1. Introduction

Economic thought and policy-making at the European Commission are very much a function of two elements: first, the treaties, as they determined the mandate of the Commission and, second, the economic ideas in the different countries of the Community, as economic thought at the Commission was to a large extent a synthesis and compromise of the main schools of thought in the Community.

The basis of the European Community was the Rome Treaty, which transformed economic and legal rules in the countries of the Community. The Treaty comprised the creation of a common market, as well as several accompanying policies. However, the monetary dimension of the Treaty was relatively limited.

According to the Rome Treaty, the Commission has three main functions: (a) guardian of the Treaties; (b) executive arm of the Community; (c) initiator of Community policy, the Commission has the sole right to present proposals and drafts for Community legislation. As the Rome Treaty is a ‘framework treaty’, the Commission has been active to implement the Treaties.

The main centre for economic thought and policy-making at the European Commission is DG Ecfin (Economic and Financial Affairs – earlier called DG II), which can be considered as the economic department of the Commission. In DG II, most attention is given to macroeconomic and monetary issues, even if also sectoral aspects of Community policy are analysed.

In this chapter, we first focus on the different schools which have been shaping economic thought at the Commission. This is followed by an analysis of the Rome Treaty, especially the monetary dimension. Thereafter we focus on the European Monetary Union (EMU) process and the initiatives of the Commission to further European monetary integration. We will consider three broad periods: the early decades, the Maastricht process and the quest for a ‘genuine’ EMU.

2. Economic thought at the European Commission

Economic thought at the Commission was to a large extent a synthesis and compromise of the main schools of macroeconomic thought in the European countries, especially the three...
big ones: Germany, France and the United Kingdom. In the (early) post-war period national traditions were still important in Germany and France, while economics in the United Kingdom was much closer to the mainstream economics profession in the United States. Throughout time, the ‘Anglo-Saxon’ tradition would more and more dominate the academic economics profession in Europe.

German economic thought was centred around the notion of the social market economy. Two main tendencies can be distinguished. The more free-market-oriented German economists emphasised that economic policy was, in essence, Ordnungspolitik, i.e. a policy to create a framework within which markets can operate. The main tasks of economic policy are: (a) monetary policy: assure price stability; (b) fiscal policy: rather limited task for the government; and (c) structural policy: competition policy is emphasised. The other tendency, more Keynesian, emphasised the social dimension of the ‘social market economy’ and was more influential with the social democrats and the trade unions. It considered a dialogue between the social partners (trade unions and employers) as a crucial element of its strategy to stimulate growth and employment. In general, German economists mostly emphasised that economic policy consisted in the application of certain basic economic principles (especially the respect of market mechanisms and wage moderation) to the actual economic situation.

Initially, French economic ideas were very influential at the Commission. Robert Marjolin, the first commissioner for DG II, had been the deputy to Monnet at the French Planning Office, famous for its five-year plans. The French Planning Office, while being part of the French ‘Colbertist’ tradition, was also a spearhead of Keynesianism in France, with the national accounts at its heart (Rosanvallon, 1987, 40).

In the post-war period, with the increasing influence of the US academic world, ‘Anglo-Saxon’ ideas became more influential in the economics profession. These ideas followed different fads: Keynesianism, monetarism and supply-side economics. This was also the case at the Commission. From a methodological point of view, the ‘Anglo-Saxon’ s favoured generally a more analytical approach, whereby economic policy recommendations would be based on more refined economic research. They especially favoured the development of Commission’s model building capacity.

Initially, an important transmission channel for Anglo-Saxon ideas was the Organisation for Economic Cooperation and Development. Many Commission officials had worked at the OECD and there were many interactions between the Paris-based international organisation and the Commission. Anglo-Saxon ideas received a big boost with the nomination of Tommaso Padoa-Schioppa as Director-General of DG II in 1979 (Maes, 2013). Also, younger economists had a more Anglo-Saxon education, more of them having studied in the US and having a Ph.D.

During the second half of the 1970s, economic thought at the Commission shifted from a dominance of Keynesian economics towards a more supply-side-oriented approach. While this was a more general tendency in the economics profession, the failure of the very Keynesian Concerted Action Plan of 1978 was an important factor hereby at the Commission.

At the beginning of the 1980s, the Commission’s analytical framework became basically medium-term oriented, with an important role for supply-side and structural elements and a more cautious approach towards discretionary stabilisation policies (Maes, 1998, 14).

