CHAPTER 4

Money and Political Economy: From the Werner Plan to the Delors Report and Beyond

J. Peter BURGESS and Bo STRÅTH

Concepts are not timeless, ubiquitous categories given by nature. Their meaning is derived or constructed from the social, cultural and political context in which they are deployed and received. Nowhere is the contextual character of concepts more striking than in the evolution of the key notions of "market" and "money", "state", "nation," "Europe", "identity," in the post-war process of European construction. The concepts and ideas upon which the European project was founded and in the name of which its policies have sought legitimacy and political force are in a flux. They have been recreated, reformulated, discarded and rediscovered in conformity with changing scientific paradigms, political winds, social moods and moral temperaments. This chapter seeks to cast light on that conceptual history of the European Monetary Union by giving voice to the key concepts at the centre of the very economic thinking that tacitly assumed their silence.

From the first drafts of the Treaty of the European Coal and Steel Community in 1951 to the signing of the Treaty of the European Union at Maastricht in 1992, the *economic* agenda at the heart of the European project was openly connected to the *cultural*, *social*, and *security* consequences it might bring. Yet just as the validity of the notion of the European Community/Union ebbed and flowed throughout the second half of the twentieth century, the legitimacy of this connection was inconstant in both its nature and validity.

The fluid connection constitutes the framework of the European political economy. The conceptualisation of political economy in effect became a contested notion in the 1970s in the wake of the collapse of the Bretton Woods order, in contrast to its self-sufficiency and self-evidence during the post-war growth boom and emerging welfare capitalism. The collapse of the Bretton Woods provoked a redefinition of the international order and of Europe's role in it. Political economy became a wildcard, a concept built upon contention, some claiming that the economy was still to be politically managed, others arguing for a more economy-dependent understanding of European unity. In this sense the official proclamation of the concept of "European identity" by the European Commission in 1973 can be understood as an attempt to unify and steer the various discourses of political economy. First by reconstituting the European market in the world economy and in a new international order after the collapse of the Bretton Woods order, then by attempting to translate the dramatically eroding national tripartite bargaining order into a kind of tripartite Euro-corporatism with a view to stabilising the economic crisis.

The political road travelled between the publication of the Werner Plan in 1970 and that of the Delores Report in 1989 is a rocky one. The former builds upon a comprehensive system of values, relating European unity and monetary and economic policy in a single universe. The latter replies directly to the Werner Plan from a context in which economic theory and the social debate have revised the constellation of values all together. This value shift as a precondition of European construction means a paradigm shift of global scale in which ideas of political management of economies, dominant since the Second World War, reaches a kind of obsolescence as an interpretative model, giving way to neo-classical monetarism attached to American neo-liberal social philosophy.

It is the intention of this chapter to study this double transformation in economic theory and in European politics. It will focus not on the sociological systems of economic actors but rather on the changes in the conceptual fabric of its central operative notion: money. It will discuss the theoretical reflection on money and its connection to the social and the political, and the impact this changing theoretical reflection has had on political thinking and social debate. It will attempt to understand money in the framework of a larger system of meaning, involving the panoply of possibilities and limitations which such a system comprises. It will chart this understanding in light of the conceptual paradigm shift from politically managed economy ("Keynesianism"[1]) to monetarism. Next, it will attempt to incorporate this hermeneutic understanding of money in a parallel analysis of the conceptual retooling which takes place during the years between the Werner Plan and the Delors Report.

[1] For a critical discussion of the concept of Keynesianism as a term to generally describe the political economies of the 1950s and 1960s, see the previous chapter by David Purdy in this volume.

Our central hypothesis is that, in the period 1970-89 (from the release of the Werner Plan to that of the Delors Report), the conceptual foundations of European construction underwent a significant transformation associated with a transformation in the concept of money. We do not discern this transformation as two clear-cut phases where everything that was belonging to the old order disappeared and everything changed. Although less visible and less current, the idea of a kind of political management of the economy remained. These ideas were retrieved and resuscitated in particular in the 1990s, not the least because the long-term political legitimacy could not be maintained if politics were to be disconnected from economic processes. Such ideas were, however, rediscovered in a new form. Not only the dominant economic theories of the day, but also the very idea of political management of the economy went through immense changes between the 1970s and the 1990s.

In what follows we will try to plot this double transformation along three axes: (1) Money understood as a national and international system of meaning or network of reference based on a certain number of assumptions about value, collectivity, unity, exchange etc., (2) the shift from "Keynesian" to monetarist dominance in economic theory corresponding to a change in the dominant understanding of the nature of money on the macroeconomic level, and (3) the evolving discourse of EMU shifting from an understanding of European unity as a political economic problem based on socio-cultural parameters to European unity as a question of economic engineering and quantitative criteria[2].

The presentation is comprised of four sections. The first section explores the political, social and cultural meaning of money with special attention to the problem posed by the conglomerate of diverse national interests and historical traditions in both monetary considerations and social welfare policies. The second section analyses the historical background and concrete context of the Werner Plan. The third section turns to developments in the early 1980s up to the proposal of the Single European Act in 1985 and its implementation in 1987, and the subsequent Delors Report in 1989, analysing its conception of money and monetary policy in relation to both the economic horizon of the late 1980s and its deeper historical predecessor the Werner Plan. The fourth and final session connects the 1980s to the 1990s with the Third Way rhetoric and the Stability and Growth Pact.

[2] *Cf.* Dyson, 2000, McNamara, 1998, and Walsh, 2000.

