Decisionmaking for European Economic and Monetary Union

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I. Introduction

The purpose of this study has changed. It started out to show how European economic and monetary authorities had dealt with proposals for an economic and monetary union since the scheme was first put on the table in 1969. A great deal of material was collected focusing on the work of the major players in the process. The first important group is the Council of Ministers, which consists of one minister per member country according to the topics to be debated. Most important are the council meetings with heads of state or government, often called summits. Otherwise the meetings are of ministers of finance and economics, and the group is called the Ecofin. The second important group is the Monetary Committee comprising experts from the finance ministries and central banks. Finally, there is the Committee of Central Bank Governors established in 1964. We found, however, that most of the material dealing with these groups had already been analysed in the abundant literature that has been published.

Less had been done to clarify motivations for the initiatives taken over the years after 1969 or to describe how the monetary establishment reacted. Nor had there been an attempt to explain the surprising result when, after so many failed initiatives over the years, the effort succeeded in the form of the Maastricht Treaty of 1991, which came to fruition in 1999.
This outcome could be explained in part by the events surrounding the unification of Germany. This and the fact that it was invariably the heads of state and government that took the initiative brought my outlook round to a perspective that was overwhelmingly political. This change led to a changed focus for the study. It became an investigation into the motivation for the initiatives, possible similarities between them, and an understanding of the final result.

For this investigation, a large amount of political literature had to be accumulated and digested in addition to the memos and notes that had originally been collected. With that, it became strikingly evident that the move to union has been an almost one hundred percent French-German affair. Other countries might have viewpoints, but initiatives came invariably from the two countries.

With the change of balance, and compared with most other presentations, the technical problems—in particular the Narrow Margin exchange-rate system—have receded to a less prominent level of importance. This means that most of the manoeuvring about the system has been omitted. However, for those who wish to explore it further, much illumination may be found in the many monographs that have been published. (See Tsoukalas 1977, Ludlow 1982, Gros and Thygesen 1998 and several special studies.)

The Treaty of Rome and Monetary Cooperation (1957–69)

The development of West European cooperation after the Second World War is unique from a historical viewpoint. The major driving force has been the wish to reduce nationalism and replace it with economic and political integration. Various treaties and institutions have marked the path to increased integration but it is not easy in each case to explain why a certain step was taken at a particular point in time.

The general pressure emanated from the resentment against the two European wars. Additional factors were the decline of European power compared with U.S. economic, monetary, and military dominance, from Marshall aid after World War II and the effective veto against the United Kingdom and France in the Suez conflict of 1956. In addition, the bipolar atomic balance, the specific political status of Germany, and the shaky balance toward the East added to the pressure.

The first European move toward integration was the establishment of the Coal and Steel Community in 1951. An attempt to broaden its scope into a defence community was rejected by France in 1954. It was a disappointment to Germany and the issue was taken up on various occasions during the years that followed.

Since then integration has mostly taken place in the economic field beginning with the Treaty of Rome (1957) and continuing with the Single Act (1986), the Maastricht (1991), and the Amsterdam (1997) treaties. The Treaty of Rome and the Single Act have been instrumental in creating a European region where goods, services, labor, and capital can move freely—that is, without administrative obstacles. The Single Act accomplished this by introducing numerous paragraph changes in the Treaty of Rome that extended the principle of free access to public sector contracts, services, and so forth, and by harmonizing standards. Although this freedom of movement goes further than that under the global rules defined by the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT—later, World Trade Organization [WTO]), the general liberalization process has meant that access to markets among industrial countries is roughly equivalent. This liberalization had been widely expected to allow cooperation within the established institutions to evolve gradually toward coordination of economic policy that would result in de facto economic and monetary union. Early in the process, Jean Monnet (1978, p.401) expressed it in the following way: “I therefore foresaw the gradual formation of a customs union, leading eventually to full economic integration.” This did not happen and the conditions for an economic and monetary union had to be negotiated and agreed, long after, in a separate treaty—the Maastricht Treaty of 1991, which, formally, is an extension of the Treaty of Rome.

An economic and monetary union could not, therefore, emanate gradually from within the existing community bodies, so political initiatives were necessary, and in this respect the relation between Germany and France was of crucial importance. In both countries reconciliation was a top priority but freedom of manoeuvring was not identical. The Berlin Declaration and the Potsdam Accord just after the war vested all authority with the allied powers—each in its zone of occupation.

In 1955, however, a fundamental change occurred. The United States and the United Kingdom both wanted to integrate Western
Germany in the Western alliance, which meant German rearmament. The French had serious misgivings, but a set of agreements—the so-called “Paris Treaties”—were signed in late 1954 by the Western allies, including France, and the Federal Republic of Germany (West Germany). They were adopted in 1955, and gave Germany the full authority of a sovereign state regarding internal and external affairs (Quint 1997, pp.250–54). To this agreement was added a declaration that accepted the Federal Republic as a member of NATO. The allies however retained rights and responsibilities in relation to Berlin and to Germany as a whole, including the ultimate reunification of Germany and a peace settlement. In addition the Western Allies and the Federal Republic stated that a reunified Germany should have a liberal, democratic constitution—like the Federal Republic—and be integrated within the European Community. Even though there were legal controversies about interpretation, in practice the two German states and the four allies accepted the rights defined in the Paris treaties as valid until their relinquishment by agreement, which happened 1990. At that time the question of these rights became an important issue.

1963: Elysée Treaty between France and Germany
Meanwhile, the ambitious nature of French objectives under de Gaulle’s leadership (1958–69) meant that France expected members of the Common Market to support French foreign and defence policy—particularly in containing American ascendancy. He was not able to persuade the three Benelux countries—Belgium, Netherlands, and Luxembourg—and therefore decided to establish a close relation with Germany in the Elysée Treaty of 1963 (Szász 1999, pp 21–22). The situation was quite tense, as de Gaulle in early January had rejected both an American offer to integrate the nuclear weapons and the British application for membership in the Common Market. In spite of this the German Chancellor Konrad Adenauer agreed to sign the treaty in the same month, on January 22nd 1963. The treaty prescribed consultations before decisions were taken between the two countries on practically every important question regarding foreign policy and defence policy. The aim was to reach analogous positions.

The German Bundestag would not accept such subordination and equipped the treaty with a preamble—to the fervent dismay of de Gaulle. The preamble secured free hands for Germany with respect to the United States and NATO and indicated that the treaty had no bearing on attitudes about British entry to the Common Market. The wording of the preamble was quite aggressive as it was stated that the treaty should be applied to the principal objectives that Germany had pursued during past years—for example, those regarding close association between Europe and the United States.

Willy Brandt—then Mayor of Berlin—met with de Gaulle before the preamble was formulated and stressed that the German people should not be exposed to unnecessary conflicts with, in particular, the United States. De Gaulle answered that his attitude was not anti-American but that Europe should act as a unity toward the United States; in this connection he remarked that the United Kingdom was not really European (Brandt 1976, p.137). In a later talk between the two de Gaulle did not conceal the fact that after the adoption of the preamble he considered the treaty a sentimental rather than a political document (Brandt 1976, p.143). The balance of power was thus rather complicated, and Germany was in a difficult dilemma because of its heavy reliance on U.S. military protection.

Attitudes toward the international cooperation
The Elysée Treaty stipulated—with the reservation in the preamble—close cooperation and coordination between France and Germany. When it came to important divergences on monetary questions between the French and the Americans, however, Germany always opted for the Americans. This applied to the extensive support schemes for the dollar in the 1960s—the swap network according to which the United States could borrow deutschmarks (and other currencies) for intervention purposes to support the dollar.

De Gaulle, on the contrary, in 1965 decided to launch an open attack on the dollar by instituting a policy of converting dollars into gold. The aim was to contain the hegemony of the reserve currency, which other countries according to the Bretton Woods system (IMF) in practice had to buy and hold as reserves—thereby in essence financing the global role of the United States. The attempt to return to the gold standard, as it was often described, was not supported by Germany. On the contrary the Bundesbank made a formal pledge to the Americans in early 1967 not to convert dollars into gold at the U.S. Treasury. A few months later, France left the gold pool, which was aimed at supporting the dollar by
keeping the market price of gold close to the official U.S. price of 35 dollars an ounce. Germany remained. The French gold strategy encountered a humiliating defeat when the student-inspired revolt of 1968 created serious difficulties for the French franc leading to devaluation in 1969.

France was also strongly against the special drawing rights (SDR) scheme within the IMF that was supported by the United States and in the long term, was considered a way of relieving pressure on the dollar. It was also thought that the SDR might gradually become a dominant reserve asset with a concomitant—but gradual—decline in the role of the dollar. Germany supported the United States and the scheme was adopted in 1968 with France being left alone in opposition.

In the European field there was greater scope for coordination between France and Germany even though German compliance at the political level became increasingly circumscribed in step with the growth of German economic dominance. The result was that over more than 20 years, Germany gradually surpassed France, beginning in the late 1960s. This came to have a bearing on the issue of an economic and monetary union for the Common Market as will become evident in this essay.

**Early debate on economic integration**

The evolution of the Common Market was decisively dependent on cooperation between its members because the vision of the Treaty of Rome (1957) went further than just creating a free market for goods, services, labor, and capital even though that was expected to contribute to peaceful conditions. Economic integration was an intermediate goal, but integration of political decision-making in a wide variety of fields was considered indispensable for progress toward “...an ever closer union among the peoples of Europe”, which were the introductory words in the preamble of the Treaty of Rome. Moreover, the treaty is vague on the issues of economic policy coordination. Articles 103 to 109 only talk about consultation and surveillance on general objectives such as balance of payments, employment, price stability, exchange rates, and coordination of economic policy.

This vagueness is not accidental.

A close observer, J. V. Ypersele (Ypersele and Koeune 1985, p.34) mentions that if “the supporters of tighter integration had tried to go beyond what had been obtained, by demanding more specific commitments on positive integration and economic policy coordination, they would have run the risk of destroying even the consensus that was attained,” Despite this understanding, it is often more or less tacitly assumed that the vagueness in the wording of article 107 about exchange rates and article 105 about coordination of monetary policy was connected with an absence of ideas or perception of what was necessary. This is a misinterpretation.

Already, during the first years after the signing of the Treaty of Rome in 1957, all the elements of the debate during the following years can be found. It was generally assumed, for example, that the abolition of barriers to trade required a system of fixed exchange rates. Otherwise a change of parity might cause wide disturbances in the flows of trade that would revive memories of the competitive devaluations of the 1930s. From early on, therefore, it was widely felt that it would, in the end, probably be appropriate to create a monetary union with a common currency. Two quotations from the debate in the German parliament in late March 1957 about the Treaty of Rome are illustrative. (Quotations are provided by the Bundesbank.)

A Dr. Hellwig complains in the Bundestag that the “crucial shortcoming is that in the treaty there is no obligatory foundation for the development of a common exchange-rate policy...”1 Later on, in the Bundesrat, Dr. Zinn mentions convertibility “...or the creation of a European monetary unit or a European monetary standard...”2

Jean Monnet, who was one of the standard bearers of the movement in favour of European unification, wrote in early 1958 to Felix Gaillard (Monnet 1978, 428): “The objective would be to establish a European financial and money market, with a European bank and reserve fund, using jointly a part of national reserves, with free convertibility of European currencies, free movement of capital among the Community countries, and the development of a common financial policy.” As will become apparent later on, this loose model came to dominate the political initiatives to establish an economic and monetary union. Already, in January 1959, the European Parliament had called for monetary unification similar to the Federal Reserve System (Tsoukalis 1977, p.53, note 10), and the political debate gained momentum in the early 1960s.
European monetary plans stimulated by weakening U.S. economy

This acceleration of the political debate, occurred against the background of a weakening U.S. economy and a strengthening of the continental European countries. The U.S. balance of payments showed big deficits and the British performance was constantly weak whereas the Six could present surpluses on the balance of payments and increasing exchange reserves. An anonymous memorandum of August 30, 1960 from the European Commission describes the complete reversal of the position of the United States over the 10 years from 1949 to 1959. During that period the short-term liabilities of the United States increased strongly to about 18 billion dollars whereas its gold holdings declined to less than 20 billion dollars and the current account showed a continuous weakness.

A crisis seemed to be looming and in those circumstances, the memorandum noted, it was urgent for the Six to "...face external and internal monetary problems as if they constituted a unity." They should act as a "...genuine economic entity rather than as a collection of separate states, likely to be isolated." Between the Six, exchange rates should remain fixed and a "Fonds Européen de Réserve", discussed in a special annex, could support this wish. Furthermore monetary policy decisions should be scrutinised in the "...Monetary Committee or the subcommittee of Central Banks before, rather than after, their adoption by the national authorities..." Later on it might be desirable for the Council of Ministers to oppose, by qualified majority, measures that might create serious problems for other members.

As regards international monetary reform it was suggested that the role, as reserve currencies, of the dollar and of sterling, be significantly reduced or abolished. The memo did not suggest transition to a common currency but recommended strongly a coordination of monetary policy, if possible under political control.

A year later on July 10—11, 1961 the Aktionskomitee für die Vereinigten Staaten von Europa (Action Committee for the United States of Europe) under the chairmanship of the indefatigable Jean Monnet adopted a unanimous declaration calling for the following: an economic and political unification of Europe; cooperation with the United States; establishment of a European reserve fund; and admission of the United Kingdom and other European countries to the Common Market.

The language of the declaration was quite explicit:

The Committee expresses the wish that the Commission and the Monetary Committee of the Common Market should, as soon as possible, prepare proposals for ways and means to establish a common European reserve fund that at least partly centralizes the exchange reserves of the six countries and that it should present these proposals for the member governments. The fund would make it possible for the Community to develop a common fiscal policy as a first step on the road to a European currency and, within the OECD, to contribute to strengthening the Western currency system.

The political content is very clear. By this time, the Six had, between them, foreign reserves that were close to the gold reserves of the United States. A European reserve fund could be instrumental in creating a European counterweight to U.S. monetary hegemony. The members of the committee included a surprisingly large number of highly placed European politicians. From socialist parties came Guy Mollet, Erich Ollenhauer, Giuseppe Saragat, and Herbert Wehner; from conservative parties, Kurt Kiesinger, Heinrich Krone, and Aldo Moro; from liberal parties, Maurice Faure, Ugo La Malfa, Antoine Pinay, René Pleven. There were, in addition, many employer representatives.

In parallel with this thinking, the European Parliament published a report in April 1962 on coordination of monetary policy, which among other things recommended a common monetary institution:

In developing a coordinated currency policy into a common one it will be necessary to create a community institution that is more far reaching than the Monetary Committee. Gradually it will prove necessary to have organized collaboration between national central banks in a community body that will in the end be responsible for the common currency policy without at that early stage being authorized to act in the role of a community central bank.

Last, in October 1962, the European Commission published an action program along the same lines, with a special chapter on monetary policy coordination. It recommended the formal creation of a Committee of Central Bank Governors—a body already meeting informally in conjunction with the monthly sessions of the Bank for International Settlements (BIS), in Basel. Such a committee should discuss every important monetary decision regarding, for example, discount rates, minimum reserve requirements, open market policy,
credits to the government, exchange rate changes, before their implementation by the central banks of member countries. Such preliminary deliberations would coordinate Community monetary policy. At the global level, policy attitudes should also be debated and in particular harmonized with respect to reserve currencies—dollar and sterling. Under the Treaty of Rome, tariffs between members should be abolished by the end of the 1960s, and then a monetary union could be a further step toward integration, and the "... Committee of Central Bank Governors would become the central body of a federal-style central banking system." 7

Although the action program as a whole had support from several politicians, including the French finance minister, Giscard d'Estaing, its tenor was too dirigiste, particularly for the Germans. The result was that, with one exception, the proposals advanced by the Commission were not adopted by the Council of Ministers at their summit meeting as heads of state.

The exception was the proposal for a Committee of Central Bank Governors. The decision of the Council stressed that coordination of monetary policy should be promoted by "...consultations,... which should take place, as far as possible, before any decisions are taken by the central banks." The central banks should examine important measures and this "... examination shall take place before the measures concerned are adopted where circumstances... allow."

Thus, during the decade until the end of the 1960s the debate included almost all the elements that were taken up in the following two decades ending in the Maastricht Treaty.

The elements of debate
The propositions included in this debate can be summarised as follows:

- First: Exchange rates should be fixed and possibly dominated by a common standard (unit). This is close to the prevailing IMF philosophy at the time, which considered a fixed-rate system a fundamental condition for international monetary stability in accordance with the spirit of the Bretton Woods system. The question of whether a common currency and a common central bank should substitute for national currencies was unresolved since, in a truly fixed-rate system, it can be seen as of secondary importance.

- Second: A European fund—perhaps similar to the IMF—could support exchange rate stability, acting either as an alternative to, or an intermediary for, an economic and monetary union.

This, later known as the problem of monetary divisibility, became a controversial issue over the years. This was because of the threat a fund could pose to national monetary sovereignty in pursuing a common exchange rate policy toward key currencies. The same difficulty might arise if a fund had obligations to mount special support operations for member currencies.

- Third: Central banks should coordinate monetary policy ex ante (i.e., before taking decisions).

- Fourth: Decisionmaking should be merged into a common system to give it more weight in the international arena and thereby reduce the dominance of the reserve currencies—dollar and sterling.

The debate founded on these issues had the potential to go in two different directions, and at different times it did. An evolutionary line, favored by France, became known as gradualism. It would have led eventually to de facto monetary union leaving monetary policy decisions in the national sphere. Another route would have been to create a genuine economic and monetary union. This could have been brought about either by additional political decisions made within the terms of section 235 of the Treaty of Rome or through a formal change in the treaty itself under the terms of section 236. The latter would be a more cumbersome procedure since it required the calling of an intergovernmental conference (IGC) to stipulate the exact changes. In the end, the cumbersome path to economic and monetary union was the one followed.

The evolutionary line was unsuccessful in spite of several attempts made in that direction. Resistance came mainly from the monetary and fiscal bureaucracies in Germany and the Netherlands. Both feared that gradualism would jeopardise their own stability-oriented economic policies while pulling their performance toward an average in respect of inflation, fiscal laxity, and a weak balance of payments. Divergence between economic performance in Germany and France threatened to tear the evolving European economic system apart and sharpened the different standpoints.
Germany's economic performance and its attitude to integration

Germany gradually discovered during the 1960s that its economic performance—price stability and surplus on the balance of payments—was of heavy political significance both globally (vis-à-vis the dollar) and within Europe. As this occurred, it became unwilling to yield on economic policy. In particular, monetary policy became sacrosanct as a symbol of German stability and, as a result, the French focused a large part of their discontent on the inflexibility of the Bundesbank.

The first dramatic confrontation came in 1968 after the student-inspired revolt in France, which put the French franc under pressure. On the central bank level there had been a dialogue and probably agreement between the two countries about a French devaluation of between 10 and 15 per cent. However, a tumultuous meeting about this adjustment between the finance ministers and central bankers of the G10 leading industrial countries took place in Bonn in November 1968. At that meeting, the political ambitions of Germany almost exploded, and the newspaper reports interpreted the German position as far outweighing the French.

A slogan formulated around the idea that Germany had become an economic giant and no longer intended to remain a political dwarf, making the strength of the deutschmark a political reality. De Gaulle was quick to understand this, and called off a French devaluation, which would have been humiliating. Nevertheless an adjustment was inevitable and was undertaken in 1969, after the resignation of de Gaulle. Then the franc was devalued by a little more than 11 per cent in August and the deutschmark was revalued by a further more than 9 per cent in October. This instituted the fundamental relation between the two currencies over the next decades and was felt as a defeat for France.

The authorities most directly responsible for the stability-oriented policy—Bundesbank and finance ministry—were the hard liners, unwilling to yield even small steps that might point at gradualism. To them an economic and monetary union should be a crowning step at the end of the road of perfect convergence of economic performance. Others—except the Dutch—were more pragmatic and, in the debates that followed, would turn out to be willing to take steps in the direction of an economic and monetary union even without perfect convergence.
Political initiatives

In those circumstances, initiatives could not develop from the committees that handled monetary cooperation, that is, the Committee of Central Bank Governors or from the Monetary Committee of the Common Market. Initiatives to move toward an economic and monetary union or perhaps solely monetary union had to come from political quarters. And they came in three waves—all motivated by a wish to further European political integration. In this essay, these three prospects are labeled the Brandt-Pompidou, the Schmidt-Giscard d’Estaing and the Kohl-Mitterrand initiatives. They came from heads of state, not from economic ministers or central banks, and the schemes got a tough reception among the experts.

Politicians have a natural preference for fields of cooperation that do not encroach on parliamentary or labor market areas. Monetary matters are such a field—at arm’s length from the political establishment. Instead of integrating fiscal policy making, labor market structures, and monetary policy it was always the last field—monetary policy—that was chosen as a stepping-stone to economic and monetary union. It was the point of least resistance. As we shall see, it was also an area that was exposed to tensions when other elements of economic performance did not converge.

The Role of the Committee of Governors

It was pointed out in the previous section that the formation of the Committee of Central Bank Governors in 1964 was the only tangible outcome of the early wide-ranging discussions about monetary cooperation. It was widely expected that work within this committee would gradually develop into monetary policy coordination and economic convergence that would ultimately lead to monetary union, either with de facto fixed exchange rates or a common currency. The hopes behind such assumptions, deriving as they did from expectations of what might result from creating a club and club mentality of central bankers, were mostly wishful thinking.

Limits to cooperation among central bankers

Cooperation among central banks may develop in limited areas if the banks have responsibility for running a common system—for example, the General Arrangements to Borrow (GAB), the U.S. swap system, the gold pool, capital controls, transborder banking supervision, and so forth. However, a loose commitment to coordinate national monetary policy never reaches much further than polite exchanges of views that are more or less public knowledge.

Over the years following the formation of the Committee, there were regular reports on its agenda about monetary development in the participating countries and important nonmember countries, but it was definitely ex post accounting. This does not mean that the information was useless, but there was never any serious debate on measures to be taken—that is to say, preliminary, or ex ante deliberations—as had been prescribed in the statutes of the Committee. Occasionally there were memos on differences in monetary policy instruments, but again no attempt to harmonize these among members.

The transition at the beginning of the 1980s to a more stability-oriented economic policy in member countries cannot therefore be connected with monetary policy coordination within the Committee of Governors. This transition was a more general phenomenon in the industrialized countries—there was a parallel development in Community and non-Community countries—when national priorities gradually changed in favour of stability and against inflation. The reason for the lack of initiative on the part of the Committee of Governors may be difficult to ascertain; there may indeed be several reasons. But one important point is probably the differences between the constitutions of the central banks in the big countries.