A further push towards integration fitted well into this new conceptual framework. The completion of the internal market, with its elimination of the remaining barriers to a free flow of goods, services, persons and capital, was very much in line with the deregulation strategy being pursued in the various European countries. Macroeconomic policy in the
countries of the Community became more stability oriented, as policy-makers realised the illusory nature of the trade-off between inflation and unemployment. This orientation fitted in with a policy of stable exchange rates and a move towards a monetary union.

3. The Rome Treaty

The Rome Treaty would transform economic and legal rules in the countries of the Community. Among its novelties was the creation of a common market, as well as several accompanying policies in areas like agriculture, transport and competition. It also made provision for new institutions: the Parliament, the Council, the Commission and the Court of Justice.

Compared with commercial policy or competition policy, for example, the responsibilities of the Commission were rather limited with respect to macroeconomic and, especially, monetary issues. Triffin (1958, 1) described the limited monetary dimension of the EEC Treaty as ‘a Hamlet in which the role of the Prince of Denmark is almost totally ignored’. The Treaty left macroeconomic policy-making mainly at the level of the Member States. The responsibilities of the Commission concerned the orientation and coordination of the national macroeconomic policies.

The most extensive discussion of macroeconomic and monetary issues can be found in the ‘Balance of Payments’ of the Treaty. It illustrates that macroeconomic and monetary issues were tackled from a ‘common market’ perspective, as balance of payments disequilibria would threaten the creation and functioning of the common market.

Article 104 stated that each Member State should pursue an economic policy ‘to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices’. German negotiators emphasised this article, as it implied the commitment of every Member State to adopt economic policies which would ensure balance of payments equilibrium.

Article 105 continued that, in order to attain the objectives of Article 104, ‘Member States shall co-ordinate their economic policies’. Furthermore, the Member States ‘shall for this purpose institute a collaboration between the competent services of their departments and between their central banks’. The Commission had a role of initiative herein, as it ‘shall submit to the council recommendations for the bringing into effect of such collaboration’.

Article 108 discussed the situation where a Member State has serious balance of payments difficulties which could threaten the functioning of the common market. It stipulated that the Commission should investigate the situation and give it the right to recommend measures for the Member State to take. Moreover, the article provided for the possibility of granting ‘mutual assistance’. Article 109 contained the safeguard clauses that France had insisted on, enabling a Member State to take the ‘necessary protective measures’ in the event of a sudden balance of payments crisis.

In its Article 105.2, the Treaty also provided for the establishment of the Monetary Committee. It was based on a French Memorandum (Archives NBB, B 436/4). The proposed missions of the Monetary Committee were to provide reciprocal information for the various authorities and to formulate opinions on ‘all aspects of monetary policy concerning the functioning of the common market’. The Memorandum explicitly mentioned the mutual assistance procedure.

The EEC Treaty focused strongly on the creation of a common market. Overall, the monetary dimension was limited and macroeconomic policy-making was mainly left to the Member States. The Commission was given certain responsibilities for steering and
coordinating national macroeconomic policies. Of special concern here were balance of payments disequilibria, as they could pose a threat to the common market. Moreover, the Commission had a right of initiative to draw up proposals for organising this cooperation. In the following years, the Commission would, on the basis of the Treaty, advocate a strengthening of economic policy coordination and monetary cooperation in the Community.

4. The early decades of the monetary integration project

4.1 The 'European Reserve Fund' project

At the start of the EEC, the French macroeconomic and monetary situation, with galloping inflation and balance of payments deficits, was a matter of significant concern for the Commission, leading it to reflect on how it could fulfil its role in the macroeconomic and monetary area. Marjolin, in collaboration with Triffin, drew up a proposal for the creation of a European Reserve Fund. Triffin reformulated his earlier ideas for a European Reserve Fund in an EEC framework (Maes, 2006). It was discussed at DG II and, in November 1958, Marjolin presented a Memorandum to the Commission.

Marjolin started from the observation that the EEC Treaty provided for the basic principles of the coordination of economic policies, but that the details of this coordination had not been properly worked out. He argued for a common economic policy. This would provide a way of avoiding substantial divergences in inflation and employment, which would lead to balance of payments difficulties and the application of the safeguard clause.

To put the policy coordination into practice, Marjolin proposed to undertake regular surveys of the Member States’ economies. Moreover, he proposed that the Community institutions could also formulate policy recommendations. The weight of these recommendations would be stronger if the Community had at its disposal resources to facilitate financial solidarity. Therefore, Marjolin proposed setting up a European Reserve Fund.

