid being further marginalized in the upcoming IGC.<sup>285</sup> London consequently entered into these negotiations with a view to ensuring the creation of a single currency zone *à la carte*: those countries that wanted to participate in an EMU managed by a European central bank should do so, but they should refrain from obliging others to join as well.<sup>286</sup> As it turned out, this was in the end the only significant concession London was able to extract from the other EC governments. Although the Treaty on European Union agreed to in Maastricht in 1991 did not include a general opting-out clause on the EMU as Britain had wanted, it granted an exceptional opting-out clause to London.

What conclusions about the nature of the EC can be drawn from the dis-

cursive reaction of UK policy-makers towards German reunification? Did the British see Western Europe as a stable zone of peace or a Hobbesian war system? The answer is straightforward. Clearly, the UK government did not talk about the implications of reunification as if Britain and Germany formed a community in which war and coercive diplomacy in the expressive Bismarckian sense had become *unthinkable* and *unspeakable*. On the contrary, just like in France the dominant interpretation in the UK of the growth of German power focused on its threat to peace and stability in Europe. The rhetoric of the British government thus confirms the Realist assumption that below the superstructure of the post-Westphalian institutional architecture of the EC, Western Europe is still viewed as a Hobbesian insecurity system in which states fearfully monitor each other for signs of aggression. Unlike in France, however, the main British opposition party once again did not share the discursive orientation of the government. At a minimum this raises questions about the conditionality of the Realist war system proposition.

And what about the research question about the purpose of economic integration? In the context of my discussion of the implications for integration theory of British policy narratives about the ERM and EMU before the fall of the Berlin Wall, I concluded that the evidence was inconclusive. There were rhetorical traces supportive of both the Realist power and the Idealist welfare hypotheses. This is certainly not the case as far as the issue of German reunification is concerned. Here the evidence is quite clear. London left no doubt that it regarded it as imperative to promote as effectively as possible British national power in view of the superior power of its German rival. The government, however, rejected the French argument that this could be achieved through supranational *engrenage* (i.e., through

the creation of an EMU) that would make the superior power of Germany innocuous. This strategy, according to the practitioners of the British containment narrative, would be ineffective since Germany would simply dominate the EC/EMU.

A more promising method to make Europe safe for reunification was a close alliance between Paris and London. A traditional balance-of-power policy, coupled with a continuing role for the American-dominated NATO in Europe, would be the best way to prepare for the coming struggle for hegemony between Germany and its neighbors on the continent. In short, the thrust of the British containment discourse supports the Realist power hypothesis that posits that economic integration is a second-best containment policy that will be used if traditional balance of power means are (judged to be) unavailable.

#### Notes

1. In the House of Commons Callaghan justified his refusal in this way. ERM membership "would place obligations on [the UK] that might result in unnecessary deflation and unemployment." Philip Stephens, *Politics and the Pound: The Conservatives' Struggle with Sterling* (London: Macmillan, 1996), p.5.

2. Naturally, just before a general election the Tories did not let the occasion pass without leveling some criticism at the government. "This [was] a sad day for Europe", the leader of the opposition, Margaret Thatcher, thus declared in the House of Commons. By failing to bring sterling into the ERM, Callaghan was apparently "content to have Britain openly classified among the poorest and least influential members" of the EC, she added accusingly. *Ibid.*, p.6. At no time, however, did Thatcher or another top Tory policy-maker make a firm commitment to join the ERM should they win the upcoming election. The 1979 election manifesto simply said: "We shall look for ways in which Britain can take her rightful place within it [the

ERM]." Ibid., p.7.

3. Dennis Kavanagh, *Thatcherism and British Politics: The End of Consensus?* (Oxford: Oxford University Press, 1990), p.224.

4. Compare Martin Holmes, *The First Thatcher Government 1979-1983: Contemporary Conservatism and Economic Change* (Boulder: Westview, 1985), pp.74-83. The wets who formed a majority in the first Thatcher cabinet were old fashioned "One Nation Tories". The prime minister herself was a *dry*, a new type of radical Tory who was convinced that the recipes of conservatism à la Edward Heath - the last Tory prime minister before Thatcher - no longer worked.

5. Ibid., p.74. Nigel Lawson, at the time financial secretary in the Treasury and the intellectual driving force behind the conservative government's monetary strategy, put it this way: "Broadly speaking we set as the overriding objective of macroeconomic policy the conquest of inflation." William Keegan, *Mr Lawson's Gamble* (London: Hodder & Stoughton, 1989), p.75. The quote is from a speech that Lawson gave to the Zurich Society of Economists on 14 January 1981. A few years later, after having succeeded Howe as chancellor, Lawson repeated this *leitmotif* of the government's economic policy-making in nearly identical words: "It is the conquest of inflation, not the pursuit of growth and employment, which is or should be the objective of macroeconomic policy." Kavanagh, *Thatcherism*, p.225. The quote is from Lawson's Mais Lecture in June 1984.

6. Margaret Thatcher, *The Revival of Britain: Speeches on Home and European Affairs 1975-1988* (London: Aurum Press, 1989), p.113. The speech was originally delivered to the Conservative Party Conference in Brighton on 10 October 1980.

7. Ibid., p.1. The speech was originally given to an audience in Chicago on 22 September 1975. At the time Mrs. Thatcher was the leader of the opposition.

8. Compare Andrew Britton, *Macroeconomic Policy in Britain: 1974-87* (Cambridge: Cambridge University Press, 1994), pp.93-104.

9. Holmes, *Thatcher Government*, p.49. In the Britain under Thatcher the public commitment to control the growth of the money supply was the functional equivalent to the public commitment of French governments to defend the D-mark exchange rate of the franc in the context of the ERM. In both countries these sorts of commitments were made in order to "condition ... expectations that Government would pursue non-accommodating anti-inflationary policies." Terence Burns, "The UK Government's Financial Strategy," in *Keynes and Economic Policy: The Relevance of The General Theory after Fifty Years*, edited by Walter Eltis and Peter Sinclair (London: Macmillan, 1988), p.430. (In 1980 Burns had become the chief economic adviser to the Treasury). On the importance attached in the UK to credible anti-inflationary commitments compare also George, "British Counterinflationary Experience," p.209. (George was an official with the Bank of England during the 1980s and became its governor in 1993).

10. Chancellor of the Exchequer, March 1980, "Financial Statement and Budget Report," in Britton, *Macroeconomic Policy*, p.51.

11. Ibid.. Compare also Leo Pliatzky, *The Treasury under Mrs Thatcher* (Oxford: Basil Blackwell, 1989), p.118.

12. Alan Walters described the central idea behind the MTFs in this way: "The idea, based on the concept of rational expectations, was that the



announcement of these target rates of growth of the money supply etc. would induce entrepreneurs, investors and workers to adjust their behavior to the new policy as though it were a *new reality*. Much - perhaps the pain of adjustment - could be eliminated by a sea change of expectations." Holmes, *Thatcher Government*, p.53. See also Pliatzky, *Treasury*, p.124. For a description of the other economic beliefs behind the MTFs see Richard Brown, "British Monetary Policy and European Monetary Integration," in *Monetary Implications of the 1992 Process*, edited by Heidemarie Sherman et al. (London: Pinter), pp.102-103. For a detailed description of the various policy components of the MTFs see Burns, "Financial Strategy."

13. "Demand deflation, high real interest rates and an overvalued currency were having their predictable effect," wrote one analyst. Britton, *Macroeconomic Policy*, pp.111, 50. Without doubt the economic heritage of the last Labor government also contributed to the downturn in 1980. Furthermore, the beginning world recession both deepened and prolonged the economic crisis. Particularly later many monetarists and those having sympathies for their doctrine - following the motto: if it does not hurt, it does not work - would interpret this severe economic crisis as having been "necessary ... in order to break the inflationary pressures so clear in the 1970s." George, "Counterinflationary Experience", p.216.

14. Indicative of the breath of this criticism was a report published on 24 February 1981 by the Tory dominated Treasury and Civil Service Committee of the House of Commons. It concluded that the MTFs "was not soundly based" and advised major revisions. Britton, *Macroeconomic Policy*, p.55. For an explanation of the growing problems with the implementation of the MTFs and the validity of the £M3 measure in particular see George, "Counterinflationary Experience", pp.211-214.

15. Britton, *Macroeconomic Policy*, p.50.

16. Ibid., p.56. One observer described this shift of emphasis in this way. Monetary policy-makers no longer tried to "control the stock of money." Rather they now began to regard monetary aggregates such as £M3 "as indicators to help in interpreting monetary conditions." Pliatzky, *Treasury*, p.

17. Keegan, *Lawson's Gamble*, p.78. The quote is from a speech that Lawson gave to the Zurich Society of Economists on 14 January 1981. Three years later and after having become chancellor Lawson repeated this message in what he would later call his last "significant utterance as an unreconstructed, parochial monetarist:" "It is the monetary aggregates that are of central relevance to judging monetary conditions and determining interest rates. That has always been our policy and it remains so." Stephens, *Politics and the Pound*, pp.36, 37.

18. Keegan, *Lawson's Gamble*, p.81. The monetarist justification for this neglect of the sterling exchange rate was "that, if the domestic money supply was kept under tight control, exchange rate fluctuations would not affect the overall level of prices. Instead they would lead only to shifts in relative prices as between imported and domestically produced goods." Stephens, *Politics and the Pound*, p.40. Compare also Brown, "Monetary Policy", p.113. For the view of the prime minister see Thatcher, *Downing Street*, pp.688-693.

19. The quote is from an anonymous senior CBI official. It is found in Holmes, *Thatcher Government*, p.155. The dissatisfaction of the CBI with the

Thatcher government went so far that the director-general of the industry lobby, Terence Beckett, called on the membership to prepare for a "bare knuckle fight" with ministers in order to get them to change course. *Ibid.*, p.156. Compare also Kavanagh, *Thatcherism*, pp.232-233.

20. Compare Britton, *Macroeconomic Policy*, pp.64, 116.

21. "Even at this stage [in 1981] the argument was gaining ground within government that the logical next step was full membership of the European monetary system." *Ibid.*, p.59.

22. In his last budget speech in March 1983 Geoffrey Howe could thus confidently declare: "Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country ... . We shall not change course." Holmes, *Thatcher Government*, p.68.

23. Britton, *Macroeconomic Policy*, p.75. The then chancellor of the exchequer, Nigel Lawson, consequently announced in April 1987 "that the government no longer had any formal target at all for £M3, or any other broad measure of the money supply." *Ibid.*, p.80.

24. This does not mean that Thatcher had to remodel herself as a nationalist. On the contrary, she had been one throughout her political career. She had, as Robin Oakley observed, "built her career as an unabashed nationalist." *Times*, 20 September 1988, p.12. Another analyst put it this way. "In foreign affairs Mrs Thatcher ... proved to be something of a 'little Englander'" throughout her career. Kavanagh, *Thatcherism*, p.267.

25. Thatcher, *Revival*, p.259. The quote is from her famous address to the College of Europe on 20 September 1988.

26. *Ibid.*, p.260.

27. *Ibid.* Only in this way, the prime minister was apparently convinced, could Britain "retain the maximum amount of control, and ... yield as little power as possible to the centre" in Brussels. Ridley, *My Style*, p.138.

28. Thatcher, *Revival*, pp.260-261.

29. *Ibid.*, p.266.

30. In his resignation speech as deputy prime minister in the House of Commons on 13 November 1990 Howe strongly attacked the prime minister for what he described as her fear-mongering. The Thatcherite vision of the EC, he said, was a "nightmare image". The prime minister "seem[ed] sometimes to look out upon a continent that [was] positively teeming with ill-intentioned people, scheming in her words, to 'extinguish democracy', to 'dissolve [British] national identities' and to lead [Britain] 'through the back-door into a federal Europe.'" Geoffrey Howe, *Conflict of Loyalty* (London: Pan Books, 1995), p.700.

31. Thatcher, quoted in *Times*, 17 May 1989, p.2.

32. Thatcher, *Revival*, p.260.

33. *Ibid.*

34. Thatcher, quoted in *Times*, 13 June 1989, p.24.

35. Thatcher, *Revival*, p.266.

36. Thatcher, quoted in *Frankfurter Allgemeine Zeitung*, 29 July 1988, p.3.

37. Thatcher, *Downing Street*, p.728. Part of Thatcher's aversion against European federalism was her lack of enthusiasm for those continental European leaders such as Kohl or Mitterrand who she saw as pushing the EC in

this direction. The rather cool relations with them and many of her fellow EC leaders are nicely captured in the following statement by one of her aides. "When Mrs Thatcher goes to Washington she goes with a gleam in her eye and a spring in her step. When she goes to Europe, it is out of a sense of duty." *Times*, 25 June 1988, p.7.

38. Jonathan Aitken, MP, quoted in *Times*, 1 July 1988, p.12.

39. Bernard Braine, MP, quoted in *Times*, 30 June 1989, p.9.

40. Terrence Higgins, MP, quoted in *Times*, 3 November 1989, p.9.

41. Ian Taylor, MP, quoted in *Times*, 3 November 1989, p.9.

42. Norman Tebbit, party chairman between 1985 and 1987, quoted in *Times*, 9 January 1990, p.12. See also his comments that are quoted in *Times*, 28 October 1991, p.6.

43. Teddy Taylor, MP, quoted in *Times*, 27 June 1991, p.9.

44. Nigel Lawson, *The View from No.11: Memoirs of a Tory Radical* (London: Bantam Press, 1992), p.892. There he also pointed out that "[i]n many ways [his] view of Europe was remarkably close to Margaret's." *Ibid.*, p.899. For earlier statements to this effect see for instance his comments that are quoted in *Times*, 13 June 1989, p.24; or his resignation speech as chancellor of the exchequer in the House of Commons on 31 October 1989 that is found in Lawson, *No. 11*, p.1064.

45. *Ibid.*, p.899. The quote is from a speech delivered at Chatham House on 25 January 1989.

46. Major, quoted in *Times*, 3 November 1989, p.1. At another occasion he declared that "Britain believed in ever closer co-ordination between states, but [that] they should preserve their national parliaments, governments and traditions." *Times*, 19 December 1990, p.7. See also *Times*, 19 June 1991, p.8. Other prominent cabinet members who, according to their respective memoirs, adhered also to the sovereignty discourse were Lord Young of Graffham and Nicholas Ridley. While the former stressed that he opposed the push of the Latin countries to model the EC on their own "Bonapartist and restrictive" politics, the latter, after having experienced what he referred to as the "mean attitude towards Britain" in Brussels, proudly declared that at least he was no "federast." See Lord Young, *The Enterprise Years: A Businessman in the Cabinet* (London: Headline Book Publishing, 1989), p.330 and Ridley, *My Style*, p.139.