The Bundesbank had a solid independence from the German government; however, the president of the Bundesbank, who was a member of the Committee of Governors, could not commit the board of the bank, which over the years became increasingly powerful and less and less willing to accept a fait accompli by their president. The Banque de France was clearly under instruction by the French minister of finance, and the governor could with immediate effect be dismissed, which actually happened twice during the period in question. The Bank of England was similarly in the hands of the Treasury, both regarding policy measures and policy analyses, even though the governor was appointed for a fixed period. The position of the Banca d’Italia was less clear and to a large extent dependent on the strength of personalities. Smaller members might have better possibilities of cooperation or discussing future policy decisions but their weight in the financial landscape made them clearly unimportant.
The position of the Bundesbank gave rise to many misunderstandings both within the G7 and between French and German politicians. The Bundesbank felt—correctly—that other members of the G7, or the Community, would prefer Germany to undertake a more expansionary monetary policy and that this was particularly true of government representatives. The Bundesbank response was therefore to avoid such pressure. German members of the Committee of Governors remarked in personal conversations that “In case we talked about the future with a colleague, we wouldn’t know with whom we were talking, central bank or finance ministry.” In other words, the suspicion was that the finance ministry instructed the central bank.

The differences in constitution between the banks was compounded by the risk of leaks. The question of future monetary policy decisions is so delicate that it would have been highly embarrassing if a statement about future measures were leaked to the press and the markets. Cooperation was thus concentrated on a concrete mechanism, namely the narrow-margin exchange rate system. This was the “snake” with narrower margins than the IMF “tunnel”. The tunnel was defined by the Bretton Woods system, where individual currencies moved in a band of plus or minus 1 percent around their parity toward the dollar. The snake currencies decided to move in common inside this band.

**The narrow-margin system of floating rates**

The narrow-margin system was adopted in 1972 and lasted until 1993, when in effect it was suspended. Cooperation during that twenty-one-year period was limited to administering the system, but coordination of monetary policy did not follow. The establishment of the system was connected with the political considerations of an economic and monetary union following the 1969 meeting in The Hague, where Willy Brandt proposed an economic and monetary union, and the Werner Report in 1970. These events will be discussed in the next section.

The narrow-margin system was a curious construct because it was under divided responsibility. The fixing of central rates or parities was a governmental decision, and negotiations about changes were in the end taken by finance ministers. The management and financing of the system was a pure central bank arrangement for which agreement was signed by the presidents or governors. This distinction may not have been very important in France or the United Kingdom, but it was in Germany. Rules regarding intervention, interest payments on balances (remuneration), and settlement (repayment and credit periods) were thus decided at the central bank level, but exchange rates and margins at government level.

This curiously constructed system ran immediately into difficulties in spite of the fact that the starting point was the Bretton Woods system of fixed rates. The system, decided in March 1971 but not put into operation until April 1972, had deteriorated into ineffectiveness by 1974, as the four big currencies—deutschmark, franc, lira, and sterling—floated vis-à-vis each other. The United Kingdom, Italy, and finally France had to leave. Germany and a group of small countries then maintained the system.

British and Italian authorities were complacent about floating and did not advance proposals for adapting the system to make membership easier for the big currencies. The French took a different approach, exerting almost constant pressure to re-establish a viable fixed-rate system among community members (see box 2). However, this activity was not executed in the Committee of Governors.

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**Box 2: Italian lira, French francs and British pounds per Deutsche mark, 1970 to 1992**

![Graph showing]].

Source: Bloomberg
The French platform for these endeavours was the German political commitment based on Willy Brandt’s proposal in late 1969 to work toward an economic and monetary union with the aim of coordinating monetary and exchange-rate policy. Even though the basic idea underwent substantial changes during the negotiations in 1970–72, for the French it remained that of working gradually toward a process that could end in a European central bank system. Brandt’s original offer (which will be outlined in the next section) did not succeed, and neither did the reduced models that came into existence. But the commitment to deepen the Community remained.

**The Fourcade Plan and other French initiatives**

In September 1974—about half-a-year after France had to leave the snake—the French finance minister, Jean-Pierre Fourcade, proposed a plan to make the system more symmetrical and the task of adjustment more equally distributed between strong and weak currencies. The plan was not accepted but further initiatives were taken. The list is quite impressive.

In May 1975, an amended Fourcade Plan was presented without success. In 1978 at a meeting of the Council of Ministers a new initiative was launched—the Schmidt-Giscard d’Estaing proposal—which included elements of the Fourcade Plan. In the end, however, it failed to achieve substantial changes in the existing system. The establishment of a new European fund had after some years of debate to be relinquished, because it would require a change in the Treaty of Rome. (See section below on Schmidt-Giscard d’Estaing initiative.)

In the 1980s, several French initiatives were launched in the Monetary Committee of the Common Market in order to try to create progress on a noninstitutional line, but it was again reduced to almost nothing. Progress was considered too limited by the French, and the discussion about an economic and monetary union on a treaty basis was resumed in 1987–88. A systematic innovation was adopted with the establishment of the Delors Committee that included all the members of the Committee of Governors. A blueprint for economic and monetary union, which was approved by the central bank governors in the committee, was presented in 1989. This led after much negotiating to an intergovernmental conference (IGC) and finally to the Maastricht Treaty.

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**Bank governors generally left the initiative with statesmen**

In each case the initiative had come from the political level and never from the Committee of Governors. For various reasons the attitude of the members of the committee was that the question of an economic and monetary union belonged to the realm of politics and was not a central bank issue. This opinion can be illustrated by quotations from two leading central bankers. The Dutch central banker M.W. Holtrop gave the following expression to the idea:

As a European with a touch of idealism, I do not find this idea in itself so difficult. Personally, I am quite prepared to accept the idea of a federal Europe that will one day—like the United States—have a federal central-banking system, as an ideal worth striving for. But as a practical man and responsible head of a central bank in an as yet by no means federal Europe, I must voice a warning against the idea that it would be possible and acceptable to have a federal central-banking system before a federal Europe. It is for the statesmen and not for the governors of the central banks to give form and content to the Europe of the future.

Bundesbank president, Karl Blessing (1966, p.122), expressed a very similar idea:

As a European I would be willing to approve the ideal of a European monetary union and also to accept a centrally managed federal central banking system...but...[A] common currency and a federal central banking system is only feasible if apart from a common trade policy...a common policy in general is also undertaken, in brief when a federal state with a European Parliament is created that has legal authority toward all member states....As long as the Common Market remains a community of sovereign states...so long must the internal and external defence of the individual currencies be primarily the responsibility of the individual country. A federal common central bank presupposes a federal common state. It can therefore only be the final stone in the building of a European federation.

When the governors were asked to prepare a blueprint for an economic and monetary union in the Delors working group they could agree on a model that was technically feasible, but it was out of the question to obtain a recommendation from the group to establish such a system.

The economic literature abounds with analyses of welfare gains or losses in connection with economic and monetary union. It goes under the heading of an optimum currency area—originally
presented by Robert Mundell and later with contributions by many professional economists (Taylor 1995, ch.4). The analysis mostly compares two stationary states and does not lend itself easily to clear-cut conclusions. The question of welfare gains may have interested some governors but it was never debated in the Committee. It was taken for granted that an economic and monetary union under certain conditions was a feasible proposition but that it was an entirely political issue. Over the years there were tensions within the Committee of Governors when proposals were made by politicians to move in small steps toward coordination of policy decisions. This occurred both in the exchange market area and in respect of monetary policy.

Role of the Bundesbank in promoting convergence

The Bundesbank had an impeccable record and the following indisputable argument: When the band had to be defended the deutschemark was invariably at the top and other currencies at the bottom. Almost all crisis interventions included the deutschemark and this was considered a risk for German monetary policy even though interventions were unwound, and it has never been documented that it had a noticeable effect on German money supply. It created, however, a German reservation and even resentment against the system. This reservation once found expression in the wording: “We have no exchange-rate policy, only monetary policy.” There was indeed a class difference.

The independence of the German Bundesbank became increasingly indisputable as German policy performance developed successfully. Any commitment that went further than that agreed in 1972—the narrow-margin system—was considered an inroad into this independence. This led gradually to the doctrine of monetary indivisibility, defined as follows: monetary and exchange market policy is a whole, and one cannot transfer part of the area to other decisionmakers—either formally or via negotiations. The commitment of the Bundesbank toward price stability and the identification of price performance with monetary policy made such a development almost unavoidable.

There are many examples of divided responsibility or grey areas in monetary policy so the doctrine was essentially a political stand that rejected any kind of interference. The quotation from Blessing states bluntly that, as long as the Community consists of sovereign nations, the internal and external defence of currencies must be the responsibility of the individual country. Such a philosophy limits the leeway for gradualism by way of ex ante deliberation regarding monetary policy. The management of the exchange-rate system will, under those circumstances, degenerate into crisis management where the weak currency is always held responsible. The doctrine of indivisibility of monetary policy—as initiated in essence by Blessing—became an effective barrier to gradualism.

The Bundesbank model—devotedly supported by the Dutch—meant that economic convergence should be at the best—that is, German—level. When the basic condition—economic convergence—was fulfilled the transition would be a quantum jump to a new system. This attitude was accepted in the Committee of Governors as an expression of the German political stance even though most members might have a preference for gradualism. France was obviously favoring a gradual approach because transfer of big lumps of sovereignty ran into Gaullist reservations. But France could not rally support within the Committee of Governors because its economic policy performance was so unstable and unpredictable—1968 and 1981 are the worst examples. Lack of credibility in the French policy performance was the primary reason for there being no alternative to German dominance. The political vision of a gradual integration of monetary and of exchange-rate policy under the auspices of the Committee of Governors thus came to nothing.
II. The Brandt-Pompidou Initiative

The Hague Summit and the Werner Committee (1969–72)
Of the various initiatives taken to push further ahead with unification after the Rome Treaty was adopted, the only tangible result until the end of the 1960s was the formation of the Committee of Governors in 1964. This committee had the task of coordinating monetary policy, but conditions were not conducive to this end. Although there were many proposals regarding progress toward economic and monetary union, forces of divergence between Germany and France dominated the decade. As noted in section 1 on the Treaty of Rome, France could not persuade Germany or the other Common Market countries to follow French strategy on the international monetary plane.

An anticlimax occurred in 1968 after the student-led revolt in France, which destabilized its economy and led to humiliating devaluations vis-à-vis the deutschmark. Together, these totaled about 20 per cent, demonstrating Germany’s economic dominance and the extent to which monetary policy had been politicised—making it an issue in high-level political negotiations. This involvement in politics happened in 1969, the year when Willy Brandt became German chancellor. Brandt saw it as important to seek a new understanding with the East to supersede the atmosphere of the war, but there were strong reservations within Germany.
about the way he took these initiatives. His moves also caused serious misgivings in France and to some extent in the United Kingdom and even the United States (Szász 1999, pp.26–28).

Eric Roussel (1984, p.407), in his biography of the French president, Georges Pompidou, notes that Pompidou was concerned about Brandt's policy moves, not least because Brandt had launched his policy toward the East without discussions with other governments. Such independence opened the prospect of a neutralized Germany with a possible return to nationalism. Pompidou specified later on: "Europe must tie Germany to Europe in such a way that it can no longer disengage itself." It was therefore highly expedient for Brandt to demonstrate that Germany was truly linked to the West.

To this must be added that until shortly beforehand there had been deep divergences between France and the other five member countries on the question of enlarging membership. De Gaulle had vetoed British entry twice—in 1963 and 1967—in rather undiplomatic terms. There are some suggestions that de Gaulle had changed his mind before he decided to retire in April 1969 (Tsoukalis 1977, p.82). It was, however, left to his successor Pompidou to express a positive French attitude and to commence negotiations with the United Kingdom and other applicants in order to widen membership. With this in view, a summit between the six Common Market countries was summoned by Pompidou in The Hague in December 1969.

According to Hans Tietmeyer (later, president of the Bundesbank), an internal German seminar on possible European initiatives after de Gaulle's resignation, had in the summer of 1969, preceded the December summit in The Hague (interview, 5 September 1997). At that seminar, Brandt's adviser had been in favour of working on an economic and monetary union apparently without recognising the difficulties that would emerge. The impression given by Pierre Werner, then prime minister of Luxembourg, was less precise (interview, 10 October 1996). He felt that Brandt with his true European leaning had become engaged in the question of improving monetary cooperation.

Brandt's proposal at the Hague summit was in rather precise terms. On the first day he made a speech (Europa-Archiv Folge 14/1972 D331) that began by stressing that the Community should not form a new bloc and that Germany aimed at an understanding with the East in cooperation with and attuned to its partners in the West. This meant that he did not want the German move to be looked upon as a solitary undertaking. He made his positive attitude to an enlargement of the Community explicit, and added that those who were afraid of German dominance might look favourably on the reduced weight of Germany in an enlarged Community. Then he expressed the political will gradually to create an economic and monetary union. It was the first time that a German government had stated its willingness to enter negotiations on this project.

Brandt mentions both in his memoirs and in his political account (Brandt 1976, p.322; 1989, p.456) that he had been inspired by Jean Monnet, whom he admired, to launch the project. His technical departments—central bank and ministry of finance—had, according to Brandt, recommended extreme caution. The important core of his offer was to contribute to the creation of a European reserve fund. This would be formed by transferring part of German exchange reserves, along with reserves from other members of the Community, for use under common administration. Such a scheme would presuppose coordination of short-term economic policy by establishing quantitative medium-term economic targets. Implied in this formulation was a request for parallelism between economic performance and exchange market cooperation. While stressing the importance of parallelism, the launching of the scheme implied a strong commitment to a positive attitude toward progress in the monetary field.

A string of proposals and decisions was set in motion by these ideas, some of which were premature, but some of which had long-run effects. The summit at The Hague ended—as expressed in the communiqué of the Council of Ministers—with an agreement that "...a plan by stages should be drawn up by the Council during 1970 with a view to the creation of an economic and monetary union." The communiqué noted that "development of monetary cooperation should be based on the harmonization of economic policies." It also noted that "They [the heads of state] have agreed that the possibility should be examined of setting up a European reserve fund, to which a common economic and monetary policy would lead."

A committee was established in March 1970 under the chairmanship of Pierre Werner of Luxembourg who had already launched a proposal on an economic and monetary union in early
1968. Other members came from the various policy committees of the Common Market and the Commission. In forming the Werner Committee, it was apparently assumed that the political will was available and that technicians could quickly provide a blueprint to set the project in motion. However, the German and Dutch conception of the preconditions for an economic and monetary union was along the lines of the quotations from Blessing and Holtrop in the previous section, on the Committee of Governors. That is to say, they saw it as requiring far-reaching political unification with transfer of national sovereignty to community institutions. The French, meanwhile, were mainly focused on establishing an exchange-rate system that could be kept stable by mutual support. They had, moreover, a negative attitude toward transfer of sovereignty that was colored by the influence of Gaullist policy.

Giscard d'Estaing, who had been in favour of economic and monetary union and had returned as finance minister after de Gaulle's resignation, gave a very clear formulation of his position in 1969. In a speech on the international monetary order (Giscard d'Estaing 1969, p.18) he argued that the reserve currencies, dollar and sterling, should be supplemented by a European unit. The six Common Market countries should initiate deliberations on a monetary union.

To deal with the problem of international settlements on the basis of only two currencies would be to ignore the contemporary facts. We can see that the debate would be made clearer by the emergence of a third monetary unit that would be the common medium for the external monetary action of the Six.

The objective was a precise portrayal of French thinking. The major interest was to make the Community a platform for a better balance in world financial questions especially a reduction of the dominance of the dollar. It showed no interest in obtaining political unification of the Six. Furthermore, the thinking was about a monetary union and not a coordination of economic policy in general. Thus it deviated from Brandt's stress on parallelism between economic performance and exchange market cooperation. The two different attitudes came to dominate the work in the Werner group.

Tietmeyer (1971, p.414) gave this view of the disagreement:

Differences of political priority and distinct economic interests were concealed behind these differences of opinion. First and foremost the French part was from the beginning very reluctant to accept a clear definition of the institutional and political consequences of an economic and monetary union. They aimed apparently more at a monetary union than an economic one."

A compromise had to be struck, and it was presented in an interim report to the Council of Ministers in May 1970. It envisaged a phased program, of which the first phase should last three years, but it did not set a timetable for succeeding phases. Economic and monetary union might be realized in 10 years. Werner remembers (interview, October 10th, 1996) that Giscard d'Estaing was quite positive, regarding the interim report, giving him (Werner) a green light to finalize the report. The Council of Ministers accepted the broad lines, and a final report was submitted in October 1970 (Tsoukalis 1977, p. 101).

The report of the Werner Committee

However, the report was to a large extent dominated by German and Dutch attitudes. An economic and monetary union would mean that “the principal decisions of economic policy will be taken at Community level and therefore that the necessary powers will be transferred from the national plane to the Community plane.” (Werner Report 1970, p. 26.) This would entail progressive political cooperation and it appeared that it would be “a leaven for the development of political union, which in the long run it will be unable to do without.” (Werner Report 1970, p.26.) Monetary policy would have to be centralized completely, but regarding other types of policy it would be necessary “to guard against excessive centralization.” Subsidiarity, as decisionmaking at the lowest appropriate level of government, should be respected (Werner Report 1970, p.11.).

These German and Dutch standpoints were fundamental. In other respects the French had some influence. The French-led countries of the Committee accepted that there should be a parallel development of economic convergence during the first phase but in the form of recommendations, not obligations. They had wanted clear obligations regarding exchange rate fluctuations vis-à-vis third currencies—that is, the dollar. The report is rather vague in this respect. It stated that during the first phase “…by way of experiment, the central banks acting in concert will limit, de facto, the fluctuations…. This objective will be achieved by concerted action in relation to the dollar.” (Werner Report 1970, p.22.)
Brandt’s concept of a European reserve fund rather early underwent a transformation from a concrete proposal to something less certain. The report stated that a “European fund for monetary cooperation” under the control of the governors of the central banks should be set up as soon as possible. This might be as early as the first stage if interventions in the exchange markets functioned normally and without friction, and if sufficient harmonization were achieved in economic policies. If established successfully, the fund would gradually become an organ for managing reserves and be integrated into a central banking system that would then be created (Werner Report 1970, p.25). In this formulation, it was no longer a concrete proposal but a hypothetical eventuality, and its development later on became a great disappointment to Brandt. The vagueness on this point was apparently the result of strong differences at home, between Brandt on the one hand and the Bundesbank and the ministry of finance on the other, about the role of a reserve fund.

In contrast to its vagueness about the fund, the report was pretty precise about monetary policy, in respect of which, two obligations would be addressed as early as the first phase. In order to obtain coordination of monetary policy “prior obligatory consultations will be held within the Committee of Governors” (Werner Report 1970, p.21). Regarding exchange rate policy “the central banks are invited, from the beginning of the first stage, to restrict on an experimental basis the fluctuations of rates between Community currencies within narrower bands than those resulting from the application of the margins in force in relation to the dollar.” (Werner Report 1970, p.28.) The report further recommended intervention in Community currencies and that a progressive narrowing of margins be adopted. This latter point was based on a technical report that was delivered by the Committee of Governors—the Ansiaux Report—that was annexed to the Werner Report.

The political reaction in France to the Werner Report came as a shock to Pompidou (Werner, interview, 10 October 1996). He had underestimated the Gaullist resentment of a European superstate, and he had to find a new compromise instead of what had been accepted in the Werner Report. The negotiations that resulted were extremely difficult, as France was isolated vis-à-vis the other members. It was not willing to embark on a project that would end in a transfer of large parts of macroeconomic policy decisions to Community institutions (Tsoukalis 1977, pp. 108-10).

In January 1971, Pompidou and Brandt finally agreed on a compromise that was adopted by the Council in February and was formulated as a resolution in March 1971. The essence was to concentrate on the first phase without transfer of decisions to common institutions. The Council should survey economic performance at three meetings per year. A report on the European Fund for Monetary Cooperation should be prepared before the end of 1972 defining how it could be integrated in the ultimate system of central banks—a single currency (monnaie unique) was mentioned. Again it was hinted that this fund might be established during the first phase. Monetary policy and exchange rate policy should be coordinated. There was no timetable for the creation of an economic and monetary union.

At the meeting of the Committee of Governors in April 1971 the two issues were addressed. The question of prior consultations on monetary policy was treated in very general terms and it was suggested that exchange of views and information might ordinarily take place at the monthly meetings. This meant that it would be an item on the agenda but there was no intention to negotiate about monetary policy decisions.

In March, the governors had already decided in principle to reduce the margins between Community currencies, on an experimental basis, from 1.5 per cent to 1.2 per cent as from 15 June 1971. The order of magnitude of these figures was connected with the fact that the European Monetary Agreement that was put in force in 1958 had defined a margin of 1.5 per cent around parity toward the dollar—plus 0.75 per cent and minus 0.75 per cent—which was less than the 2 per cent of the IMF statutes. The original motivation for the European Monetary Agreement of 1958, which was not a Community arrangement, was that the large amount of trade within Europe made it preferable to limit fluctuations of exchange rates. Under this system it was the responsibility of the individual country to maintain its currency within ±0.75 per cent of its defined parity vis-à-vis the dollar.

There was therefore discussion between the experts and within the Committee of Governors at the March 1971 meeting about how to organize a concerted intervention between the members. They also discussed how to determine a “niveau communautaire” of this
narrow-margin system (the snake) toward the dollar—that is, what the position of the snake should be within the tunnel. This might be quite complicated, and there was no obvious solution.

Furthermore, there was disagreement in the expert committees on the question of an opting out clause in case of extreme difficulties. The German and French governors were against such a clause; but since it was intended to commence the experiment in two months time, a very vague formulation was accepted so that the decision to reduce the margins could be published immediately. Finally a telephone system for handling three daily consultations, which had started already in March, was confirmed. This market surveillance expanded over the years to include all currencies of importance and was very important as a way of avoiding misunderstandings.