This idea of the Community having the resources to facilitate financial solidarity would later become a recurrent theme in Commission proposals. A basic principle behind it was that such mechanisms, by demonstrating a collective stance, were a more efficient way of averting currency speculation than isolated national measures. Also, it made it possible to offer ‘carrots’ to countries which had to adjust policies, thus increasing the influence of the Commission’s own policy recommendations.

The European Reserve Fund could be constituted by pooling a part of the international reserves held by the Member States’ central banks, a proposal which was certain to arouse the ire of the central bankers. The Fund would provide for different types of loans, both to assist countries with balance of payments difficulties and also to support economic growth. Marjolin also proposed having the Funds’ accounts expressed in a new unit of account.

The proposals gave a key role to the Commission in the macroeconomic and monetary area. It would have a leading role in the coordination of policies and one of its Members would also sit on the Executive Board of the European Reserve Fund.

However, in December 1958, De Gaulle devalued the French franc and introduced orthodox economic policies. Consequently, the proposal for a European Reserve Fund lost its raison d’être.

4.2 The Commission’s Action Programme of October 1962

The first years of the EEC went well. In October 1962, the Commission submitted a Memorandum with its Action Programme for the second stage of the Community (1962–5).
Walter Hallstein, the then President of the Commission, drafted the political introduction. In the Memorandum, the Commission pushed for the Rome Treaty to be interpreted at most as implying the gradual completion of full EMU and political union (CEC, 1962).

The introduction to the Memorandum strongly emphasised the political character of European economic integration, which was intended to lead to the economies of the six EEC Member States merging in a full economic union. Economic union implied the progressive merger of national economic policies in a common short-term and long-term economic policy. This further implied that the Community would set long-term economic objectives.

In the chapter on monetary policy, it was argued that monetary union could become the objective for the third stage of the common market (1966–9). The Memorandum argued that monetary policy had a ‘vital importance’ for the Common Market, as exchange rate fluctuations could disrupt trade flows. The Memorandum paid special attention to agriculture in this respect. Monetary union was considered as necessary to protect the customs union and the common agricultural policy from exchange rate fluctuations. The German revaluation in March 1961 had in this respect an important influence on policymakers at the Commission, as it showed the vulnerability of the international monetary system. For the second stage (1962–5), the Memorandum proposed ‘prior consultation’ for all important monetary policy decisions, such as changes in the discount rate, minimum reserve ratios, central bank loans to the State, changes in exchange rates, etc.

The Memorandum received a rather mixed welcome. Central bank governors asked for a legal analysis of whether the Council and the Commission had the right to draw-up Regulations and Directives and to take binding decisions for the central banks (La Politique Monétaire dans le cadre du Marché Commun, 4/12/62, Archives ECB). Their legal services confirmed this. In their official reaction, the governors argued that monetary coordination could only be efficient if budgetary policy was coordinated as well.

The discussions led to significant adjustments to the Commission proposals. On 24 June 1963, the Commission submitted a Communication on ‘Monetary and Financial Cooperation in the European Economic Community’ (CEC, 1963), in which it proposed creating two new consultative organs, the Committee of Governors of the Central Banks of the Member States of the European Economic Community and the Budgetary Policy Committee, as well as widening the responsibilities of the Monetary Committee, especially in the area of international monetary matters.

The new Commission proposals received a more favourable welcome. While the decisions of 1964 were a far cry from a monetary union, as proposed in the 1962 Memorandum, they contributed to establishing the Commission as an actor in the monetary area. First, they made it clear that the EEC Treaty gave the Commission a right of initiative in the monetary area. Second, the Commission would be invited, as an observer, to the meetings of the Committee of Governors. This would give the Commission an entrance into the world of the central bankers.

4.3 The Barre Memorandum

In the second half of the 1960s, the Bretton-Woods System came under increasing pressure. In response, the Commission published the so-called ‘Barre Memorandum’ in February 1969 (Commission of the EEC, 1969). It focused on three main lines of action: (a) convergence of medium-term economic policy. It proposed being more specific about the degree of convergence of the broad orientations of the Member States’ medium-term policies and
ensuring mutual compatibility; (b) the coordination of short-term economic policies. Here, the emphasis was on sufficiently coherent short-term policies, so that the different economies did not develop in ways which diverged from the medium-term objectives. The Memorandum proposed the reinforcement and more effective application of the consultation procedures and a system of ‘early warning’ indicators; (c) a Community mechanism for monetary cooperation, to help alleviate pressure on the foreign exchange markets. The proposed Community mechanism for monetary cooperation had two parts: one for short-term monetary support and one for medium-term financial assistance.