The Social, Cultural and Political Meaning of Money

The Common European Currency

At the centre of the question of a European political-economic unity is the notion of a common European currency. The ambition to found a single European currency is already hinted at in the early 1950s, and clearly formulated in The Hague Communiqué of 1969. It then draws ever closer to the core of European development as economic and monetary union becomes the central discourse of European unity. Money and monetary considerations thus move to centre stage in the European theatre. The *meaning* of the role of money in the European political economy comes to the forefront, and in comparison to the earlier focus on the flow of commodities, money becomes the operative hinge-concept for European identity.

National currency is a key symbol of the nation and one of the pillars of national legitimacy. The recognition of the validity of a currency as a medium of exchange is equivalent to recognising national sovereignty. The question facing the architects of the European Union is whether this equivalency is transferable to the European level. The symbolic power of currency poses a double-edged question. On the one hand, in conformity with neo-functionalist wisdom, something of the strategy involved in the development of a monetary union and the introduction of a common European currency is the ambition of creating a certain degree of social, cultural and political cohesion. On the other hand, this transfer of meaning poses a threat to the sovereignty of individual nations, by removing one of their tools and symbols of sovereignty. What's more, the transfer of monetary sovereignty has often been understood as a threat to traditional national framing of labour market and welfare politics. A new agenda and a new playground emerged with higher stakes, and the potential for more consequential responses to political crises such as the 1968 uprisings, the Vietnam protests, and later, the collapse of the dollar and the oil shock. A key question of this chapter is how this embryo of high symbolic politics was bogged down in the matter of economic processes and mathematical exegetics around phenomena like the convergence criteria in the 1990s, and how the common European currency from this process of de-symbolisation made a return to the political agenda and finally politically implemented in 2000.

The Concept of Money and the Notion of EMU

The "common scale of value" launched in the Treaty of Rome was a socio-cultural claim to solidarity, although without a specific scope for social policy. The convergence criteria for the Maastricht EMU involve

neither social nor employment criteria. Money at the beginning of the 1990s thus became the new European *mathesis universalis*, the new universal logic, the common denominator, which traverses all borders within the EU, all cultural divisions, all ideological dispositions[3].

This turned out to be an interlude that did not last very long. The 1990s brought a reaction to it, with attempts to retrieve and recreate lost connections between the political, the economic and the social. The point of departure for this retrieval was the idea of the economy as a polity and the nation as *the* polity. Understanding economy as a polity implies that economic processes are regulated and influenced by political rules and regulations, and that there is thus a connection to the question of political legitimacy and normative patterns. The polity as a value community (which, of course, does not mean that all share the same values) as the framework of the economic processes is a viewpoint that confronts the idea of the majority of economists that economic processes are "natural" processes, which follow their own inherent laws.

Despite its ambitions to cast the European Community as a value-based collectivity, the Treaty of Rome and the integration process that followed did not change the national point of departure of the polity. Barriers of trade, and so on decreased or disappeared, but, still, the nation was the point of departure. Social policy and labour market policy, for instance, was nationally entrenched. EMU as it was conceived in the 1970s was designed to transgress precisely this national entrenchment by re-casting it as a European project[4]. This design failed. In the 1980s, as part of an attempt to address the economic crisis leftover from the 1970s, financial operations were granted a growing role in the world economy. This meant increased difference between nations understood as polities and growing difficulties for national governments to control their polities. "Globalisation" emerged as a key concept to describe this development as necessary and natural.

[3] For a discussion of the scope for a European social policy in this development, see the chapter by Diamond Ashiagbor and David Purdy's Chapter 14 in this volume. See also Amy Verdun's chapter, where she compares the Werner Plan and the Maastricht EMU, and the chapter by Robert Salais, where he discusses the future prospects in the European political economy in terms of European labour market standards rather than social policy or employment policy.

[4] As Hubert Zimmerman's contribution to this volume shows, this attempt was made against the backdrop of growing tension between Europe and the US within the Bretton Woods order.

Economy as Polity

One response to the decline of the national polity was to take up the old idea of substituting the nation-as-polity with Europe-as-polity in the context of the monetary issue. This response was concretely initiated through the Single European Act's insistence on intensifying market integration and expanding the free movement of commodities to also encompass services, capital flows and persons. The nation, however, remained the polity in this re-design, now in terms of *fiscal* politics.

The European merger of monetary and fiscal politics envisaged in the Werner Plan was never to be seen again. The consequence in the Maastricht EMU of this "half copy" of the Werner Plan was a tension between the two policy areas and the two polity levels. Just how this residual tension effects institutional, legal, and normative frameworks in Europe is not very clear. The UK, Sweden and Denmark have tried to resolve this tension by declining to join EMU and thus maintain the idea of the nation as a polity in both fiscal and monetary terms. Thus the late twentieth century dilemma is the various and contradictory approaches between national and European regimes in terms of monetary, fiscal and employment policies where the preferences are picked *à la carte*.

Economic theory has from the beginning of European integration tried to comment on this tension. A key question has been what should come first, European fiscal policy or monetary policy, or whether they should be introduced simultaneously. Both the Ohlin Report – solicited by the negotiators of the Rome Treaty and issued in 1956 by an expert committee within the International Labour Organisation – as well as the parallellist approach in the Werner Report solved this Columbi egg by arguing that both policies would support one another in a self-sustaining circle[5]. Differences in productivity would decrease, and the European polity would become more homogeneous.

What value does such economic assertions about automatic equilibrium through "natural" market processes have today? Historical evidence, and cultural, normative and institutional factors suggest another scenario. In this alternative scenario means of production are not as mobile as assumed in economic theory. The expected equilibrium over the whole surface of the polity never occurs. The best illustration of this second scenario is perhaps Italy, with its clear North-South divide in a polity area where both fiscal and monetary politics have been the same. For another illustrative case, the regional differences in Norway, see, Ole Røste's chapter in this volume.

[5] *Cf.* the contribution by Amy Verdun in this volume.