One month later, in May, an exchange crisis created by uncertainty about the dollar brought havoc to the markets, and to the negotiations. Dollar inflows into Germany had scared the monetary authorities; in order to avoid the risk of instability and inflationary tendencies the German government—against the advice of the Bundesbank—launched a proposal for a joint float of the six Community countries vis-à-vis the dollar. It was suggested by the German finance minister, Karl Schiller, that the float could be financed by Germany (Hoffmeyer 1992, pp.88–93). It met with support only from the Dutch; the other members were clearly against. In spite of that, the Germans and the Dutch decided to float, which provoked the French to discontinue further negotiations on monetary questions, and the decision to narrow the margins could not be activated.

The dollar crisis continued and led to a dramatic confrontation between the United States and the other industrial countries—in particular, the European. The American attitude hardened. The Nixon measures in August 1971 included a final abandonment of the gold convertibility of the dollar and an import surcharge that might inaugurate a period of increasing protectionism. This was followed by an American request for a broad revaluation of non-U.S. currencies that according to econometric calculations should transform the current U.S. deficit on the balance of payments to a substantial surplus. It was an unprecedented request, and it was very important that the Community countries should coordinate their responses toward the Americans. They had succeeded by September and agreed on a policy line that aimed at a general readjustment of parities, including the U.S. dollar, and a reestablishment of a fixed-rate system, which had been broken by the inconvertibility of the dollar. (Only the Benelux countries had created a fixed system, later named the worm, with a bilateral margin of 1.5 per cent.) In addition, it was requested that the American surcharge be withdrawn.

This endeavour succeeded in December with the agreement in Washington (the Smithsonian Agreement). Here exchange rates were adjusted, including a devaluation of the dollar in terms of gold—the official price of gold was increased from 35 dollars an ounce to 38 dollars—and a widening of the IMF margins from ±1 per cent to ±2 per cent.

It was now time to resume the work on monetary cooperation within the Community, and this was done at a meeting in February 1972 between Pompidou and Brandt. Now an understanding was not difficult. The result was considered so important that the two, contrary to custom, appeared before the press and each delivered a statement. Both underlined that there was full concord regarding relations to the East. Brandt’s formulation was that policy toward the East starts in the West and that the important point was whether France and Germany agreed. He concluded, “Sie sind einer Meinung” (“They are of the same opinion”). They furthermore agreed to resume work on an economic and monetary union, and they would present joint proposals to be negotiated at meetings in the near future. This was done on 21 March 1972 by a resolution on a stepwise realization of an economic and monetary union.

Experts of the Committee of Governors had papers ready in January and February on the important issues. These were the definition of the band (margins), rules on intervention, the “niveau communautaire” and the settlement of balances. Already, in the Ansiaux Report, intervention in community currencies had been suggested on an experimental basis (Werner Report 1970, p.48), and this was now very important for the Germans who were anxious not to be flooded with dollars.

Different interests were the following:

The Germans preferred a wide band in order to limit interventions; France for various reasons a narrow one. The Germans would limit the obligation to intervene in support of weaker currencies but would prefer intervention in community currencies to defend the band—dollars should not be used, except when the snake reached the IMF limits (the tunnel). The French would opt for
unlimited intervention in order to make the system credible. The Germans would avoid defining a certain level of the dollar, which the French wanted.

Eventually a model was chosen that was built on the parity-grid system where bilateral parities were defined between all participants and also bilateral limits—bands—that had to be observed. If a currency reached the lower or higher limit, intervention in the market had to be made in order to defend the limit. The strong currency had to provide an unlimited supply of its currency and the total amount that was drawn had to be settled at the end of the following month. Settlement had to be made in proportion to the debtors’ composition of reserves.

This system was not a unique invention, although it may sound like one. Under the existing IMF regime, par values of member currencies were defined against the dollar and a parity grid could be calculated covering all participating currencies. Likewise bilateral bands could be calculated on the basis of the general rules. These bands might be narrowed according to the preferences of participants, as with the Benelux arrangement that was maintained until 1976.

An agreement between the central banks of the Six was signed in April 1972, and the applicant countries—the United Kingdom, Denmark, Ireland, and Norway—joined a month later. The question of parities and margins were, as mentioned, decided by governments, but the intervention rules and financing by the central banks.

The fate of Brandt’s important offer to create a European reserve fund pointing toward a common central bank was dismal. Already in the Werner Report the name had been changed to “European Fund for Monetary Cooperation” (the abbreviations were in English EMCOF and in French FECOM) and as mentioned earlier several conditions were attached to it. Szász describes how the project degenerated into a bookkeeping agency, virtually run as a subsection of the Bank for International Settlements (BIS) in Basel (Szász 1999, p.49). Brandt mentions in his memoirs that he regretfully had to make a retreat at the summit in October 1972 regarding the European reserve fund. Transfer of exchange reserves was not possible without change of the Bundesbank Act and in the development of the Community he was (Brandt 1989, p.456) “much more restrained than was appropriate according to my understanding of what was necessary.”

Over these two years, blueprints for monetary cooperation within the Common Market had moved from the professional to the political level, and the heads of state had taken the initiative. Brandt’s offer was probably connected with the need to demonstrate that Germany was embedded in the West as a corollary to the appeasement toward the East, and it was made against the wish of the German monetary establishment.

The scope of monetary cooperation was, as it turned out, limited to exchange market operations—the narrow-margin system—whereas monetary cooperation proper, fiscal policy, and cost development were left vague and in the hands of many expert committees that had no political power. It is worth noting that the question of asymmetry did not appear in the discussions among the experts or in the Committee of Governors. In observing the ground rules for the discussion, the French were just as strict as the Germans. This applied in particular to intervention only in Community currencies, no opting out clause, and strict adherence to the settlement prescriptions—that is, according to the debtor’s composition of reserves.

The new system was probably considered a rather limited step within the amended fixed-rate system of the IMF. It could be said that the narrow-margin system originally was an amendment of the European Monetary Agreement of 1958. Instead of being supported by unilateral dollar interventions it was transformed to a deutschmark system with Germany providing the necessary deutschemarks for intervention purposes.

Nobody could have foreseen that the Washington agreement of December 1971 would only last a little more than one year. It had been hailed by President Nixon as the most significant monetary agreement in the history of the world. It was abandoned in March 1973, and then the tunnel disappeared, and the narrow-margin system became a genuine joint float system with no link to the dollar but still mostly supported by deutschmark intervention. In practice it was, however, blurred by the fact that many central banks intervened intramarginally in dollars in order to prevent rates reaching the limits.

Brandt’s vision, as inspired by Monnet, had taken a hard beating, but the elements were now on the political agenda. It was a political issue and not driven by calculations of possible welfare gains. The vision included a quest for a stable exchange rate
system, supported by a European reserve fund, and coordination of monetary policy ending in a common central bank system with a single currency—monnaie unique. The path to economic and monetary union would require convergence of economic performance and it would either promote or be conditioned by political unification.

It is understandable that Brandt has expressed some acidity regarding those who worked against him at the time but later claimed the credit for what has happened over the last ten years—those who put on their hats the flowers that they previously had picked to pieces (Brandt 1989, p.456).

Experiment and Breakdown (1972–76)
The great vision of an economic and monetary union that was launched at the Hague meeting in December 1969 had crumbled. There was no transfer of sovereignty to community bodies that would be responsible for macroeconomic policy. There was no firm commitment to national economic policy convergence. There was not even a firm agreement to realise an economic and monetary union at the end of the decade. The issue was now on the political agenda, but progress was left to the technical experts in the form of the Committee of Governors.

Management of the narrow-margin system
Politicians left to the central bankers three tasks. The first was to coordinate monetary policy and, in particular, to discuss monetary measures before they were decided. The second was to narrow the fluctuation margins between member currencies. The third was to establish a “European monetary cooperation fund” that might evolve into a European central bank. Thus the precise obligations were all in the monetary field. Of these three the first was expected to develop gradually and had a long-term dimension. As indicated in section 2 there was no intention within the Committee of Governors to establish a framework for the execution of such an obligation—and it was never actually adopted. The third—the European Monetary Cooperation Fund—was established, but as an empty shell. The second task of narrowing the fluctuation margins was generally viewed by the Committee of Governors as the most important objective.

The primary purpose of a fixed exchange-rate system is to limit market fluctuations between currencies—for example, the number of French francs per deutschmark. Managing such a system presents a lot of technical problems, and these are surveyed in this section and discussed in detail at the end. From a technical point of view, the new system—the narrow-margin system based on the parity grid—was not a big step. The European Monetary Agreement, which was activated in 1958, had limited the fluctuations between an individual European currency and the dollar to ±0.75 per cent around the parity toward the dollar instead of the ±1 per cent of the International Monetary Fund Agreement. This 1-1/2 percent band around the dollar allowed bilateral European fluctuations up to a maximum of 3 per cent.

The Smithsonian Agreement of December 1971 had widened the IMF band from 2 percent to 4 percent—the tunnel—which meant that bilateral fluctuations of currencies other than the dollar could reach 9 percent. The Common Market countries agreed instead to fix bilateral margins at 2 percent and limit fluctuations to 4 percent. Nonetheless, both bilateral margins and fluctuations were actually increased compared with the situation before the Smithsonian Agreement. The main difference was that interventions were limited to member currencies—the snake—as long as the IMF limits were not reached—in which case dollar interventions were accepted to defend the tunnel.

It is important to understand that the intervention rules—member currencies to defend the snake limits and dollars to defend the tunnel limits—were not technical necessities. The international value of, for example, the French franc would be equally influenced by intervention in deutschmarks or dollars or other currencies. An additional demand for francs would increase its relative value to all other currencies—so that the snake limits might just as well be defended by dollar intervention, and the tunnel limits by interventions in European currencies. It was a German preference to limit interventions in dollars. The Germans feared that if weak European currencies were supported by sales of dollars from official holdings, this would increase the total supply of dollars to the market and might give further impetus to capital inflows into Germany.
Link to the dollar abandoned

The Basel Agreement that created the snake was signed on 24 April 1972, but after a little more than one month of its existence it ran into serious difficulties. Expectations of a deterioration in the British balance of payments created strong pressure on sterling from the middle of June. Other member countries had to support sterling according to the rules, but after having lost one third of its exchange reserves the British government decided on 23 June to abandon margins of both the snake and the tunnel and let sterling float. There was no previous discussion within the Committee of Governors nor, later on, about possibilities for re-entry.

The reaction was quite different when the Italians indicated that they might choose to follow the British example and let the lira float. The other governments of the six founding Community members were alarmed by such a possibility, since it would ruin the narrow-margin project that had been set in motion only a couple of months earlier. An Ecofin meeting (ministers of finance meeting as the Council of Ministers) was summoned in Luxembourg on 26 June. Here a decision was made to maintain the narrow-margin system—the snake—but allow the Italian central bank to intervene in dollars to defend the position of the lira within the band of the snake until the end of September 1972. Italy was, furthermore, granted a loan to support its exchange reserves. The background for this compromise was that Italy, according to the rules, would have to settle intervention debts to member central banks according to the composition of its reserves of which gold was a large proportion. Settlement would have to be made at the official price of gold, 38 dollars an ounce. Since the free market price of gold in London was 65–70 dollars an ounce, Italy would thus lose nearly half the value obtainable on the free market. Denmark, which was still a candidate for membership of the Community, could not obtain a similar derogation and decided, as a result, to leave the snake for the time being but remain within the IMF limits. Thus the attitude of the founding Community members was quite different toward Italy—already a member—than toward newcomers.

The waiver granted to Italy was presumed within the Committee of Governors to extend only until the end of September, after which Italy would have to observe the general rules. This the Italian governor did not accept, and he pointed to the understanding, when the system was adopted in April, that a revision should be considered after half a year. The Italian perspective on the system was strongly negative and based on the viewpoint that economic convergence between members did not yet justify a narrowing of margins. Under those circumstances, the Italians felt, the best solution would be to abolish the snake and observe only the IMF limits. A compromise solution would be to exclude gold from the settlement rules and wait for a general solution of the gold price problem within the international negotiations of a group called the G20 representing the member countries of the IMF. After a long debate it was agreed to prolong the derogation for Italy until the end of December. The debate continued both among the experts and within the Committee of Governors, and a compromise was eventually reached according to which any increase in the price of gold over two years would go to the debtor.

During the debate both the German and the French members were dogmatic about maintaining the original rules and expressing strong reservations regarding interventions in dollars. It is worth noting that the French did not show the slightest uneasiness about asymmetry or a need for restructuring the system. Perhaps this was because the negotiations occurred at a time when the franc was not under pressure in the system. Tensions in the international monetary system came to a head in the first months of 1973, and the Bretton Woods system of fixed exchange rates was abandoned in March. Switzerland and Italy had already adopted floating in January and February of that year and Italy thus left the system.

The German government was—in contrast to the Bundesbank—clearly in favour of abandoning the link with the dollar, and decided again to try to organise a joint European float against other major currencies—the dollar and the yen. France was willing to remain in the snake but Britain and Italy could not be persuaded to re-enter. Britain demanded a guarantee for all sterling balances, and Italy wanted, in line with earlier positions, to adopt wider and more flexible margins for the snake. These conditions were not acceptable to the other members, and the result was thus a joint float for Germany, France, the three Benelux countries, and Denmark. In addition, Norway remained in the system even though it was not a member of the Community. Later on, Sweden became an associate member of the system even though it was not a member of the Community. The obligation of the German Bundesbank to subordinate monetary policy to a fixed exchange rate toward the dollar was
now terminated and German monetary policy became increasingly directed at price stability as the dominant priority.

During the fall of 1973—not least because of the oil price increases in October—a sharp divergence in price performance developed between Germany and France (box 3). French intervention was significant in September 1973 and resumed in January 1974. With this background, and despite a German offer to lend France a substantial amount to support its currency reserves, the French government decided to leave the snake on 19 January 1974. The general impression was that France did not want to lose exchange reserves—it would very quickly lead to a pressure to activate part of the gold holding, which, since de Gaulle’s 1965 strategy of converting dollars to gold, was a very large proportion of the exchange reserves. This meant that a year and a half after the Basel Agreement on the narrow-margin system the big four currencies were floating against each other. This float was the result of decisions forced upon Britain, Italy, and France because their economic performance, in the perception of the markets, was inferior to that of Germany.

### Box 3: Rates of inflation in France and Germany, 1968-1978

![Graph showing rates of inflation in France and Germany, 1968-1978](image)

The rates of inflation were rather similar when the Brandt-Pompidou initiative was launched in 1969-70. The snake was established in 1972 but almost immediately after the inflation pattern diverged and the discrepancy continued. France left the snake in 1974, returned in 1975 and left again in 1976. The average inflationary pattern was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>France</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968-72</td>
<td>5.81</td>
<td>4.05</td>
</tr>
<tr>
<td>1973-77</td>
<td>10.49</td>
<td>5.14</td>
</tr>
</tbody>
</table>

The total difference in inflation for the whole period was 36 percentage points.

Source: Bloomberg

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### France and the asymmetry problem

Britain and Italy had no intention of rejoining the fixed-rate system because economic convergence was not sufficient to support stability. Nor had they any ambitions to change the rules in order to put pressure on Germany to expand monetary policy or make other policy adjustments. The French attitude was different. Their aim was to re-establish a fixed rate system but one where the adjustment had to be undertaken by both strong and weak performers. This was the so-called asymmetry problem, which France was now putting forward in a demanding form, and it was the essence of the Fourcade Plan presented, as noted above, at an Ecowin meeting in September 1974 by France’s finance minister. The philosophy behind the French plan, was to prepare for a gradual return of France, Italy, and Britain to a fixed exchange-rate system among members of the Community, but in such a way that pressure for economic policy adjustment should be felt equally by strong and weak currencies. This plan was launched just after Giscard d’Estaing had been elected president of France.

It is an old problem in the international monetary system that the so-called burden of adjustment is asymmetrical and falls mainly on countries with weak currencies. An example is the fear of dollar dominance that was present from the inception of the Bretton Woods system. It was also at the root of the structural creditor problem in the European Payments Union that regulated payments between the European countries before convertibility was adopted in 1958. A few countries collected increasing claims on the other members. Now, it was felt especially by France that she, Britain, and Italy had been forced to leave the fixed rate system because they could not match the German performance level. Thus, for France, pressure had to be put on Germany to pursue a more expansive policy.

The first step for the Fourcade Plan would be to define bands for the individually floating currencies against the dollar and to require all Community members to conduct interventions in dollars. This, in effect, would lead to a common dollar policy. After having brought the individually floating currencies into line with the others, the second step was a return to the snake by the outsiders but in a new guise. This would be one in which the parity of each currency would be defined against a standard unit of account to be composed of a weighted average of member currencies. The
assumption was that the bands in this system would be defended by intervention using member currencies. The major difference to the parity grid system was that a currency could reach its upper or lower limit without automatically having another currency at the opposite end. In other words, the bilateral band in the parity grid system would be replaced by a band for each currency vis-à-vis the unit of account.

In a sense it was a return to the Bretton Woods system but substituting a new unit of account for the dollar. As it happens, such a system was debated by some experts in the G 20 in discussing a general reform of the international monetary system. Each individual country would be responsible for maintaining its position within its band but with the possible option of obtaining credit from another member. The issues were debated in various technical committees, and here the views were dominated by German and Dutch anxiety about an increase in intervention requirements and a consequent risk concerning their price stability performance. The fear was that they, as countries with strong currencies, would have to intervene heavily in order to avoid reaching the band limit or to support weak currencies that had reached their lower limit. From then on the attitude of the Bundesbank became increasingly suspicious of French proposals—even negative toward them.

The debate on the first step of the plan—dollar policy—was separated from the unit of account and concentrated on smoothing out erratic fluctuations. In March 1975 it was agreed that concerted intervention in the market should be undertaken to try to limit daily fluctuations of the dollar vis-à-vis snake currencies to at most 1 percent. A meeting with a member of the U.S. Federal Reserve Board made it clear, however, that the United States would not undertake any obligations. This decision on intervention was rarely used and had a very limited effect. The question of introducing a unit of account as a pivot in the system—the second step—was denounced by all except France.

There were two primary arguments against using a unit of account. First, it would be unstable as long as the individually floating currencies amounted to roughly 60 per cent of the weights. The second was a technical argument. The unit would have to be calculated constantly as the market value of currencies fluctuated, making it, in effect, a moving target. Markets would not know when interventions would start and what currency would be chosen for intervention. These observations are less compelling when one considers other types of intervention—for example, those between key currencies, where markets know neither the limit nor the currency to be used. In effect, therefore, it can be said that the Bundesbank, vetoed the proposal for fear of too heavy intervention obligations.

A new political issue was created by Switzerland at the beginning of 1975, when the Swiss National Bank initiated talks with the snake central banks about an application for membership as an associate like Norway and Sweden. It was received positively, but the negotiations were overshadowed by a declaration on 9 May 1975 by President Giscard d’Estaing that France would re-enter the snake. It appeared to be a surprise to both the French Treasury and the Banque de France, as it was to the snake members. The meetings following this declaration revealed that there were no French conditions regarding re-entry to the exchange rate mechanism—only proposals for discussion. Discussion of the Swiss case would obviously have to include the French. In the end they succeeded in preventing Swiss access and thereby avoided adding to the system another very strong currency besides the deutschmark and the Dutch guilder.

The topics raised by the French in talks with the snake members were on the same lines as the Fourcade Plan. On dollar intervention, introduction of adjustable zones was suggested and a cut in the daily fluctuations to _ per cent from the 1 per cent limit to dollar fluctuation agreed in March 1975. A second proposal was to impose an intervention obligation on a currency that moved rapidly away from the others, and a limit of 0.75% of divergence was mentioned. In a sense it was an ingenious scheme where an average position vis-à-vis the dollar was calculated. If one currency diverged beyond a certain limit it would have to intervene in dollars unilaterally, which would serve the purpose both of supporting a common dollar policy and reducing tensions within the snake. It was again an attempt to solve the asymmetry problem. Finally, exclusion of gold from the settlement rules, for the time being, was suggested and an extension of the credit period for interventions. During the talks in the technical committees, the French and Italians further suggested that it should be possible, if there were strong pressure in the exchange market, to leave the system temporarily—an opting out clause.
German and French monetary policies diverge

The Bundesbank was adamant in rejecting the main French proposals, and it managed to obtain support from the other snake members. Intervention zones for the dollar would, in the German view, overtax the capacity of the Community countries, not least because active participation by the United States could not be expected. Furthermore, introduction of firm rules—let alone automatic procedures—for dollar interventions by divergent snake currencies was rejected. Instead it was suggested that where tensions arose pragmatic consultations on interventions should continue. The question of gold and credit was settled rather easily. So on 10 July 1975 the French returned to the snake—at the old parity—without the slightest concession regarding the asymmetry problem and without re-entry by Britain and Italy. During the meeting, Fourcade stressed that the French motivation for rejoining was driven by the desire to establish an economic and monetary union. It should also be noted that the Germans accepted the French barrier to Swiss membership of the snake.

During the second half of 1975 it became clear that monetary policy in Germany and France would diverge. Germany aimed at a limited increase in money supply whereas France would accept monetary financing of the public sector. The French member of the Committee of Governors, who had been against the return to the snake in July, expressed serious concern about the stability of the exchange rate cooperation. In spite of a confidential bilateral agreement between the Bundesbank and the Banque de France to make intramarginal interventions before the French franc reached the bottom line, pressure on the franc mounted. At a meeting of the snake members on 15 March 1976, the French finance minister, Fourcade, informed the participants that the president had decided to let the franc leave the snake. There was no debate on possible conditions for remaining in the system and speculation focused on adverse local elections in France as a major element in the decision.

Giscard d’Estaing mentions in his memoirs that it was the deterioration of the balance of payments and the risk of huge losses of reserves that convinced him (Giscard d’Estaing 1988, p.145). The small member countries around Germany were now seriously concerned about German dominance and even the Dutch representatives wanted an explicit statement by the Germans about exchange of information and mutual consideration. This was given but reality was different.

Exchange markets did not calm down after the French franc had left the snake and there were talks about an exchange rate adjustment vis-à-vis the deutschmark. In the public debate in Germany there were voices that favoured termination of the snake in order to abolish German intervention obligations and thereby protect monetary policy from the effects of an increase in German money supply. The German government, however, made it clear that cooperation in the snake was important from a political point of view and for economic stability and that it did not see any reason to adjust exchange rates between members. Furthermore, the Bundesbank leadership admitted in private talks that the interventions had an insignificant effect on changes in German money supply. Nevertheless at a meeting of finance ministers and governors in Frankfurt, in October 1976, the Germans informed its members that the system would be terminated unless an exchange rate adjustment could be agreed. The explanation given was that a small coalition partner in the German government had made this a condition for its willingness to continue as partner. The small countries yielded, but this hardly lessened the concern about German dominance.