Compared with the 1962 Action Programme, the Barre Memorandum was clearly much more modest and pragmatic. This was hardly surprising given the lack of political will, especially – but not only – in de Gaulle’s France.

The Barre Memorandum is also characterised by a special mixture of traditional German and French ideas. This is most clear in the first part of the Memorandum, on ‘Convergence of medium-term economic policy’. Here, the French-inspired medium-term analysis is applied to the German notion of economic convergence. By doing so, it signalled heightened concern at the Commission concerning the disparities in prices and costs in the Community countries.

The Commission’s ideas for closer monetary cooperation between the Community countries initially drew very mixed reactions from the central bank governors. At their meeting of December 1968, Carli (I), while admitting the political nature of the issue, stated that he was ‘perplexed’ at the possibility of closer monetary cooperation at Community level. He argued that the Community covered rather too small an area. Moreover, the Community constituted only a customs union and not an economic and political union (Minutes of the 27th Meeting of the Committee of Governors, 9/12/68, Archives NBB). Blessing (D) and Zijlstra (N) agreed with him, while Brunet (F) and Ansiaux (B) took more subtle positions. After further discussions, a Community Mechanism for Short-term Monetary Assistance was created in February 1970, in the form of an arrangement between the central banks. Also, in March 1971, a facility for medium-term financial assistance was established. As this last one was based on a Community Decision, it foresaw a role for the Commission in the functioning of the facility.

4.4 The Werner Plan

At the end of the 1960s, doubts about the Bretton Woods system became more and more widespread, especially with the devaluation of the French franc in 1969 and the vulnerable position of the American dollar. The countries of the Community feared that further exchange rate instability would lead to the disintegration of the customs union and the demise of the common agricultural policy. Moreover, new political leaders had come to power. In 1969, de Gaulle resigned and Pompidou was elected in France. In Germany, a new government was formed with Willy Brandt as Chancellor. The Brandt government proposed the EMU project, which also contained a proposal for a European Reserve Fund (drawn up by Triffin).

In a Note for the Commission dated 21 October 1969, Raymond Barre was critical of these proposals:

For several months now, there has been new talk of a ‘European Currency’, a ‘European Reserve Fund’ [. . .] On several occasions, I have told the Commission that I don’t think it is appropriate to support such ideas for the time being.

(Raymond Barre, Note pour la Commission, 21 October 1969, Archives Snoy)
At the 1969 Hague Summit, the Heads of State and Government endorsed economic and monetary union as an objective for the Community. A committee was set up, chaired by the Luxembourg Prime Minister, Pierre Werner. It produced a report in October 1970 (Council—Commission of the European Communities, 1970), commonly known as the Werner Report. The Report first presented a general picture of monetary union. On an institutional level, it proposed that two Community organs should be created: a centre of decision for economic policy and a Community system for the central banks. This also implied a revision of the Rome Treaty. It set out a plan to attain EMU in three stages.

Immediately after its publication, the Werner Report was heavily criticised by the orthodox Gaullists in France (Tsoukalis, 1977, 104). Their criticism centred on the supranational elements of the Report. In the ensuing Commission proposals, the creation of new Community institutions was dropped.

The first attempt at monetary unification was not very successful: the new European currency mechanism, the so-called ‘snake’, was quickly reduced to a Deutsche Mark zone and policy coordination remained limited. This was not only due to the unstable international environment (the collapse of the Bretton Woods system and the oil crisis), but also because national governments were still strongly attached to their sovereignty and the pursuit of national economic objectives, drawing comfort from the then influential theory of the Phillips curve (Maes, 2002). In Germany, priority was given to the fight against inflation, while in France economic growth was considered a more important objective, which contributed to significant differences in inflation.

The failure of the Werner Report stimulated new debates on monetary integration at the Commission. One of the bolder ideas, quite influential among many policy-makers in Brussels, was the creation of a (parallel) common European currency (Bussière and Maes, 2014). However, these ideas provoked a general outcry among central bankers.

Moreover, with the monetary integration process in the doldrums, the Commission also turned to the, much less studied, economic leg of EMU. It asked a group of experts, under the chairmanship of Sir Donald MacDougall, to examine the future role of public finance at the Community level (CEC, 1977). The report provided an overview of public finance in existing federal and unitary states and outlined prospects for public finance functions in the Community.