On the other hand the Italian illustration suggesting that economic processes do not conform to natural law or predictions by economic theory does not mean that historical and cultural heritages predetermine developments. Culture is always in a flux and under constant transformation and can always be changed. Only in retrospect do causal trajectories emerge. Here the political dimension comes in. Economies are not processes which behave according to natural law, and they do not follow trajectories predetermined by history. Economies are polities, politically framed in bargaining and with a focus oscillating between competition and coordination where the outcome and the future is open. They perform as they do because of political regulation and norms that shape what is allowed, desirable and good.

The European discourse on social policy is just such an instance. It was transformed into a more specific employment discourse after Maastricht, with the Green and White Papers in 1993, and the Essen Communiqué in 1994[6]. This transformation was a departure from macroeconomic considerations of how to promote growth, market "liberation" and competition . Instead of the convergence criteria came the Stability and Growth Pact. Employment did in the new scenario not come automatically through the market but required politics. However, the growing attention to employment politics went hand in hand with a softening of the idea of a European level of labour standards. The emphasis was on employment through growth, guaranteed by fiscal and monetary rigidity, rather than on the connection employment-labour standards. Expansion through a solid and stable currency was the key to growing employment levels, although the concept of full employment silently passed away from the vocabulary. The debate in Essen in December 1994 was heated and reflected a kind of traditional Left-Right opposition. This is the point where David Purdy (Chapter 14) and Robert Salais (Chapter 15) warn for the risk of employment creation through social nationalism.

We suggest to refine our understanding of this transformation by focusing on two of its major anchoring points: the Werner Plan and the Delors Report. The following reconstruction will attempt to focus on the conceptual terms and conditions, which have marked the evolution of the notion of a European Monetary Union, since its genesis in the 1950s to its most sophisticated form in the Maastricht Treaty, by plotting the conceptual topology of the central stations along the way to EMU.

[6] As demonstrated by Diamond Ashiagbor in her contribution to this volume.

The Werner Plan

Pre-History I: The Inter-War Period

The old world economic order, which in the nineteenth century had the ambition of guaranteeing employment and economic growth, was based on the Gold Standard. Gold symbolised not only growth but also stability and solidity in the mythical underpinning of the global order. However, the stability became, in actual performance, instability. The long period of economic decline from the beginning of the 1870s to the 1890s produced the conceptual invention of depression to describe and analyse economic processes and brought the first steps towards cyclical theory as an attempt to interpret the outdrawn crisis. Nevertheless the belief in stability through gold prevailed until it came to an end with the outbreak of war in 1914.

Keynes, who was one of the most prominent advocates of a new approach in the peace negotiations in Versailles, criticised the peace settlement vehemently, claiming that it would lead to a new destruction of the international system rather than to security, order and balance. In his reflections on the peace negotiations he tried to incorporate Soviet Russia into the world community based on the idea of a "new world order", which was discussed at the World Economic Conference in 1922 in Genoa. His priority was the economic health of Europe. The territorial question – which was the main preoccupation of the diplomats at Versailles – could according to Keynes not be solved until the economic system was reconstructed. In his view a stable and prosperous international order went hand in hand with the employment issue and the questions of democracy and world peace. Keynes's imagined "new world order" bore a considerable resemblance to the plans for European unification proposed by the pan-European movement of Coudenhove-Kalergis and others. As we know, these dynamics failed in the wake of the worsening economic situation and increasing political instability. Big capital in the form of international price and production cartels took over the role of commercial and financial coordination from governments which had failed to maintain control. The highly explosive mix of inflation and unemployment led to the rise of political and economic nationalism.

Eichengreen's study of the Great Depression and of how politics mediate between financial markets and labour markets raises issues which are seen as analogous to those debated today around the question of the EMU[7]. Far from being synonymous with stability, the Gold Standard – briefly re-established in the 1920s after its first collapse

[7] Eichengreen, 1992.

when the First World War broke out – was the principal *threat* to financial stability and economic prosperity between the wars. Problems with the operation of the Gold Standard and the unprecedented rise in unemployment were two notable aspects of the interwar crisis. These were connected in ways that compounded and reinforced one another. The collapse of employment and output had gone so far by 1930 that the Gold Standard could no longer be supported for domestic political reasons. After the stock exchange and bank crash of 1929 the fixed exchange standard collapsed under the pressure of social protest against the breakdown of the financial order and its impact on labour markets. Once the regulatory straitjacket of the Gold Standard was finally removed from the international scene an economic recovery became possible. Previously recovery had been prevented by an overly rigid monetary regime. However, this recovery occurred through mobilisation of the nations under growing rivalry among them finally leading to a new world war. Those most concerned about the domestic consequences of international monetary policies had as yet acquired only limited political influence. In the long run the credibility of the commitment to Gold was undermined by the central bankers' insulation from political pressures, a growing number of analyses of the linkage between restrictive monetary policy and unemployment were articulated. The growing political influence of the working classes intensified pressure to adapt monetary policy towards employment targets.

Pre-History II: From the Second World War

After the Second World War Keynes insisted on the link between political structures and their economic foundations in his second programme for "a new world order" based on his conviction that the two World Wars had been the result of economic nationalism and the clash of uncontrolled economic and political interests. According to Keynes's view, the creation of a new international order to guarantee security and prosperity had to be based on new ideas and a radical shift away from the nineteenth century's focus on the balance of power and presumption of automatic economic progress sustained by liberal institutions. The future was to focus on maintaining a connection between order, security and prosperity through global governance of economic, financial and political institutions. These ideas provided an important intellectual setting for the negotiation of the Bretton Woods system. It was not difficult to see many of Keynes's ideas in the outline of the new order.