The period 1974–76 witnessed a determined French attempt to try to solve the asymmetry problem by imposing obligations on the strong currencies either to intervene more in the markets, to expand economically, or to revalue their exchange rates. The Germans and Dutch prevented this. They were not willing to undertake commitments that went further than the existing ones. The primary purpose of the narrow-margin system was to establish a stable fixed-rate system as one important element toward a monetary union. It was a serious disappointment that it broke down so quickly, ending in floating between the four major European currencies. During the period, positions between Germany and France hardened. The German monetary authorities—in particular the Bundesbank—had price stability as the first priority and felt that the abandonment of an obligation toward the dollar after 1973 had freed its hands to pursue this objective. This freedom should not be replaced by another obligation that might endanger its internal stability.

The diverging price performance between France and Germany demanded adjustment of either exchange rates or economic policy

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and here the French felt that adjustment should be carried by both partners instead of only one—the asymmetry issue. The Germans became suspicious and even arrogant regarding the French proposals. The recurring argument was that convergence of economic performance was the only solution and discipline would be weakened if conditions were relaxed. In particular, the Bundesbank made it clear to members in the Committee of Governors that its governing board would not accept further obligations but that this did not exclude ad hoc solutions in special circumstances. So instead of the visions of a common policy born at The Hague in 1969, national differences and mutual animosity came to dominate.

**Digression on Intervention**

The debate on the fixed-rate system and intervention has a tendency to be immersed in technicalities making it difficult to understand the important aspects.

The first step is to define the features of a fixed system, which means that parities between two or more currencies are determined. It can be unilateral as the gold standard—all currencies defined in gold have by definition mutually fixed parities—or the Bretton Woods system—currencies defined in U.S. dollars and the dollar in gold. The system may instead be negotiated between countries as in the snake. Finance ministers get together and determine the bilateral parities, which must be consistent.

The next step is to decide acceptable fluctuations in the market. This can also be decided unilaterally or multilaterally. One country can decide to intervene in the market to limit fluctuations of its currency vis-à-vis one or several other currencies. A group of countries can agree on identical fluctuation margins either toward a third currency or between each other. Interventions can be determined by agreed limits or by ad hoc settlement. Amounts can be limited or unlimited.

The third step is to finance market intervention. A strong currency has to buy foreign currency in order to prevent its own currency from becoming too strong; a weak currency has to use foreign currency to buy its own currency to prevent it from becoming too weak.

Two questions arise. One is how to finance intervention; the other, how this influences monetary policy. This is when things become complicated.

In its simplest form the strong currency can use central bank money to buy foreign currency and its money supply will increase. The weak currency may use its reserves of foreign currency or borrow from foreign sources and its money supply will decrease. There will be a tendency for interest rates to decline in the strong currency and increase in the weak currency.

Unfortunately, reality is much more complicated. If speculative movements take the form of future or option contracts on currencies, exchange rates will be affected but not necessarily money supply. Intervention in the exchange markets may have a stabilizing effect if policy expectations are sustained. However, if the market estimates that a policy adjustment is called for, intervention is generally insufficient. It is a temporary and weak instrument from a policy point of view. All participants in the system discussed in this essay have recognized that intervention is a short-term measure, which is only useful to offset temporary disturbances.

The fourth step is therefore to indicate who has the task of adjusting policy—the strong, the weak, or both. There is no clear answer to that question and the debate often becomes acrimonious. Should the strong revalue or the weak devalue? This gives rise to lengthy debates in spite of the fact that revaluation of one currency is identical with devaluation of another. It only points to who ought to take the initiative. Furthermore there is the question of internal policy adjustment. Should the strong expand monetary or fiscal policy or the weak do the opposite?

Asymmetry is a catchword for the attitudes lying behind the issue of who should adjust. The strong currencies were requested to adjust, for example, by the United States in the 1960s and in particular in 1971; it was the weak, such as the French, adjusting by devaluations, in the 1970s and early 1980s. In the end it becomes a question of political power.

Finally it has to be noted that cooperation within the Committee of Governors was limited to formulating the rules for intervention whereas agreement on the question of who should adjust policy could not be reached.
III. The Schmidt-Giscard d'Estaing Initiative

The Copenhagen Initiative (1978–80)

Monetary initiatives within the Common Market were almost at a standstill in 1976 and 1977 after France left thesnake. As a free trade area it could boast increasing exchanges of goods and services, but in the monetary and political field the trend was disappointing. In particular it had proved impossible to establish stability in monetary matters so that the big four currencies floated against each other and inflationary differentials were significant, with Germany demonstrating superior performance. To this must be added that overall growth was stagnating and both inflation and unemployment were increasing in the second half of the 1970s, which gradually promoted a change of view regarding policy instruments. Traditional attitudes to macroeconomic policy underwent a fundamental revision. The swing was from Keynesian demand management to some degree of monetarism.

The United States, which had been the dominant economy and the dollar the dominant currency, had lost much of its credibility because of weak inflation and balance of payments performance. For example, the weakness of the dollar showed itself in a decline vis-à-vis the deutschemark of about 30 per cent (from DM2.40 to DM1.70 per dollar) from 1977 to 1978. It created uncertainty and
uneasiness about leadership and a sense of risk about the stability of the international monetary system.

It was against this background that the German chancellor Helmut Schmidt and the French president Giscard d'Estaing started personal deliberations—probably at the beginning of 1978—on establishing a more stable monetary system in Europe. Their goal was to have the ability to ward off international disturbances—in particular those connected with the instability of the dollar, and create a zone of stability in Europe. The ideas were launched in Copenhagen at a heads of state and government meeting in the beginning of April 1978. The discussion was more like brainstorming than a debate on a detailed plan. The other participants had not been informed beforehand about the proposals, and the discussion began with a general discussion of growth prospects. The British prime minister, James Callaghan, was extremely pessimistic about the future and described how the situation had deteriorated during the last decades. Schmidt was just as pessimistic. The situation was ominous because unemployment was increasing and nobody could devise an efficient growth policy. The German public sector deficit was 4 per cent of GNP—the highest since Hitler—and yet noninflationary growth had not resumed. The decline of the dollar showed lack of U.S. leadership and it was possible to envisage a world crisis on a large scale—more serious than the crisis in the nineteen-thirties.

Giscard d'Estaing shared these views and added that he expected the crisis to last up to ten years. A comparison between North America, Europe, and Japan showed in his view that Europe had the lowest rate of growth and was the only one of the three that had internal disturbances. He saw the situation as one that might lead to competitive devaluations and restrictions and thereby to disintegration in Europe. His conclusion was to stress the need for a united European policy—both internally between the European countries and externally in relation to North America and Japan. An outline of a plan was sketched by Giscard d'Estaing and Helmut Schmidt.

Giscard mentioned that France had left the snake mainly for political reasons but that they had now been dealt with, and the French were contemplating rejoining the snake. (In his memoirs he chose, as noted above [1988, p.145] a somewhat different—mainly economic—explanation). An acceptable alternative for France was for the nine Community members (the original Six augmented, since 1973, with Denmark, Ireland, and the United Kingdom) to decide jointly on a new scheme. Its purpose should be to create a monetary pool with important contributions from Germany.

Helmut Schmidt seconded the idea that they would move beyond the monetary realm and beyond the snake to create an entirely new animal. A European monetary fund should be created based on the European Unit of Account (EUA) with deposits by members of part of their exchange reserves plus national currency. The task of this fund would be to give automatic monetary assistance to members, which would include the opportunity to raise funds in the markets. The EUA would correspond to the dollar and the yen, and their exchange rates should be fixed in EUA terms. Over time, it could develop into a reserve currency. National central banks should be maintained, in contrast to a proposal for a move toward a formal economic and monetary union made by Roy Jenkins as president of the European Commission. (Ludlow 1982, pp.45–47).

Giscard d'Estaing reiterated that for France the choice was between joining the snake or creating a new scheme. The adoption of a new scheme would mean that the Nine returned to the Bretton Woods system of fixed exchange rates between themselves. One consequence would be that one country could not act unilaterally any more, but only through joint management. Individual currencies would be able to go up or down in relation to one another, but the importance of, for example, the deutschmark would decrease. There was no indication of how the relation between member currencies should be defended—an issue that became important later on. It is likely that Giscard d'Estaing favoured the Fourcade model and that Schmidt supported this (Bernholz 1998, p.799). Callaghan was the only other member of the group that really participated in the debate. He was willing to let the proposals be examined by experts, but quietly, and he insisted that the U.S. attitude to the project had to be taken into consideration, as did the European security aspect. He would look carefully at the horse before he bought it.

The vision was thus that the EUA should become the centre of the monetary system but national central banks should remain responsible for national monetary policy. There were obvious similarities with Brandt's proposal of a European reserve fund. The three most important members of the group meeting in Copenhagen—
Schmidt, Giscard d'Estaing, and Callaghan—decided between themselves to appoint a personal representative to analyse the project and report at the next meeting of the Council in Bremen at the beginning of July 1978. It was clearly a coup strategy and Helmut Schmidt was adamant that reluctance on the part of the German monetary establishment should not be allowed to prevent his visions from materializing. The Bundesbank and the German finance ministry had not been consulted—or even informed.

Giscard d'Estaing explains in his memoirs, how he persuaded a somewhat reluctant Helmut Schmidt to choose some experts to help in drafting a new scheme for monetary cooperation that was more stable than the snake. One could not succeed when the weak currencies had to carry the burden of adjustment while the strong caracoled ahead without making sure that others followed suit—a special way of expressing the asymmetry problem. They divided the task so that Schmidt would concentrate on the external persuasion, particularly in Germany, and Giscard d'Estaing on the technical drafting to be presented for their colleagues (Giscard d'Estaing 1988, p.146). At the summit in Bremen it was Giscard d'Estaing who presented the proposal, which had been prepared by Schmidt and Giscard plus their advisers and a representative from the British government. (The role of the latter was probably very limited.) All colleagues had been briefed beforehand, and there had been personal talks between the two leaders and several members of the council.

The plan presented at Bremen in July 1978

The scheme was very similar to the Bretton Woods system with narrow margins—±1 per cent was proposed—intervention in member currencies, and the possibility of adjusting parities. The unit of account now named the European Currency Unit (ECU), the equivalent of an EUA, should be at the centre of the system; and it should, to begin with, be used for settlement between central banks within the European Monetary Cooperation Fund (FECOM) that had been created in 1973 and served as an accounting system and not a decisionmaking body. The new unit should be created on the basis of member payments of gold, dollars, and national currency. Intervention vis-à-vis the dollar should be decided in common. It was important that economic policy performance converged. Otherwise the new scheme could not function.

Two points were different from what was outlined in Copenhagen. First, a two-year trial period was suggested. That was in order to demonstrate the feasibility of the scheme before legal texts could be presented to the parliaments about the establishment of a European fund. Second, it was mentioned that several colleagues had been concerned about the fate of the snake and it was therefore suggested that the snake should not be abandoned before the new scheme was well functioning. Finally Giscard d'Estaing mentioned that the American president had been informed and in principle been positive regarding a new system. The reception was generally positive. It was decided to include the outline, as presented by Giscard d'Estaing, as an annex to the communiqué and ask the finance ministers to formulate directives to the experts in order to be able to make the final decisions at the Council summit to be held at the beginning of December 1978.

The coup strategy mounted in April had apparently had to yield to two reservations: Was the system feasible, and should the snake be abolished before this was demonstrated? As a result of the first question, the two-tier system—a fund as centre of decisions and national central banks as responsible for internal monetary policy—was separated. The second reservation meant that the European monetary fund, which was scheduled to take the common policy decisions, was now not the most urgent element in the blueprint. It was only stated that the existing arrangements and institutions should be consolidated in the fund not later than two years after the start of the system. In other words, the proposal amounted to an intervention mechanism that was not defined. It should function in a trial period in which the snake intervention system should continue. A unit of account was established and the policy body of a common fund was postponed. The scheme had to build on existing institutions with no immediate transfer of sovereignty. A clearly uncomfortable political problem was thus postponed.

The experts are asked for technical advice; Debate in the Committee of Governors

The Committee of Governors was one body that was asked to contribute to the technical analysis and had a preliminary discussion at the ordinary meeting in early July just after Bremen. It is sometimes mentioned that the debate was acrimonious, for example, between Bernard Clappier of France and Jelle Zijlstra of the Netherlands (Ludlow 1982, p.139), but that was actually not the case. Clappier stated that he had worked on the Bremen Annex as a personal
representative of the French president, and the group had been inspired by two considerations. One was the wish to create a zone of stability in Western Europe, and the other was to create a framework for making a step toward a new monetary organisation for Europe. He urged his colleagues not to concentrate on criticism of the many details but to work in a positive spirit, as he was convinced that there was a strong political desire to create the new scheme. Zijlstra suggested, like other members, that the experts study the role of the fund, the aspects of the unit of account (definition, par values, etc.) and rules regarding intervention. In addition he mentioned the problem of maintaining the snake during the transitional period. It was decided to elaborate a list of problems to be used as terms of reference for the experts. Even though there were different opinions on the scope of the new scheme, that was not an issue at the meeting. The task was primarily to present the technical problems for the political decisionmakers.

The experts worked quickly and were able to present a report to the Committee by the beginning of September. It was stressed that no exchange rate arrangement can make a durable contribution to the achievement of a zone of stability unless it is accompanied by action to scale down progressively the disparities of economic performance in member countries. The most important issue regarding the ECU as centre of the system was whether the unit should serve only as a numeraire or if it was to be used for intervention points. If the latter the system would be identical to the Fourcade Plan of 1974 with its focus on symmetry. If intervention limits were defined in relation to the ECU, a strong or weak currency might reach the limit without another currency being necessarily at the opposite limit. A strong currency would have to intervene and possibly adjust policy. This was obviously what the French had in mind both in 1974 and 1975, and now, in 1978.

There were a lot of technical problems, which were carefully mentioned. Interventions would be more cumbersome and complex and might constitute an element of uncertainty for the markets, but the difficulties were obviously soluble. The wording was now more careful and forthcoming than when the Fourcade Plan was turned down in 1974 and 1975. There were two clear alternatives. To choose the parity grid would be tantamount to continuing the snake, and to choose the ECU for intervention limits would create a lot of technical difficulties. A third possibility would be to keep the parity grid from the snake and combine it with a rule that more or less obliged a currency that deviated from the other currencies to intervene before the limit of the band was reached.

This was the indicator of divergence, under which it was necessary to define the average and the distance from it when intervention was supposed to happen. It was generally labeled a Belgian compromise proposal, but as mentioned in section 4, the French had made a similar suggestion before re-entering the snake in 1975. It must be added that simulations in some central banks had shown that this interior limit would be reached only in very rare cases, because some semi-strong currencies would in general trail the strongest—or vice versa with a weak currency—and thereby blur the average.

The debate in the Committee went along foreseeable lines. Otmar Emminger of Germany and Zijlstra of the Netherlands preferred to keep the parity grid and rely on the indicator of divergence to make the scheme more symmetrical whereas Clappier of France and Paolo Baffi of Italy were in favour of defining the limits from the ECU—a system that admittedly was a little more complicated. The Committee was divided and could therefore only present the choices for the political decisionmakers.

The public debate in Germany was critical of the new system, as it was feared that it might impose much larger intervention obligations for the Bundesbank. This was generally believed to increase German money supply and thereby endanger economic stability. Peter Bernholz who has had access to the archives of the Bundesbank relates how a meeting took place on 13 September with Schmidt, the board of the Bundesbank, and some private bankers. The Bundesbank insisted that it not to be obliged to increase credit and intervention commitments and was particularly against the model of the proposed scheme that chose the ECU for intervention limits. It was further added that the autonomy of the Bundesbank should not be abandoned. Schmidt agreed on these points and said that a compromise could be established (Bernholz 1998, p.800; Ludlow 1982, p.181).

The issue was settled between Schmidt and Giscard d’Estaing at a meeting in Aachen, on 14 September (Ludlow 1982, p.182). They finally agreed on the compromise model with the parity grid for defining intervention at the limits but supplemented by using the ECU for defining the indicator of divergence. It was clear to the members of the Committee that the snake system had prevailed in
accordance with the interests of the Bundesbank and that the French had again lost.

There were extended debates on the definition of the indicator of divergence and whether the limit—75 per cent of the distance to the band—should signal an automatic obligation to intervene or only a presumption either to intervene or consult with other members. Few believed that this compromise—the indicator—would be able to change the asymmetry connected with the parity grid of the snake. It has often been observed that the indicator did not play any role in the subsequent period—it was hardly ever used in debates in the Committee of Governors or elsewhere.

The final agreement to transfer 20 per cent of the participating central bank gold and dollar reserves to the FECOM was in the end made by way of 3-month swap contracts, which meant that the depositing central bank retained the ownership of the assets. These were then denominated in ECU, and ECUs could be used for settlements between the participating monetary authorities—but a debtor might only use ECUs to settle 50 percent of its debt. The rest should be in ordinary exchange reserves. This meant that the creditor—most often Germany—was protected from receiving too many ECUs. ECUs could not be used for other purposes, and the FECOM could not create ECUs on its own. In addition, the credit periods were extended and loan facilities increased.

Italy joined the system although with wider margins—6 versus 2 _ per cent—but the United Kingdom did not. In the Ecofin there was a heated debate—led by the British—about the significance of the indicator of divergence. Should there be an obligation or only a presumption to react if one’s currency converged? In the end it remained at the presumption level.

The European Monetary System is adopted but the fund scheme is shelved

The European Monetary System (EMS) was adopted by a resolution of the European Council on 5 December 1978 and, after some delay caused by French manoeuvring, put in force on 13 March 1979. Eight of the nine Community members participated—that is, with the exception of the United Kingdom. In Germany the Bundesbank was deeply concerned about the wide extension of its intervention obligations from the small snake members to a system that included France, Italy, and possibly the United Kingdom. In order to assure Bundesbank cooperation in the project, Helmut Schmidt had to appease the Bank. At a meeting in Frankfurt at the end of November 1978, it was then accepted that the Bundesbank could discontinue intervention if the amounts would constitute a threat to the commitment of monetary stability in Germany (Ludlow 1982, p.240; Hoffmeyer 1992, pp.130–31). Manfred Neumann (1998, pp.338–39) explains that Schmidt was unwilling to confirm this in writing. He participated in the board meeting and, in an impressive and colourful speech, underlined strongly the European dimension in his motivation and gave a reminder of German recent history. He agreed with the Bundesbank standpoints, and an oral assurance was given that was noted in a verbal protocol and approved by both parties.

The fate of the fund, which had been the centrepiece of the evening talks in Copenhagen, was desperate. Several memos were produced about what kind of role it could play. However, the original purpose of being the guardian of European stability and being an equal partner to the U.S. and Japanese monetary authorities gradually disappeared, as the scheme ran into legal and political difficulties in both Germany and France. Transfer of exchange reserves would necessitate amendment of the Bundesbank Act and encroach on the independence of the Bank. This would create political difficulties in Germany. Similarly in France, looking toward the presidential election in 1981, the Gaullists were sensitive to the question of changing the Treaty of Rome in order to transfer national sovereignty to a common fund. In the event, the fund scheme was shelved in late 1980 and was overtaken by political changes in France, as François Mitterrand became President in 1981.

The visions were again in shambles. The purpose had been to unite all nine members under one monetary roof where decisions in the exchange rate field for a unit of account should be taken in common on equal terms with the dollar and the yen. National currencies and national monetary policy should remain but at a less important level. This could not be achieved. The grand vision of the EMS was to make the ECU a world currency that should prevail over the national currencies—in particular the deutschmark. In fact, the official ECU, instead of being a world currency was locked into a closed and fictive settlement system between participating central banks.
The attempt to put a superstructure—a fund—on top of national central banks that should retain their national responsibilities was considered amateurish by many insiders. One member of the Committee of Governors had remarked that it was praiseworthy that high-level politicians were concerned about exchange market problems and wanted quickly to establish an economic and monetary union, but that they most often neglected the realities that had to be fulfilled. Nevertheless eight out of nine members were now brought into the new system and the ECU had taken a place in the monetary system—although on a very modest scale.

French Turning Point (1982–83)
The purpose of placing the ECU at the centre of the EMS had originally two important dimensions. One was to make the exchange rate system more symmetrical than the snake. The other was to unite the monetary position of Europe vis-à-vis the other major currencies.

On both counts, results fell seriously short. The first with the preservation of the parity grid system and an inoperative divergence indicator; the other with the Council of Ministers decision of late 1980 to postpone to an appropriate time the establishment of a European monetary fund. After the election of Mitterrand as president in May 1981 the French wanted to resume negotiations about monetary cooperation. The attitude of the German authorities was absolutely firm. They would not consider reforms that would imply a legal change in the status of the Bundesbank. In other words, reforms had to be noninstitutional. This gave the Bundesbank a virtual veto in the negotiations, which turned out to be very difficult. It gave the negotiations a tendency to move in the direction of unimportant issues—at least in the view of the other members of the EMS.

The French wanted, in line with the original plans, to widen the scope of the ECU. This could be done by abolishing the settlement limits of ECU’s between the participating central banks, by inviting other central banks to hold deposits of ECU with the FECOM and by promoting the private use of ECU. These were market-determined units and different from the official ECU that was calculated from the parities. There was a developing market in private ECU denominated bonds and in ECU deposits with commercial banks. The Bundesbank was strongly against such proposals and in particular against any attempt to create ECU’s ex nihilo. The Bundesbank felt the FECOM should not develop into a money creating central bank but remain a bookkeeping institute for settlement. The German resistance to the ECU was partly supported by an argument that both ECU’s represented indexation (i.e., an index composed of several currencies) that was forbidden in the German constitution. Several legal memos were presented, but they were very difficult to understand.

The French were interested in reducing the asymmetry feature of the parity grid system. Again the Bundesbank was quite explicit in the committees, maintaining that for the stability of the system as a whole it was quite appropriate to put strong pressure on the least stable and therefore weak currencies. In an expert report to the Committee of Governors at the end of 1981, agreement could not be reached on these issues. The Bundesbank and the Banque de France were totally in disagreement on both the accumulation of ECU assets and “the most appropriate distribution of the adjustment burden between debtor and creditor countries.” The Bundesbank also rejected proposals to engage one way or another in fixing a target rate or target zone for the dollar. It was felt that the Americans were highly unlikely to be persuaded to enter into any kind of monetary agreement vis-à-vis the ECU, and it would again give the FECOM the status of a central bank.