### 4.5 The European Monetary System

In the second half of the 1970s, the Commission became increasingly worried about the European integration process stalling and the ensuing risk of the achievements of the past unravelling. Roy Jenkins, the then President of the Commission, tried to revive the monetary union project. The following year, the French President Giscard d’Estaing and the German Chancellor Helmut Schmidt relaunched the monetary integration process with the plan for the European Monetary System (EMS) (Ludlow, 1982).

The key objective of the EMS was to create ‘a zone of monetary stability in Europe’. This had a double dimension: internal and external. It represented a compromise and synthesis between the ideas of the ‘monetarists’, led by France, emphasising the importance of external stability (exchange rate stability) and of the ‘economists’, led by Germany, advocating internal stability (price stability) and the coordination of economic policy (Maes, 2004).

The EMS was composed of three main elements: the exchange rate mechanism (ERM), credit mechanisms and the European Currency Unit (or ECU). At the core of the EMS was the ERM. A key characteristic was that realignments of the central rates were only
possible by common agreement of all the participating countries. This implied that unilateral decisions on devaluations or revaluations, as in the Bretton Woods system, were not allowed. It stressed the Community character of the exchange rates between the participating currencies.

The role of the Commission in the negotiations leading to the EMS was relatively limited. The EMS was very much a Franco-German initiative, with Giscard and Schmidt playing the leading roles. It was only after the Bremen European Council in July 1978 that the EMS negotiations came into the ‘normal’ Community circuit (Monetary Committee, Committee of Governors, Finance Ministers).

The EMS agreement also foresaw a second ‘institutional’ phase of the EMS: the creation of a European Monetary Fund. However, this ‘second phase’ was shelved in December 1980. Therefore, the Commission, very much under the inspiration of Tommaso Padoa-Schioppa, sought other ways of strengthening the EMS. These efforts culminated in the European Commission’s March 1982 proposals for a ‘non-institutional’ development of the EMS. A first element was to strengthen the position of the ECU and the exchange rate mechanism, for instance by increasing the negotiability of the ECU and by expanding the use of Community currencies for intra-marginal interventions. There was also a chapter on encouraging the use of the ECU on the financial markets, for instance, by stepping up the Community institutions’ ECU borrowing and lending activity and by keeping restrictions on the use of the EEC’s basket currency to a minimum. But there were also proposals with a more political content, especially the participation of all EU currencies in the ERM. The Commission further defended the idea of an ECU coin, which would circulate freely throughout the Community. This should strike public opinion by

bringing the ECU out of the specialists’ circle (central banks, exchange dealers, capital market operators) to which it is now confined, and putting it in the pocket of the man in the street, the ECU’s destiny as the monetary symbol of the Community would be fully affirmed.

(CEC, 1982, 52)

The Commission moved further towards a ‘parallel currency’ strategy. The aim was to stimulate the use of the ECU and thus create a ‘critical mass’ to prepare for the introduction of the ECU as Europe’s common currency.

With respect to macroeconomic policy, the 1980 Annual Economic Report marked a break in economic paradigms at the Commission. Most important was the shift in economic policy orientation, away from active demand-management policies and towards a more medium-term orientation, emphasising structural, supply-side-oriented, policies. The new policy orientation was clearly set out in the Introduction:

While in the past economic policy was often perceived as a problem of demand management, in a world based on the assumption of unlimited supply of energy and raw materials, the importance and critical value of supply constraints and structural adjustment problems are now evident.

(CEC, 1980, 9)

The break with the past, along with the medium-term orientation of economic policy, was further illustrated and elaborated:
The concerted response to the present general economic situation should be based on the right strategic mix of demand and supply policies and notably the right balance in their application to short- and medium-term problems. Short-term adjustments should be more moderate than at times in the last decade, and a heavier weight has to be given to reducing medium-term inflationary expectations and improving supply conditions in the economy.

(CEC, 1980, 13, original italics)

Behind the new policy orientation was a new view of the functioning of the economy, stressing the limits of demand management. This new view was in the first instance based on an analysis of the failure of the concerted action of the 1978 Bonn Summit. This failure was at the origin of an important discussion on the efficiency and possibilities of economic policy, especially budgetary policy.

The Commission was also influenced by debates in the academic world about the Lucas critique and rational expectations. Commission economists became aware that economic agents were not responding in a mechanical or ‘Pavlovian’ way to changes in economic policy. Policy-makers had to take into account the fact that markets would anticipate policy measures. This further undermined the belief in the possibility of fine-tuning the economy.