Bretton Woods functioned well for some two decades in the sense that it underpinned expectations of a better and more governable world and encouraged a faith that history is a linear progression towards ever-higher stages of civilisation. Admittedly, the relative degree of consensus over the distribution of incomes and allocation of resources delivered by national tripartite bargaining structures after the Second World War was achieved not the least because aspirations remained relatively modest. Such modest aspirations were due to memories of the 1930s, and by the fact that, thanks to the growing economy, there was a growing pie to be distributed politically. The spectre of the 1930s further reinforced the social responsibility convention, implying that the State guarantee full employment.

Economic theory provided interpretative frameworks and scientific legitimatisation for this guarantee. However, in institutional terms the new order had hardly been implemented when it began to erode. Currency convertibility and free trade were cornerstones in the architecture of the Bretton Woods scheme, though not introduced for implementation until much later. European currency convertibility, for instance, was introduced only in 1958 and free trade even later. Only in terms of full employment did the new order function at all times after the war, and it did so by riding piggyback on the general reconstruction boom. This boom lost momentum in the second half of the 1960s, just when it had begun to be regarded as a structurally permanent feature of the economy.

The strength of the Bretton Woods order was that it provided mobilising meaning and social confidence in the political guarantee of economic growth and full employment as well as political institutions for the structuring of world trade. Its weakness was that nobody controlled the key actor, the US government, and Federal Reserve provided the key instrument of the whole order, a stable dollar. The Dollar's stability was managed through its relationship to the gold reserve. President Johnson took advantage of this weakness in the control system after 1964, when he used inflation to pay for the Great Society programme and a few years later for the escalation of the Vietnam War. Nonetheless, tensions in the transatlantic order, with inflationary pressure, began well before that, and were deeply connected to the military issue, as Hubert Zimmermann demonstrates in his chapter. In the general bonanza mood in the mid-1960s, the resulting inflationary pressure was not given much attention outside a small circle of experts to whom few really listened[8]. In March 1968, Sweden hosted an informal conference on the theme of how the West should handle a situation in which the control mechanisms of the Bretton Woods order had been eliminated. However, the press reports from the meeting dealt more with police violence against Vietnam demonstrators greeting the American representatives than with the dollar problem.

[8] *Cf.* Hubert Zimmermann's chapter in this volume.

Largely as a result of the flow of dollars required to finance the US war against communism in Vietnam the dollar's stability and its guarantee of free trade broke down in the summer of 1971. Oil prices fixed in terms of dollars fell as the value of the dollar fell against other currencies. When this price fall was reversed by OPEC's decision in 1973 to rise oil prices dramatically this signalled a change in the balance of global power and generated economic problems and a political challenge which the established doctrines of how to politically manage the economy failed to encompass. The worsening situation was emphasised by the collapse of key industries like steel, coal and shipbuilding slightly later. Experiences of crisis re-emerged for the first time since the 1930s.

The Horizon of Crisis

The Werner Plan was settled just a few months before the dollar collapsed in August 1971 bringing a complete shift in the whole framework of the discussion. Monetary problems began to be seen as exchange problems in their own right. The idea that monetary and financial organisation was an instrument for the pursuit of broader welfare and employment goals gradually disappeared from the forefront of debate. The Werner Plan was transformed into an attempt to compensate for the dollar's collapse, a strategy that ended up with the creation of the Exchange Rate Mechanism ("the snake"). This development was emphasised more and more in the wake of the oil crisis in 1973. Financial and monetary politics as a guarantee of full employment and as a tool for welfare politics were replaced by attempts to defend currency stability. Action became reaction. At the same time intensified attempts were made to keep the European project going. The decision on a European identity in 1973[9], and the connection of this identity to a Eurocorporatist order within the framework of the Werner Plan at the end of the 1970s in the wake of the collapse of key industries as well as the emergence of mass unemployment, should be seen in this light. The tension between new approaches to overcoming the situation through the establishment of a new kind of European polity through the Werner Plan, and dispirited reactions by national governments through inflation-driving subsidy packages was obvious.

In retrospect one can say that the outcome of this tension became visible. The Werner Plan, as it was adopted in a Council Decision of 22 March 1971, aimed at a step by step realisation of a European economic and monetary union. As a first step the economic politics of

[9] European Commission, "Declaration on European Identity," in General Report of the European Commission (Brussels, European Commission, 1973).

the Member States were to be coordinated. It was still the era of belief in economic management and structural and cyclical adjustments through political fiscal and monetary operations. This is made clear, for example, by the intention of promoting full employment in the framework of social policy through the creation of a European Social Fund. The Social Fund aimed at addressing what was seen as basically a technical problem through political interventions. A European equilibrium was to be created by raising the instruments of intervention to a European level. The need for regional structural policies in order to promote convergence in economic performance was also emphasised. This was an insight that deviated from the Ohlin Report in 1956, where convergence would emerge automatically through market mediation.

This broad idea of financial and monetary regulation through an economic and monetary union was no doubt embedded in general social policy considerations. Moreover, the anticipated progression from economic union, *i.e.* harmonisation of the national economic policies, towards monetary union and a common currency made the prospects of a European cyclical economic policy far more focused than it would turn out to be in post-Maastricht era of the 1990s, where monetary policy under conditions of fiscal rigidity were emphasised.

Under Werner the main economic policy decisions were to be taken at the Community level, which meant a transfer of decision-making from the national level. The budget policies of the Member States were to become Community objectives and a certain harmonisation was required in the fiscal area. Monetary and credit politics had to be strongly coordinated and the integration of financial markets regulated. Gradually the Community was to adopt common positions in monetary relations with third countries and international organisations. The final stage was to be a single currency that would, in turn, guarantee the irreversibility of the whole enterprise.