The French worked along these lines in 1981. However, the Bundesbank Council decided in the beginning of March 1982 not to accept such changes in the current cooperation rules unless it was a consequence of an amendment to the Treaty of Rome (Bernholz 1998, p.802). Deliberations in the Ecofin meetings were in vain and a pause had to be accepted by Jacques Delors, who was French finance minister.

The pause lasted until 1984.

The change in French policy
It has to be remembered that the background for reaching understanding on measures to improve the EMS system was seriously hampered by the diverging economic development in Germany and France after the presidential election in May 1981, when Mitterrand came to power as the first Socialist president in the Fifth Republic (see box 4). A strong expansionary policy was inaugurated—social expenditures, minimum wages, and nationalisation—with
big public sector deficits that quickly put pressure on the franc. In the following years until 1983 a huge price was paid by the exchange rate, which in three steps was devalued against the deutschmark by a total of about 30 per cent. The most dramatic was the last devaluation, in March 1983, when France considered leaving the EMS. Deliberations within the French government were protracted and the French negotiator, Delors, and his European colleagues wrangled for two days about percentages. The French position was that the franc should not be devalued but the deutschmark revalued by 8–9 per cent. In other words, it should be demonstrated that the deutschmark was the deviating currency. Otherwise France would leave the EMS and float. Some sources (BBC program, “The Money Changers”) indicate that Mitterrand, on the advice of Prime Minister Mauroy, had decided to remain in the EMS but wanted to hide that from Delors in order to increase his resistance during the negotiations.

The outcome was a broad adjustment—by all members of the Nine—with a revaluation of the deutschmark by 5.5 per cent and a devaluation of the French franc by 2.5 per cent—for a combined total of 8 percent. The decision-making process has been widely discussed because the conventional attitude has selected this as the turning point in French discovery of realities regarding the relation between internal performance and external stability and on the role and rank of France on the international scene. Versions of the story have concentrated on who took the decisions and what was the motivation. It has, however, to be recognized that the French change of policy took place over almost two years and the decision in March 1983 was only one—and probably a minor one—in the succession of events.

The change actually started in the spring of 1982, when the franc came under pressure because of the Keynesian demand management expansion of 1981. Gradually it became evident that a second devaluation of the franc was inevitable, and both Mitterrand adviser Jacques Attali (1993, p.216) and journalists Pierre Favier and Michel Martin-Roland (1990, p.415) mention that doubt about the policy line provoked questions on a change of policy. The second devaluation took place on 12 June 1982. A few days before, Mitterrand had announced the second phase to overcome the economic crisis. The main purpose was now to recover competitive power, increase saving, investment, and innovation—a transition to orthodoxy. Favier and Martin-Roland (1990, p.424) characterize it as a decisive change in his first seven-year period as president. A few days after the devaluation in June 1982 Attali remarks that a major change took place in the government in favor of the politique de rigueur (austerity policy).16 The president became in particular occupied by the need to abrogate wage indexation, which had been an important element in French wage settlements. Indexation was finally removed by the socialist government in October 1982. Attali (interview, March 6th, 1998) is of the opinion that Mitterrand’s attitude changed in 1982, motivated by the broad political problem of balance between Germany and France. But the question of the exchange rate mechanism was only part of a larger political picture.

On this basis, the suggestion is hardly justified that Mitterrand’s motivation for remaining within the EMS in March 1983 was that he chose Europe instead of letting the franc float. Behind the scenes there was a lively debate on the choice of policy to improve the

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**Box 4: Rates of inflation in France and Germany, 1978 to 1992**

<table>
<thead>
<tr>
<th>Year</th>
<th>France</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-82</td>
<td>11.80</td>
<td>4.89</td>
</tr>
<tr>
<td>1983-87</td>
<td>5.02</td>
<td>1.24</td>
</tr>
<tr>
<td>1988-92</td>
<td>3.01</td>
<td>3.15</td>
</tr>
</tbody>
</table>

Source: Bloomberg
French economy after the 1981 expansion. Eventually a market oriented and noninflationary line was adopted.

Delors’ role was unquestionably in the direction of a change to orthodoxy (Grant 1994, pp. 52–58; Delors, interview 6 January 1995), but it was a broad development including many persons. It is therefore understandable that Mitterrand exclaimed (Attali 1993, p.340) “The austerity policy, it was I that wanted it, to make the reforms succeed.”

**New French attitude toward changes in the Treaty of Rome**

A much more considered policy regarding Europe took shape in the beginning of 1984. According to Hubert Védrine (1996, p.295) it was Mitterrand’s personal choice, and it was an important—perhaps the most important—change in his presidency. He chose a few close collaborators—Roland Dumas, Jean-Louis Bianco, Jacques Attali, Elisabeth Guigou, and Hubert Védrine—and appointed Dumas minister for European affairs. In a speech before the European Parliament in May 1984 he furthermore made it clear that it was time for important steps toward European integration. France was ready to restrict substantially the Luxembourg Compromise of 1966 under which the French had, under de Gaulle, insisted that rules on majority voting in the Treaty of Rome should not apply if a member found that its important interests were involved. It was a veto power, and Mitterrand offered to restrict veto decisions and to engage in negotiations on a change in the Treaty of Rome including on institutional questions, which had been a sensitive issue to the Gaullists (Mitterrand 1986, pp.294–6). Immediately a new round of negotiations was inaugurated by Delors at the Rambouillet Ecofin meeting in May 1984. This time the Germans showed willingness to discuss the official ECU and the private ECU, provided that economic convergence and free capital movements were included.

So the train was moving again—but at low speed.

On the issue of the ECU there were extensive discussions on the settlement limits, remuneration, external holders, and so forth, but the Bundesbank was restrictive and an agreement could not be reached. On top of that the Bundesbank President, Karl-Otto Pöhl, gave a speech that was highly critical of changes in the EMS—particularly in respect of the ECU. In spite of the fact that a majority of the members of the EMS could easily accept changes, it was only possible to obtain minor adjustments in remuneration—in Germany’s favour—and a few other unimportant items that were finally adopted in 1985.

In 1985 Delors, who had now become president of the Commission, launched a plan developed by Lord Cockfield, which later became the Single Act, containing a long list of paragraph amendments to the Treaty of Rome (Grant 1994, pp.65–76). In essence, the plan was a completion of the free trade rules of the Community in so far as they aimed at eliminating technical protection. Technical protection covered customs procedure, standards, national requirements, public sector preference for national bidders, the special problems for the service sector, and so forth. The idea was to secure free access to markets by all inhabitants in the Common Market. This was a fulfilment operation, but Delors connected it with a broader objective of being a stepping-stone to an economic and monetary union. His proposal was to include a monetary dimension in the Single Act and make this an obligation for the signatories. It included the EMS, an economic and monetary union, and a European monetary fund—the beginning of a common central bank. The Germans, the British, and the Dutch objected strongly to such far-reaching commitments. A compromise had to be adopted. Reference to economic and monetary union and the EMS appeared in the preamble—explicitly pointing to the Bremen Annex of 1978. It was, however, decided that new institutional changes would require the calling of an intergovernmental conference (IGC) to agree on a change to the Treaty of Rome according to section 236. This latter point was intended to prevent gradualism toward an economic and monetary union. It is sometimes characterized as a German-French compromise but it was an important point also for the other members.

The Germans had in practice set up two hurdles that blocked gradualism. They were not willing to change the Bundesbank Act without a change in the Treaty of Rome and that changes in the system in general would require an IGC. Mitterrand backed the opinion that the internal market needed an agreement on a monetary union. He is reported to have told Kohl in December 1985, “The internal market without currency makes no sense,” to which Kohl made no demur (Attali 1995a, p.888). Half a year later Mitterrand is again reported as having asked Kohl to support “…the European currency by emphasizing all its importance” to which Kohl answered (Attali 1995b, p.142.) “Carry on, I am prepared to be violated by
Europe!...Concerning the currency, we are ready for take-off; we will go ahead, but I have problems...”  

This was an understatement.

The German monetary establishment was still strongly influenced by France’s marred image of economic instability during the years 1981–83, despite the politique de rigueur that since 1982 had gradually brought France into convergence with the German performance. The policy had strong backing by Pierre Bérégovoy, who became finance minister after Delors and who already in 1984 had set as a goal to establish equality between Germany and France. This could only be obtained if economic stability was identical; consequently a devaluation of the franc was ruled out (Hervé Hannoun, interview, March 6th, 1998). This new golden rule was unfortunately broken in 1986 when a new government under the Gaullist, Jacques Chirac, started the first cohabitation—when president and prime minister are of opposing parties—in the Fifth Republic. A competitive devaluation of 6 per cent was decided in April 1986 in order to create a sound basis for stronger economic growth. It was an ill-advised step as it did not result in economic expansion and created widespread doubt about the durability of the politique de rigueur. It did, however, make life easier for the sceptics.

French economic performance in 1986 was still in line with the German, but exchange market turbulence put pressure on the franc at the end of the year, which led the Germans to revalue by 3 per cent in January 1987. This move was unwarranted and created doubts about German motivation. As economic stability was now dominating their economy, the French president and government intensified their efforts to change the EMS-asymmetry. The finance minister, Edouard Balladur, issued a memorandum in February 1987 and the plans were launched in the Monetary Committee of the Common Market along the following lines: Instead of working on intervention rules solely, a surveillance system should be established with the explicit aim of creating more symmetry. Participants should define their economic targets by way of indicators (fashionable at the time) and if deviations developed there would be an obligation to adjust policy. External balance for the system as a whole should have priority; price stability was a subsidiary goal. Other elements in the proposal were old acquaintances like a common dollar policy, improved divergence indicator, better credit facilities, and so forth. It goes without saying that this did not accord with German taste. They could live with broad targets like growth or lower inflation, but an idea such as an obligation to fulfil quantitative targets was—as expressed during the meetings—unacceptable to Germany. The position was—as will be seen—reversed when the Maastricht conditions requesting quantitative targets for other members were formulated.

The negative German attitude led the French government to exert direct pressure on the German government in May 1987. Jacques Chirac, the French prime minister, had told Kohl that this could not continue and he threatened that France would leave the EMS unless cooperation improved (Attali 1995a, p.316). Balladur proposed being even more aggressive and explicit toward the Germans (Attali 1995a, p.321). The latter were, however, unyielding—together with the Dutch. As a way of glossing over this French defeat, intense deliberations took place over the summer months and a meager minicompromise was adopted—the Basel-Nyborg agreement in September 1987. It dealt with ECU settlement rules, possibilities for financing intramarginal interventions, and credit rules. Under the agreement, the very short-term credit period was extended (by one month), and a presumption, but not an obligation, to finance intramarginal intervention via the credit system was provided for, as was an increase in the usability of the official ECU. To this was added a general request for better performance convergence, more flexibility in using available instruments, and a more intensive procedure for joint monitoring of economic and monetary developments. It is often presented as an important achievement but participants had no illusions about its unimportance.

It was the third wave of French initiatives after 1981 and 1984. Almost ten years after the grand design at the Copenhagen meeting in 1978, no progress could be discerned toward economic and monetary union—except that the French politique de rigueur had resulted in convergence with German performance (see box 5).

But markets were not convinced of the changed French attitude. So whenever disturbances occurred, the French franc would be likely to come under pressure in relation to the safe haven status of the deutschmark. In respect of France and Germany it was generally understood that France had moved toward economic convergence and was keen on making progress toward an economic and monetary union on a noninstitutional basis. Germany, however, had blocked this development both through the attitude of the Bundesbank and
with provisions of the Single Act. Changes in rules for monetary cooperation would, according to the Single Act, require changes in the Rome Treaty, according to section 236 of the Treaty, necessitating an intergovernmental conference.

**Box 5: French francs per Deutsche mark, 1978-1992**


*Source: Bloomberg*

**Change in the Elysée Treaty**

A revealing incident then took place in connection with the deliberations on the 25th anniversary of the Elysée Treaty of 1963. In the summer of 1987, Horst Teltchik (one of Kohl’s advisers) suggested to Attali (1995a, p.365) the idea of a Franco-German council on defence and Attali immediately made a counter proposal for a council on economic and financial matters. This suggestion started a process over the next half year to combine these two aspects of French-German cooperation. The German suggestion was aimed at having a direct influence on French decisions in the field of its atomic force, which was considered inappropriate by the French (Gröss 1999, p.183; Védrine 1996, p.412). After the meager Basel-Nyborg agreement it was, therefore, understandable that Chirac in November 1987 should officially propose, as a counterpart to the idea of a council on defence, a council on economic and financial matters that should make decisions on all questions subject to the authority of the finance minister and the central bank. This meant that the independence of the Bundesbank would in practice be abolished (Gröss 1999, p.183; Neumann 1998, p.333). In spite of much negotiation and tensions between the German government and the Bundesbank, a protocol was signed on the 25th anniversary of the Elysée Treaty, in January 1988. The Bundesbank made it a condition for participating in the council meetings that its independence would not be affected. It took almost a year to find a solution to this impasse. There were debates in the Bundestag and an exchange of letters between the Chancellor and the Bundesbank until the protocol was finally ratified in November 1988. This time a preamble was not chosen, as in 1963, but a memorandum (Denkschrift); it gave the interpretation of the protocol that the new body dealt with consultations and not decisions and that the legal position of the Bundesbank was not affected (“nicht berührt”). This course was chosen in order to strain the French sensitivity as little as possible and to avoid new negotiations with France (Gaddum 1994, p.340). The council was established but did not appear to play any role.

The French position was acidly expressed by Attali when he said that the Germans wanted a common defence policy but were not willing to share their economic supremacy in a common economic policy (interview, March 6th, 1998).

**Increased French Pressure (1987–89)**

The French had convincingly changed to politique de rigueur and had ruled out further devaluations. It paid off in many respects but not in the exchange market. In turbulent conditions people would choose the deutschmark, and the French had to pay the price of the latecomer—an interest level that was clearly higher than the German. This burden was considered all the heavier because low inflation meant that the real rate of interest was, in effect, substantially increased. It created frustration in France that the German monetary dominance in respect of both the other key currencies and the EMS
members could not be brought into Community cooperation and shared with other members. Within the Community, meanwhile, the Bundesbank had decisively prevented improved relations within the EMS and managed to water down the importance of the Council on economic and financial matters in the Elysee Treaty. Endeavours to create a tolerable equality with the deutschmark were in vain.

On the global scene the French were dissatisfied with the failure of the Louvre agreement of February 1987 (Volcker and Gyothen 1992, pp.268, 282; Hoffmeyer 1992, p.176). It was a feeble attempt to define and support a target zone for the major currencies but only the French and Japanese felt that it was a serious commitment, whereas the Americans were soft and the British and Germans negative. The agreement petered out and the dollar was not stabilized.

Attitudes were rather tense—not least because it was felt that the U.S. stock market crisis in October 1987 ought to have been met by a common European response in the monetary field. In those circumstances the French finance minister, Balladur, sought a mandate from Mitterrand in December 1987 to give impetus to improved cooperation in the economic and monetary field (Attali 1995a, p.247). Balladur made several speeches and interviews to test his ideas. The precise outcome was a memorandum of January 1988, which was addressed to his colleagues and aimed this time at the government level.

His main points concerned improvements needed in two respects, in particular. First the present asymmetry had to be corrected. Second membership had to include all countries on equal terms—not least because of the free capital movements and the Single Market. The proposals were fairly precise and largely identical with those that had been put before the Monetary Committee of the Common Market a year earlier. One country (Germany) should not be allowed to undertake the responsibility for determining the objectives of economic and monetary policy. They should be decided in common. No country should be exempted from the obligation to correct its policies when they departed from jointly fixed targets. Central bank reserve assets should be diversified—that is, the German Bundesbank should hold member currencies as other members already held deutschmarks. Moreover the ECU should become one of the normal reserve assets. A precise obligation should be put on currencies that tended to diverge abnormally—meaning from the average. It was again a call for a more effective divergence indicator. An orderly framework should be created to deal with the exchange rates of other currencies, for example, the dollar and the yen. The far-reaching integration of Europe indicated that in the longer term it was a logical step to create a single currency (monnaie unique) zone: the same currency would be legal tender in all countries; it would be backed by a common central institution; and there would be “federal” banks in each country.

On these last issues the language was definitely lacking in clarity. The question of a European central bank was just mentioned for consideration and study, but not explicitly proposed. It was still a grey area, as in the original Schmidt-Giscard d’Estaing idea from 1978. The latter amounted to a vague notion of a common ECU-currency coexisting with individual national currencies. Karsten Skjalm (1995, p.207) refers to a newspaper quotation where Balladur distinguished between a single currency (monnaie unique) and a parallel currency (monnaie commune). He (Balladur) also indicated that the first would presuppose a political integration that in his view was unacceptable to France. This reflected the old Gaullist attitude. The French member, Jean-Claude Trichet, mentioned, when the memorandum was distributed in the Monetary Committee of the Common Market, that the French presented a common central bank as a question and not as a proposal.

Balladur’s memorandum ignited a process that again brought the question of monetary reform to the heads of state level. A response came from the Italian finance minister, Giuliano Amato, who on 23 February 1988 sent a lengthy note to his colleagues stating the basic Italian viewpoints as follows: the exchange rate system is fundamentally unstable because a fixed-rate system cannot coexist with free capital movements and independent economic policies—an argument that is well known in economic analysis. (This argument, by the way, was used to support the Italian position in 1972—see section 4—when the country left the snake.) An asymmetry with a dominating currency—the most stable—was bound to develop. In order to alleviate this tension the adjustment burden between surplus and deficit countries must be rearranged. A common policy vis-a-vis third currencies must be realised and the use of the ECU promoted. Finally, transition to institutional changes must be prepared and it should be aimed at establishing a European central bank.
These views were almost identical to the French memorandum. The new pressure amounted to a reproach to the Germans for not living up to their European obligations to improve economic and political integration in the Community. However, it must be recalled that the German Foreign Minister Hans-Dietrich Genscher had been active since the spring of 1987 in arguing for an economic and monetary union with a European central bank (Schönfelder and Thiel 1996, p.17). He had later in 1987 pointed out that the changed relationship between East and West following Mikhail Gorbachev’s accommodating policy made it an urgent task to increase European cohesion and not let the superpowers determine the development (Szász 1999, p.104). Moreover, he spoke on the subject to the European Parliament at the end of January 1988 (Genscher 1995, p.382).

A German cabinet resolution on this subject was passed at the beginning of February 1988, and statements were made by the conservative party (CDU) leadership later in February and by the labor party (SPD) group in the Bundestag in April (Schönfelder and Thiel 1996, p.31). All expressed a positive attitude toward working for improved economic cooperation and eventually an economic and monetary union. Similar attitudes were taken by finance and industry, although not by most German professional economists.

There was clearly a difference, for example, between Genscher and the finance minister, Gerhard Stoltenberg, who had strong ties with the Bundesbank. Chancellor Kohl did not take sides to begin with (Gröss 1999, p.197–204). Such tensions included those arising from the establishment of the council on economic and financial matters in connection with the revision of the Elysée Treaty. Bernholz (1998, p.815), drawing on information from Bundesbank President Hans Tietmeyer, notes that these tensions prompted Genscher and the French foreign minister, Roland Dumas, to discuss the need for an economic and monetary union. Genscher presented a proposal as an internal paper within his political party, the liberal FDP, which was probably at odds with his colleagues in the government. The main argument was that the fulfilment of the single market required a monetary union and a common central bank. In addition it was in the interest of members to reduce the dependence on the dollar. The central bank should be modeled on the Bundesbank—indeed and with price stability as a primary objective—and other fields of economic policy should be coordinated. Until a common central bank could be established the ECU could function as a parallel currency and later as a single currency. Genscher suggested that the issue be dealt with at the meeting of the European Council of Ministers forthcoming in Hanover in June 1988, and that a group of five to seven wise men be asked to prepare a report within a year.

Two weeks later on 15 March, Stoltenberg issued a public statement on the further development of monetary cooperation in Europe. There was a distinct note of irritation in the language. He began by mentioning several proposals for monetary cooperation made recently in Europe, and then presented the “Opinion of the Federal Government”. It started out with a reference to a German cabinet resolution passed early in February 1988 that defined the immediate tasks as improved convergence of economic and monetary policies, improvement of the EMS, liberalized capital movements, and possible increased use of the ECU. The longer-term goal would be an economic and monetary union with an independent European central bank.

There followed a detailed and very positive exposition of what had been achieved: the improvement of the EMS, the Basel-Nyborg agreement, further moves toward capital liberalization, the extended use of the ECU, and so forth. The idea that asymmetry favored the deutschmark was rejected. It did “not properly reflect the actual situation”—a statement rather than an argument. Finally an economic and monetary union was accepted as a long-term goal. “A far-reaching political and institutional reorganisation of the Community” was required, as was the transfer of extensive powers from national to Community level that went beyond mere monetary policy. This latter part was formulated with explicit reference to the Werner Report. There were thus diverging opinions within the German government, but it can be assumed that Stoltenberg’s presentation had backing from the majority, including the chancellor.

**Mitterrand makes European integration a top priority; the Delors Report**

Mitterrand was increasingly convinced that the Germans were not inclined to share their economic power base with others (Attali 1995b, p.454). After his election as president for a second term in May 1988 he made European integration his top priority. (Hervé Hannoun, interview, 6 March 1998). According to Guigou (interview,
3 January, 2000) he urged Kohl to support economic and monetary union at a meeting in Evian, June 2nd. Mitterrand had earlier indicated that France would be willing to consider treaty changes. So he could easily accept Genscher’s proposal to appoint a high-level working group to prepare a report on an economic and monetary union; this appointment could be decided at the forthcoming meeting in Hanover at the end of June 1988 of the Council summit.

It seems likely, however, that Kohl was not convinced of the idea of an economic and monetary union. According to Grant (1994, p.119; interview with Jacques Delors, 6 January 1995), it was Delors that persuaded Kohl to support a committee on the subject, but not the Genscher model. He suggested a committee of central bank governors and a few experts, with himself as chairman. The Council summit adopted the idea of appointing a working group to prepare a report on economic and monetary union and requested the committee to undertake “the task of studying and proposing concrete stages leading toward this union”. The question was not whether this union was a good or bad thing but whether it was a feasible proposition and how it could be realised. This turned out to be an ingenious idea because it gave prestige to the unanimous conclusion of the central bankers—many of whom were sceptical—that an economic and monetary union was a feasible proposition under certain conditions.