47. Peter Shore, a former Labor cabinet member, quoted in *Times*, 29 June 1990, p.6.

48. *Ibid.*, 27 June 1991, p.9.

49. *Ibid.*, 12 June 1990, p.10.

50. Compare *Times*, 29 June 1990, p.6 and 3 July 1990, p.9.

51. Owen, quoted in *Times*, 3 November 1989, p.9.

52. Howe, *Conflict*, p.700. The quote is from Howe's resignation speech as deputy prime minister in the House of Commons on 13 November 1990.

53. *Ibid.*, p.631. The quote is from a lecture on "Sovereignty and Inter-dependence" that Howe gave on 8 June 1990.

54. *Ibid.*

55. *Ibid.*, p.700. The quote is from his resignation speech as deputy prime minister.

56. *Ibid.*, p.631.

57. *Ibid.*, p.540. The quote is from a speech that Howe delivered to the conservative party conference in Brighton on 13 October 1988.

58. Ibid., p.649. The quote is from his resignation letter to the prime minister on 1 November 1990.
59. Ibid.
60. Heseltine, quoted in *Times*, 19 May 1989, p.14. See also *Times*, 5 July 1989, p.27.
61. Ibid., 2 December 1989, p.4.
62. Lord Cockfield, quoted in *Times*, 23 June 1989, p.5.
63. Heath, quoted in *Times*, 23 June 1989, p.12. Another Tory, Anthony Meyer, who would at the end of 1989 come to prominence by challenging Mrs. Thatcher for the leadership of the party blamed the prime minister in somewhat similar fashion for "making the EC less popular among people in the country." This, he added, was "an unwise thing to do since even she admit[ted] that Britain ha[d] no choice but to belong to the EC." Anthony Meyer, *Stand Up and be Counted* (London: Heinemann, 1990), pp.136-137.
64. Ashdown, quoted in *Times*, 13 December 1989, p.11. See also *ibid.*, 30 June 1989, p.9; or Sir Russell Johnston, quoted in *Times*, 2 May 1990, p.8.
65. Ashdown, quoted in *Times*, 30 June 1989, p.9.
66. Ibid., 28 July 1989, p.10.
67. Wrigglesworth, quoted in *Times*, 30 January 1986, p.4.
68. Healey, quoted in *Times*, 27 June 1991, p.9.
69. Sedgemore, quoted in *Times*, 27 June 1991, p.9. Party leader Neil Kinnock, for his part, accused the prime minister of practicing a "tin pot, tin drum nationalism." *Times*, 29 June 1990, p.6.
70. Hattersley, quoted *Times*, 4 December 1990, p.6.
71. Smith, quoted in *Times*, 28 June 1989, p.8. Another illustration of Labor's new thinking about the connection between economic interdependence and European integration at the time is found in the policy paper "Labour and Europe." The paper issued by the European Parliamentary Labor Party spoke of "[n]ational economic sovereignty [as being] already sharply qualified", not least because of the "Europeanization of production and finance." *Times*, 17 September 1990, p.2.
72. Giles Radice, quoted in *Times*, 27 June 1991, p.9. Another indication of the growing pro-European sentiment in the Labor party by the end of the 1980s was the Labor manifesto for the elections to the European Parliament in 1989. "The pace towards political integration", it said, "[had to] be strengthened." *Times*, 11 February 1989, p.16.
73. Ridley, *My Style*, p.201.
74. This is an outstanding example of Goodhart's pseudo-law that says that as soon as a monetary aggregate is targeted for policy-making purposes it becomes worthless because it immediately loses any relationship it might have had with prices or nominal incomes. Even Terence Burns who was during the 1980s the chief economic adviser to the Treasury had to admit, after having invested much intellectual capital in trying to make the MTFs work, that "the combination of change to the financial system [in large parts due to the liberalization of financial markets] and large swings in exchange rates ha[d] complicated the conduct of monetary policy." Burns, "Financial Strategy", p.435.
75. Britton, *Macroeconomic Policy*, p.109.
76. Lawson, *No.11*, p.1021. To him, the chancellor repeatedly pointed out in the second half of the 1980s, "the recipe for economic success [was] the greatest practicable market freedom within an overall framework of firm

financial discipline – precisely how that financial discipline [was] best applied being essentially a second-order question." Nigel Lawson, "Introduction," in *Keynes and Economic Policy: The Relevance of The General Theory after Fifty Years*, edited by Walter Eltis and Peter Sinclair (London: Macmillan, 1988), p.xvi.

77. It is interesting to note that in parallel with his growing enthusiasm for the ERM Lawson also began to support a global managed exchange rate system. Not unlike the French he wanted to institutionalize and strengthen the ad hoc exchange rate cooperation of the G-7 that had been agreed to in the Plaza and Louvre Accords. He made a proposal to this effect at the annual joint meeting of the IMF and the World Bank in 1987. *Frankfurter Allgemeine Zeitung*, 2 October 1987, p.15.

78. Lawson, *No.11*, p.652. The quote is from a speech delivered to the Lombard Association in April 1986. One observer pointed out that "the speed with which [Lawson] moved from being virtually a 'free-floater' to being seriously interested in joining the EMS caused some amusement among officials [in the Treasury], who were witnessing the development of a new Lawsonian passion." Keegan, *Lawson's Gamble*, p.156.

79. Lawson, *No.11*, p.910. The quote is from a speech given at Chatham House on 25 January 1989. See also *ibid.*, p.888. There he wrote that the ERM "was never something [he] saw primarily in European terms."

80. *Ibid.*, p.1056. The quote is from a minute that Lawson presented to the prime minister at a government policy seminar on the ERM on 11 November 1985.

81. *Ibid.*, p.1057.

82. *Ibid.* See also *Frankfurter Allgemeine Zeitung*, 6 April 1987, p.17.

83. Lawson, *No.11*, p.1056.

84. *Ibid.*, p.1063. The quote is from his resignation speech as chancellor of the exchequer in the House of Commons on 31 October 1989.

85. *Ibid.* See also *Times*, 13 June 1989, p.24.

86. Lawson, quoted in *Frankfurter Allgemeine Zeitung*, 21 October 1989, p.13. See also *Frankfurter Allgemeine Zeitung*, 27 October 1988, p.13.

87. Keegan, *Lawson's Gamble*, p.178. The quote is from a speech that Lawson gave at Mansion House on 18 October 1985. In the House of Commons Lawson had said a few months earlier that "[s]ignificant movements in the exchange rate [could] have a short-term impact on the general price level and on inflationary expectations." Stephens, *Politics and the Pound*, p.43. Comparing this with what Lawson had said earlier about the exchange rate, one cannot but be struck by the complete intellectual U-turn effected by the chancellor at around 1985. He was backed in this turnaround on the issue of an active exchange rate policy within the ERM by the Bank of England. See *Times*, 14 May 1988, p.11; *Frankfurter Allgemeine Zeitung*, 14 May 1988, p.11; or Stephens, *Politics and the Pound*, p.32. This support, however, did not count for much. Unlike the *Bundesbank* the Bank of England lacked at the time the institutional autonomy to be able to really influence the political debate about monetary and exchange rate policy.

88. Compare Lawson, quoted in *Times* 28 October, 1988, p.10.

89. This was the conclusion of a group chaired by Lawson that was put together in order to draft the chapter on economic policy for the conservative election manifesto for the June 1987 general election. There was only one member of the group, John Redwood, who did not agree with the pro-

ERM conclusions of the group which also included John Major. For the same argument - that floating exchange rates hurt industry - see also Lawson's comments that are quoted in *Frankfurter Allgemeine Zeitung*, 6 November 1989, p.17.

90. Stephens, *Politics and the Pound*, p.86. The quote is from a speech that Lawson delivered to the Lord Mayor's Banquet for Bankers and Merchants of the City of London on 4 November 1987.

91. Lawson, *No.11*, p.926. The quote is from his 1990 "Stamp Memorial Lecture." For earlier statements to this effect see his resignation speech that is reprinted in *ibid.*, p.1064; or his comments that are quoted in *Times*, 13 June 1989, p.24.

92. Keegan, *Lawson's Gamble*, p.156. The quote is from Lawson's budget speech in the House of Commons in March 1985. Keegan maintained that this speech was the real "turning point" in the chancellor's thinking on the issue.

93. Major, quoted in *Times*, 1 November 1989, p.11.

94. *Ibid.*, 16 October 1990, p.10. "Inflation [was] the number one enemy and joining the ERM would help," he declared at another occasion. Kenneth Baker, *The Turbulent Years: My Life in Politics* (London: Faber and Faber, 1993), p.369. (Baker was at the time the chairman of the Tory party).

95. Major, quoted in *Times*, 15 November 1990, p.9.

96. Compare Thatcher, *Downing Street*, pp.719-721. The former prime minister recalled how she "was extremely disturbed to find the [new] Chancellor had swallowed so quickly the slogans of the European lobby."

97. See for instance the statements by the following politicians: Stephen Derrell, quoted in *Times*, 7 March 1986, p.4; Quentin Davies, quoted in *Times*, 1 November 1989, p.11; Lord Cockfield, quoted in *Times*, 24 January 1989, p.8; Lady Young, quoted in *Times*, 4 May 1989, p.10. The arguments in favor of ERM membership put forth by these Tories were all of the type introduced into the debate by Lawson.

98. The House of Commons Trade and Industry Select Committee concluded its evaluation of the costs and benefits of ERM membership with the advice to the government to make Britain "a full member of the European Monetary System as soon as possible." *Times*, 27 July 1989, p.26. The House of Lords Select Committee on the European Community's Second Report: Delors Committee Report came to the same conclusion. Britain should join the ERM as quickly as possible. *Times*, 19 December 1989, p.12.

99. Michael Heseltine, and to a lesser degree David Howell, fell also in this category of vocal and prominent adherents of the interdependence discourse who called for British ERM entry. While the former remained on the territory cleared by Lawson's ERM-NOW discourse, thus stressing both the monetary discipline and the exchange rate stability of ERM membership, the latter, the chairman of the Commons Select Committee on Foreign Affairs, ventured further. Quite uncommon for the British ERM debate he focused on a neofunctionalist argument as to why Britain should join the ERM. Positing a spill-over effect, he pointed out "that progress could not be made on the single market without membership of the European Monetary System." *Times*, 27 May 1988, p.14; Michael Heseltine, *The Challenge of Europe* (London: Weidenfeld and Nicolson, 1989), pp.71-72. Yet there were very few who found Howell's argument persuasive. Quite a different sort of pro-ERM argument, rather general in its thrust, was made by William Whitelaw who was at the

time the leader of the House of Lords and Lord president of the Council. "Having lived through the 1939-45 war", he wrote in his memoirs, "[he] was desperately keen to ensure that no further world wars would start through quarrels in Western Europe. European unity, embracing France and Germany particularly, provide[ed] a major insurance against such an eventuality." He therefore thought it imperative that "the great gains of a united Europe [would] not be submerged in petty disagreement about economic details." William Whitelaw, *The Whitelaw Memoirs* (London: Aurum Press, 1989), p.74.

100. Howe, *Conflict*, p.639. The quote is from a speech that he delivered to the conservative party conference in Bournemouth on October 1990. At another occasion Howe dismissed the stance of the practitioners of the ERM-NEVER discourse as "perhaps based as much on the habit of not belonging as on anything else." *Times*, 7 June 1986, p.21.

101. Howe, *Conflict*, p.448. "From [his] time as Chancellor", Howe had already earlier declared, he had "recognized the need to work for an exchange rate which [was] less unstable" in order to fight inflation. *Times*, 27 November 1986, p.24. See also *Frankfurter Allgemeine Zeitung*, 18 May 1989, p.2; or Howe, *Conflict*, p.698.

102. *Ibid.* The quote is from Howe's resignation speech. The same point was made by Heseltine who noted that while the ERM "would not be a magic cure-all", it would help the government to "curb inflation." *Times*, 24 February 1988, p.28.

103. Howe, quoted in *Times*, 2 December 1989, p.4.

104. See for instance Roy Jenkins, SDP, quoted in *Times*, 30 January 1986, p.4 and 20 May 1988, p.16; David Owen, SDP, quoted in *Times*, 2 July 1988, p.10 and 27 September 1989, p.6; David Astor, SDP, quoted in *Times*, 21 September 1988, p.4; Joe Binns, SDP, quoted in *Times*, 21 September 1988, p.4; or, finally, Ashdown, the Liberal Democrat, quoted in *Times*, 12 March 1990, p.7.

105. Owen, quoted in *Times*, 2 July 1988, p.10.

106. *Ibid.*, 22 October 1986, p.4.

107. A handful of modernizers continued to be also quite skeptical about ERM membership. The most prominent among them was the last Labor chancellor of the exchequer Denis Healey. He was against ERM entry on the grounds of one "crucial defect" of the system. It could "impose agreed disciplines only on its weaker members; the stronger [were] able to reject them." Denis Healey, *The Time of My Life* (London: Michael Joseph, 1989), p.440. This, it seems, was a veiled critique à la française of Germany's unilateral monetary policy, i.e., its rigid, growth-impeding monetarism. Outside the Labor party there were also voices who argued that Britain should refrain from joining the ERM because of the negative impact of such a decision on economic growth. See for instance the *Report: UK Economic Assessment* that warned of the growth-impeding consequences of joining a mechanism that was dominated by the overly inflation-averse *Bundesbank*. *Times*, 16 May 1988, p.25.

108. Hattersley, quoted in *Times*, 16 October 1986, p.26. Clearly, such a commitment would have fundamentally transformed the nature of the ERM. Given the distribution of preferences among the existing ERM members, Labor's reform proposal thus had little chance of ever being realized.

109. The argumentative munition for Labor's continuing "learning process" concerning the ERM was provided by various organizations associ-

ated with the party such as the *Labour Movement in Europe* or the left-wing think tank *Institute of Public Policy Research*. For their positions on European monetary integration see *Times*, 27 July 1988, p.8 and 23 September 1989, p.18.

110. Kinnock, quoted in *Frankfurter Allgemeine Zeitung*, 3 October 1989, p.1. One of the few remaining prominent critics of Labor's new ERM line was Shore. See *Times*, 3 July 1990, p.9.

111. One analyst argued that Smith, who became the shadow chancellor of the exchequer after the 1987 general election, "came quickly to the view that [unconditional] support for the ERM would be a powerful symbol of the party's return to economic orthodoxy." Stephens, *Politics and the Pound*, p.80.