The Concept of Money and the Ambitions of the Werner Plan

What were the economic ambitions of the Werner Plan and what structural and conceptual tools did it deploy in order to achieve them? Under the Werner EMU common policies were to be subject to debate and control by the European Parliament. The coordination of the central banks were to be subject to politically determined growth and stability targets. The Council was to decide the *grandes lignes* of economic policy at Community level, after consultation with the *partenaires sociaux* in the Economic and Social Committee. Similarly the Werner Plan's project for an Economic and Monetary Union as formulated in March 1970 no doubt envisaged a clear political control over economic

and monetary issues and a transfer of national power to the Community level.

In December 1969, in accordance with the plan outlined in the official communiqué from The Hague Summit, a memorandum was sent to the Commission detailing the objectives of the plan for monetary union to be set forth as the result of the work of the Werner Group. The memorandum, published in March 1970, seven months before the official Werner Plan, set forth the principles the Commission "feels should be borne in mind in the forthcoming discussions and the main aspects of the stages it considers could usefully be planned for the establishment of an economic and monetary union".

The objectives set out in the Plan are both internal and external. Internally the principle of free movement of goods, services and capital – the mantra of the 1980s – is already clear. Externally, the Community is envisaged as an "organic economic and monetary association having an individuality of its own[10]". The notion of "common interest" was to be the guiding light of the work toward formulation of a plan. Common interest would be best assured by economic coordination through an "economic union"

> While it is true that the monetary union, if it is to last, needs to be soundly based on economies evolving on compatible lines, with convergent economic policies, it is equally true that closer monetary solidarity enhances the prospects for both such compatibility and such convergence [...] Moreover, current international developments suggest that to delay overlong in giving the Community this greater monetary cohesion might eventually mean that the whole idea of monetary unification lost its point, economic unification was rendered largely irrelevant, and even the Community work already completed might be seriously undermined[11].

In this early document economic union is abstracted from monetary union. The two types of union are seen as separable though their linking is empirical, a question of performance or expeditiousness in the development of economic coordination. The *desirability* of economic coordination is taken for granted, while monetary coordination is considered as an "enhancement" of the "prospects" for counter-cyclical economic coordination. Monetary mechanisms are thus seen as incidental to the economic policies that are the true embodiment of national interests internally, and European interests externally. This priority of the "economic" over the "monetary" is precisely what one sees reversed

10 European Commission. *Integral text of the final communiqué of the conference of the Heads of State or Government on 1 and 2 December 1969 at The Hague. (Hague Communiqué)*. Annex 1 p. 3.

11 *Hague Communiqué*, p. 3.

in the evolution between 1970 and 1988 when the counter-cyclical element had disappeared (*cf.* Verdun's chapter in this volume).

In the same way, the structural changes envisaged by the Commission Summit at The Hague hardly concerned the system of international European banking or monetary management. The object of the Werner initiative expresses the spirit of the traditional "Keynesian" mechanisms, to "even out the existing disparities, by measures relating primarily to employment and regional equilibrium, and [...] to prepare the way more effectively for future growth, more particularly by action in the fields of industry and technology"[12]. The most interesting available tools for coordination and community-building are typically "economic": the targeted administering of funds, the emphasis being on "offering incentives and guidance, and even practical demonstration[13]". The goal of the project is the "coordination of economic policies". The means, the *conditio sine qua non,* is monetary coordination. In other words, monetary structures are understood not as fundamental or essential, but as support for an already existing strategy for economic coordination.

In The Hague Memorandum the notion of a European currency lies on the distant horizon. Its symbolic function as a unifying medium of a wider European union is quite speculative. In the passage cited above it is evoked in the framework of Europe's external personality, as a means to emphasise the "individuality" of the European Community within the international monetary system, "without ceasing to belong and to contribute actively to that system"[14]. The monetary coordination of the Community thus takes a stance with respect to the IMF where the European governments already experienced strains[15]. Internally, the Community will be served "once and for all" by a fixed structure of exchange rates.

The Werner Plan thus takes as its point of departure the particular *economic* problems of the member countries, notably economic disequilibrium, the primary menace to "growth and stability" provoked by the crisis mood in the wake of the massive social critique and the strike wave at the end of the 1960s ("1968")[16]. Part of the political background was also the cracks in the transatlantic order, which, in turn, provoked severe tensions in the payment balances in France and the UK at the end of the 1960s, and fears grew in Europe that the ever stronger German economy would rush away alone. There was an awareness in the

[12] *Hague Communiqué*, p. 3.

[13] *Hague Communiqué*, p. 3.

[14] *Hague Communiqué*, p. 6

[15] *Cf.* the chapter by Hubert Zimmermann in this volume.

[16] Werner Plan, pp. 7-8.

German government that the strong DM potentially could destroy the whole European integration project (see Zimmermann's chapter). Growing uncertainty in France about how to interpret the *Ostpolitik* of the new (September 1969) German chancellor Willy Brand reinforced the French eagerness to control and contain the potential German *Alleingang*. The Werner Plan fit this purpose hand in glove.

The problem confronted by the authors of the Werner Plan concerns the particularity of national destinies and their interrelation with what is understood as the common or "universal" interests of the European Community in the context of a growing internationalisation of the individual European nations. The individual nations, notes the report, have suffered a "loss of autonomy" at the national level[17]. On the external horizon – that is in the matter of international monetary relations – the Community has failed to make its "personality" felt, "by reason as the case may be of divergences of policy or of concept"[18]. The burgeoning phenomenon of global capital, new market conditions, new economic agents, multinational companies, markets in Euro-currencies, speculative movement of capital in "enormous proportions", and the "constantly increasing interdependence of the industrialised economies" have all, according to the authors, underscored "the problem of individuality of the Community". The growing homogenisation of global finance created in their eyes the need to underscore the particularity of European reality and to develop a specific European response to and responsibility for this emerging problem.