The work in the committee was colored by acrimony between Pöhl (Bundesbank) and Delors, and rather strong disagreements between Pöhl and de Larosière (Banque de France), but most of the time the atmosphere was peaceful. The report is more a political document than an academic analysis. Delors was clearly in favour of creating the union and painted an over-optimistic picture of the economic welfare gains that would follow. At the last meeting but one, the draft had become strongly lopsided in that direction, which led to a confrontation with the sceptical group (German, Danish, and Dutch). Delors immediately gave in and a new and sober draft was presented at the final session.

A basic precondition for success was considered to be the convergence of monetary and other macroeconomic policies over a period until the final stage. This result could be obtained by improving cooperation within the Committee of Governors—a new mandate that should stress consultations in advance of national decisions—and better multilateral surveillance based on agreed indicators together with a new procedure for budgetary policy coordination. So convergence had to improve but on a voluntary basis, that is, without transfer of sovereignty to international institutions. An investigation had shown that no member country under existing legislation would be able to transfer decisionmaking power to a Community body. For many countries it would not be possible to participate in arrangements for a binding ex ante coordination of policies. This applied to both fiscal and monetary policy. It was therefore recommended that a comprehensive treaty be concluded to formulate the essential features and institutional arrangements of an economic and monetary union.

But here an important distinction was made between fiscal and monetary policy.

In respect of monetary policy it was proposed that a common system of central banks be established with a single currency, the ECU, that was independent of the political system; this system would be modeled on the German central bank. This was not an analytical necessity but recognition of the fact that Germany would never accept a common monetary system that might give way to a looser inflationary attitude. As a result, the common central bank should be independent, with the goal of price stability as its primary objective. In contrast to this centralisation of monetary policy power in a common institution, other fields of macroeconomic policy—in particular fiscal policy—should be governed by rules. These rules—for example, on budget deficits—should be surveyed and coordinated by the existing Community bodies—in particular the Council of Ministers and the Commission.

In contrast to the Werner recommendation described earlier, there was no proposal to transfer sovereignty to a centre for policy formation. The decision was to let the final responsibility for this part of economic policy remain with the national parliaments—in contrast to monetary policy. It was a recognition of the fact that transfer of so much national sovereignty would not be politically feasible. The basic model was thus to oblige member countries to coordinate converging economic development during a transitional period when decisions would be taken at the national level. Members would then negotiate a far-reaching treaty that laid down the structure of the economic and monetary union to be put in force on a certain date.
The German member of the committee made a strong case for this model in order to emphasize that there would be no change in the Bundesbank Act before the final transition to an economic and monetary union. Not all members agreed, however. Some would still have preferred models leading gradually to economic and monetary union. Another proposal was to adopt an early stage a parallel currency strategy where the ECU would be issued as a fully-fledged currency in parallel with national currencies—ultimately leading to its complete dominance. Again at the insistence of the German member, this proposal was abandoned for fear that the growth of the parallel currency without central bank control might jeopardise the goal of price stability—an argument that was not entirely convincing. The 1978 proposal to create a European reserve fund was revived to create a limited pool of exchange reserves that might be used for intervention purposes on the responsibility of all members. This was a French request that was backed by probably a majority of the members, but it ran counter to German monetary indivisibility philosophy. It was, however, included in the report as the viewpoint of “some members”.

These proposals provided a blueprint that would start movement toward economic and monetary union, beginning in 1990 with capital liberalization and convergence of economic performance. Governments would then consider when and how a comprehensive treaty should be drafted and accepted. This process did actually come into effect, and the blueprint on model and stages became the guideline for the following years. Pöhl would probably have preferred not to sign the report (Grant 1994, p.121), but that would have isolated Germany in a way that was politically precarious inasmuch as all German requests had been met.

**Philosophy of the Delors Report**

The philosophy of the report can be summed up as follows: The doctrine of indivisibility of monetary policy prevailed in the sense that decisions should be taken either at the national level or at a common body—a quantum jump toward a common central bank. Other parts of macroeconomic policy should remain decentralized. Decisions should be taken at the national level and coordination should be governed by rules and peer pressure.

A significant consequence of this change of attitude was that the Werner Report’s insistence on the inevitability of “progressive development of political cooperation” ending in a political union, “which in the long run it will be unable to do without” (Werner Report 1970, p.26) had to be replaced by something that was in line with the French reservation against too much transfer of sovereignty. It was stated that the Community would continue to “consist of individual nations with differing economic, social, cultural, and political characteristics.” This “pluralism would require a degree of autonomy in economic decisionmaking.” It would thus not be possible to form a federal state; “it would be necessary to develop an innovative and unique approach” (Delors Report 1989, p.13).

This formulation was itself already innovative in that it achieved a compromise between the German indivisibility doctrine and the French reservation on transfer of sovereignty. The former led to a common central bank and the latter led to a loose rule-based system in respect of the remaining macroeconomic policy. The question of political integration was de facto ignored even though it was still (see Stoltenberg’s memorandum) a basic element in German thinking.
IV. The Kohl-Mitterrand Initiative

The Decisionmaking Process (1989-90)
The Delors Report was published on 17 April 1989 and became one element in the most dramatic period of political change in Europe since the end of the World War II. It is difficult to form a definitive judgement on the relative weight of economic and monetary union in the important European settlement embracing the disappearance of Soviet dominance and the formation of a new Germany. But there is so much information about how decisions on economic and monetary union were reached that its significance within the larger process can hardly be considered negligible. This presentation, therefore, contains a far more detailed account of the steps in the decisionmaking process than in the previous sections. This greater detail has been made possible by the publication of large amounts of material that ordinarily would have been restricted for a long period.

Shifting attitudes toward economic and monetary union
In the 1980s attitudes in France and Germany toward economic and monetary union underwent changes, some of which hardened earlier attitudes and some of which relaxed them. While France pressed ever more ardently for a common monetary policy, by 1984, she had indicated, in Mitterrand's speech before the European Parliament
in May of that year, that it was now willing to consider a transfer of sovereignty to Community bodies. The Germans, meanwhile, had tightened stability conditions and moved to a harder line regarding monetary indivisibility, which meant that gradualism regarding cooperation on monetary policy was closed off.

In the second half of 1989, France held the chairmanship of the European Union, and Mitterrand had already, in March of that year, declared that an economic and monetary union was a top priority (Attali 1995a, p.201). There was, however, a clear divergence of attitude between Kohl and Mitterrand on this issue. Kohl often quoted the Adenauer dictum that the German problem could only be solved under a European roof. He had persistently underlined that a political union was the ultimate goal for European cooperation, and that an economic and monetary union was a necessary element in the final system and perhaps also an element that might contribute to the final goal. But it was not an end in itself. In other words Germany should not give up the dominance of its currency unless it was part of a much wider scheme for political integration. Economic and political unification should thus move in parallel.

Mitterrand, however, could easily separate these two issues. The dominance of the deutschmark and the weakness of the French franc had been a constant source of discontent since the 1960s and had reduced the French stance on the international political scene. Economically, France was considered a second rank country. In the French view, the exchange rate system was inherently asymmetrical and the German monetary authorities had not been sufficiently willing to cooperate in overcoming this built-in bias. In the monetary field they had simply not been willing to share their power with France. A merger of economic policy in an economic and monetary union was therefore a more promising course, even though the exact structure had not been defined.

Certain questions the Germans regarded as critical were not important to Mitterrand (Favier and Martin-Roland 1996, p.163; Attali, interview 6 March 1998). For example: Should national currencies be maintained or replaced by a single currency (monnaie unique)? Should national central banks continue to exist perhaps with some pooling of reserves, or would it be preferable to create a common central bank? To the French, what mattered was that monetary policy should be a common undertaking. The Delors Report, that had delivered a consistent blueprint for such a system, was consequently a welcome basis for negotiations on a new treaty that could accomplish the aims of the Single Act—as this was understood by the French side.

The report was on the agenda at the meeting of the Council summit in Madrid at the end of June 1989. Just before the meeting, the Bundesbank sent a letter to Kohl in which it acknowledged that a monetary union might be unavoidable for political reasons because certain countries were not willing in the long run to accept the dominance of the Bundesbank. It was therefore important to prevent acceptance of a gradual transfer of monetary decisionmaking in the second phase of the Delors plan (Bernholz 1998, p.818). The Bundesbank thus resisted any transfer of monetary policy authority before the final phase.

At the meeting in Madrid the different attitudes were manifest. After Delors’ presentation and a preliminary discussion, the chairman summed up by referring to four points: the goal of creating an economic and monetary union; making the Delors Report a basis for this development; starting the first stage on July 1st, 1990; and the wish by some to call an intergovernmental conference (IGC) to negotiate a new treaty.

Kohl immediately made reservations. He said that his proposal was to ask the existing expert committees to prepare the issues that were to be discussed. Mitterrand on the contrary was in favour of calling an IGC quickly; Margaret Thatcher of the United Kingdom was vehemently against an IGC. After a heated debate in which Mitterrand hinted that he might postpone the liberalization of capital movements at the beginning of the first stage, a compromise agreement was reached to call an IGC after “full and adequate” preparation—such a woolly expression that the proceedings ended in laughter.

In effect, Kohl did not yield from his basic position that he would request a careful and thorough preparation for a discussion on how economic and political elements should be treated. In the opinion of Delors (interviews 6 January and 8 August 1995) Kohl’s attitude was dominated by a strong reluctance to enter negotiations on economic and monetary union, unless it was clearly combined with a political counterpart. In an interview just after the meeting (on French radio channel Europe 1, 27 June 1989) Mitterrand argued in favour of a politically integrated Europe, but stressed that an economic and monetary union was a precondition for this. He
asked pointedly why all monetary and economic matters should be decided by the single German central bank—the essence of the French standpoint.

As Soviet power declines, German reunification becomes an issue

During the summer months of 1989, Soviet power over Eastern Europe decelerated and the question of German unification grew. The debate, in its early stages, was rather philosophical. It exploded with the fall of the Berlin Wall on 9 November 1989, when uncertainty and apprehension, not least about the speed and unpredictability of the development, became dominant. Mitterrand’s attitude was quite explicit. In an interview with leading European newspapers on 27 July 1989, he expressed the view that German aspirations on unification were quite legitimate, but should be realised in a peaceful and democratic way. He could not imagine that Germany would sacrifice its European policy for a unification that the Soviet Union was not ready to accept. Behind these words was the French anxiety that a big neutral Germany might return to a nationalism that, in the past, had been so dangerous. He also expressed the firm view that the German question could not be settled without the consent of the Soviet Union and the Western powers, as has been described in section 1. This interview took place just before the so-called Exodus from East Germany via Hungary gathered momentum and inaugurated the fundamental change in the European scene.

During the following months, Kohl steadfastly supported the German standpoint that an economic and monetary union was not acceptable, unless the final goal of a political union was included in the negotiations. This was stated quite clearly in a talk with the Italian prime minister, Giulio Andreotti, on 18 October 1989 (Deutsche Einheit 1998, pp.453–54). At this time, Kohl insisted that an IGC could not be summoned until there was detailed information about the content of the various phases leading toward economic and political integration. He wanted to make it clear “that the completion of the internal market would not be the final goal for him. Furthermore, it was necessary to progress further in the direction of a political union. This was an existential question for the Federal Republic of Germany.” He continued by saying that “he also wanted progress with economic and monetary union. But this progress could only be possible when the goal was political union”.

The divergence between Kohl and Mitterrand prompted Kohl to state at a meeting between the two on 2 November 1989 that he did not wish such controversy between Germany and France to be apparent at the Council summit (Deutsche Einheit 1998, p.472). It would have to be settled between the Elysée and the Bundeskanzleramt (chancellor’s office). He had consequently asked his foreign minister and finance minister to abstain from dealing with these issues. From then on negotiations on central issues became a two-person game. Kohl wanted success at the Council summit in Strasbourg the following December, because there would be no reforms in the East without the European integration process.

The dramatic fall of the Berlin Wall on 9 November 1989—only a week after the discussion between Kohl and Mitterrand—took everybody by surprise. The greatest source of bewilderment was how to find an appropriate strategy in response. The United States was in favor of German unification—as had been stated so often in official documents by the Western powers—provided Germany remained a member of the NATO alliance. The Soviet Union, on the other hand was caught completely off balance and sent letters the very next day to Western leaders discouraging notions of German reunification. For example, Gorbachev warned U.S. president George Bush against statements being made in the FRG (Federal Republic of Germany) that would stir up emotions “in the spirit of implacable rejection of the post war realities, that is, the existence of two German states” (Zelikow and Rice 1995, p.107). He counseled that this might endanger the democratization process and wanted to call an immediate four-power meeting. This was, however, not accepted. France and the United Kingdom were both nervous about the prospect of a larger Germany. They felt that the process of achieving it was probably unavoidable but that it should at least be slowed down and that it was highly appropriate that conditions should be attached.

But what kind of conditions and who could set the agenda? There were all kinds of suggestions—official and unofficial—about future conditions for, and role of, the two Germanies in Europe. One of Kohl’s advisers, Horst Teltschik (1991, pp.42–45) mentions that the Soviet leadership apparently was beginning to consider German unification and this prompted him to suggest that Germany should take an initiative. Despite the unstable situation Kohl followed this advice and presented a 10-point program to the
German Bundestag on 28 November 1989. A remarkable feature of this initiative was that it had not been authorized by the German government; nor had it been discussed with the foreign minister, or with allied countries. It was clearly intended to be a surprise both to the German population and to the international community (Teltschik 1991, pp.52–3).

The program covered support from the German Federal Republic (FRG) to the German Democratic Republic (DDR), gradually increasing cooperation, and treaties on structural integration that would culminate in a situation where the German people could freely decide for or against unification. Even though it was presented as a long-range plan—Kohl estimated that it would take five to ten years to implement (Teltschik 1991, p.52)—it was seen in other countries as a push for a specific solution; he was adding fuel to the flames in a situation where conditions were already unstable enough. The Soviet grip on Eastern Europe was crumbling and there was a large number of Russian troops in Eastern Germany—perhaps as many as 350,000 soldiers (Zelikow and Rice 1995, p.246). At the same time the Soviet economy was in serious trouble because transition to a market economy was proving to be much more complicated than expected. In France there was widespread nervousness about the reappearance of economic and political dominance in Germany. Werner Rouget (1998, p.23), a German expert on the political relations between the two countries, points to the fact that French policy since the agreement of Chambord 1552 had followed the advice given to Henry II to make life as difficult as possible for the Germans. Since 1945, the Russians had solved the problem with the division of Germany, but now it returned as a major question.

**German unification becomes linked to European integration**

How could equilibrium between the two countries be secured? Would an economic and monetary union be a solution? Britain had the old concern about the balance of power on the European continent. Thatcher is reported to have told Bush that Germany “will be the Japan of Europe, but worse than Japan” (Zelikow and Rice 1995, p.207). She could not hold back her animosity, and in an interview in January 1990, she declared that early German unification would create enormous problems for Gorbachev and, thereby, for stability in Eastern Europe. Kohl and Genscher should consequently subordinate their nationalistic ambitions to the needs of Europe (Teltschik 1991, pp. 115–16).

The events described above embrace four interconnected issues that were of immense importance for the future of Europe and that were settled in 1990.

- The first was unification of Germany—a German concern.
- The second was whether a united Germany could be free to choose the alliance it preferred—a U.S. concern underlining NATO membership.
- The third was whether Germany would decisively commit itself to European integration and, more precisely, to an economic and monetary union—the French concern.
- The fourth was whether a political union should be a precondition for work on an economic and monetary union—a German request.

On the second issue, George Bush, then U.S. president, decided after intensive internal discussions to propose a change in the NATO alliance at a meeting on 4 December 1989. He called his proposal a new Atlanticism, and he supported German unification under certain conditions. The American agenda included four points of which the second is relevant to this paper. The wording was that “unification should occur in the context of Germany’s continued commitment to NATO and an increasingly integrated European Community, and with due regard for the legal role and responsibilities of the allied powers.” (Zelikow and Rice 1995, p.133; Teltschik 1991, p.65) The three elements stated by Bush became the framework for the various decisions that gradually opened the way for German unification. Zelikow and Rice make a point of explaining that the last of the three—reference to the four-power rights—was added because the U.S. embassy in Bonn had complained of Kohl’s persistent failure to refer to these rights.

The German 10-point programme and the U.S. NATO statement were the most explicit pronouncements on German unification. The Soviet Union had not yet formulated a clear strategy, and neither France nor the United Kingdom was explicit about their primary standpoints. But all the accounts make it appear that there was gradual recognition that unification, one way or another, was unavoidable. “You cannot swim against the tide of history,” was an
expression often used by politicians. Nevertheless, in essence, all
the former allied powers preferred the status quo, or a very slow
transformation, and were highly apprehensive that Kohl might
endanger stability by increasing the speed of unification. There
were feelers between Mitterrand and Thatcher, Thatcher and
Gorbachev, and Mitterrand and Gorbachev.

European animosity and Soviet anger were the most unreserved
expressions of emotion in response to Kohl's 10-point declaration
about German unification. These responses were due to the absence
in the declaration of any express mention of other obligations or
conditions that had to be fulfilled and to its unexpectedness. Attali
opens his account on the 10-point statement with the word
"Incroyable!" He declared it "unbelievable!" that Kohl could write
a letter to Mitterrand the day before without mentioning that he
would present this important declaration the day after. No one in
Paris knew anything about it. Mitterrand had almost exploded
because Kohl had not consulted him. "This I'll never forget! Gorbachev
will be furious, he will never let it happen, it is unthinkable!" 24
Attali noted that Kohl had not informed Mitterrand that he would
announce such a change of the political position of Germany. He
would not obtain any support from Mitterrand unless European

German aspirations for unification create openings for French
goals for integration

According to Teltischik the tone between himself and Attali was not
particularly hostile. Attali mentioned in a telephone talk that the
Elysée could live with the ten points but he would have preferred
that European integration had been given a more prominent role
(Teltischik 1991, p.60). Although the two participants—Attali and
Teltischik—had less emotional reactions, the general atmosphere
was tense. Teltischik told a French journalist, who was enraged
about the German move, that the German government was now in
a position where it would have to accept practically any French
initiative for European integration. As a Frenchman, he would put
strong pressure on the Germans (Teltischik 1991, p.61).

The opportunity came a couple of days later.

As mentioned above, Kohl had written to Mitterrand on 27
November, the day before his 10-point declaration, suggesting a
working calendar for political and economic integration before a
decision could be taken on an IGC, which Mitterrand would like to
be made at the Council summit in Strasbourg on December 8th.
Kohl's letter was analysed by Attali who could see only delays in
Kohl's proposal that the specialized committees—ministers of finance,
Committee of Governors and so forth—should prepare a lot of issues.
He saw the question of economic and monetary union becoming enmeshed in a vast program of institutional reform in
both its economic and political aspects. As he saw it, if this was the
German position everything would be stalled (Attali 1995b, p.349).
Teltischik mentions the letter in quite different, laconic terms and,
in a few lines states, that it is important and shows France that
European integration is important to Germany (Teltischik 1991,
p.54).

A few days later Genscher visited Mitterrand who jokingly (en
plaisant) asked whether a united Germany would remain in the
Community. Genscher answered (Attali 1995b, p.353) that the German
government had changed its opinion and was now willing to fix a
date for an IGC on economic and monetary union at Strasbourg.
Attali adds that he was informed that Mitterrand had told Genscher
that if German unification happened before a European move the
Germans would face a triple alliance (France, United Kingdom, and
Russia) that would end in war. If the order were reversed, France
would support Germany. A slightly milder tone was used by
Mitterrand's adviser Elisabeth Guigou, who in the British BBC
program, "The Money Changers", said (February 1998) that Mitterrand
was actually "a bit rude" to Genscher and threatened to clash
openly with Kohl at Strasbourg. She pointed out (interview, 3
January 2000) that Mitterrand during the previous months had
found Kohl unwilling to discuss economic and monetary union.
Genscher mentioned just after Guigou's BBC intervention that
immediately after his return to Frankfurt from visiting Mitterrand,
he and Kohl decided to accept the fixing of a date for an IGC before
the end of 1990.

Mitterrand replied promptly to Kohl's letter, and it was a brief
and cool reply. It was analysed by Joachim Bitterlich—one of
Kohl's advisers—who came to the conclusion that Mitterrand wanted
one thing and one thing only: to fix a date for an IGC on economic
and monetary union. Bitterlich's view was that other suggestions in
Kohl's letter had been considered as diversion manoeuvres—
was obviously appropriate and, in diplomatic terms, Kohl in essence repeated on 5 December his original proposal to ask all the various committees to prepare proposals before an IGC could be summoned under the Italian chairmanship, that is, before the end of 1990 (Teltchick 1991, p.68). Attali remarks (1995b, p.367) that this was unacceptable to France. Védrine (1996, p.431) mentions, however, that Bitterlich had called Guigou three days before the meeting in Strasbourg and informed her that Kohl would accept the French request.

The sources and the exchange of letters do not clarify the succession of events, but at least two points stand out. Mitterrand demanded an unequivocal commitment to fix a date for summoning an IGC on economic and monetary union, and Kohl requested a clear plan for steps toward a political integration—with special emphasis on the authority of the European Parliament.

The question of support for German unification was not mentioned in the letters. It should be noted also that a special dinner meeting in Paris on the political situation after the wall, to which the EU heads of state were summoned by Mitterrand on 18 November 1989, was terminated without political statements. A spokesman from the Elysée could only inform the journalists that the German question was not on the agenda (Bitterlich 1998, p.114). Attali is a little more precise, even though he did not participate in the dinner. He notes that German unification was not mentioned at the request of Kohl, but at the dessert, Thatcher could not hold back her criticism. Kohl then referred to a NATO declaration of 1970 and added that she could not prevent the German people from realising their destiny. To which she answered “folle de rage: Vous voyez, vous voyez!” (“furiously: You will see, you will see!”) Attali adds that Mitterrand seemed to approve (Attali 1995b, p.343).