112. Smith, quoted in *Times*, 3 April 1990, p.9. For earlier statements by Labor politicians that extolled the inflationary discipline exerted by the ERM see for instance Lord Barnett, quoted in *Times*, 4 May 1989, p.10 or Gordon Brown, quoted in *Times*, 14 October 1989, p.4.

113. *Times*, 9 June 1986, p.21. Indeed, industry support for ERM membership was nearly unanimous. In a 1989 Gallup poll 90% of British entrepreneurs declared themselves to be in favor of ERM entry. *Frankfurter Allgemeine Zeitung*, 19 June 1989, p.13.

114. Rodney Bickerstaffe, the chairman of the TUC Economics Committee, quoted in *Times*, 7 September 1989, p.5. On a more partisan note the TUC described ERM membership as a good "alternative to the failed and jaded monetarist policies of the Government." *Ibid.*

115. Trevor Holdsworth, the president of the CBI, quoted in *Times*, 17 May 1989, p.26. For an earlier demand for quick ERM membership by the CBI see the statement by the then president of the organization, Sir James Cleminson, that is quoted in *Times*, 8 March 1986, p.25.

116. *Times*, 12 October 1989, p.25.

117. John Banham, the director-general of the CBI, quoted in *Times*, 26 July 1989, p.26. On the same point see also *Times*, 6 March 1986, p.21 and 8 March 1986, p.25.

118. Sir Nicholas Goodison, quoted in *Times*, 2 July 1988, p.26. See also *Frankfurter Allgemeine Zeitung*, 26 May 1988, p.13.

119. See for instance David Kern, the chief economist of the national Westminster Bank, quoted in *Times*, 6 June 1986, p.23. The bank's chairman spoke of the City's "enthusiasm for the exchange rate mechanism." *Times*, 10 March 1989, p.25. See also *Times*, 11 July 1988, p.21. Soon the "City-threat argument" was adopted by politicians. See Roy Jenkins, quoted in *Times*, 20 May 1988, p.16; David Owen quoted in *Times*, 2 July 1988, p.10; or Joe Binns, quoted in *Times*, 21 September 1988, p.4.

120. "Basically the only serious opposition to this [i.e., ERM entry] [came] from the Prime Minister." Brown, "Monetary Policy", p.121. As a general assessment this is correct, but a more detailed look at the expressed preferences of Tory politician at the time reveals that even in the cabinet the prime minister could count on the support of at least one senior colleague: Nicholas Ridley. He had "become her strongest supporter over the ERM." Lawson, *No.11*, p.943. See also Ridley, *My Style*, particularly chapters 7,8 and 9.

121. One analyst described the division of labor between the prime minister and her adviser in this way. "Professor Walters would ... buttress Mrs



Thatcher's emotional opposition with technical arguments; the plain fact was that the Prime Minister's distaste for Brussels and for so many aspects of the European Community ... meant that she was always against the EMS, although the grounds she adduced might alter from time to time." Keegan, *Lawson's Gamble*, p.182. See also Thatcher, *Downing Street*, pp.697-698. There she wrote that "[m]ost of the arguments which persuaded [her] that [the UK] should not now enter the ERM applied to the principle - not just the circumstances - of entry."

122. "These [monetary] questions", Thatcher later explained her political perspective on the ERM, "were not ones for the technicians alone: they went to the very heart ... of democratic politics." Thatcher, *Downing Street*, p.690. Besides the sovereignty barrier another political argument against ERM membership pointed out the electoral dangers associated with it. Assuming pre-election polls would show that Labor would win the upcoming general election, then capital would in all likelihood be moved out of the country in expectation of higher taxes, the reimposition of exchange controls and other such measures that would frighten the holders of capital. In order to defend the ERM parity of the pound the government would then be forced to increase significantly interest rates, thus dampening growth and hurting even further the reelection chances of the Tories. "Thus, a good chance of a Labour government [might] be turned into a sure thing." Alan Walters, *Britain's Economic Renaissance: Margaret Thatcher's Reforms 1979-1984* (Oxford: Oxford University Press, 1986), p.133. See also idem, *Sterling in Danger: The Economic Consequences of Pegged Exchange Rates* (London: Fontana, 1990), pp.92-93. Thatcher, too, used this argument. See Lawson, *No.11*, p.495.

123. Walters, *Sterling in Danger*, p.136, endnote 8. (The memorandum was transmitted to the prime minister on 6 December 1985). Years later Walters' assessment was still the same: British monetary policy between 1983 and 1986 "was about as close as one could get to ideal." *Ibid.*, p.94.

124. Walters, *Economic Renaissance*, p.130.

125. Thatcher, *Downing Street*, p.700. See also *Times*, 6 October 1990, p.15. Nicholas Ridley put it similarly. The external discipline argument, he wrote in his account of the time as a member of the Thatcher cabinet, "assume[d] that [such a] discipline [was] needed and that there [was] no such thing as self-discipline." But the chancellor at the time "did not need discipline, nor did he lack it." Ridley, *My Style*, p.193.

126. Compare Thatcher's statements that are quoted in *Times*, 16 June 1989, p.14. Nor was the prime minister persuaded by the argument that she should commit sterling to the ERM in order to pre-commit any future Labour government to anti-inflationary policies. Such a recommendation, for example, was made by two well-known economists. It was based on their analysis of the role of the ERM in the abortion of the French Keynesian reform project in the early 1980s. Sachs and Wyplosz, "Economic Consequences," p.295.

127. Walters, writing in *Times*, 3 June 1988, p.16. Walters' assessment of the ERM at the time was not completely unfounded as the empirical evidence concerning the effects of the ERM on disinflation shows. From its inception to around 1983, or perhaps 1985, ERM members did not outperform non-members such as the UK in their fight against inflation. It took some time before the European system evolved from a mere crawling peg in the first half of the 1980s to a *hard* peg in the second half. This only happened

when devaluations in the EMS became rare, and soft currency countries began to focus on domestic adjustment measures in order to maintain the parity of their national currencies with the D-mark. See the empirical evidence that is presented in Gros and Thygesen, *Monetary Integration*, pp.111-114.

128. Walters, *Economic Renaissance*, p.134.

129. Thatcher, *Downing Street*, p.703. The quote is from a speech that she gave in the House of Commons on 10 March 1988. Rather than make exchange rates "the subject of political horse-trading" in the ERM, Thatcher preferred to leave this task to "the workings of the market" which would do "a better job." *Ibid.*, p.693.

130. Walters, *Sterling in Danger*, p.84. See also *idem*, *Economic Renaissance*, pp.126-127.

131. Walters, *Sterling in Danger*, p.87.

132. Thatcher, quoted in Lawson, *No.11*, p.495.

133. *Ibid.*, p.499. See also Thatcher, *Downing Street*, pp.689-690. There she wrote that it was "quite impossible to control both the exchange rate and monetary policy." Ridley spoke in his memoirs of the "objection of principle to the ERM which Margaret Thatcher ... saw from the beginning: the inconsistency of using interest rates for two different and incompatible ends - one to defend the value of the pound, and the other to keep the money supply on target." Ridley, *My Style*, p.229. Besides these three main economic anti-ERM arguments Thatcher and her fellow practitioners of the ERM-NEVER discourse deployed also a number of auxiliary ones such as the petrocurrency argument and the argument that by fixing the exchange rate of sterling the government would henceforth have to do without the policy instrument of sterling devaluation. See Lawson, *No.11*, p.495 and *Times*, 11 June 1986, p.20 respectively. In addition, the prime minister rejected the criticism from industry that the volatility of the pound hurt British exports: "But I must repeat my constant message to all industrialists. Exchange rates go up and down. Success comes from your own efforts and your own efficiency. Never rely on the exchange rate to beat your rivals." Thatcher, *Revival*, pp.206-207. The quote is from a speech that she delivered to the Conservative Central Council in March 1986. A complete list of the "principle points of reservation" about the ERM that were put forth in the UK at the time is presented in Michael Artis, "The United Kingdom and the EMS," in *The European Monetary System in the 1990s*, edited by Paul de Grauwe and Lucas Papademos (London: Longman, 1990), pp.294-298.

134. This was also the perception of political observers both on the continent and in Britain. The following quotes bring this out nicely. An anonymous German official noted that "Mrs Thatcher seem[ed] to regard the independence of the pound as some kind of national virility symbol." *Times*, 27 June 1988, p.24. See also *Times*, 25 June 1988, p.7. A British commentator, Richard Owen, spoke of the prime minister's apparent belief that joining the ERM "would be one more nail in the coffin of British national sovereignty." *Times*, 29 March 1988, p.12.

135. Thatcher, *Downing Street*, p.690. Out of the same concern for governmental sovereignty the prime minister rejected also the transformation of the finance ministry's old east-end branch - as the Bank of England was known by its nickname - into an independent central bank à la *Bundesbank*, a proposal put to her by Lawson. See *Times*, 1 November 1989,

pp.1, 11. Thatcher's response to this proposal by her chancellor was unequivocal: "The Government was not going to abdicate responsibility for getting down inflation to anyone else." *Times*, 3 November 1989, p.9.

136. *Ibid.*, 16 June 1989, p.14.

137. Thatcher, *Downing Street*, p.691. This argument gained some salience in the wake of the tabling of the Delors Report in 1989. Unlike Lawson and company the prime minister was convinced that if the UK would now enter the ERM, then this would only accelerate the drive towards the EMU. Britain "should certainly not be drawn further into a European system that would almost certainly change following the Delors Report." *Ibid.*, p.709. See also *Times*, 31 October 1989, p.2.

138. Woodrow Wyatt, *Times*, 20 June 1989, p.16.

139. For the prime minister's account of these meetings see Thatcher, *Downing Street*, pp.694-698. For the chancellor's account see Lawson, *No. 11*, pp.487-499.

140. Thatcher, quoted in Lawson, *No. 11*, p.499. In public, however, the prime minister was less categorical and continued to employ the old pragmatic formula: "One day it [ERM membership] may be the appropriate thing but we do not think it is appropriate now." *Times*, 7 March 1986, p.4. Yet, as Roy Jenkins, SDP, observed, by the second half of the 1980s the formula had become distinctly "farcical because [Britain had] now been through almost every conceivable set of relevant circumstances and through many of them two or three times." *Times*, 20 May 1988, p.16. In her memoirs the prime minister conceded this point. The formula, she wrote, had by this time become "tired and faintly ridiculous." Thatcher, *Downing Street*, p.713.

141. Lawson described this policy in detail in chapters 63 and 64 of his political memoirs. For the prime minister's account see Thatcher, *Downing Street*, pp.699-705. Another reminder of the speed with which Lawson sometimes changed his point of view is the fact that only a few months before he began to shadow the D-mark he had declared that he saw "no role for an exchange rate target outside a formal exchange rate system shared by other countries and supported by a coordinated approach to economic management and interventions." This, he had made it clear, meant "for the United Kingdom ... outside the exchange rate mechanism of the EMS." Stephens, *Politics and the Pound*, p.60. The quote is from a speech that Lawson gave in April 1986.

142. The term "DIY" membership of the ERM was coined by Ridley, *My Style*, p.202.

143. Stephens, *Politics and the Pound*, p.72. The quote is from a statement that Lawson made at a meeting of the National Economic Development Office in April 1987.

144. *Ibid.*, p.87. The quote is from a statement that Lawson made before the Treasury and Civil Service Committee of the House of Commons on 9 December 1987.

145. The appreciation had two reasons. On the one hand, the oil price had recovered. On the other hand, the *baisse* of the dollar prompted financial investors, particularly from the Far East, to seek refuge in sterling-denominated assets. Compare *Frankfurter Allgemeine Zeitung*, 7 December 1987, p.18.

146. Lawson, *No.11*, p.785. In addition, a successful shadowing of the D-mark would have demonstrated both the possibility and the desirability of

joining the ERM. In the case of a success it would have been rather difficult for Thatcher to continue to oppose ERM entry.

147. This, at least, was the prime minister's conviction. See Thatcher, *Downing Street* pp.701, 702. Lawson himself maintained always that there was absolutely no danger of any build-up of inflationary pressures since the interventions of the Bank of England were fully sterilized. "To prevent there being excessive liquidity in the economy", he tried to calm those worried about the inflationary consequences of his policy of shadowing the D-mark, "[British] policy [was] to ensure that, over time, any net intervention [was] sterilized." Lawson, *No.11*, p.788. The quote is from a speech that he delivered to the Lord Mayor's Banquet for Bankers and Merchants of the City of London on 4 November 1987. Yet irrespective of the position one takes in this controversy, the fact remains that Lawson was at the time faced with an "unusual dilemma." Pliatzky, *Treasury*, p.143. On the one hand, he had to deal with an overheating economy that called for higher interest rates and, on the other hand, with a rising exchange rate that called for lower interest rates. Of course, this sort of contradiction, unusual as it was, validated, at least partly, the skepticism of Thatcher and Walters about the benefits of joining the ERM. After all, they had always maintained that an anti-inflationary policy was incompatible with exchange rate targets.

148. It is interesting to note that Lawson's failed experiment became one of the founding myths uniting the Tory Eurosceptics of the 1990s in their opposition to both the ERM and EMU. To them this episode of shadowing the D-mark symbolized powerfully the dangers to Britain and its people of becoming too closely entangled with the EC. This is nicely demonstrated by the following quote from the book of a leading Eurosceptic. Lawson's policy at the time, Mrs Gorman wrote, "caused the high interest rates, up to 15 per cent, which were responsible for the growing number of bankruptcies, mortgage failures and job losses in the country. [She] was very concerned about the difficulties [she] was hearing about at that time from people in [her] constituency. ... They had expanded their businesses, built new factories and suddenly, because of rocketing interest rates and a drop in orders, could not cope." Teresa Gorman, *The Bastards: Dirty Tricks and the Challenge to Europe* (London: Pan Books, 1993), p.17.

149. Compare Thatcher, *Downing Street*, p.703.

150. To be precise, the death throes lasted a few more weeks. Even though the pound exceeded the D-mark 3.00 threshold on 7 March 1988 this was not the end of Lawson's efforts to reign in the appreciation of sterling. Both in April and May he cut interest rates further to prevent sterling's continuing rise. By the end of May, however, even Lawson had to face up to the danger of inflation and begin to increase interest rates which, by the end of the year, would reach painfully high levels; from 7.5% in May they went up to 13% in November.