Between National Values and European Currency

Thus we see the basic outline of the motivation for the economic and monetary project, such as it is formulated in Werner. The transparency of money, its ubiquity and universality, has flattened the global terrain, smoothed out differences, standardised and generalised criteria for *value*. This global force of standardisation has put "individuality" in peril, above all the individuality of the European Community of the late 1960s. And yet what is this individuality that the monetarisation of the global economy puts in peril? It is precisely that universe of European cultural values that *resist* monetarisation, those that are not immediately or naturally translated into the value equivalence of money. By "translating" the *interests* of the European continent into the "language" of global culture, Europe will be more capable of holding a dialogue with it and thereby more capable of advancing its interests in "terms" which are universally understandable. The individuality of the European

[17] Werner Plan, p. 8.

[18] Werner Plan, p. 8.

Community will be enhanced by its immersion in the global monetary system. The logic of IMF is a growing global monetary unity. The fixed dollar parity at the foundation of the Bretton Woods encourages – or indeed requires — transposition of Community, national and local concept of *value* into the common language of monetary equivalencies, *i.e.* the dollar. It thereby provokes increased and ever more nuanced interpenetration of the European *monetary* interests, which, in turn creates the need to accelerate "translation" of Europe into the discourse of money.

Indeed, experiences of a need to re-activate Europe came after De Gaulle had left the scene. He had blocked every attempt at such re-activation, which did not take the nation-state as the point of departure. However, there was one element in the approach of the General that continued after he had left the scene: his critical view on the US. The growing scepticism concerning the role of the US and the dollar as the world leader provoked action. Key elements of what De Gaulle had stood for could be politically canalised only after he had left the scene. The idea of a European currency as the final step in the implementation of the Werner Plan not only struck at the key symbol of the European nations, so strongly defended by De Gaulle, their national currency, but also the dollar, so despised by him.

The moment of both new-orientation (towards a European Monetary Union and the creation not of a European Bretton Woods, with the same weakness as this order had had, but a European "dollar") and continuity (the critical stance versus the US, underpinned by both the dollar collapse in 1971 and the radical anti-Vietnam critique in Western Europe) after De Gaulle did not last very long. Though it is clear that Edward Heath, who negotiated the British membership in the EC, and James Callaghan, who succeeded him, were committed to the European project, with the entrance of Margaret Thatcher on the scene in 1979 De Gaulle got his successor. The European project was a project of the nations. The difference between the General and Mrs Thatcher was her much more benevolent attitude to the US. With Ronald Reagan as a President from 1981 she found a kindred soul on the other side of the Atlantic much more so than with the European leaders. There was another important difference compared to Charles De Gaulle. She had much less authority to speak on behalf of Europe. This opened a scope of action for Jacques Delors as a President of the Commission where he managed to infuse new political energy in the European polity project.

The process of European integration was until then inseparable from the cultural and social particularity of individual nations. Though the free circulation of commodities within the EC certainly penetrated the other key symbol of national sovereignty – its borders – the physical

check points remained. If implemented the Werner Plan would have transgressed this European focus on the nation. The "advantage" of the global monetary system inaugurated at Bretton Woods was that it was not burdened by the concrete situations of its participants. In principle, insertion into the communicative network of the International Monetary System presupposed on the contrary a *detachment* from but not dissolution of the culturally and socially conditioned national codes of communication, those that are organised within the framework of traditional economic thinking.

Monetary Value and Cultural Value

Thus the Werner Plan insisted that "economic and monetary union will make it possible to realise an area within which goods and services, people and capital will circulate freely and without competitive distortions, without thereby giving rise to structural or regional disequilibrium". This was coupled with the further aspiration that "the implementation of such a union will effect a lasting improvement in welfare in the Community and will reinforce the contribution of the Community to economic and monetary equilibrium in the world"[19]. The aim was not only economic political cooperation between sovereign nations but one step more, to transform them by going beyond one of their deepest cultural symbols.

Value is always partly cultural, partly social, nourished and supported by a system of social and cultural values, and cultivated by a certain synthesis of the national, regional and local economic systems from which they arise. Werner's conception of economic union was based on the supposition that by lowering the *resistance* to such transfers of value, general equilibrium would be enhanced, and collective viability increased with respect to the rest of the world. The "economic" systems, in their traditional sense, have always been formed and evolved in socio-cultural contexts, national, regional, or local, based on value equivalencies couched in culturally rooted traditions, forms of work, types of activities etc. The economic and monetary union envisaged by Werner supposed the possibility of Europeanising the socially and culturally rooted national values, then transposing them through the elimination of the exchange mechanisms.

Money in its most general sense is the ideal form for exchange. Indeed this is the hidden insight of the architects of Bretton Woods. (Moreover, in the colloquial, "dollar" and "money" are synonymous.) Money, in the ideal form supposed by the IMS, and courted by Werner as a European currency, is a resistance-free conduit of value. This long-

[19] Werner Plan, p. 9.

term implication was hardly fully realised when the Werner Plan was drafted. This is much easier visible in a global monetary system in which speculation in money itself has become a dominant industry. In this system the transfer of value has become the source of value, and, at the same time, as the other side of the coin, also the source of loss of value. For every winner there is a looser. Money is timeless and spaceless, a constant, detached from culture and the social. Or rather, it generates its own international cosmopolitan culture and social sphere, based on instantaneous communication and autonomous value under the hegemony of the dollar.