Given the limits of a policy of fine-tuning, a medium-term orientation of budgetary and monetary policy was more appropriate. Moreover, as the macroeconomic policy options were limited, the emphasis had to be on a more microeconomic-oriented policy, with measures to improve the functioning of the different markets, something which was in line with the supply-side economics that was gaining ground at that time. Moreover, this new conceptual framework fitted in perfectly with a further push towards integration.

5. The Maastricht Process

5.1 The Single European Act

In 1985, the process of European integration was relaunched with the Internal Market programme. It would bring a new dynamic to the European Community, leading to an engrenage, from one market to one money. An important element was the liberalisation of capital movements, for which also Delors had been pushing. This was having consequences in the monetary field, as the liberalisation of capital movements was a crucial German condition for progress on monetary cooperation. Moreover, central bankers and Finance Ministry officials were being increasingly confronted with the so-called ‘impossible triangle’, indicating that it is not possible to have free capital movement, fixed exchange rates and an autonomous monetary policy at the same time. During the 1980s and early 1990s, capital mobility increased enormously. Also, the financial markets grew in importance (Abraham, 2004). With stable exchange rates in the EMS, there was no longer much room for an autonomous monetary policy, except in the anchor country. The European Community therefore had to live with the disadvantages of monetary union, while enjoying few of its advantages. So the Internal Market project created pressure for further monetary integration in the Community, a typical example of ‘spillover’ effects.

The negotiations on the monetary dimension of the Single European Act in 1985 were an important milestone. This was the first major revision of the Rome Treaties. At the end of November, the Commission submitted a draft chapter on economic and monetary union. This codified the practice of the EMS and contained a provision that would allow governments
to agree unanimously on the creation of an autonomous European Monetary Fund. This ran into heavy resistance, especially from the UK, but also from other countries as Germany and the Netherlands. For the Commission, it was crucial that the Treaties should mention the acquis communautaire in monetary matters (EMU as an aim of the Community, the EMS and the ECU). With the backing of France and Belgium, Delors obtained a small chapter on a ‘Monetary capacity’ in the Single European Act. Later, this would become an important stepping stone for further progress on EMU.

5.2 The Delors Report

In early 1988, debates about Europe’s monetary future gained momentum. In a January 1988 memorandum, French Finance Minister Edouard Balladur argued that the EMS still had some big defects, notably its asymmetry (Dyson and Featherstone, 1999). Balladur’s Memorandum also argued that it was necessary to reflect on further institutional steps in the monetary construction of Europe. It found a perceptive ear in Germany, not at the Bundesbank or the Finance Ministry, but at the Foreign Ministry. The following month, Genscher published a Memorandum in a personal capacity, in which he argued strongly for an EMU and a European Central Bank. At that time, early in 1988, Helmut Kohl was still quite open to the issue of monetary union. On the one hand, he was sensitive to the arguments of Gerhard Stoltenberg that EMU was only possible if a sufficient degree of convergence was achieved (coronation theory). On the other hand, he was also sensitive to the arguments of the advocates of EMU, like Genscher, and also Mitterrand and Delors. Moreover, Kohl gradually realised that EMU was unavoidable if he wanted to attain his vision of a ‘United States of Europe’.

In preparation for the June 1988 European Summit in Hanover, DG II prepared a briefing dossier on monetary integration for Delors. The ‘Dossier préparatoire au mandat de Hanovre sur la construction monétaire européenne’ (23 June 1988, Archives DG ECFIN) was based on three premises: 1) Monetary union and economic union go hand in hand; 2) Monetary union will be set up as part of a gradual process; 3) It is necessary to build on what has been achieved. In the dossier, a parallel currency approach was defended, in line with earlier Commission studies.

The Hanover European Council confirmed the objective of economic and monetary union. Delors, especially through his contacts with Kohl, was very influential in the monetary dossier. The Summit decided to entrust to a committee the task of studying and proposing ‘concrete stages leading towards this union’, a very shrewd limitation of its future mandate, as it was not asked to analyse whether EMU was desirable or not. According to Delors (2004, 232), Kohl asked him to chair the Committee. Indeed, Delors had the confidence of Kohl and Mitterrand, and, as a former Finance Minister, the technical expertise. The governors of the central banks – in a personal capacity – also sat on the Committee. Delors wanted them to be members, both because of their expertise and because this would bind them to the monetary union project.