151. Lawson, *No.11*, p.796. Thatcher and her economics adviser Walters, on the other hand, regarded the bad monetary developments as the "tragic consequences" of exchange rate targeting and felt consequently that the decision not to join the ERM had been correct all along. See *Times*, 31 October 1989, p.2; Thatcher, *Downing Street*, p.710; or Ridley, *My Style*, p.204.

152. Howe, *Conflict*, p.577. And indeed, continental EC governments became increasingly impatient with London's refusal to join the ERM. See for

instance the comments by Pierre Bérégovoy that are quoted in *Frankfurter Allgemeine Zeitung*, 9 June 1988, p.13; *Times*, 13 June 1988, p.11; or *Times*, 27 June 1988, pp.1, 24. Even Germany's calls for British ERM membership became more strident. See Gerhard Stoltenberg, quoted in *Frankfurter Allgemeine Zeitung*, 29 March 1988, p.13.

153. The public heard for the first time about this threat in Howe's resignation speech that he delivered in the House of Commons on 13 November 1990.

154. Thatcher, *Downing Street*, p.709.

155. The Madrid conditions were based on suggestions by Lawson and Howe, on the one side, and Walters, on the other. See *Times*, 27 June 1989, p.24; Thatcher, *Downing Street*, pp.712-713; Lawson, *No.11*, pp.928-934; or Howe, *Conflict*, pp.576-580.

156. Thatcher recalled that during the first meeting of the cabinet after the European Council "Nigel Lawson even managed the remark that Madrid had gone rather well, hadn't it." In her memoirs she commented sarcastically that he "certainly had a nerve, I thought." Thatcher, *Downing Street*, p.713.

157. For the prime minister's assessment of the role of Howe in "inciting" Lawson to oppose her on the issue of ERM membership see Thatcher, *Downing Street*, pp.710-712.

158. About a year later in November 1990 Howe resigned from both his new jobs. In his resignation speech he left no doubt that the increasing alienation between himself and Thatcher was in large parts due to their different views on Europe in general and the ERM in particular. See Howe, *Conflict*, pp.697-703.

159. Compare Lawson, *No.11*, pp.1062-1064. Mrs. Thatcher apparently felt also that by 1989 the lack of "that broad identity of views or mutual trust which a Chancellor and prime minister should" have begun to paralyze the government. Thatcher, *Downing Street*, p.714.

160. Compare Thatcher, *Downing Street*, pp.719-721. Initially the prime minister had wanted to appoint her close ideological ally Nick Ridley to the post. But then she had decided against it because she had feared that "Nick's scorn for presentational niceties might well have compounded the problem" concerning the ERM. *Ibid.*, p.717.

161. Kenneth Baker, at the time the chairman of the Tory party, made the following comment on the cooperation between Major and Hurd on the ERM: "This was the Auld Alliance of the Treasury and the Foreign Office revisiting the Madrid Accord." Baker, *Turbulent Years*, p.369.

162. Thatcher, *Downing Street*, p.722.

163. *Ibid.*

164. Most, but not all, Tory MPs welcomed the decision. One of the few dissenters was Nicholas Budgen. In his speech in the House of Commons during the ERM debate on 23 October 1990 he made the following comment. "If one was not worried about the sovereignty arguments there might be a case for a single currency in Europe. There [was] nothing to be said, however, for this half-baked system of the ERM. Whatever else [they did] tonight, [they] should reject the cruel illusion that the ERM [was] the great magic system that [could] give the people the stability they desire[d]." The quote is found in Michael Spicer, *A Treaty too Far: A New Policy for Europe* (London: Fourth Estate, 1992), p.174. Spicer himself who had been minister of housing until the end of November 1990 was also skeptical about the

benefits of ERM membership. "Our entry into the ERM was welcomed by both sides of the House and by most of the press", he declared in a speech in the Commons on 6 December 1990, "but it [was] now clear that the bands within which the pound [was] allowed to float [were] sustained only by damaging high rates of interest in Britain." Ibid., p.90. Perhaps the most prescient warning, however, came from the party chairman. He urged the prime minister not to tie Britain "to the German economy just at the time when it was going to have to face the massive cost of reunification." Baker, *Turbulent Years*, p.370. Two years later, in the fall of 1992, the economic consequences of reunification put such pressure on the ERM parity grid that London found it impossible to defend the D-mark exchange rate of the pound. It was forced to exit from the ERM.

165. While the threat to sovereignty was clearly the main argument against the EMU, the prime minister was also worried about two other implications of the EMU. First, as an ardent free-marketeer she opposed the institutional approach to monetary integration proposed by the Delors Report, i.e, the creation of a European central bank and a single currency. If monetary integration was to be envisaged at all, it should be based on a market-driven approach. It was preferable, she said, to work "with the grain of market forces" rather than to set up "new bureaucratic and highly centralized institutions which [were] not accountable to anyone." *Times*, 3 November 1989, p.9. Second, Thatcher expressed the fear that the EMU might fall "under the domination of a kind of German-French axis". *Times*, 30 June 1989, p.9.

166. *Times*, 10 January 1990, p.13.

167. Thatcher, *Downing Street*, p.719. One analyst explained the stance of the prime minister in this way. "Money is a sensitive issue of national sovereignty. First, it has a symbolic importance. Second, monetary policy is a key element in determining the level of economic activity in a country. On both grounds Thatcher was not prepared to see the pound superseded by a European currency that would be controlled from outside Britain." Stephen George, "The British Government and the Maastricht Agreements," in *The State of the European Community*, vol. 2, *The Maastricht Debates and Beyond*, edited by Alan W. Cafruny and Glenda G. Rosenthal (Boulder: Lynne Rienner, 1993), p.179.

168. Thatcher, quoted in *Times*, 28 June 1989, p.1. See also *Frankfurter Allgemeine Zeitung*, 29 June 1989, p.1. After having resigned as prime minister she continued to militate against the EMU, arguing that it would be "the greatest abdication of national parliamentary sovereignty in [Britain's] history." *Times*, 27 June 1991, p.8.

169. Ibid., 19 September 1988, p.1.

170. Ibid., 16 June 1989, p.14.

171. Thatcher, *Downing Street*, p.691. In the House of Commons she made it clear that the creation of a European central bank "would only come about with the dissolution of this House." *Times*, 25 June 1988, p.1. The EMU was "totally unacceptable", she stressed at another occasion. Ibid., 28 April 1989, p.8.

172. Thatcher, quoted in *Times*, 25 June 1990, p.11.

173. Thatcher, quoted in *Frankfurter Allgemeine Zeitung*, 13 October 1990, p.1. See also *Times*, 30 June 1989, p.9. "It [was] ironic", she noted at another occasion, "that some in the EC [tried] to take away economic and

monetary policy competences from ... national parliaments in order to hand them over to an institution that [was] not democratically accountable, at a time when Eastern Europe marche[d] towards democracy." *Frankfurter Allgemeine Zeitung*, 15 November 1989, p.2. As to the political implications of the EMU, the prime minister argued that there "would be a tremendous effort to increase [the powers of the Commission] under monetary union and economic union." *Times* 2 May 1990, p.8.

174. Thatcher, quoted in Howe, *Conflict*, p.644. The prime minister made the statement in the House of Commons on 30 October 1990. At another occasion she made it quite plain that she saw "no possibility of a European central bank in [her] lifetime and possibly never." *Times*, 29 June 1988, p.1.

175. Thatcher, quoted in *Times*, 29 June 1988, p.1. The prime minister stressed that in her view Britain had lost already enough sovereignty to the EC, for instance "over agriculture and trade policy", and should not agree to any further sovereignty transfers to Europe. *Ibid.*, 25 June 1990, p.11. In her memoirs she wrote that she "vigorously rejected the Delors concept of a federal Europe in which the European Parliament would be the Community's House of Representatives, the Commission its Executive, and the Council of Ministers its Senate. 'No, no, no,' I said." Thatcher, *Downing Street*, p.833. Even after she had left office she remained true to her convictions on this matter. She opposed energetically the ratification by London of the TEU because it would create an entity with the "attributes of a Federal state." Margaret Thatcher, foreword to *A Treaty too Far*, by Michael Spicer (London: Fourth Estate, 1992), p.vii.

176. Lawson, quoted in *Times*, 18 April 1989, p.25.

177. Lawson, *No.11*, p.910. The quote is from a speech that he gave at Chatham House on 25 January 1989. See also *Times*, 13 June 1989, p.24. Lawson subsequently modified his position that a single European currency would require that national budgetary policies be subject to decision-making at the European level. All that was needed to prevent the creation of negative externalities by national governments, he concluded, was a rule that would prevent the future European central bank to bail out countries that, because of their lax fiscal policies, had run up excessive deficits. Compare Lawson, *No.11*, p.925. This new assessment of the economic implications of the EMU, however, did not change his opposition to the project.

178. A Delors-style EMU, Howe declared, "would mean little less than political union of member states, and that [was] simply not on the current agenda." *Times*, 28 April 1989, p.8. As for the future of the EC, Howe remembered that he "was alone [in the cabinet] in regarding a single European currency as a desirable medium-term goal." Howe, *Conflict*, p.534. Outside the cabinet, however, Howe found a supporter in Heseltine who believed that "no truly unified market [could] exist without a single currency." Heseltine, *Challenge*, p.91. Yet, Heseltine made it quite plain that he, just like Thatcher and Lawson, opposed a Delors-style EMU, particularly the creation of a new "banking conglomeration" in the form of an independent European central bank. *Ibid.*, p.93. Further pro-EMU statements were made by the following Tories: Sir Fred Catherwood, quoted in *Times*, 17 June 1988, p.13; Lord Cockfield, quoted in *Times*, 22 November 1988, p.25; Leon Brittan, quoted in *Times*, 16 June 1989, p.25; or Edward Heath, quoted in *Times*, 27 June 1991, p.9.

179. Major, quoted in *Times*, 3 November 1989, p.9.

180. Major, quoted in Spicer, *Treaty*, p.102. The quote is from comments that Major made before the Treasury Select Committee of the House of Commons in July 1990.

181. Lord Young of Graffham, quoted in *Times*, 11 May 1989, p.6. The same point was made by Spicer. A "single currency [meant] a single monetary authority, [meant] a single government in everything that count[ed]." Spicer, *Treaty*, p.15.

182. Ridley made this and other anti-European and anti-German remarks in an interview with *The Spectator* that would eventually cost him his job as minister. The key excerpts of the interview are found in *Times*, 13 July 1990, pp.1, 2, 10, 11. Extreme as this fear about Britain's economic domination by continental powers may sound, it was, as documented above, not foreign to the prime minister. Also, compare *Times*, 14 June 1988, p.6.

183. See for instance the often colorful anti-EMU statements by the following Tory MPs: Jonathan Aitken, quoted in *Times*, 1 July 1988, p.12; Anthony Beaumont-Dark, quoted in *Times*, 25 May 1989, p.29; Sir Bernard Braine, quoted in *Times*, 30 June 1989, p.9; Terence Higgins, quoted in *Times*, 3 November 1989, p.9; Ian Taylor, quoted in *Times*, 3 November 1989, p.9; or Sir Teddy Taylor, quoted in *Times*, 27 June 1991, p.9.

184. Major, quoted in *Times*, 21 June 1990, p.23. See also *Times*, 7 July 1990, p.1; Ridley, quoted in *Times*, 18 October 1989, p.13. For the cause of the alleged inflationary consequences of the EMU see in particular John Major, "An Evolutionary Approach to Economic and Monetary Union," in *Europe Documents*, no.1581 (Brussels: Agence Europe, 1989), p.4.

185. Major, quoted in *Times*, 1 November 1991, p.8. When he made the statement Major had already succeeded Mrs. Thatcher as prime minister. See also *Times*, 12 March 1991, p.1. Others who voiced the same kind of concern included the governor of the Bank of England, Robin Leigh-Pemberton, or Norman Lamont, Major's successor as chancellor of the exchequer. See *Times*, 19 January 1991, p.32 and 25 January 1991, p.7 respectively.

186. As to the SDP, at the time quickly approaching political irrelevance, its leader David Owen shared the prime minister's sovereignty-based objections to the EMU in general and to the Delors Report in particular. The latter he described as "arrant nonsense." *Times*, 3 November 1989, p.9. As to the former, he argued that for Britain the EMU had to "remain potentially too big a step towards a federalist Europe for [the government] to endorse in principle." *Times*, 4 December 1990, p.6.

187. But while Labor supported the goal of the EMU with a European central bank and a single currency, it was skeptical about some aspects of the Delors Report. Just like the practitioners of the French EMU-NOW discourse Labor objected in particular to the independent European central bank envisaged in the report. Shadow chancellor John Smith made this quite plain when he said that his party "would not be willing to accept any system of central banks which [would] be independent of political control." *Times*, 3 November 1989, p.9. Compare also the statement by Neil Kinnock that is quoted in *Times*, 25 June 1991, p.9. Another, more general, concern of the party, unrelated to the Delors Report, had to do with the lack of economic convergence among EC economies. While Labor, unlike the Tories, did not regard the extant divergence as an obstacle to the early realization of the EMU, it did insist that progress on economic convergence had to determine the pace of the transition to the full-blown EMU. Compare the



resolution by the party's national executive committee that is quoted in *Times*, 29 November 1990, p.5. See also *Times*, 4 June 1991, p.6.

188. This is the assessment of the European Parliamentary Labor Party in its report *Labour and Europe* that is quoted in *Times*, 17 September 1990, p.2.

189. This is the conclusion of a policy paper by the *Labour Movement in Europe*. The full statement ran as follows: "A single market without a single currency is an illusion." *Times*, 27 July 1988, p.8.

190. Hattersley, quoted in *Times*, 4 December 1990, p.6. See also *European Monetary Union: The Issues*, a report that was produced by the Labor-leaning think tank *Institute of Public Policy Research*. It came to the following conclusion: "There would be very real economic costs if the UK stood aside from a process of monetary unification elsewhere in the EC. The elimination of exchange-rate risk within EMU countries would marginalize the UK as a trading partner." *Times*, 18 June 1990, p.4. Furthermore, the Labor party, just like the social democratic parties on the continent, argued that the EMU would benefit the Third World and contribute to the solution of the debt crisis. *Frankfurter Allgemeine Zeitung*, 12 December 1990, p.6.

191. *Times*, 29 November 1990, p.5. The quote is from a statement issued by the ruling national executive committee of the Labor party. See also *Times*, 1 November 1991, p.8. But there was also fierce opposition to the party's official stance. See the statements by Peter Shore that are quoted in *Times*, 4 December 1990, p.6 and 17 January 1991, p.10.