After the 10-point declaration on 28 November, the meeting in Strasbourg on 8 December was tense, and general European animosity was expressed. Kohl makes the often-quoted point that he had never participated in a Community summit with an atmosphere so ice cold as this one. He was surprised—possibly embittered—by the almost tribunal type of questioning about what he had been thinking and how he had come upon the idea of making such a speech—the 10-point programme (Kohl 1996, p.195). There was a heated debate about frontiers. The other Community members wanted Kohl to accept a statement on the inviolability of the frontiers (especially Oder-Neisse) after the Second World War. But in vain. Kohl and Genscher demanded that the communiqué should include political support for German unification, according to previous commitments in the EU and NATO, to make up for accepting an IGC before the end of 1990. This created a German-British confrontation of exceptional violence (Favier and Martin-Roland 1996, pp.206–8). The Germans had to use all their weight to obtain a statement of support—to which were attached all kinds of diplomatic complications and reservations (Bitterlich 1998, p.116). The statement was tucked away in an inferior position in the communiqué, in return for the failure to give assurances on frontiers.

Process of European integration goes forward; IGC agreed
So, eventually Kohl did accept the process of economic and monetary union, on condition that it was stated that the German people should be united in the context of Community integration. Political union was not mentioned in the text (Attali 1995b, p.371; Bitterlich 1998, p.116; Zelikow and Rice 1995, p.138). Teltchick, who did not attend the summit, gives a much less dramatic account and mentions that Kohl and Genscher were highly satisfied with the result—in particular the support for German unification under self-determination. They were also satisfied that Europe was on its way toward economic and political integration (Teltchick 1991, pp.71–3).

However one interprets the succession of events, Mitterrand had obtained what he wanted—an unequivocal commitment to fix a date for an IGC on procedures for achieving economic and monetary union. At the same time, support was expressed for the unification of Germany without specific conditions. For this quid pro quo, Kohl had accepted procedural tightening of the process leading toward economic and monetary union without mention of political union.

The decision had been taken by the politicians and far above the central bank level. The importance of the decision is open to interpretation.

A few days later Kohl met with James Baker, the U.S. foreign minister, and asserted, with reference to the Adenauer principle, that he stuck to his European commitment. He observed that France wanted to tie Germany to Europe. What could he do more than to support an economic and monetary union? “He [Kohl] had taken this decision against German interests. For example the President
of the Bundesbank was against the present development. But this move was politically important, because Germany needed friends. There ought not to be any distrust toward us in Europe."25 Baker appreciated what Kohl had done but added that the motives should be better understood. There would definitely be less nervousness if one could be convinced that Germany was firmly rooted in the West (Deutsche Einheit 1998, p.638; Zelikow and Rice 1995, p.145). Bitterlich admits that the atmosphere was frosty and the neglect of Kohl’s insistence on political union disappointing, but the attitude toward the “German question” was eventually positive and the process improved later on (Bitterlich 1998, p.116). In Mitterrand’s judgement (Attali 1995b, p.375) the prospect of an economic and monetary union was consoling to the French position “...as we today collide against the hegemony of the German mark, tomorrow we will impose all our weight on the monetary decisions.”26

To fix a date for an IGC on economic and monetary union is obviously not identical with reaching agreement. Neither on dates for realisation nor for the shape of an economic and monetary union, but it was definitely a political commitment by Germany to work in good faith for the kind of integration—monetary—that the French considered their top priority. This fact explains why Bézégovoy underlined in a talk with Mitterrand that French fiscal policy had to be tight during the IGC period. Otherwise the Germans would take the opportunity to be restrictive (Attali 1995b, p.378–79).

Germany had now demonstrated its willingness to move toward further integration in the European Community but there was still uncertainty and anxiousness about the speed of movement toward unification. In particular Mitterrand was concerned about the Soviet reaction to the problem of the two Germanies in the opposing alliances. He felt that Kohl ought to slow down but realized that Gorbachev was the only one that could make him do it. And if he failed a general—according to Gorbachev—would take his place in the Kremlin. In truth, Mitterrand, too, expected that to happen. (Attali 1995b, p.390).

There is little doubt that relations between Kohl and Mitterrand were strained after the 10-point programme and the inevitable tide toward German unification. There were several instances of French reservations regarding the speed and possibly the scope of German unification. Mitterrand had, for example, visited Gorbachev in Kiev on 6 December 1989 and tried to discuss a coherent policy line toward the German question but without success. It is reported that he suggested that the two of them should together visit Modrow in Eastern Germany possibly in order to support the regime and thereby slow the speed; the astonishing suggestion did not receive an answer (Zelikow and Rice 1995, p.137). Mitterrand did, however, undertake an official visit to Modrow in late December, which was uncomfortable for the Germans (Teltschik 1991, p.26; Kohl 1996, p.231). The Soviet Union had asked for a meeting of the four ambassadors of the allied powers in Berlin, which the French had accepted (Teltschik 1991, p.72). Finally Mitterrand—like several other leaders—had insisted on a public declaration by Kohl on the inviolability of the borders—in particular the Oder-Neisse line, which was a highly sensitive issue in Germany.27

In order to restore good relations Kohl made a visit to Mitterrand in the beginning of January 1990 in Latché. He had never found Mitterrand so reserved (befangen) and obsessed by deep concern about the Russian reaction to German unification and the question of alliances. His impression was that the French seriously feared that Germany would yield to Russia’s desire for a Germany along the lines of Stalin’s 1952 proposal offering German reunification in return for neutrality (Zelikow and Rice 1998, pp.53–4). This meant that Russian influence would stretch to the vicinity of Strasbourg. In Mitterrand’s opinion, Gorbachev’s destiny was more dependent on Kohl than on his adversaries in Moscow. Kohl assured Mitterrand that he would be careful and that the linkage to Europe and in particular to France was the dominant feature in his policy (Kohl 1996, pp.232–36; Deutsche Einheit 1998, pp.682–90).

In spite of his assurances Kohl was not inclined to reduce speed, but with support from the United States, rather, increased it when the opportunity was open. The political and economic situation in Eastern Germany was chaotic and the difficulties in the Soviet Union enormous. So a monetary union between East and West Germany was proposed by Kohl as early as the beginning of February 1990, with a generous exchange rate for the East.

Unification was almost a fact and other countries were only spectators, but Mitterrand felt strongly that the speed of European integration should accelerate and move in parallel with the German unification (Favier and Martin-Roland 1996, pp.228–31 and 243). At the same time he recognized that the Soviet leader “no longer has the psychological or political powers to oppose anything” (Favier
and Martin-Roland 1996, p.230). He therefore increasingly wanted to include political integration—had actually stressed that to his advisors in mid December 1989 (Védrine 1996, p.433)—and took an initiative to reveal that at a meeting with Kohl on 15 February 1990. According to Attali, at that meeting, Kohl mentioned, as his secret, that he had made it clear to Gorbachev that the more Germany cooperated with France and the more rights were delegated to the EU, the more the specter of a Fourth Reich (after Hitler’s Third Reich) would disappear.

The political question of needing to rein in Germany before it was too late dominated Mitterrand, and he did not refrain from pointing out to Kohl the rights of the four powers knowing this was a legalistic view that did not please the Germans—and Kohl in particular. Nevertheless Mitterrand felt that the four powers should have an influence on the consequences of the German unification. Moreover, the EU should continue to move in the direction of a political union and not only an economic and monetary union. Kohl’s reaction was to exclaim, “Yes, that was my original idea!” (Attali 1995b, p.422–28.) The two politicians reached agreement on a proposal to start two conferences—one on economic and monetary union and one on political union.

A step toward realizing this idea was taken in April 1990. Kohl and Mitterrand formulated a letter before the Council summit in Dublin suggesting a parallel IGC on political union. The topics to be prepared for such a conference included democratic legitimacy of the union, more efficient institutions, economic coherence, and implementation of a common foreign and security policy. Apart from the last point the message was very vague. It appears that France and Germany could not agree on the substance of political unification either with regard to the increased influence of the European Parliament or on the question of foreign and security policy. Diplomatic inquiries in Germany showed that the vision was empty of ideas. The vague statements could therefore only be repeated in the communiqué from the Council summit in Rome in October 1990 and in a new letter from Kohl and Mitterrand before the Council summit in December. So it can be argued that Kohl’s original request to have a parallel development of economic and political integration was now again on the agenda, but not with equal precision.

Obtaining Soviet consent to German unification

Three of the four problems mentioned—German unification, economic and monetary union and political integration—have been described. Finally there was the question of obtaining Soviet consent to German unification and freedom to choose alliances. Almost everybody—and Mitterrand perhaps most of all—expected this to be the greatest stumbling block in achieving the settlement of German unification. This was because just as Western Germany was considered one of the most important allies in NATO, the DDR had a similar position in the Warsaw Pact. Although the Warsaw Pact was disintegrating it was hard to envisage the Soviet Union abandoning what it considered a stronghold. Indeed, the Russian attitude is illustrated by Gorbachev’s remark to von Weizsäker in 1987 about German unification that he did not want to theorize, but that “history would decide what would happen in a hundred years” (Zelikow and Rice 1995, p.32). The end came faster than that, but an aggressive attitude was expressed in a Pravda article by Gorbachev in February 1990 when he demanded a peace treaty for Germany with maintenance of NATO and the Warsaw Pact. In this view, a unified Germany could not be a member of NATO. (Zelikow and Rice 1995, p.205)

The Americans under President Bush had proposed at the beginning of December 1989 that NATO be adjusted to be more in line with the new Europe and new Atlanticism. Still it seemed it would be difficult to overcome Russian reservation against an enormous change in Western dominance in Europe. However, Russian leaders gradually came to recognize that the government in DDR was too weak, and it did not seem possible to support it. It was not feasible to prevent unification. To this must be added that the Perestroika project had, in Gorbachev’s words, abolished the command economy but not yet replaced it with a well functioning market economy. He needed trade agreements with the United States and Western countries and means to finance the debt service.

The credit standing of the Soviet Union deteriorated in the spring of 1990 and became urgent in May. Foreign Minister Eduard Shevardnadze—instructed by Gorbachev—asked Kohl to support a financial credit. Teltschik describes how he and two leading German bankers flew to Moscow in mid-May on a secret mission to negotiate with the prime minister and several other ministers. The negotiation was about quick support to prevent loss of international confidence if they were unable to meet their obligations—in fact
had to default. Teltschik pointed out to the Russians that this support plus a possible assumption of DDR liabilities toward the Soviet Union would have to be part of a package that should contribute to the solution of the German question. The final meeting was attended by among others Gorbachev, Nikolai Ryskov, and Schevardnadze.

At the end of the same month—30 May 1990—a Soviet-American summit in Washington took place. President Bush argued that a united Germany must have the same freedom to choose alliances as other countries according to the Conference on Security and Cooperation in Europe (CSCE) principles in the Helsinki Final Act. Gorbachev nodded agreement. Bush continued that he would favour a formulation that the United States preferred German membership in NATO but would respect a different German choice. Gorbachev again agreed. Zelikow and Rice describe the atmosphere: “Meanwhile many of his aides could not conceal their distress. Zoellick (from the U.S. State Department) recalled the scene as ‘one of the most extraordinary’ he’d ever witnessed. There was a palpable feeling—conveyed through expression and body language—among Gorbachev’s advisers of almost physically distancing themselves from their leader’s words” (Zelikow and Rice 1992, p.278). Bush gives an almost identical description of the dramatic performance. He concludes, “I am not sure why Gorbachev did what he did. Perhaps he realized that our position would prevail and this was the best way to manage it within his own team.” A few days later Gorbachev in a private talk with Bush asked for financial support and explained that he did not want to “raise the question of needing money from the United States in front of his own team” (Bush and Scowcroft 1998, pp.282–83 and 287).

The exchange described above is considered the turning point in Soviet resistance to German membership in NATO, and there are various explanations about the causes. Among them may be the credit to the Soviet government that was guaranteed by the German government and amounted to 5 billion deutschmarks. It was drawn in full at the beginning of July 1990 (Teltschik 1991, p.316), and without it the Soviet Union would have been unable to meet its financial obligations. In spite of repeated requests by Kohl, the Americans were not willing to participate in loans to the Soviet Union because of the confrontation between the Soviet Union and Lithuania, which wanted to leave the union. So Germany was the sole provider of money. This loan may be one of the reasons why the Russian military was highly dissatisfied, feeling that the victories of the Second World War had been sold for deutschmarks (Kohl 1996, p.424).

At the beginning of July, Gorbachev was re-elected general secretary at a congress of the Communist Party, with a three-to-one margin after a bitter debate. In the middle of July 1990, Gorbachev and Kohl reached agreement on a settlement of the German question (Bush and Scowcroft 1998, p.295; Teltschik 1991, pp.340–41). This was finally adopted by the four allied powers and the two Germanies in September 1990, which meant an end to reservations toward the Germany that now was recreated and united, as of 3 October 1990.

Most of what happened in 1989 and 1990 was unexpected and the speed of change incredible, so the outcome cannot be considered a result of strategic planning. The European scene was changed fundamentally. It is anybody’s guess how it would have looked if attitudes and decisions had been different.

It has been argued in the present section that the four fundamental questions that were in the forefront in 1990—German unification, German freedom to choose alliances, German commitment to economic and monetary union, and the German request for parallel political union—were in a complicated way mutually interdependent. It is understandable that unification was the primary German objective, and it was pushed harder and harder as resistance to it by the old allies did not materialize. The United States was mainly concerned not to lose Germany as an ally in NATO and took on the major task of pacifying and persuading the Soviet Union. To this must be added the German credit to the Soviet Union—no other nation would participate—that prevented a financial collapse.

The French were first and foremost nervous about a re-emergent neutral Germany with a risk of return to nationalism and confrontation with its neighbours. Kohl is of the opinion that Mitterrand did not have a clear strategy on German unification. Two hearts had beaten, “One for the people in DDR; the other for France, for its role and rank in case of a German unification” (Kohl 1996, p.198). Attali gives a more cynical version (1995b, pp.493 and 501): Mitterrand had a meeting with Gorbachev in Moscow on 25 May 1990. He expected that “Gorbachev will again ask me to resist German reunification. I would do it with pleasure if I thought it would
matter”. At the meeting he exclaimed to Gorbachev, “Germany is our friend but I am almost more at ease with you.” In a rather critical observation Zelikow and Rice pointed out (1995, p.205) that Mitterrand “offered ambivalent support for German unity but had been active diplomatically in devising ways—intentionally or not—to slow the pace.”

Mitterrand had demanded an unconditional German commitment to an economic and monetary union and later developed a scheme—admittedly unclear—for political integration. Otherwise it was suggested that France would join the United Kingdom and the Soviet Union against unification. This threat may have been empty.

The Soviet Union expressed strong reservations against both German unification and German freedom to choose alliances but, with the Soviet economy in disarray and its political system fragile, it gave in. The United Kingdom chose an extremely restrictive policy line that was unrealistic. On the question of economic and monetary union it can be said that at least it was a visible element in the settlement.

One can speculate how things would have developed if the Soviet Union had been less forthcoming, but still had been unable to meet its financial obligations, or what would have happened if France had been more aggressive toward Germany, or if the United States had been less active. The cautious Bitterlich formulates it (1998, p.123) in the following way: “Regarding European integration—without German unification, we would quite likely have been much less advanced than we actually are today.”

The Final Shape (1991–92)

From the middle of 1989 until the end of 1990 the heads of state took a string of decisions that paved the way for intensified European integration. These decisions pointed to an economic and monetary union together with a political union. To a large extent, they were taken against the monetary bureaucracy in the strong currency countries and probably also with reservations by monetary institutions in several other countries.

At the Madrid Council summit in June 1989, it was decided to enter the first phase on the road to an economic and monetary union on 1 July 1990. This would initiate liberalization of capital movements and launch a process of economic convergence. At the Strasbourg meeting in December 1989, agreement was reached on a political commitment to establish an intergovernmental conference (IGC) on an economic and monetary union not later than the end of 1990. At the Rome Council summit in October 1990 it was further decided to enter the second phase on 1 January 1994. The final phase should be realized within a reasonable time, during which the creation of a common central bank should dominate. In phase 2, this new monetary institution should be established. In spite of this decision, disagreement developed during the preparation of the Maastricht Treaty as to whether a separate institution should be established as specific to phase 2. At a further Council summit in Rome in December 1990 it was decided to constitute two IGCs—one on economic and monetary union and one on political union.

The floor was now open for negotiations on how to shape the new structures of cooperation.

Already in December 1990, the Commission had presented a draft treaty, but national delegations were invited to submit contributions. The French and Germans presented their basic models early in 1991.

The French presentation

In January 1991 the French government presented a draft treaty on economic and monetary union.

The model made a distinction between the final phase and a transitional period—phase 2.

The overarching objective of economic and monetary union should be noninflationary growth and a high level of employment.

The Council of Ministers should define broad guidelines for Community economic policy.

In the monetary field the ECU should function as a single currency, and the central banking system—including the European central bank—should have as a priority objective the maintenance of price stability and should neither seek nor take instructions from the Council of Ministers.

However, the Council should lay down the guidelines for the Community’s exchange-rate policy and the European Central Bank should carry out interventions within the guidelines laid down by the council.

In the transition period—the second phase—the central banking system should be established with a view to reinforcing coordination.
of national monetary policies and to supervising the development of the ECU. Furthermore it should assist in the implementation of Community exchange-rate policy and intervene within the guidelines laid down by the council.

In the Delors group it had been agreed that the Community central bank should be independent and have price stability as its priority objective and these two conditions, which were German in origin, were duly observed.

Nevertheless, the French draft comprised three elements that could lead to disagreement.

The first was to let the Council (a group of politicians) determine the broad objective of Community economic policy. How would this be consistent with the bank’s independence?

Second, the new central bank should be established at the beginning of phase 2, in accordance with the decision made at the Rome summit in October 1990, and should intervene in exchange markets within the guidelines laid down by the Council. There again the question of independence arose and also the relation to the indivisibility doctrine.

Third, it should already in phase 2 supervise the development of the ECU—that is, perform a central bank task. Here also was a collision with the indivisibility doctrine.

The German presentation

In late February, the German government presented its draft proposal, which in essential respects diverged from the French.

Statutes for a central bank, modeled on the Bundesbank, had been drafted by the Committee of Governors and delivered in late 1990. This should be part of the treaty, because it would then be very difficult later on to negotiate about it and to amend it. Passage to the second stage should preferably be decided unanimously, and there were a lot of conditions to be fulfilled.

The second stage should be one of national convergence but without transfer of power to a common monetary institution, as gradualism had to be averted.

Similarly, passage to the third stage should be decided unanimously—an effective veto for each member; and convergence in respect of price stability, budgetary deficits, and interest rates should be demonstrated.

There was an option not to participate for member states that did not fulfill the conditions or did not want to take part immediately.

According to Bini-Smaghi, Padoa-Schioppa, and Papadia (1994, p.16) the provision of unanimity "implied the indefinite postponement of EMU. The surprising position of the German delegation at the IGC highlighted a difficulty that was to resurface throughout the negotiations: the different attitudes toward EMU of the German chancellor and foreign minister, on the one hand, and of the finance ministry and the Bundesbank, on the other...."

In contrast to the French proposal giving the Council of Ministers authority to determine the broad lines of economic policy, the German draft speaks only of multilateral surveillance in order to ensure lasting convergence of economic policies of member states. Contrary to the French draft, this does not include guidelines for the common central bank.

Horst Köhler, who headed the German delegation as personal representative of the Finance Minister, mentions that this draft had been supported unanimously by the board of the Bundesbank (Köhler 1996, p.166).

The drafts demonstrated that in effect, the monetary bureaucracies in the two countries had resumed their previous positions.

Questions to negotiate

This inaugurated a period until December 1991 of intense and difficult negotiations. The Germans and the Dutch were the hard-liners, presenting and supporting proposals that would make realisation of an economic and monetary union extremely difficult or even impossible. If they were adopted it would in all likelihood create a two speed Europe. This idea the British generally supported, whereas the French and the Italians opted for an easier procedure.35

There was indeed a long list of questions to be settled. These have been dealt with extensively in the literature. For the purpose of this essay it is sufficient to single out the major elements in creating the economic and monetary union.

- Should the common monetary policy be supplemented by some kind of economic government?
- What should happen in the second phase?
• What should be the entrance conditions for an individual country?
• Should there be performance requirements after entry?
• How should establishment of the final phase be decided?

**Should there be economic government? The counterpart question**

The first issue covered the question of responsibility for general economic policy and its relation to the monetary policy of the new independent central bank—this is also called the counterpart question.

Bérégovoy liked to talk about a “gouvernement économique”, which meant that the Council of Ministers should formulate the general lines of policy that should be binding for the members. In some unspecified way this should supersede the central bank. This alerted the Bundesbank and the German finance ministry to doubt whether the French would in the end respect the condition of central bank independence.

It quickly became obvious that there was very little support among the members of the IGC for binding decisions on common economic policy. After lengthy debates the French gave in and accepted a formulation that enabled the Ecofin to recommend broad guidelines for economic policies of the member states. This did not include monetary policy of the common central bank (Köhler 1996, p.170; Schönhfelder and Thiel 1996, p.128). The model was thus a common monetary policy in the final phase and not a binding recommendation for other economic policies.

The external exchange-rate policy posed a special question, but was finally solved along the lines of the German model after tense negotiations between Köhler and Trichet (Köhler, interview, 17 December 1997). The exchange rate system is determined politically but the central bank is not obliged to intervene in a way that would endanger its objective of price stability (Schönhfelder and Thiel 1996, p.128–29).

**The second phase: Disagreement on the new monetary institution**

The second problem was very difficult—the French request for gradualism in phase 2.

At the Rome summit in October 1990, it had been decided to establish the new monetary institution in phase 2, and this meant that it should operate before the economic and monetary union was finally established in phase 3. It is generally admitted that Kohl explicitly accepted the wording “the” new institution instead of “a” new institution. This meant that the field was open for gradualism. But enthusiasm was premature. What should be the task of this new institution?

Again the German monetary authorities became suspicious that “thereby possibilities would be created to assume influence on the monetary policy of the Bundesbank without having assured the transition to the final phase” (Köhler 1996, p.172). This was considered “the worst case scenario” by the German delegation (Schönhfelder and Thiel 1996, p.140). The Germans were afraid that the traditional French aversion to transfer of sovereignty might lead to a permanent state of affairs under phase 2 in which the French obtained influence on German monetary policy. The Bundesbank would fall into a French trap.

There had been support in France for creating an ECU that could compete with national currencies. Bérégovoy favoured the idea of a “monnaie commune” that would gradually take over as a “monnaie unique”—a project that was close to British thinking at the time. They had launched the Hecu (hard ecu) plan according to which an ECU that could not be devalued should compete with the national currencies and presumably gradually come to dominate.