The Delors Report (Committee for the Study of Economic and Monetary Union, 1989, hereafter referred to as the Delors Report) would assume a crucial role as a reference and anchor point in further discussions. It basically revolved around two issues: first, what economic arrangements are necessary for a monetary union to be successful; second, which gradual path should be designed to reach economic and monetary union?

Initially, relations between Delors and Pöhl in the Committee were rather tense. However, the crucial aim of Delors was to get a unanimous report. So he took a low profile and focused
on seeking out a consensus in the Committee. Pöhl took a ‘fundamentalist’ position and emphasised the new monetary order which had to be put in place: ‘Above all, agreement must exist that stability of the value of money is the indispensable prerequisite for the achievement of other goals.’ (Pöhl, 1988, 132). He argued for price stability as the prime objective of monetary policy, which had to be conducted by an independent central bank.

The Delors Committee also rejected a parallel currency strategy as a means of speeding up the pace of the monetary union process (Delors Report, 33). In this way, he agreed to drop an important element of the traditional Commission strategy.6

5.3 The Maastricht Treaty

The period 1989–90 was characterised by some of the most dramatic political changes in Europe since the end of the Second World War. With the fall of the Berlin Wall in November 1989, the issue of German unification was suddenly propelled to the forefront. France and other countries were afraid of a strengthened dominance of a unified Germany. They saw EMU as a way to bind in Germany. The German government’s policy line could almost be summarised in Thomas Mann’s dictum: ‘Wir wollen ein Europäisches Deutschland und kein Deutsches Europa’ (‘We want a European Germany, not a German Europe’). In this context, the EMU process accelerated.

The European Commission nurtured the dynamics of the integration process. It strongly emphasised the link between the Single Market process and monetary unification. It made a thorough analysis of the implications of EMU in a very extensive study entitled ‘One Market, One Money’ (CEC, 1990). The Commission also prepared a draft treaty on EMU.

In the intergovernmental conference on EMU, the debates centred on two main issues: the transition towards ‘Stage Three’ of EMU and the constitutional structure of EMU. As for the start of Stage Three, two dates are mentioned in the Treaty: 1997 if a majority of countries met the criteria and 1999 as an ultimate date. In order to participate, the Member States had to meet certain conditions, especially central bank independence and the achievement of a high degree of sustainable convergence. These conditions for the start of monetary union, namely a fixed date and compliance with the convergence criteria, were naturally the outcome of much debate. The monetarists, especially France and Italy but also the Commission, insisted on a fixed date to ensure the start of monetary union, while the economists, in particular Germany, insisted on economic criteria so that only countries which were ‘fit’ could participate in the monetary union. The combination of the convergence criteria with a fixed date proved to be a very powerful stimulus for the convergence process.

There were also major debates on the constitutional structure of EMU. Economic and monetary union became asymmetrical. Monetary policy was centralised. It was the responsibility of the independent European System of Central Banks, with price stability as its primary objective. The coordination of economic policy was the topic of some of the most tense discussions during the intergovernmental conference. France proposed a ‘gouvernement économique’, whereby the European Council would provide broad orientations for economic policy, including monetary policy. Meanwhile, Delors continued to push for a stronger economic pillar in EMU. However, responsibility for other instruments of economic policy, like budgetary policy and structural policies, remained basically with the national authorities, subject to a coordination and surveillance process. The different conceptions of monetary union and economic union reflected the limits of the Member States’ willingness to give up their national sovereignty.
6. The quest for a ‘genuine economic and monetary union’

Economic and monetary union was a landmark in the process of European integration. It was the fulfillment of an old aim of the European Commission. But EMU would also change the European institutional landscape, with the creation of a new and strong supranational institution: the European Central Bank. The ECB also set up important economic analysis and research capabilities and developed strong links with the academic world. Furthermore, the institutional landscape changed with the entry into force of the Lisbon Treaty on 1 December 2009: the European Council became an institution of the European Union, with Herman Van Rompuy as its first President.

Initially, EMU seemed to function quite smoothly. Joaquín Almunia, the Member of the Commission responsible for economic and financial affairs, claimed, in his preface to the Commission’s study EMU@10:

> A full decade after Europe’s leaders took the decision to launch the euro, we have good reason to be proud of our single currency. The Economic and Monetary Union and the euro are a major success. For its member countries, EMU has anchored macroeconomic stability, and increased cross-border trade, financial integration and investment. For the EU as a whole, the euro is a keystone of further economic integration and a potent symbol of our growing political unity.