192. See the policy resolution by the national executive committee that is quoted in *Times*, 31 October 1991, p.1.

193. Unlike the Labor party, however, the Liberal Democrats supported unconditionally the EMU.

194. Ashdown, quoted in *Times*, 5 December 1990, p.7. Compare also his statements that are quoted in *Times*, 12 March 1990, p.7 and 18 September 1990, p.1; See also Russell Johnston, quoted in *Times*, 27 June 1991, p.9.

195. This was the assessment of a CBI report entitled *European Monetary Union: A Business Perspective* that is quoted in *Times*, 11 November 1989, p.20. See also Brian Corby, the president of the CBI, who is quoted in *Frankfurter Allgemeine Zeitung*, 14 December 1990, p.19.

196. Andrew Sentance, quoted in *Times*, 12 October 1990, p.25.

197. Compare *Times*, 19 June 1991, p.22.

198. *Ibid.*

199. John Young, economic adviser to Lloyds Bank, quoted in *Times*, 11 July 1988, p.21. See also Lloyds' 1988 *International Financial Outlook* which warned that the "Government [ran] the risk of isolating the City" by remaining on the sidelines in the process of European monetary integration. *Ibid.*

200. Lord Alexander of Weedon, the chairman of National Westminster, quoted in *Times*, 6 February 1991, p.21. See also his predecessor at this post, Lord Boardman, who warned of "confusing the [City's] enthusiasm for the exchange rate mechanism with the idea of a European central bank." *Times*, 10 March 1989, p.25.

201. Compare Thatcher, *Downing Street*, p.740.

202. *Times*, 29 June 1989, p.17.

203. Thatcher, *Downing Street*, p.741. See also Howe, *Conflict*, p.576.

204. In his memoirs Lawson argued that Thatcher made a serious

blunder in Hanover by not vetoing the choice of Jacques Delors as the chairman of the committee - he spoke of the Hanover "disaster." Having been produced under the chairmanship of the president of the Commission, the report of the committee subsequently enjoyed "an authority within the Community that it could never otherwise have secured." Lawson, *No.11*, p.903.

205. Committee, "Report," p.16.

206. *Ibid.*, p.18. Lawson later noted the frustration London had felt at the time over Pöhl's work on the committee. "Pöhl proved a broken reed. Despite telling Robin [Leigh Pemberton] privately about his grave doubts about EMU, and promising Robin his support in toning down the Committee's report, true to form he did not stand firm." Lawson, *No.11*, p.908. Very much the same sentiment was expressed by Howe, *Conflict*, p.567.

207. Thatcher, *Downing Street*, p.750.

208. Corbett, "Conclusions of the European Council held in Madrid on 26-27 June 1989," p.96.

209. Lawson, *No.11*, p.939.

210. Major, "Evolutionary Approach," p.2.

211. *Ibid.*, p.5.

212. Major, quoted in *Times*, 14 November 1989, p.24.

213. At a minimum London expected that its proposal would keep it "present in the negotiations" on the future of European monetary integration. Ridley, *My Style*, p.149.

214. Compare Karl Otto Pöhl's initially positive assessment of the British EMU blueprint which he described as a "realistic and sensible description of what monetary policy should concentrate on in future years." *Times*, 10 November 1989, p.29.

215. The key economic reason for the negative reception given to London's EMU blueprint was probably the fear that it would result in the survival of only the fittest EC currency, i.e., the D-mark. Not only for Paris this was an unwelcome prospect. Compare the comments by the Dutch finance minister that are quoted in *Times*, 11 September 1989, p.10. But even short of the D-mark evolving into Europe's single currency, the parallel currency approach failed to address the reason why soft currency countries like France called for the EMU in the first place: to do away with the *Bundesbank's* privileged position in the ERM that it enjoyed as a result of the D-mark's role as the nominal anchor of the system.

216. Then there is also the issue of the conditionality of the Realist sovereignty hypothesis. If one carries out a thought experiment and posits that the Labor party was in power during the second half of the 1980s, then one comes to quite a different assessment concerning the descriptive power of the Realist sovereignty proposition. Given the pro-EMU position of the Labor party at the time, it is conceivable that a Labor government might have joined France in backing the Delors Report. This, then, would lead to the conclusion that the Idealist hypothesis about the withering away of the traditional sovereignty-consciousness of EC governments was, in the case of the UK, supported by the evidence.

217. Thucydides, *History*, quoted in Smith, *Realist Thought*, p.6.

218. This fear discourse practiced by politicians articulated sentiments that were quite widespread in the population at large. According to a poll carried out in early 1990 on behalf of the *Economist* and *The Los Angeles*

*Times*, "50 per cent of those who took part in Britain ... said they would be worried that a reunified Germany would become the dominant power in Europe." *Times*, 13 July 1990, p.2. Perhaps more surprising, the greatest concern among ordinary citizens was a return to fascism in the reunited Germany: 53% were afraid of this. For the results of some of the other principle polls conducted at the time that demonstrate that with the passage of time the British public became more, rather than less, worried about German reunification see List and Nolden, *Zerrbild*, p.22.

219. The foreign editor of *The Times*, George Brock, once described aptly her attitude as a "visceral antipathy to the prospect of a rich and populous united Germany." *Times*, 16 July 1990, p.2.

220. Thatcher, *Downing Street*, p.791.

221. *Ibid.* The prime minister went so far as to assemble a number of experts on Germany in order to evaluate more precisely the contemporary manifestation of Germany's "unflattering attributes alleged to have been part of the German character in the past." *Times*, 16 July 1990, p.1. Although the experts concluded that the national character of Germany after 1945 could not be compared with that prevailing before 1945 Thatcher remained utterly unconvinced. As she left the meeting at which these matters were discussed she said: "I'm beginning to wonder whether any of you [the experts] are still sound." *Times*, 16 July 1990, p.2. For the somewhat mixed reaction of the British press to the publication of the minutes of this meeting see List and Nolden, *Zerrbild*, pp.21-27.

222. Thatcher, quoted in *Times*, 29 March 1990, p.10.

223. Thatcher, *Downing Street*, p.791.

224. Thatcher, quoted in *Times*, 11 March 1991, p.20. Mrs. Thatcher made the comment after her resignation as prime minister, but she had made similar statements while still occupying Number Ten. See *Times*, 2 October 1990, p.24.

225. This is a statement attributed to Thatcher by George Brock from *The Times*. She is said to have made it during a private conversation at a lunch organized by a conservative think tank. See *Times*, 16 July 1990, p.2. The expectation that the "*Wirtschaftswunderkind*" would soon develop "grown-up political muscles" after reunification was quite a common theme in the British press at the time. See List and Nolden, *Zerrbild*, pp.27-33.

226. This was for instance the assessment of Dominic Lawson, the editor of *The Spectator* who conducted the interview with Ridley from which the quotes below are taken. Compare *Times*, 13 July 1990, p.10. The same evaluation was given by George Urban who was one of the participants at the seminar on the German national character mentioned above. He concluded from what the prime minister said at that occasion that her views on reunification were "identical to Ridley's but [that] her way of phrasing them [was] different." *Times*, 16 July 1990, p.2. The same point was made by Lawson, *No.11*, p.632.

227. A similar comparison was made by Thatcher. Responding to the argument that a democratically elected leader such as Kohl would continue to pursue a responsible foreign policy after reunification, she quipped that "Hitler had been a democratically elected leader" too. *Times*, 2 July 1990, p.8.

228. All quotes are from Ridley's interview in *The Spectator* that is quoted at length in *Times*, 13 July 1990, p.10. A few days after the pub-

lication of the interview Ridley was forced to resign under strong criticism from his own party colleagues as well as the opposition.

229. Indeed, only a few Tory dissidents spoke out publicly against the dominant fear discourse. Among them was the former prime minister Edward Heath who noted that the Germans were "not evil people." The UK, he continued, had "got[ten] rid of the evil people, [it had] defeated them in the war and then [it had] tried them at Nuremberg." *Times*, 22 February 1990, pp.1, 24.

230. Thatcher, quoted in *Times*, 1 August 1990, p.1.

231. Howe, quoted in *Times*, 10 February 1990, p.9.

232. Hurd, quoted in *Times*, 21 February 1990, p.8.

233. Hurd, quoted in *Frankfurter Allgemeine Zeitung*, 15 December 1989, p.5.

234. Hurd, quoted in *Times*, 7 February 1990, p.8. See also *Frankfurter Allgemeine Zeitung*, 8 February 1990, p.1.

235. Howell, quoted in *Times*, 16 November 1989, p.6.

236. Lord Pym, quoted in *Times*, 18 January 1990, p.10. See also Lord Beloff who spoke of reunification as "the most disquieting and dangerous situation Europe had known for some years." *Times*, 18 January 1990, p.10. While these power- and security-related fears clearly dominated the Tory arguments about reunification, anxieties about its economic implications were also voiced. The prime minister, for instance, saw the "risk that other European Community states [would] have to share the financial burden of renovating East Germany." *Times*, 27 February 1990, p.8. The minister of agriculture John Gummer, for his part, worried among other things about the "import of cheap meat and livestock from Eastern Europe through East Germany into the rest of the EC." *Times*, 26 September 1990, p.10. Others, finally, were "worried ... that West German efforts to rescue the East German economy could result in rising interest rates in West Germany which would have a knock-on effect in Britain." *Times*, 10 February 1990, p.9.

237. Kinnock, quoted in *Times*, 19 December 1989, p.9. The initial reaction of the Labor party prompted one observer to conclude, not without justification, that the whole "political class of the UK had misgivings as German reunification began to take shape", quite irrespective of partisan affiliations. Julian Bullard, "Die britische Haltung zur deutschen Wiedervereinigung," in *Wiedervereinigung in Mitteleuropa: Außen- und Innenansichten zur staatlichen Einheit Deutschlands*, edited by Josef Becker (München: Verlag Ernst Vögel, 1992), p.39.

238. Kinnock, quoted in *Times*, 9 February 1990, p.7. See also Healey, quoted in *Times*, 23 February 1990, p.9 or the former prime minister Lord Callaghan, quoted in *Times*, 18 January 1990, p.10. But not all Labor politicians joined in the new chorus praising the advantages of reunification. See Edward Garrett, quoted in *Times*, 18 July 1990, p.8.

239. George Robertson, the spokesperson on Europe of the Labor party, quoted in *Times*, 23 February 1990, p.9. For a particularly sharp attack see John Cunningham, the then shadow leader of the House of Commons. He accused the prime minister of "an attitude of bigotry and malevolence" towards reunification and the future architecture of Europe. *Times*, 17 July 1990, p.9.

240. As to SDP politicians, their few pronouncements on reunification mirrored those of the Labor party. See Lord Kennet's statements that are

quoted in *Times*, 18 January 1990, p.10; or those of David Owen that are quoted in *Times*, 1 February 1990, p.4.

241. Lord Bonham-Carter, quoted in *Times*, 18 January 1990, p.10.

242. Sir Johnston, quoted in *Times*, 23 February 1990, p.9.

243. Indicative of the "missionary" zeal with which the prime minister approached this self-imposed task of sensitizing the international community to the dangers of the "make-haste" reunification policy of Bonn is the following statement by one of her advisers. "Mrs Thatcher is in this affair [i.e., German reunification] the only western leader who keeps a clear head." *Le Monde*, 2 February 1990, p.2. See also *Le Monde*, 24 February 1990, p.7. Yet, the fear of German reunification and the position that this had to be a long drawn-out process was not confined to the prime minister or the political class as such, but was widely shared by the British media. Compare Bullard, "Die britische Haltung," p.36.

244. Thatcher, quoted in *Times*, 26 January 1990, p.10.

245. Thatcher, *Downing Street*, p.790. For a few of the many similar statements to this effect that she made see *Times*, 26 January 1990, p.10 and 9 February 1990, p.7.

246. Thatcher, quoted in Attali, *Verbatim*, vol. 3, p.343. She made the statement at a special EC meeting in Paris in November 1989 that was devoted to the revolutionary situation in Eastern Europe.

247. Thatcher, quoted in *Times*, 14 November 1989, p.1. Another possible danger, according to William Waldegrave, minister of State at the Foreign office, was that reunification could make Moscow feel insecure which in turn could lead to a hardening of its bargaining position in the East-West arms talks underway at the time. Compare *Times*, 13 November 1989, p.1.

248. Thatcher, quoted in *Times*, 29 November 1989, p.8. Indeed, the British government was at the time convinced "that Gorbachev [had to] be encouraged [in order to help him] to ride out the unpredictable currents of change and disintegration in the USSR." Hugh MacDonald, "British Perceptions of Future Developments and of the Role of the United Kingdom within Europe," in *Integrated Europe? Eastern and Western Perceptions of the Future*, edited by Klaus Gottstein (Frankfurt: Campus, 1992), p.85. An additional reason for proceeding slowly with reunification, according to London, was that the decision of whether or not to join up with West Germany could only be made by a fully democratic East Germany. Such democratization, however, would take time. "East Germany ha[d] been under Nazism or Communism since the 1930s", the prime minister declared, "and you [could] not go overnight to democratic structures and a free market economy." *Times*, 26 January 1990, p.10.

249. Thatcher, quoted in *Times*, 2 July 1990, p.8. The prime minister made the statement originally at around the time of the breach of the Berlin Wall. In the House of Commons Thatcher had this to say about the pace of unification and its geopolitical consequences: "I think it is absolutely vital that there be a transition stage ... so the unification of Germany does not come about at the expense of security and stability in Central Europe." *Times*, 9 February 1990, p.7.

250. *Ibid.*, 7 February 1990, p.22. See also Hurd's statement to this effect that is quoted in *Times*, 7 February 1990, p.15. The prime minister had already earlier made it clear that she thought "considerable" meant "at least ten to fifteen years of stable democracy in the East." *Times*, 5 Decem-

ber 1989, p.1.

251. Thatcher, quoted in *Times*, 12 February 1990, p.10. See also *Frankfurter Allgemeine Zeitung*, 8 February 1990, p.1 and 10 February 1990, p.1.