At a meeting with Mitterrand in late January 1991 Guigou remarked that monnaie commune “takes a long time....If we don’t engage now, we will never make the single currency.” Mitterrand’s answer was directed at Bérégovoy: he noted that he had for a long time been opposed to a European central bank, but France “will have more impact on the European bank than she has on the mark today.” (Aeschimann and Riché 1996, pp. 90–91). Thus, Bérégovoy, who favoured an ECU (as a monnaie commune) in the second phase, was called to order—no support for the British. The Germans—with Dutch support—therefore prevailed, partly with an argument that sovereignty should not be transferred and an empty European central bank ought not to function in phase 2. Then it would lose prestige. Instead agreement was eventually reached to create a separate institution, the European Monetary Institute (EMI) that was governed by the member central banks and was not given
more authority than the Committee of Governors. In that sense phase 2 became empty.\textsuperscript{39} It was thus reserved for improved convergence and technical preparation for the final phase, and gradualism in decisionmaking was—in line with German requests—ruled out.

\textit{Entry criteria}

The third point in the negotiations on the economic and monetary union concerned the entry criteria. How should an applicant country qualify as convergent?

In essence, the different attitudes had already been revealed in the summer of 1990 at discussions in the Monetary Committee of the Common Market about the work of an IGC that was expected to be established shortly. The report of the Monetary Committee made the point that transition to phase 2 must be based on objective—meaning quantitative—criteria. This was requested by the Germans and the Dutch and inspired by the Bundesbank (Bini-Smaghi, Padoa-Schioppa, and Papadia 1994, p.21). The report concentrated on price stability, budgetary discipline, and participation in the EMS and required some market evidence of sustainability—that is to say, that markets believed in stable economic performance. According to Köhler, there had been no disagreement with the French about the principle of quantitative criteria (interview, 17 December 1997). It was, however, agreed as a general compromise that such criteria could not be used in an automatic way but would require the exercise of judgement (Bini-Smaghi, Padoa-Schioppa, and Papadia 1994, p.26).

It was a unique undertaking to select the conditions that had to be fulfilled. In the end targets were set on price performance, interest levels (market reaction), exchange-rate stability, public sector deficit, and public sector debt. However, the way in which figures were determined and reference behaviour and periods settled was pure bargaining that aimed at satisfying German stability concerns. It defied any kind of rational analysis. When asked why precisely these concepts were chosen the answer was generally that “we thought it appropriate....” It was the Germans and, even more strongly, the Dutch that demanded tightness. Köhler mentioned that disagreement about the figures had indeed not been the chief problem and in particular not between him and the French (interview, 17 December 1997). Their performance had as a matter of fact reached the German level. Performance was measured only for one year (two years for EMS membership)—a short period compared with the horizon of the economic and monetary union. As noted, an important feature of the model was that it should not be used in a mechanistic way but as basis for a political judgement.\textsuperscript{40}

\textit{Should there be performance requirements after entry?}

The fourth point was whether a country that had passed the hurdles of the entry criteria would have any restraints on its behaviour afterwards. Monetary policy was transferred to a common body—the new central bank. Monetary financing of the public sector and bail out of a member country were prohibited (the Rome summit in October 1990), but there were no other firm rules that prevented excessive behaviour regarding fiscal policy or cost and price development. In the Maastricht Treaty there are provisions for mutual surveillance of fiscal policy including the possibility of sanctions. In order to tighten these provisions the Germans in 1995 proposed what was later named the Stability and Growth Pact. The aim was to introduce automatic sanctions if a member allowed excessive public deficits—beyond 3 per cent of GDP—to last beyond a certain period.

In the end it was agreed that sanctions could be decided but not automatically. This obviously weakens the impact on discipline (Szász 1999, p.163). Mutual surveillance and peer pressure are thus the most important instruments to maintain stability in respect of fiscal policy and cost and price behaviour in the economic and monetary union.

\textit{Establishment of the final phase}

Finally there was the question of the procedure for activating the economic and monetary union.

The original German request for unanimity within the Council of Ministers as a precondition for starting phase 3 was not accepted. A compromise formula was adopted by the IGC. The Council could decide to start in 1996 and this would require unanimity, but in 1998 a simple majority could take a decision. This procedure was, however, changed at the Maastricht negotiations in December 1991 with the purpose of making the transition to the third stage irreversible. Tommaso Padoa-Schioppa, adviser to the Italian prime minister, Andreotti, has mentioned in personal talks that a fixed
date, making the process irreversible, was discussed at a meeting of the Giscard-Schmidt committee in Brussels shortly before Maastricht. This prompted Padoa-Schioppa to prepare a text for Andreotti proposing a fixed date to be presented at Maastricht (interview before the BBC program “The Money Changers”).

At the end of November 1991, Mitterrand had summoned a meeting with some ministers to prepare for Maastricht. Guigou suggested (Favier and Martin-Roland 1999, p.222) that the best way to secure that the movement is irreversible “is to include in the treaty a fixed date for entry into the third phase.” Favier and Martin-Roland continue that Mitterrand was seduced by this idea of a date-butoir (check-block date). He would not appear less determined (volontariste) than Giscard d’Estaing and the right wing pro-Europeans. The idea should be kept secret and he would see how things developed at Maastricht. On 3 December 1991, he had a meeting with Kohl who complained about the resistance of the financial sector in Frankfurt, saying, “I too have problems with alarm signals from my bankers. I don’t care. If I come back from Maastricht with an engagement that is not irreversible, we will run into difficulties.” (Favier and Martin-Roland 1999, p.226.) Köhler reports (1996, p.173) that Kohl’s instruction to the German delegation to the Maastricht negotiations was that the package of the finance ministers should not be torn apart and that the passage to the final phase “should be irreversibly fixed.”

At the start of the meeting in Maastricht on 9 December, Mitterrand—after having previously informed Italian prime minister Andreotti—proposed fixing a date for entry into the third phase that would be, at the latest, 1 January 1999. Kohl immediately supported him. The French-Italian-German proposal carried the day. How the coup was prepared in detail may never be fully revealed. There had been informal contacts about an irreversible date (Guigou, interview, 3 January 2000), but it was a surprise to the participants, and the proposal had not been prepared in the IGC committees. So it was again demonstrated that the political will at the heads of state level prevailed over the institutional reservations.

Védrine (1996, p.472) reports how Mitterrand made his proposal at the start of the meeting in Maastricht: He noted that it was necessary to fix an ultimate date for the entry into the third phase. If the Council left it until after the end of 1996, “the date of January 1st, 1999 will fall like a butcher’s knife.” Védrine adds that it was “one of the most important moments of the European Councils of these fourteen years—maybe even the most important of them all.”

The work on political union had been a cornerstone for Kohl, as noted several times in section 8. There had been agreement between him and Mitterrand to push forward to two IGCs along lines delineated in letters to two Council summits in April and December 1990. The venture ran into difficulties, because German and French views differed on the role of the European Parliament and in particular on the position of the supremacy of the Council of Ministers, where the heads of state were represented. The French were not willing to transfer power to other Community bodies besides those mentioned.

In reality it appears that the Germans did not have a clear vision of what they wanted. Kohl is quoted as saying only a few days before Maastricht: “We cannot and will not give up sovereignty over monetary policies if political union remains a castle in the air (Luftschloss)”. One of the chief German negotiators, Günter Grosche, is more down to earth. He notes that in the IGC, they had discussed foreign and security policy, social policy etc. But “It just wasn’t thought through. The concepts were vague.” (Marshall 1999, p.91.)

Just before Maastricht, the chief French negotiator, Pierre de Boissieu, in a memorandum to Mitterrand gave a rather arrogant assessment of the position and importance—or rather, unimportance—of the participants. He remarks (Favier and Martin-Roland 1999, p.220) that the Germans “have not really negotiated the political union.” Finally it is worth quoting the viewpoint by Werner Rouget (1998, p.96) that integration is an advantage especially for smaller nations—Germany before unification with limited sovereignty—whereas a united Germany is so large that a looser cooperation is preferable.

The final shape was thus a full-fledged monetary union with an independent central bank and a single currency. Economic policy and economic performance in the third phase were loosely knit together by cooperation within the existing institutions and political union turned out to be an empty box.
V. Conclusion

The Course of Events

Is there a pattern in the endeavours and decisions to create an economic and monetary union in Europe? For one who has been involved as a participant in the debate since the late 1950s and in the negotiations since the early 1970s, it is difficult to discover systematic connections. The scheme is an economic proposition with a political aim in which the economic analysis has been concentrated on two subjects.

The first is whether there are welfare gains or losses to be expected from an economic and monetary union. The models used are, however, so remote from reality that the conclusions have had very limited impact on the decisions. It might though be argued that the likely small welfare effects compared with a free trade system have contributed to the attitude that this topic can without risk be neglected.

The second subject concerns the conditions that have to be fulfilled for such an undertaking to be feasible—that is, not to break down. The central theme has been convergence of economic performance—particularly in respect of cost and price development. In this connection it has generally been assumed that political unification would be a necessary condition in the long term. This assumption was strongly formulated in the Werner Report, which
followed German thinking, but was largely bypassed in the Delors Report, which pursued the French line of thinking. To this must be added the frequent contention that economic and monetary union may gradually develop into political unification. In this area, too, firm conclusions are in short supply.

It is easy to jump to the conclusion that exchange-rate and monetary policy cooperation have promoted convergence of economic performance and thereby, step by step, made the situation ripe for a transition to an economic and monetary union. This essay supports no such conclusion, which should be clear from the events described in this paper.

The Committee of Governors was established as far back as 1964 with the explicit task of discussing monetary policy measures before they were decided at the national level. The aim was to coordinate monetary policy with a view to achieving a common policy between equal partners. This was definitely not the outcome. Valuable analyses were presented by the experts, but after the fact, and coordination was not undertaken in spite of frequent political requests.

As a stabilizing mechanism, the narrow-margin exchange-rate system of 1972 collapsed almost immediately, leaving the deutschmark in a dominant position among the big four currencies of France, Germany, Italy, and the United Kingdom. The Italians and the British were satisfied with a floating system that reflected differences in economic performance. The French fought hard to obtain better symmetry in the system, with equal pressure on strong and weak currencies to adjust through intervention or policy changes. The Germans and Dutch took the position that the deutschmark, as anchor, should be dominant and that other members should adopt similar performance standards—that is, converge toward the most stable level—if they wanted to participate. France did change priorities in 1982–83 in a desire for a better equilibrium with Germany, but it does not seem to have been particularly connected with the exchange-rate mechanism. The evidence thus hardly seems to support a presumption that cooperation in the exchange-rate or monetary field promoted convergence. The development of stability in the 1980s was a general phenomenon and not EMS-specific.

The course of events demonstrates—leitmotif of this essay—that initiatives to embark on an economic and monetary union project have invariably been taken at the level of the German and French heads of government. The leaders did not have particular insights in economics and have in all cases known beforehand that the monetary establishment in their countries had reservations about the projects or even resentment toward them. It has been a German/French political affair with Dutch support for German attitudes and Italian and Belgian support for the French.

The three initiatives have been motivated by the desire or necessity to demonstrate Germany’s determination to remain embedded in the European Community (Brandt and Kohl) or to maintain positive German participation in the common European role in the international economic system (Schmidt).

The French have increasingly made it a top priority to secure economic parity with Germany—evidenced by the Fourcade Plan, the EMS proposal, the wave of proposals in the 1980s, and finally, the Strasbourg and Maastricht decisions. At the finance ministry and central bank level, in-fighting over German and Dutch stability requests that France and others had difficulties in meeting invariably stifled initiatives.

The models used have in all three cases been almost identical. A common fund should coexist with national central banks in a two-tier system and a certain amount of decisionmaking should be transferred to this new institution. It might or might not be called a central bank, and its role could be coordination of national monetary policies, support of the exchange-rate mechanism, or the relationships between the key currencies.

The two-tier model that was originally suggested by Monnet was adopted by Brandt and annexed by Giscard d’Estaing and the French in general. This was countered by the German indivisibility doctrine—led by the Bundesbank. In this, gradualism was ruled out—it had to be a quantum jump from a system with national central banks to a common central bank. It was a take it or leave it offer. The two-tier idea had to be replaced by a one-tier system with a single currency.

Aeschimann and Riché (1996, p.91) relate a discussion between Mitterrand and Béregovoy in which the latter argued for a two-tier system in a transition phase with the ECU as a common currency in line with the British attitude. Mitterrand stressed the German opposition to such a scheme and favoured moving to a single currency directly. “No change of alliance! The ally is Germany! The
British are aligned with the United States!" So, eventually, the French gave in and accepted the request of a transition directly to a one-tier model, although it was still a hard bargaining point between Kohler and Trichet in the IGC negotiations in 1991. The model that was finally adopted is actually a truncated one. The Germans wanted a political unification consistent with the Adenauer philosophy and an economic and monetary union with a parallel development of monetary policy and other macroeconomic policies (fiscal and cost performance). That means parallelism in three fields: political, monetary, and economic. The French were keen on selecting monetary policy only and accepted the German request for an independent central bank.

In the end, the Germans gave in on two points. Their appetite for a political union diminished even though the German request for a political union had been repeated like a mantra during the decades. It is an open question whether it was a real desire. Second, parallelism between monetary and economic development was downgraded, relegating the latter to the weak surveillance of the 1955 Stability and Growth Pact. The French aspiration was similarly changed. They wanted to have an important impact on monetary policy, but this evaporated with the independence of the common central bank.

It is not unknown for decisions to turn out differently from original motivations, but in this case the distance is appreciable. We are now left with a monetary union, a feeble coordination of other macroeconomic policies, and no prospect of a political union: the latter will certainly become increasingly unlikely when membership of the European Union is increased. But even though the various elements in the project fail short of expectations one has to ask whether the basic purpose of the undertaking has been obtained.

It has often been mentioned in the preceding sections that Germany should become embedded in Europe in such a way that new German dominance and possible reappearance of nationalism should be prevented. Thomas Mann’s expression of the need for a European Germany instead of a German Europe is often quoted both by Germans and other participants in the debate.

Nevertheless, in a judgement from the summer of 1988, Mitterrand did not conceal his apprehension of the danger of German dominance, saying (Attali 1995b, p.74) that there is a difference in German behaviour regarding economic and financial matters compared with other fields. The Germans do not have full sovereignty, so Germany sticks to its supremacy, and "...its supremacy is the economy, and in this the deutschmark is the atomic power." Mitterrand did not believe that it would be possible to convince the Germans to change their policy stance even if he would like to.

He could not foresee what would happen in 1989–90.

In March 1990 Mitterrand had a conversation with Brent Scowcroft, President Bush’s national security adviser, who made sharp and deprecating comments on Gorbachev and the Germans and added that the United States wanted a strong Community with a common currency that would make it possible to control Germany (Attali 1995b, p.441). Rouget (1998, pp.103–4) talks also of Maastricht as a vehicle for Germany to become firmly embedded in Europe: Einbindung, encadrement. He mentions that this has been a clear line in German foreign policy after World War II in order to obtain equality with other European nations. He considers Maastricht as a request for proof that Germany wants peace and as a "precondition for the return of the German Federal Republic to the family of nations." In this connection it has to be remembered that the Maastricht Treaty passed through the Bundestag and Bundesrat almost unanimously.

The supremacy of the deutschmark was consolidated by decades of superior economic performance. This meant that it would always be at the centre of tensions when speculative capital movements create disturbances between currencies—whether they are caused by differences in economic performance or other factors. Such tensions are bound to have political consequences for coherence within the Community. It would mean that German dominance would become an increasing political problem in Europe since, in crisis situations, it is tempting to appeal to national prejudices. The beneficial effect of removing internal currency disturbances, of course, presupposes that the simplified system is a viable proposition.

It is not the purpose of this essay to make a prediction. However, it seems reasonable to point out that there have been long periods of monetary stability between countries—for example, the gold standard before the First World War—without a formal coordination of economic policy. In such periods, policy attitudes have been marked by a high degree of similarity. This may happen again—not least because the inclination to experiment with macroeconomic demand management policy seems to have declined.
Most of the dangerous tensions in Europe over the centuries have had their origins in relations between Germany and France. If economic and monetary union can reduce the risk of Franco-German tensions and thereby improve political stability in Europe, this higher aim is an important justification for the undertaking.

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End Notes

1 "... zentrale Mangel ist, dass noch keine verbindliche Grundlage für die Entwicklung einer gemeinsamen Währungspolitik in dem Vertragswerk enthalten ist..."

2 "...oder die Schaffung einer europäischen Währungseinheit oder eines europäischen Währungsstandards...

3 "... faire face aux problèmes monétaires intérieurs et extérieurs comme s’ils formaient une unité. They should act as a "... véritable entité économique plutôt que comme une collection d’Etats séparés, susceptibles d’être isolés...

4 "... Comité Monétaire ou au sous-comité des Banque Centrales avant, plutôt qu’après, leurs adoption par les autorités nationales.”


6 „Bei der Entwicklung einer koordinierten Währungspolitik zu einer gemeinsamen Währungspolitik wird sich eine gemeinschaftliche Institution, die weiter rechts als der Währungsausschuss, als notwendig erwiesen. Denn wird allmählich die Notwendigkeit einer organisierten Zusammenarbeit der nationalen Zentralbanken in einem Gemeinschaftsorgan auftauchen, das letzten Endes für die gemeinsame Währungspolitik verantwortlich ist, ohne aber schon in diesem Stadium die Funktion einer Notenbank der Gemeinschaft zu erhalt.“

7 „... Rat der Notenbankpräsidenten würde zum Zentralorgan eines Zentralbanksystems von föderalistischem Zuschnitt”

8 Speech given at the St. Ignatius School of Economics, 22 November 1962

9 „Als Europäer wäre ich bereit, dem Ideal einer europäischen Währungsunion zuzustimmen und auch ein zentral gesteuertes föderales Notenbanksystem zu akzeptieren ... aber... Eine gemeinsame Währung und ein föderales Notenbanksystem sind nur denkbar, wenn es ausser einer gemeinsamen Handelspolitik auch... eine gemeinsame Politik überhaupt gibt, kurz,

wenn es einen Bundesstaat mit einem europäischen Parlament gibt, das Gesetzgebungsbefugnisse gegenüber allen Mitgliedstaaten hat... Solange die EWG eine Gemeinschaft souveräner Staaten ist... so lange wird die innere und äussere Verteidigung der einzelnen Währungen primär in der Verantwortlichkeit des einzelnen Landes liegen müssen. Eine föderale gemeinsame Notenbank setzt einen föderalen gemeinsamen Staat voraus. Sie kann daher nur der Schlußstein im Bau eines europäischen Bundesstaates sein.”

10 “L’Europe doit amarrer l’Allemagne à l’Europe de telle façon qu’elle ne puisse plus s’en détacher.”

11 “Hinter diesen ... Meinungsunterschieden verbargen sich aber auch... tiefergehende politische Zieldifferenzen und unterschiedliche ökonomische Interessenlagen. Vor allem die französische Seite stand von Anfang an einer klaren Definition der institutionellen und politischen Konsequenzen einer Wirtschafts- und Währungsunion mit grosser Zurückhaltung gegenüber. Man zielte offensichtlich mehr auf eine Währungsunion als auf eine Wirtschaftsunion ab.”

12 Tsoukalis gives an account of the differences between the preliminary and final reports.

13 „... le zurückhaltender..., als es meiner Einsicht in die Notwendigkeiten entsprach."

14 Ludlow 1982, p. 63, who also mentions that Schmidt had been inspired by reading Monnet.

15 The presentation in this section is based on notes taken by Erik Holm who assisted the Danish prime minister

16 Attali 1993, p. 251. A similar view is presented by Favier and Martin-Roland 1990, pp. 422-24

17 „La rigueur, c’est moi qui l’ai voulu pour réussir les réformes.”

18 Speech delivered at the Savings Bank Group of European Economic Community, 7 December 1984.

19 „Le marché intérieur sans monnaie, ça n’a pas de sens!”

20 Mitterrand: „... la monnaie européenne en soulignant toute son importance” Kohl: „Allez-y, je suis prêt à me faire violer par l’Europe!...Pour la monnaie, nous sommes sur la ligne de départ; nous partirons, mais j’ai des problèmes...”

21 „dass die Vollendung des Binnenmarktes für ihn nicht das Endziel darstelle. Man müsse vielmehr weiterkommen in Richtung auf eine Politische Union. Dies sei für die Bundesrepublik Deutschland eine existentielle Frage.”
"Er wolle auch Fortschritte bei der Wirtschafts- und Währungsunion. Aber diese Fortschritte seien nur möglich, wenn das Ziel Politische Union heisse."

"tenir sous main les affaires de l'Allemagne dans la plus grande difficulté qu'on pourra" 

"Je ne l'oublierai jamais! Gorbachev sera furieux; il ne le laissera pas faire, c'est impossible!"

"Diesen Entschluss habe er gegen deutsche Interessen getroffen. Beispielsweise sei der Präsident der Bundesbank gegen die jetzige Entwicklung. Aber der Schritt sei politisch wichtig, denn Deutschland brauche Freunde. Es dürfte uns gegenüber kein Misstrauen in Europa geben."

"...alors qu'aujourd'hui nous nous heurtons à l'hégémonie du Deutsche Mark, demain nous peserons de tout notre poids dans les décisions monétaires."

"Teltschik 1991, p. 76. See also Kohl’s arguments against an early statement in Favier and Martin-Roland 1996, p. 241"

"n’a plus les moyens psychologiques et politiques de s’opposer à quoi que ce soit"

"Oui, c’est ma vieille idée."


"A critical account is given by Bini-Smaghi and others, 1994, pp.34-41."


"est l’inclusion dans le traité d’une date prédéterminée de passage à la troisième étape."

"Mois aussi, j’ai des problèmes avec les signaux d’alarme de mes banquiers. Ça m’est égal. Si je rentre de Maastricht avec un engagement qui ne soit irréversible, nous courons à l’échec."

"sollte irreversibel festgelegt werden."

"la date du 1er janvier 1999 tombera comme un couperet."

"l’un des moments les plus importants des Conseils européens de ces quatorze années—peut-être même le plus important de tous."

"n’ont pas vraiment négocié l’Union politique."

"Pas de renversement d’alliance ! L’allié, c’est l’Allemagne ! Les Britanniques, eux, sont alignés sur les États-Unis !"

"... sa puissance, c’est l’économie, et le deutschmark en est la force atomique."

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