*(CEC, 2008)*

However, the Commission’s study also highlighted significant challenges. It argued for a deepening and, especially, a broadening of macroeconomic surveillance:

> Surveillance should also be broadened beyond a sole focus on fiscal issues. It should include an analysis of developments in the determinants of competitiveness. […] The objective would be to establish an early warning system to prevent the emergence of macroeconomic imbalances and competitiveness problems.

*(CEC, 2008, 246)*

It thus paid special attention to the financial sector: ‘Monitoring developments and trends in the financial sector, e.g. growth in bank credit, the evolution in asset prices, can provide important information on the possible build-up of macroeconomic imbalances and/or incipient threats to financial stability’ *(CEC, 2008, 260)*. As Martin Wolf (2008) observed in the Financial Times: the Commission was ‘honest’ about the challenges facing the euro area.

Europe’s sovereign debt crisis revealed the flaws in the structure of EMU. The Commission was active in drafting proposals for a new economic governance framework, not only strengthening the fiscal dimension, but also venturing into new areas like the Macroeconomic Imbalances Procedure and Banking Union. The new blueprint for EMU was drawn up in a report by European Council President Herman van Rompuy, in close collaboration with the Presidents of the European Commission, Eurogroup and the European Central Bank, entitled ‘Towards a Genuine Economic and Monetary Union’ *(European Council, 2012)*. The report proposed a vision for EMU with not only an economic and monetary union, but also a banking union and moves towards a political union. However, several elements of this ‘Genuine’ EMU, like the Fiscal Compact or the Single Supervisory Mechanism, were in the form of intergovernmental treaties (with a more limited role for the Commission).
The euro area crisis has further altered the institutional and decision-making structure of the EU. The Commission now has wider responsibilities for the surveillance of national economic policies. However, it is more difficult to assess how its overall influence has evolved. As observed in a UK House of Lords report:

Some authorities have grown stronger, notably the ECB and the Eurogroup. [...] By contrast, the Commission’s power and influence in determining the crisis response has diminished [...] it is noticeable (and perhaps inevitable) that it is euro area authorities, as opposed to those representing the EU 28, that have grown in power and influence.

(House of Lords, 2014).

7. Conclusion

Over time, economic thought and policy-making at the European Commission went through some major changes. Initially, economic thought was to a large extent a synthesis of French and German ideas, with a certain predominance of French ideas. Later, Anglo-Saxon ideas would gain ground. At the beginning of the 1980s, the Commission’s analytical framework became basically medium-term-oriented, with an important role for supply-side and structural elements and a more cautious approach towards discretionary stabilisation policies. This facilitated the process of European integration, also in the monetary area, as the consensus on stability-oriented policies was a key condition for EMU.

EMU has been a highly political process, with decisions often being taken at the highest level. However, also in the monetary area, the Commission has taken its role as guardian of the Treaties and initiator of Community policies very seriously. In line with its mandate, the Commission always advocated a strengthening of economic policy coordination and monetary cooperation. Although its precise role in the EMU process evolved through time, the Commission usually took the initiative, sometimes with other actors, to drive forward European monetary integration. In the 1960s, the Commission was successful in becoming a member of the newly created Committee of Governors of the Central Banks and in securing the creation of the first mechanisms for monetary cooperation. It was also very influential at several stages in the Maastricht Treaty process, such as getting EMU back on the agenda. More recently, the euro area crisis forced the Commission to deepen its analysis of EMU and draft proposals for strengthening EMU.

Notes

1 National Bank of Belgium and Robert Triffin Chair, Université catholique de Louvain and ICHEC Brussels Management School. The author would like to thank all those who contributed to this project, especially H. Badinger, V. Nitsch, L. Pench and two anonymous referees. The usual caveats apply.

2 For an overview of post-1945 economic thought in Europe, see the contributions in Coats, 2000.

3 In a survey I undertook in 1995, it appeared that DG II economists had a clear preference for studying in a ‘foreign’ European country rather than in America (Maes, 1996). However, the American share was slightly higher among younger economists. Among the European countries, Belgium was the most popular (13), due to the attraction of the College of Europe in Bruges (8 graduates), followed by the United Kingdom (10) and France (9).

4 The expansionary policies, advocated by the Action Plan, had mainly effects when the economy was already recovering and exacerbated inflationary pressures and payments imbalances. It showed the difficulties of ‘steering’ the economy with demand management policies.
5 As the references are to the original EEC Treaty, the original numbering of the articles is followed.
6 There was a remnant in the Maastricht Treaty (Article 109j), which specified that the Commission and EMI convergence reports also had to take account of ‘the development of the ECU’.

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