252. Yet, despite its effort to form an anti-German alliance à l'*entente cordiale* the UK government never advocated a complete return to the European politics of the past. In particular, London was a strong believer in the importance of maintaining and, indeed, strengthening Nato. "There [was] a general consensus among [British] professionals and politicians concerned with defense strategies that NATO [had to] endure and be reformed to take greater account of [among other things] the importance of German reunification with its implications for defense strategy and doctrine in Europe." MacDonald, "British Perceptions," p.89. How exactly the two, seemingly contradictory, policies - one aiming at reviving the *entente cordiale*, the other at reinforcing NATO - ought to be linked was, however, never made quite clear by British policy-makers. On the importance Thatcher attached to NATO in post-cold war Europe see Attali, *Verbatim*, vol. 3, p.343; or *Times*, 19 February 1990, p.10. Compare also the statements on this issue by Hurd that are quoted in *Le Monde*, 26 April 1990, p.3 and *Times*, 29 March 1990, p.24.

253. Thatcher, quoted in Attali, *Verbatim*, vol. 3, p.368-369. The quote is from a conversation that the British prime minister had with president Mitterrand at the European Council meeting in Strasbourg in December 1989. The same sort of logic was expressed by Ridley: if Britain "played the balance of power in Europe", then, and only then, it and its continental partners had a good chance of not "being bossed" by an "uppity" German hegemon. *Times*, 13 July 1990, p.10.

254. Compare Thatcher, *Downing Street*, p.792.

255. On these issues see *Times*, 13 February 1990, p.8 and Thatcher, *Downing Street*, p.799.

256. Compare *Times*, 5 December 1989, p.1. An additional source of tension between the two leaders was defense policy, particularly Thatcher's desire to keep Western defenses at existing levels and to modernize NATO's short-range nuclear forces. Compare Thatcher, *Downing Street*, pp.784-789, 794.

257. Thatcher, *Downing Street*, pp.795-796. For the US position on reunification, laid down in four principles, see Frank R. Pfetsch, *Die Außenpolitik der Bundesrepublik 1949-1992: Von der Spaltung zur Vereinigung* (München: Wilhelm Fink Verlag, 1993), p.206.

258. "We have many contacts regarding German unity with the French at the moment." This is how in early 1990 an adviser to the British prime minister described the flurry of bilateral diplomatic contacts between the two countries that went well beyond routine. Compare *Le Monde*, 24 February 1990, p.7 and MacDonald, "British Perceptions," pp.87, 89-90.

259. Hurd, quoted in *Le Monde*, 30 March 1990, p.4.

260. Ewen Fergusson, quoted in *Times*, 7 March 1990, p.9. The quote is from a speech that the ambassador gave to the French Chamber of Commerce. For a more comprehensive list of common interests between Paris and London in the wake of reunification see MacDonald, "British Perceptions," p.90.

261. Hurd, quoted in *Frankfurter Allgemeine Zeitung*, 24 February 1990,

p.2.

262. Thatcher, *Downing Street*, p.797.

263. *Ibid.*, p.791.

264. Thatcher, quoted in Attali, *Verbatim*, vol. 3, p.400. The quote is from an exchange of views that the prime minister had with president Mitterrand in January 1990. See also Thatcher, *Downing Street*, pp.796-798. There she described how she tried to convince president Mitterrand of the desirability of an Anglo-French axis against Germany. As far as the new emphasis on the common interests between the two countries regarding the German question was concerned see the statements by Hurd that are quoted in *Frankfurter Allgemeine Zeitung*, 6 December 1989, p.2.

265. Compare Hurd's statements that are quoted in *Le Monde*, 26 April 1990, p.3.

266. *Ibid.*, 26 April 1990, p.3. One observer used the following words to sum up the rationale of the British *démarche*: By being "united in action, by treaty or by several common understandings, they [i.e., France and the UK could] shape the European agenda, sway the direction of diplomatic discourse." MacDonald, "British Perceptions," p.90.

267. In the last instance such a foreign policy reorientation on part of Paris, brought about by the desire to slow down unification and to check the power of Germany once it was reunited, could not have occurred without serious negative repercussions for the Franco-German axis. Indeed, the axis might even have broken up.

268. In Mr. Mitterrand's *entourage* it was pointed out that the president had come to the conclusion that it was impossible to recreate under existing circumstances the *entente cordiale* of old times. "What [could] one do with Mrs. Thatcher besides engaging in anti-German behavior", asked pointedly one adviser. *Le Monde*, 21 March 1990, p.5. As to the closer cooperation between the two countries, it focused tellingly on defense issues. Compare *Le Monde*, 7 May 1990, p.4.

269. Thatcher, *Downing Street*, p.791.

270. Thatcher, *Downing Street*, p.813. Thatcher made this frank evaluation of her German policy long after she had left office. In 1989/90 the government would not speak so openly about its failure. The opposition, on the other hand, was not so shy. Labor's George Robertson, for instance, accused prime minister Thatcher of pursuing a "hooligan diplomacy" that made the UK "a sadly-ignored passenger in Europe." *Times*, 20 October 1990, p.4.

271. Thatcher, *Downing Street*, p.759. See also *Die Welt*, 25 June 1990, p.2. Furthermore, the prime minister argued that reunification justified her continuing opposition to joining the ERM. "[T]he threats to the strength of the Deutschmark", due to the costs of reunification, she noted, "reduce[d] the usefulness of joining the ERM." *Times*, 26 February 1990, p.2.

272. Hurd, quoted in *Times*, 16 November 1989, p.10. Despite German reunification, one observer underlined at the time, the UK was likely to "continue to distrust concepts of federalism, supranationalism and radically fast functionalism", i.e., concepts that were associated with the Delors-style EMU. MacDonald, "British Perceptions," p.87. Yet, there were also some Tories who supported the argument that the new European geopolitics should lead to a more integrationist EC policy on the part of London. One of them was Michael Heseltine. He urged the prime minister to reconsider her

opposition to British ERM membership in view of German reunification. It was of utmost importance for European stability that Germany "continue[d] to identify herself with the coherence of Europe's existing arrangements." London therefore had "to show her that [they were] partners, not protagonists". *Times*, 8 November 1989, p.2. A similar position was put forth by Anthony Meyer. The EC, he stressed, was "the only framework in which a reunited Germany [could] be happily contained." Meyer, *Stand Up*, p.146.

273. Thatcher, quoted in Howe, *Conflict*, p.638. The quote is from a television interview with the prime minister on 9 September 1990. Compare also Thatcher, *Downing Street*, p.791. "For a prime minister with the convictions of a Margaret Thatcher", Bullard pointed out, "the notion that German reunification would proceed in the context of west European integration was not reassuring." Bullard, "Die britische Haltung," p.41.

274. Hurd, quoted in *Le Monde*, 30 March 1990, p.4.

275. Compare *Times*, 13 November 1989, p.1.

276. Thatcher, quoted in *Times*, 14 November 1989, p.24.

277. Thatcher, quoted in *Frankfurter Allgemeine Zeitung*, 23 March 1990, p.6.

278. Compare Thatcher's statements that are quoted in *Die Welt*, 26 June 1990, p.1; or those of Hurd that are quoted in *Times*, 10 January 1990, p.2.

279. Thatcher, *Downing Street*, p.760.

280. Kohl, quoted in *Frankfurter Allgemeine Zeitung*, 11 January 1990, p.3.

281. Genscher, quoted in *Frankfurter Allgemeine Zeitung*, 13 January 1990, p.2.

282. Major, quoted in *Times*, 21 June 1990, p.23. See also Hurd's statements that are quoted in *Times*, 27 June 1991, p.8. Those sections of British industry that favored the EMU also supported the "hard-ECU" proposal as a transition strategy to a single currency. Compare the statements by Brian Corby, the president of the CBI, that are quoted in *Frankfurter Allgemeine Zeitung*, 14 December 1990, p.19. Quite a different position was taken by the prime minister. Though supportive of the "hard-ECU" proposal as a tactical maneuver to divert attention from the Delors Report, she did not believe that the "hard-ECU" could or should ever replace national currencies and become the EC's single currency. See her comments in the House of Commons on 30 October 1990 that are quoted in Howe, *Conflict*, p.644. Compare also Ridley, *My Style*, p.151.

283. Initially some policy-makers on the continent made positive noises about the British plan. Both the German finance minister Theo Waigel and the governor of the *Bundesbank* Karl Otto Pöhl, for instance, indicated that they thought London's second blueprint for the EMU was worth considering as an alternative to the Delors Report. Compare *Frankfurter Allgemeine Zeitung*, 12 July 1990, p.11 and 4 September 1990, p.15. As far as France was concerned, Jacques Chirac and Edouard Balladur, among other key RPR politicians, showed similar sympathy for London's alternative to the single currency plan. Compare *Le Monde*, 23 June 1990, p.4. Once in power again, however, these same policy-makers proved to be staunch supporters of a Delors-style EMU. The Spanish government, finally, seemed to flirt also for a time with the British "hard-ECU" scheme. Compare Ridley, *My Style*, p.151. But it too changed its mind during the crucial phase of the IGC.

284. During the IGC in 1991, however, London made one more effort to



prevent a Delors-style EMU by tabling its "hard-ECU" plan as a treaty. But the *démarche* failed.

285. Compare Major's comments that are quoted in *Frankfurter Allgemeine Zeitung*, 1 December 1990, p.1.

286. The driving force behind the new compromise position were the chancellor John Major and the foreign secretary Douglas Hurd. The prime minister would have preferred to continue the policy of "just saying no" to a Delors-style EMU, but she was at the time already too weak politically to prevail over her cabinet opponents. See Thatcher, *Downing Street*, pp.720-721, 724-726 and Ridley, *My Style*, p.160.

## VI. CONCLUSION

In this chapter I will summarize the overall empirical pattern that has been uncovered in the previous chapters and evaluate the relative descriptive power of the Idealist and Realist hypotheses formulated in chapter 2. This comparison between hypotheses and evidence will set the stage for my concluding remarks concerning the research question as to the nature of the EC/EU. Does the evidence presented in this study support the Idealist claim that Western Europe has moved beyond the *state of nature* to become a post-Westphalian utopia in which Hobbesian fear, power politics and sovereignty-consciousness play little role in shaping policy?

Beginning with the question as to the attitudes prevailing in the relations among EC/EU governments, have forty years of Western European integration finally done away with the Hobbesian fear? According to the optimistic *zeitgeist* in integration studies the answer is a clear "yes". The Idealist thesis is grounded in the assumption that Hobbesian fear only flourishes in a traditional Westphalian state system in which war and coercive diplomacy are common interaction patterns. Such patterns in turn are seen as being related to the undemocratic nature of governments, a low level of transnational interdependence and the absence of strong international institutions.<sup>1</sup> From this Idealists conclude that since Western Europe is a community of democratic states that are deeply enmeshed in interdependent relations and closely cooperate in supranational institutions fear of war and coercive diplomacy have vanished in the EC/EU.<sup>2</sup>

Yet, the evidence does not bear out this Idealist conclusion. The fear narratives practiced by all major political parties in France and by the

British Tories and assorted individual opposition figures in the UK speak a clear language, the language of Realism. Millennia ago Thucydides wrote about "the growth of Athenian power and the fear which this caused in Sparta."<sup>3</sup> In 1989/90 policy-makers in France and the UK displayed the same instinctive fear of a reunited Germany. They painted the specter of a foot-loose and power-hungry *Grossdeutschland* whose irresponsible policies could destabilize the whole continent. Indeed, there was even serious talk of impending war between Germany and a revived *entente cordiale*. Within a few months after the fall of the Berlin Wall the Idealist argument that the attitudinal repertoire of EC governments in their dealings with each other has approached that of political actors operating within a well-ordered democratic polity proved to be what Realists have always maintained it was: utopian. Conversely, the longstanding Realist thesis that politics among Community countries continues to be "within the realm of traditional interstate politics" was supported by the evidence.<sup>4</sup> The French and British response to the prospect of reunification was framed in terms of the dangers of anarchy where "there [was] no overarching authority to prevent [Germany] from using violence, or the threat of violence, to destroy or enslave them."<sup>5</sup>

This leads me to the conclusion that Western Europe in 1989/90 was no Deutschian security community in which "dependable expectations of 'peaceful change' prevailed."<sup>6</sup> Rather, it was a state system in which states "fear[ed] each other, ... regard[ed] each other with suspicion, ... worr[ied] that war might be in the offing [and] anticipate[d] danger."<sup>7</sup> In short, my country case studies demonstrate the continuing *realism* of Realism.<sup>8</sup>

Yet, there is a strange discursive disjuncture between France and Britain, on the one side, and Germany, on the other. Bonn's policy-makers

irrespective of their partisan orientations tried to assuage the Hobbesian fear of their EC partners by invoking their own firm *ideapolitik* convictions. The rhetoric of German *Verantwortungspolitik* was at times so pronounced, appeared so naive, that one is tempted to interpret it as a deliberate mystification.<sup>9</sup> However, there is not a shred of evidence for such an interpretation, and one is left with a choice between the following two conclusions, one Idealist, one Realist in nature. Either Franco-British fears of the growth of power of a reunited Germany were an atavistic remnant of earlier, more war-prone, ages and an inappropriate evaluation of the dangers of power disequilibria in late twentieth century Western Europe, or they were simply premature.

Few would quarrel with the argument that forty years of foreign policy subservience, particularly to the three Western Allied Powers, have left their imprint on West German foreign policy. Unlike Idealism Realism posits that this timidity, this love affair of Germany's political elites with their touted responsibility policy, is a temporary aberration that can be attributed to the special international conditions under which the divided and semi-sovereign Germany had to exist for forty years. Now that this unnatural state of affairs has come to an end Realism projects that Germany will soon acquire a new taste for power.<sup>10</sup> This in turn implies that the threat scenarios of the French and British fear discourses were not *unrealistic*, only premature: they are likely to be realized in the foreseeable future.

Only time will tell whether the pessimistic prediction of Realism about the coming renationalization of Germany's foreign policy and its return to the stage of *Machtpolitik* is correct. Beyond the empirical and theoretical

uncertainties surrounding the German case, however, the French and British policy debates about the dangers of German reunification followed a script that, for the last forty or so years, has been developed by Realist scholars of European integration: in the Western European interstate system states are still prone (occasionally) to confront each other with the attitude of gladiators "having their weapons pointing, and their eyes fixed on one another; ... which is a posture of War."<sup>11</sup>

The second research question asks whether economic integration is best understood as a quest for power or for welfare. According to the Idealist argument economic policy integration is the response of governments representing the interests of "materialistically egocentric maximizers" to the problems thrown up by unregulated cross-border flows of goods, money, etc.<sup>12</sup> In this view integration can "reduce adverse costs of policy interdependence by deliberately coordinating policy and thus changing the nature of policy interdependence."<sup>13</sup> Applied to monetary integration this leads to the conclusion that the Maastricht Treaty on an EMU was the attempt of the French and other Community governments who had lost control over domestic monetary policy to eliminate the negative externalities generated by Germany's monetary policies and transmitted to its partners through the EMS. The French and their allies wanted to "co-ordinate actions to combat [monetary] policy failure" and "achieve goals that would not otherwise be possible."<sup>14</sup>

The empirical evidence of the country case studies concerning this claim is equivocal. The Idealist hypothesis is neither completely rejected nor fully confirmed by the facts. Turning first to the evidence that counts against the hypothesis, the French case documents that the calculus of power is

still an important consideration in the politics of European economic integration. This is demonstrated by the discursive reaction of all major political forces in France to the prospect of the growth of German power. While the adherents of the self-help narratives circulated by the communists and the RPR argued that the *grande nation* was still powerful enough to cope on its own with any challenge to its relative power, president Mitterrand and his socialists pointed out, after some hesitation, that self-reliance or other traditional balance of power means would not suffice to neutralize the superior power of the emerging rival.