The Werner Plan was somewhat hesitant in seeing the economic and monetary controls given wholly over to the aegis of Community-level governance. Cohesion and coordination of economic and monetary policy were of course to be transferred "from the national to the Community" plane, but only "within the limits necessary". The Community would have at its disposal "a complete range of necessary instruments, the utilisation of which, however, may be different from country to country within certain limits"[20]. Budgetary and fiscal trends of the collective Community would be coordinated, but this too would have its limits, in that it was necessary to guard against "excessive centralisation". Thus transfer of powers from the local and national levels to the Community should take place to the extent necessary, but "allow for a differentiated budgetary structure operating at several levels, Community, national etc."[21] The need for a continuity of value was also expressed in Werner's emphasis on the collaboration of "social partners"[22]. National, regional, and local governance was taken as the foyer of value and importance. Werner remained irresolute about the monetarist conviction that monetary function is a mathematical and not a social, cultural or political one.

As we shall see, this point is one of the fundamental differences between the monetary-economic logic of Werner and that of the Delors Report. In the Werner Plan there is still an assumed – and perhaps real – interrelation between the economic and the monetary, between social and cultural agendas of traditional "Keynesian" political economy and the monetary policies undertaken as an attempt to position Europe in an expanding global economy, increasingly dominated by the logic of value of the IMS. Monetary policy is still seen primarily as a support for the economic, as one tool among others for coordinating the economic policies of national or European interests. The problem of the evolution

20 Werner Plan, p. 10.
21 Werner Plan, p. 10.
22 Werner Plan, p. 11.

toward a European political economy is often cast as an opposition or alternative relationship between national economy and European economy. This tends to lose sight of the fact that the economic paradigm changed for both at the same time during the 1970s and the 1980s.

The Delors Report

Background: from the Werner Plan to the Delors Report

The 1970s saw the breakdown of an economic model based on mass consumption and mass production in a mutually reinforcing relationship, a model in which organised interests in most nations took part in some form of tripartite bargaining – with varying power relationships – that negotiated how to achieve high economic performance and how to share the fruits of growth in productivity. When examined more closely, the patterns of interest and identity were much more complex than any that can be described by a purely tripartite (the State, the employers and the trade unions) scheme, the broad basis of social bargaining was ideas of trade union or employee interests and a solidarity of workers against employers and capital. The promoter of a compromise formula between conflicting interests was the State and the idea of a national interest. When many firms in industries like coal, steel and shipbuilding faced bankruptcy in the 1970s these established solidarity and interest patterns changed. Local task forces of management and union leaders developed to fight against other local task forces in a struggle for survival.

In 1977 the MacDougall Report to the European Commission suggested a European corporatist strategy to bridge the economic crisis and the collapse of key industries. A serious attempt was made in 1977-1978 to translate national tripartite bargaining structures, which had functioned so well during the era of economic growth in the 1950s and 1960s, to a European level alongside a politics of de-industrialisation in industries like shipbuilding and steel. However, in the bargaining about capacity reduction and layoffs ties of solidarity between employers, trade unions and governments followed national lines rather than those of transnational sectoral interests[23]. The bargaining partners that the trade unions needed were missing. Business regarded its producers' interests well represented in national lobbying processes and did not see much sense in having to deal at the European level. The European project fell dormant for a while[24]. The proposals in the MacDougall Report were never realised and a European pattern of interest and solidarity ties never emerged.

23 Stråth, 1987 and 1996.
24 Stråth, 1987 and 1996.

In 1977 the OECD also published a report (the McCracken Report) recommending action to tackle the crisis. These recommendations proposed a quite different approach, offering solutions and hopes in the market. The OECD's suggestion won the support of the governments, which meant a general breakthrough for market liberal government approaches, and the MacDougall Report was forgotten[25]. The road was open for neo-liberal policies. The Werner Plan was stone dead even before all its stages were due for fulfilment. The "snake," the European Exchange Rate Mechanism, and other responses to the dollar's collapse absorbed the political energy.

The Re-Launch of European Integration

In January 1985 Jacques Delors began his term as the new President of the European Commission and embarked on a project of re-launching European integration. The European Council of December 1984 had mandated a reinforcement of the European Monetary System and Delors considered European nations ready to launch the notion of monetary integration, tabled since the early 1970s[26]. He did not waste time. Already in a speech to the European Parliament on 14 January he launched the notion of a "European social space" featuring the unusual but henceforth characteristic fusion of social solidarity and market liberalism[27]. Delors understood that there was a general consensus for economic union, and he chose that crusade not only because he saw it as the most pragmatic road toward the realisation of his social convictions. It was also a project which would serve as a means to reconstructing the legitimacy of the Commission, a legitimacy, which had decreased during the turmoil of the 1970s and the failure of the Werner Plan. In this spirit Delors appointed his social and political antithesis Lord Arthur Cockfield to take charge of the drafting of the Commission White Book *Completing the Internal Market*. Delors made the White Book the Commission's number one priority in the first months of his presidency[28]. Against the backdrop of years of stagnation after the failure to establish a tripartite Euro-corporatist order at the end of the 1970s and an atmosphere of growing political consensus, the new Commission got a running start. There was growing consensus for a European federation (Delors, famous for his federalist philosophies in the 1990s already

25 Marcussen and Roscher, 2000.

26 At the European Council held 3-4 December 1984 in Dublin, http://europa.eu.int/abc/history/1984/1984_en.htm.

27 EP/1985, Drake, 2000, Grant, 1995, and Dyson and Featherstone, 1999.

28 In less than six months since Delors took office the report was drafted, published, and presented to the Heads of State and Government at the Milan European Council of June 1985, Drake, 2000, p. 92.

evoked the notion in his first year as Commission president) and a general agreement that the time was in for general European social regulations and harmonisation of national differences in a number of polity areas. The Single European Act became the crowning glory of this movement.