Decades ago Hans Morgenthau described economic integration as an innovative *realpolitik* method aimed at making the "superior strength of Germany innocuous."<sup>15</sup> In 1989/90 the French government vigorously campaigned for an EMU for exactly this containment reason. It looked at monetary integration as the only effective means of "prevent[ing] [Germany] from achieving advances in [its] relative capabilities" vis-à-vis the *grande nation*.<sup>16</sup> Clearly, Paris adopted the posture of the defensive positionalist who wanted "to maintain [its] position in the system."<sup>17</sup> What mattered most to the French government at the time were the relative gains to be had from tying Germany's hands through institutional *engrenage*, not the absolute gains generated by eliminating the costs of unregulated monetary interdependence. Were they to fail in their goal to create an EMU whose rules would "prevent or at least ameliorate their domination by [Germany]"<sup>18</sup>, according to the argument deployed by president Mitterrand, then Europe's chancelleries would have to be prepared for the worst case: the return to the war-prone European politics of the past.

Further support for the Realist power hypothesis comes from the British

case study. Just like its French counterpart the British government, in particular the prime minister, practiced a check-the-power-of-Germany discourse. But there also was one major difference between the two countries. London's preferred strategy to deal with the identified threat to its national power was the one that the French government argued was too dangerous: a return to the past.

Centuries ago Réal de Curban pointed out that Europe's rulers believed "that in order to retain Europe in a solid and peaceful condition it [was] necessary to maintain between the principle parties [a power] equilibrium."<sup>19</sup> In 1989/90 the British government still spoke and acted in terms of the balance of power. Instead of deepening integration through the speedy creation of an EMU London wanted to form an old-fashioned alliance between France and the UK in order to check the power of the reunited Germany. It was naive, according to the British containment narrative, to assume, as the French did, that the superior power resources of a reunited Germany could be made innocuous through institutional *engrenage*. Germany would simply dominate the EMU and through it its member states.<sup>20</sup> If France was concerned about the relative balance of power between Germany and the rest of the EC, then it had no other option but to take up the role of balancer, together with the UK and other countries willing to stand up to Germany. In this case, according to the British view, containment-through-integration was *no* functional alternative to a traditional balance of power policy.<sup>21</sup>

Yet there was one other difference between the policy debates in France and the UK. The main British opposition party in the end distanced itself from the Realist rhetoric of the government and welcomed the prospect of German reunification. This raises the question whether a Labor

government would perhaps have talked and acted in accordance with Idealist projections. This, of course, cannot be answered with any degree of certainty. But insofar as this at least is a plausible assumption it would indicate the conditionality of the Realist power hypothesis.

If the discursive reaction of the governments in Paris and London to the prospect of reunification underlines the staying power of power politics in the EC, the discursive reaction of Bonn tells a different story. Provided that the Idealist rhetoric of Germany's politicians from both the government and opposition parties is not dismissed as a veil of lies behind which they were plotting to establish Germany's politico-economic, if not military, supremacy in Europe - and for this interpretation there is no evidence, - then one cannot but be struck by the lack of power political goals in the German policy script pertaining to reunification. In the pronouncements of Kohl, Genscher and the rest of the cast on the touchy issue there is not the slightest rhetorical trace of an imminent foreign policy reorientation on the part of Bonn, a new assertiveness or an expected renationalization, let alone of the vision of a new *Grossdeutschland*. Just like in the above discussion two conclusions can be drawn from this. Either the official policy scripts in both France and the UK that spoke of the power political threats of a reunited Germany were completely *unrealistic*, or it simply is a question of time before the projected threats materialize in the wake of the *normalization* of German foreign policy. Again, only time will tell which of these two interpretations is correct.

But the assessment of the relative descriptive power of Idealism and Realism concerning the goal-orientation of economic integration would be incomplete if it stopped here. What about the policy goals articulated in the



money debates that took place in the concerned countries before the fall of 1989? Do they confirm the Realist or Idealist expectations? Beginning with the French case, the EMU-NOW discourse demonstrates the relevance of the Idealist hypothesis that governmental and/or societal actors may want to advance economic integration in situations characterized by the "‘internationalization’ of domestic politics."<sup>22</sup> The fact is that before the fall of the Berlin Wall the French EMU-NOW campaign had a clear welfare-oriented thrust. Although the EMU-NOW debate explicitly addressed Germany’s dominant monetary position in the EMS it did not articulate any power political concerns about this state of affairs. Rather, those participating in the debate complained about the economic costs generated by this asymmetry: the *Bundesbank* set unreasonably high interest rates which where then, through the transmission belt of the ERM, imposed on the French economy. The EMU was regarded by the French as a means to remedy this frustrating situation. They hoped to gain "some control over [Germany’s] behavior, thus decreasing harmful externalities arising from independent action."<sup>23</sup>

Support for the Idealist hypothesis also comes from the German case. The EMU-resistance discourse as well as the counter-narrative disseminated by foreign minister Genscher and the SPD were all "apolitical", i.e., the quest for international power did not figure in them. The former focused on the threat of an EMU to the price stability of the D-mark; nowhere is there a reference to be found that would indicate that those who made this argument feared for Germany’s monetary hegemony in Europe. The latter stressed the economic benefits of doing away with exchange rate variability and lowering interest rates by creating an EMU. In short, just like its

French counterpart the German money debate supports Idealism.

This cannot be said of the money talk in the UK. During much of the 1980s the quest for welfare played little role in the British position on either the issue of ERM membership or the creation of an EMU.<sup>24</sup> At first sight it seems as if the British case confirms the Realist power hypothesis: "in a realist world [states] are concerned about the balance of power ... when considering cooperation."<sup>25</sup> Since there were no power-related reasons for making sterling a member of the ERM, or for supporting the creation of an EMU, the British government, especially prime minister Thatcher, preferred to have nothing to do with these continental arrangements and their debilitating effects on the national control over key power resources. True, on the issue of ERM membership the prime minister's perspective was not shared by many. Most political and organized societal actors subscribed to Lawson's ERM-NOW narrative that stressed the welfare benefits of joining the currency club: monetary discipline and stable exchange rates in particular. While Mrs. Thatcher thus was in a minority position as far as the ERM was concerned, this was not the case in the EMU debate. On this issue the prime minister enjoyed broad-based support. In short, Britain's stance on European monetary integration by and large confirms the Realist prediction that in the Westphalian order states refuse to have far-reaching international legal restrictions imposed on their "self-help sufficiency."<sup>26</sup>

Yet, *contra* the Realist power hypothesis there is no trace that the British government acted as it did because it was alarmed about the relative balance of power in the Community. London did not justify its objection to European monetary integration in terms of *Machtpolitik*. Rather, its opposition to the ERM and EMU was framed in terms of the loss of sovereignty

that would result from membership in either of the two currency clubs. In sum, although the Realist power hypothesis correctly predicts the British position on the Europeanization of monetary affairs, it does so for the wrong reason.

Overall, however, the assessment of the goal-orientation of European economic integration points to the relevance of welfare maximization *and* the irreducibility of power politics in the EC/EU. Partners in institutions designed "to overcome the deficiencies that make it impossible to consummate even mutually beneficial agreements" they may be<sup>27</sup>, but that does not prevent EC/EU governments (occasionally) to do what European states have done for centuries: to engage in balancing behavior in order to "prevent anyone from [them] winning the price of power [and] to emerge as the leader."<sup>28</sup>

The final research question of the thesis pertains to the preferences of governments concerning the organization of political power in the EC/EU. Is there any evidence that the sovereignty-consciousness of Western European states that has shaped international politics for so long has finally withered away in the novel interlocking politics of the EC/EU? Idealism posits that the steady growth of interdependence and the increasing number of trans-national actors seeking to influence Community policies at the European level have forced governments to abandon their traditional reluctance to share national sovereignty with each other and the Community institutions.<sup>29</sup> This hypothesis is grounded in the premise that in democracies the legitimacy of governments depends on their ability to meet the welfare needs (broadly defined) of their electorates and that this ability is directly linked to the willingness of governments to go beyond the organizational

form of the state in search of optimal solutions to cross-border problems.<sup>30</sup>

Again the empirical evidence concerning the Idealist hypothesis is equivocal. To begin with, the hypothesis is supported by the demand of successive French governments for transferring national monetary sovereignty to a new supranational central bank. In the wake of the 1983 economic policy U-turn by the socialist/communist coalition government and the frustrating monetary difficulties particularly in 1987/88 French policy-makers of all *couleurs* concluded that the growth of monetary interdependence had robbed the *Banque de France* of its ability effectively to manage the franc. They consequently proposed a "Community solution" to this loss-of-control problem. Paris called for the de-nationalization of the right to determine the internal and external monetary conditions under which the Community economies had to operate. It wanted to put an end to monetary sovereignty. This is in accordance with the general Idealist argument that "integration begins when governments perceive that certain economic policy problems cannot be solved by national means alone and agree to joint policy making in supranational institutions."<sup>31</sup>

True, Paris had little to lose from the Europeanization of monetary policy-making since, as a participant in the German-dominated EMS, it had *de facto* already handed over control over monetary decision-making to the *Bundesbank*. Indeed, the pooling of monetary sovereignty would allow Paris at least to have some influence on the making of European monetary policy, a power that the *Bundesbank* had steadfastly refused to share with French authorities. And yet, the fact remains that while the EMS did not move the locus of monetary sovereignty from Paris to Frankfurt, the future EMU would necessitate such a move to the headquarters of the new central bank.

Under an EMU the French government thus would abandon *de jure* what it had so far only ceded *de facto*: the capacity to make monetary policy. Clearly, this badly fits the Realist hypothesis that every state seeks to defend its formal right to "decide for itself how it will cope with its internal and external problems."<sup>32</sup>

Turning now to Germany, the majority of the country's decision-makers saw no need for a transfer of monetary sovereignty to the supranational level. While the Realist protection-of-sovereignty hypothesis never expected anything else, this does not pose a puzzle to Idealism either since Germany did not suffer from any loss of monetary control. Both theoretical traditions thus can readily explain why for quite some time the two governments on each side of the Rhine did not see eye to eye on the issue of where in the EC the supreme power over monetary decision-making ought to be located.

But there also was a broad consensus among most Germans that if a European central bank were to be created, then it had to be supreme, i.e., supersede the prerogatives of national central banks including those of the *Bundesbank*. Here there can be no doubt that this is not anticipated by Realism, particularly in view of the fact that Germany had much to lose from the creation of such a powerful supranational bank. After all, it was the *Bundesbank* that under the status quo ruled European monetary affairs. The only other German response to the French EMU-NOW *démarche*, besides outright rejection, that seems to be compatible with the Realist sovereignty hypothesis would have been the following: a counterproposal, say along the lines of the British parallel currency plan. It could have focused on increased cooperation among national monetary authorities in order to placate the French, but left the ultimate control over money in national hands.

Such a solution would have somewhat clipped the wings of the *Bundesbank*, but, unlike the Delors plan actually supported by Bonn, it would have allowed the German central bank to play at least the role of *primus inter pares* among Europe's central banks.

Certainly, in defense of Realism one can point to the fact that the German insistence on a sovereign European central bank, at least in parts, was designed to kill the EMU-NOW project without actually saying "no". But this is only one part of the story. The second and much more important part confirms the Idealist hypothesis about the primacy of functional considerations over national sovereignty-consciousness. Obsessed with price stability, and convinced that only a politically and legally independent central bank could ultimately guarantee it German policy-makers and economic interest groups were determined to make sure that the European central bank, should it ever be created, would be the supreme authority in control of Europe's money.

This reasoning along functional lines was not shared by the adherents of the British sterling-first discourse. On the contrary, the British launched a crusade under the flag of national sovereignty against an EMU in general and its supranational design in particular. Reciting the idealtypical Realist script, they made it clear to their continental partners that they would "not ... accommodate themselves to a [European central bank] which would diminish their ability to press authoritatively a national attitude on [monetary policy]."33

As the forceful defense of the "dogma of national sovereignty" proved unable to deter the other EC member states to press ahead with their plan for the supranationalization of monetary policy-making the practitioners of

the sterling-first narrative changed their tactics. Abandoning their "just say no" approach, they now tabled their own alternative EMU blueprints: the parallel currency and the "hard-ECU" plans. Both aimed at closer monetary cooperation in the EC without, however, taking away from governments the *ultimate* responsibility over the key monetary functions on their territories in order to hand them over to a new supranational actor.

*Contra* Idealism, then, decades of integration had obviously not reconciled the majority of British decision-makers to the dissolution of national sovereignty in the dispersed polity of the EC. While this clearly corresponds to the expectation of the Realist sovereignty hypothesis, another feature of the British sterling-first narrative does not. Nowhere in that narrative is there a reference to the "essentially conflictual nature"<sup>34</sup> of European affairs and nowhere, consequently, is the opposition to a supranational EMU justified on national security or power political grounds. In short, although the discursive reaction of the British to the French EMU-NOW *démarche* confirms the Realist prediction, it does so for the wrong reason.<sup>35</sup>

Having now summarized and theoretically evaluated the overall empirical pattern emerging from the three country case studies, what general conclusions can be drawn from this study? First, the Idealist turn in integration studies that has been manifest in the last few years is premature. My detailed description of two crucial European policy debates in the 1980s clearly demonstrates that as far as the discursive universe of decision-makers is concerned "the new international politics" of Western European integration is not as far removed from "the traditional politics of the Machiavellian world" as Idealists believe.<sup>36</sup> Idealism thus stands accused of

being overly optimistic with regard to the post-Westphalian nature of the politics of European integration. Yet this does not mean, and this is my second conclusion, that Realism fares any better as a descriptive theory of interstate relations in Europe. The student of the EC/EU who solely relies on Realism as his or her guide will not be able to "read and anticipate [the] very thoughts" of national decision-makers in the Community.<sup>37</sup> The evidence presented above is unequivocal in this regard: there are strong strands of Idealism in Western European politics. With what then are we left?

The simple truth is that the EC/EU is a much more complex politico-economic entity than either the Idealist or Realist camp is prepared to imagine. Politics in the EC/EU is both politics in the Realist context of the *international state of nature* and politics in the Idealist context of a *well-ordered democratic polity*. Given the *dual nature* of the EC/EU, the best advise one can give to those who study it is to resist the temptation of any premature theoretical closure. Students of integration who give in to the temptation run the risk, first, of creating distorted portraits of Western European politics and, second, of making faulty predictions about the future of the region. In sum, what is needed in the field of integration studies is an awareness that the old research question that occupied scholars such as Haas and Hoffmann in the 1950s - does integration transform the Westphalian interstate system of Western Europe into a post-Westphalian polity - is still open. For the time-being the EC/EU is best approached by academics as a hybrid, an entity that partakes of the behavioral patterns associated with the logic of Realism *and* the logic of Idealism.



## Notes

1. On these civilizing elements in world politics see for instance Mitrany, *Working Peace*; Deutsch, *Nationalism*; Rosenau, *Global Interdependence*; Nye, *Peace in Parts*; Keohane and Nye, *Transnational Relations*; Rosecrance, *Trading State*; Rittberger and Zürn, "Regulated Anarchy;" Crawford, "Theory of Progress;" Zacher, "Decaying Pillars;" Maoz and Russett, "Democratic Peace;" Doyle, "Liberalism."

2. This proposition, explicitly or implicitly, runs like a thread through the work of Idealist scholars of European integration. Compare Haas, "Technocracy;" Deutsch et al., *Political Community*; Lindberg and Scheingold, *Would-Be Polity*; Puchala, "International Integration;" Moravcsik, "Preferences;" Hix, "Comparative Politics;" Corbey, "Dialectical Functionalism;" Kohler-Koch, "Transformation of Governance;" Wessels, "Closer Fusion."

3. Thucydides, *History of the Peloponnesian War*, edited by M. I. Finley (Harmondsworth, 1972), p.49, cited in Smith, *Realist Thought*, p.4.

4. Hoffmann, "Discord in Community," p.531. See also Aron, "Old Nations;" Heathcote, "Neofunctional Theories;" Morgenthau, *Politics*; Mearsheimer, "Correspondence;" Grieco, "State Interests;" Idem, "Maastricht Treaty."

5. Grieco, "Realist Critique," p.160.

6. Deutsch et al., *Political Community*, p.5.

7. Mearsheimer, "False Promise," p.11.

8. One limitation of this conclusion is that it derives from a not-to-be repeated event: German reunification. Can the reaction of Germany's Community partners to this unique event tell us really anything about the future politics in the EC/EU? Perhaps the answer is no, but then similar doubts about the generalizability of post-1945 Western European history have to be raised. After all, the period between 1945 and 1989 was in many ways unique. Germany, one of the key players in the politics of integration, was a divided, semi-sovereign and occupied country. Furthermore, the ECSC and the EEC were built at a time when the rivalry among Western European countries was muted due to the global superpower conflict. Realists such as Mearsheimer, for instance, predict that the end of this unique political constellation will loosen the integrative bonds in the EC/EU. The partially domesticized Western European interstate system will revert once again to a Hobbesian war system. However that may be, the point is that for the time-being it remains an open question whether the case of German reunification can tell us anything about the future of European integration, or if it was the last vestige of Realist behavior in Western Europe.

9. The language employed by German decision-makers at the time has a strong affinity to that used by the Idealist *provocateurs* mentioned in the introductory chapter. It is as if the Kohls, Genschers and Brandts had their speeches written by Norman Angell, Woodrow Wilson or Alfred Zimmermann.

10. See Mearsheimer, "Correspondence;" Georges Valance, *France-Allemagne: Le Retour de Bismarck* (Paris: Flammarion, 1990); Rainer Zitelmann, Karlheinz Weißmann, and Michael Grossheim, "Wir Deutschen und der Westen," in *Westbindung: Chancen und Risiken für Deutschland*, edited by

Rainer Zitelmann, Karlheinz Weißmann and Michael Grossheim (Frankfurt: Propyläen, 1993), pp.9-17.

11. Hobbes, cited in Smith, *Realist Thought*, p.13.
12. Judith Goldstein and Robert O. Keohane, "Ideas and Foreign Policy: An Analytical Framework," in *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, edited by Judith Goldstein and Robert O. Keohane (Ithaca: Cornell University Press, 1993), p.26. Compare also Mitrany, *Working Peace*; Haas, *Uniting of Europe*; Cooper, "Interdependence;" Moravcsik, "Preferences;" Corbey, "Dialectical Functionalism."
13. Keohane and Nye, "International Interdependence," p.371.
14. Moravcsik, "Preferences," pp.495 and 485. See also Dornbusch and Jacquet, *La France*; Nicolas and Stark, *L'Allemagne*; Andrews, "Global Origins;" Riché and Wyplosz, *Union Monétaire*; Sandholtz, "Choosing Union."
15. Morgenthau, *Politics*, p.555.
16. Grieco, "Realist Critique," p.161.
17. Waltz, *Theory*, p.126. On this Realist proposition that states having to exist in an international state of nature, at a minimum, seek to maintain their relative position in the international hierarchy of power also see Wolfers, "Pole of Power;" Morgenthau, *Politics*; Walt, *Alliances*; Snyder, *Myths of Empire*; Grieco, "Realist Critique."
18. Grieco, "Maastricht Treaty," p.34.
19. Réal de Curban, *La science du gouvernement* (Paris, 1764), cited in Ernst B. Haas, "The Balance of Power: Prescription, Concept, or Propaganda?" *World Politics* 5 (1953): 448.
20. On the Realist argument concerning the dependence of international institutions on the underlying distribution of power and interests of the member states see for instance Schwarzenberger, "Forms of Sovereignty;" Morgenthau, *Politics*; Waltz, *Theory*; Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985); Idem, "Global Communications and National Power: Life on the Pareto Frontier," *World Politics* 43 (1991): 336-366; Gilpin, *War and Change*; Mearsheimer, "False Promise."
21. The argument that in the international state of nature states have a "natural" predilection to form a balance of power certainly is one of the most prominent themes of Realist international theory. See the following works by well-known Realist scholars: Wight, "Balance of Power;" Morgenthau, *Politics*; Waltz, *Theory*; Walt, *Alliances*; Kissinger, *Diplomacy*.
22. Joseph S. Nye and Robert O. Keohane, "Transnational Relations and World Politics: A Conclusion," in *Transnational Relations and World Politics*, edited by Robert O. Keohane and Joseph S. Nye (Cambridge: Harvard University Press, 1972), p.376. See also Lindberg, "European Community;" Schmitter, "Revised Theory;" Keohane and Nye, "International Interdependence;" Sharp, "Technology;" Garrett, "International Cooperation;" Andrews, "Global Origins;" Wessels, "Closer Fusion."
23. Robert O. Keohane, "The Demand for International Regimes," in *International Institutions and State Power: Essays in International Relations Theory* (Boulder: Westview, 1989), p.122.
24. An interesting question, particularly for the comparativist, is why the French, German and British governments adopted such disparate positions on the issue of European monetary integration. While this study has not been designed to provide answers to this query, I venture to say that

the following factors are likely to feature prominently in any explanation of the cross-national differences. In the French case the "overdraft economy" may go a long way in explaining why France was the driving force behind the Community project of an EMU. The uncommonly high dependence of the French business community on bank loans made it especially vulnerable to the high interest rates of the EMS. Another important "cause" of the French EMU *démarche* was probably the lack of a strong policy advocate, say, an independent *Banque de France*, with an interest in the maintenance of the monetary status quo in the EC. Conversely, in the German case the powerful *Bundesbank* was a key player in the German politics of European monetary integration. For quite some time its skepticism concerning an EMU shaped the country's response to the French EMU-NOW *démarche*. The strong position of the central bank in Germany's monetary policy-making system, in turn, is close related to another unique phenomenon of the German political economy: the deep-seated price stability culture. In the British case, finally, the monetarist doctrine of the primacy of free markets, including free currency markets, and the anti-European convictions of the country's powerful leader may explain, together with other factors, why London refused for so long to join the ERM.

25. Mearsheimer, "False Promise," p.12. See also the references in note 21.

26. Grieco, "Neoliberal Institutionalism," p.315.

27. Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), p.83.

28. Waltz, *Theory*, p.126.

29. On the Idealist theme of the declining importance of governmental sovereignty-consciousness in the EC/EU compare Lindberg and Scheingold, *Would-Be Polity*; Puchala, "International Integration;" Héritier, "Policy-Netzwerke;" Peterson, "European Union;" Kohler-Koch, "Transformation of Governance;" Risse-Kappen, "Nature of the Beast."

30. Classical statements of this Idealist thesis are found in Mitrany, *Working Peace* and Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford: Stanford University Press, 1964). More recent elaborations of the proposition are found in Rosenau, *Turbulence*; Camilleri and Falk, *End of Sovereignty*; Wessels, "Closer Fusion."

31. Sandholtz and Zysman, "1992," p.98.

32. Waltz, *Theory*, p.96. Compare also Aron, "Old Nations;" Hoffmann, "Fate of the Nation-State;" Heathcote, "Neofunctional Theories;" Miller, "Sovereignty;" Moravcsik, "Single European Act;" Grieco, "Neoliberal Institutionalism."

33. Wallace, "National Policy-Making," p.529. For generic formulations of this Realist proposition see the references in the preceding note.

34. Gilpin, "Political Realism," p.304. The inherently conflictual nature of international relations and its behavioral consequences for state behavior are a key plot point in all great Realist texts. See for instance Carl Schmitt, *Der Begriff des Politischen* (Berlin: Duncker and Humblot, 1991); Morgenthau, *Scientific Man*; Niebuhr, "Destiny of Man;" Aron, *Paix et Guerre*.

35. From the standpoint of Realism the British insistence, without any reference to international power or Hobbesian insecurity, on the preservation of sovereignty for the sake of sovereignty must appear as an "irrational" *idée fixe*.

36. Puchala, "International Integration," p.282.
37. Morgenthau, *Politics*, p.5.

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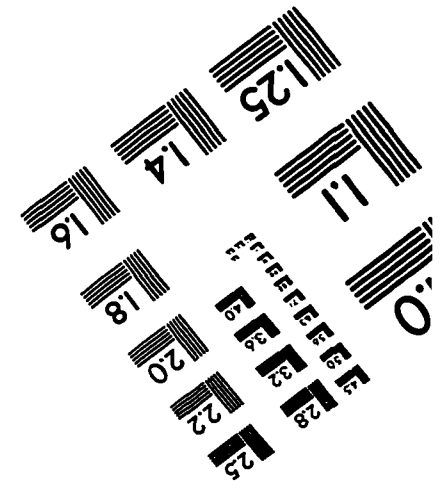
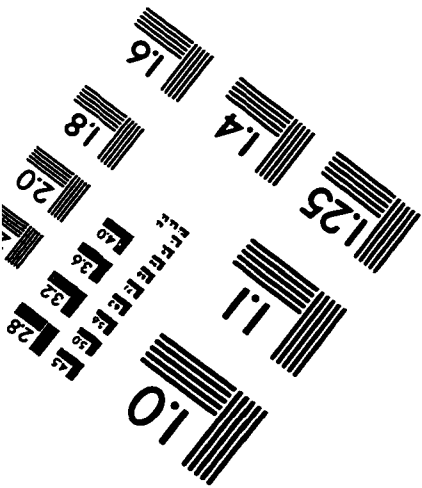
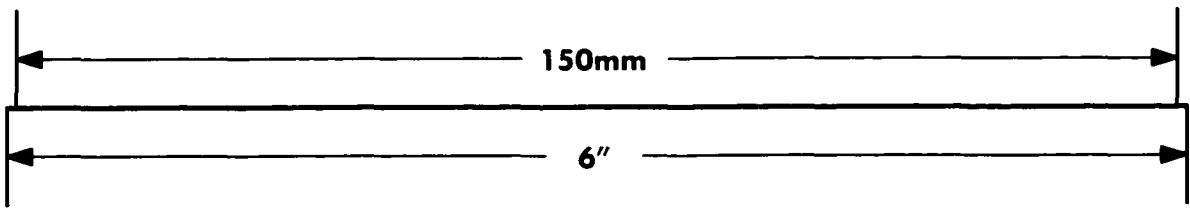
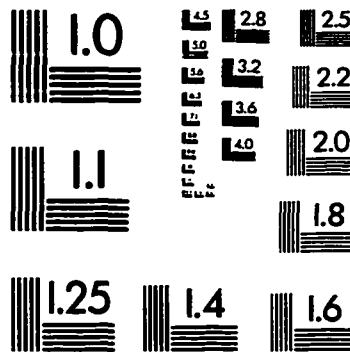
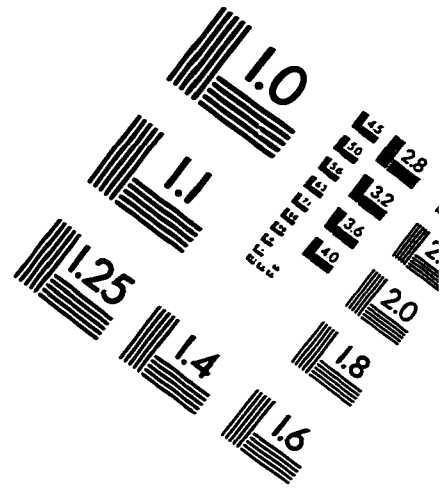
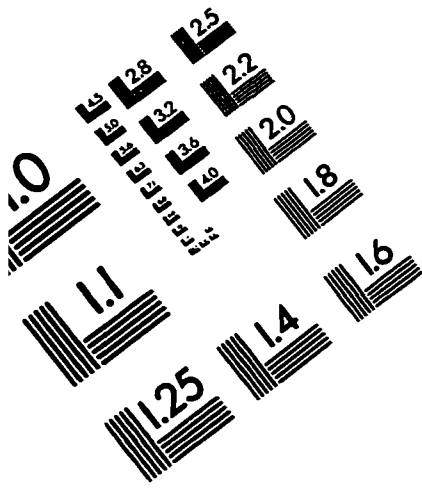
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