The White Book listed 300 directives, finally reduced to 279, required for the establishment of the internal market: abolition of physical, technical and fiscal barriers of trade. The long-term goal was that eighty percent of the national regulations should have Community origin. The report's emphasis on the harmonising of norms for products and, in the long run, also production (environment, working-life standards, social legislation etc.) had clear and powerful consequences for the European economic interests.

It is difficult to describe this hectic agenda in terms of de-regulation, which became a key concept in the neo-liberal flexibility language of the 1980s[29]. It was far more a gigantic re-regulation project. Still, compared to the economic emphasis on market creation, the social dimension was not particularly pronounced in this approach. In this way the Commission could latch on to the neo-liberal rhetoric and thereby gain the impression of a new start in the same way as the neo-liberal economists marketed themselves as new thinkers and solvers of the crisis of stagnation wielding new concepts such as de-regulation and flexibility. The key question in this view is how neo-liberal the White Book design really was.

The Persistence of the Social

Quite obviously Delors was much more committed to a social philosophy of re-regulation than to the theory de-regulation as the neo-liberal economists would have it. The use of the discourse of the free-market was not unconditional. Rather it must be understood as reverence to the dominant European *Zeitgeist*. In the context of the expansive ideas of the European institutional setting it is also possible to discern a connection to the failed Euro-corporatist approach of the 1970s. Although less insistent under the neo-liberal rhetoric the continuity from the 1970s through the 1980s was represented by ideas of institutional expansion and re-regulation, as well as by the presence of a social dimension.

Reflection upon the question of social dialogue first began with the problem of how to reform Article 118 of the Treaty of Rome. The Parliament, which did what it could to keep the social question on the

29 Stråth, 2000.

agenda by recurring threats to stop the rule-making process for the internal market, put pressure on the Commission to pay due attention to the social dimension. In 1989 the declaration of the Social Charter by the European trade unions followed by a programme of action, half of which was formulated as directives, underpinned the social dimension in the European integration process.

Delors initiated a "social dialogue" with a plan for communication between employers and trade unions at the federal European level and a pilot study was made on the content and objectives of the European social dialogue. The aim was to relocate the social dialogue in the new institutional setting[30]. The European Council in Rome in 1990 emphasised the importance of the social dialogue. In October 1991 the project of revising Article 118 began in more operative terms. How in this light the agreement in December 1991 on a Social Protocol as an annex to the Maastricht Treaty should be interpreted is a contested issue, which Robert Salais deals with in his chapter in this volume. Irrespective of how the importance of the social protocol is evaluated, the protocol as such demonstrates that the social question was on the agenda.

In this scenario the 1980s were much more than the simple imposition of neo-liberal market "de-regulation". On the contrary, the intensified institution building must be seen as a continuation of the failed project begun by the Werner Plan and, later on in the 1970s, the Eurocorporatist ideas. By way of parallel Delors can be seen in his capacity as former French Minister of Finance against the backdrop of the French failure of economic governance through expansive politics in a national framework during 1981 and 1983, where he gained experience with the political preconditions of a world of ever more global financial markets. After these experiences the European level emerged as the level of political management of the economy in which the growing forces of transnational capital were to be canalised and integrated rather than confronted. Jacques Delors lead the Commission in a historical conjuncture full of contingencies in the wake of the collapse of the Bretton Woods order, the emergence of mass unemployment with the erosion of full employment as the basis of the welfare, the erosion of old solidarity patterns, and the emerging quasi-hegemonic neo-liberal prescription for healing suggested by the economists. Delors' response to these processes can not be described in terms of functional development or rational choice. The responses were the outcome of social contest, bargaining and compromises, where the responses emerged more in retrospect than *ex ante*. The answer was not

30 Pochet, 2001; Fajertag and Pochet (eds.), 2000.

only to the failure of the Werner Plan and the ideas of Eurocorporatism in the 1970s but also to the French economic political failure between 1981 and 1983. From these experiences a European future was designed under much more continuity than is normally discerned.

The Opposition between the Social and the Economic

The continuity between the Euro-corporatist failure at the end of the 1970s and the reinforced European institution building in the 1980s suggests an alternative view than the conventional historical one in which one phase replaces another and in which history is divided into a series of discontinuities. First was the crisis of the 1930s and then the Second World War, then came the era of welfare capitalism and national tripartite corporatism, then came a crisis because of a social democratic over-exploitation of the economy, and finally came the neo-liberal answer to the crisis. In some versions this answer was also the end of history.

What emerges in our alternative scenario to this periodisation and division in phases is both a more long-term *opposition* and a more long-term *entanglement* between capitalist expansion, and social/political ambitions to respond to and canalise the development of capitalism, to the extent that both were affected and – in the long term – transformed. The social democrats of the 1990s were not the social democrats of the 1960s or the 1970s, and those who represent capital in 2000 were not those who represent capital in the 1980s. The rejection of the idea of strong and decisive ruptures does not exclude temporary defeats and triumphs. (Such categories are, of course, dependent on the point of view.) There were certainly failures in the integration of the social dimension but such points of failure do not mean that one history stops and another and totally different one begins. Defeats and triumphs in specific points of time lead to new situations in terms of identification of problems, and to the emergence of new future horizons, where the experiences acquired in the past are part of the matrix that provides continuity.

Closing the Circle: European Unity and Political Economy in the Delors Report (1989)

The impetus of the 1985 White Book *Completing the Internal Market* was followed up 1988 by the organisation of a Committee on Economic and Monetary Union, chaired by the President of the Commission, Jacques Delors. The mandate of the committee was to deepen the proposals of the White Book and to make recommendations for setting up an economic and monetary union. The result of the committee's labours, published in April 1989, is at once more theoretically predisposed, more empirically anchored, and more conscious of its position in European economic history than the White Book. It represents the completion of a certain political ambition toward economic and monetary unity. The introductory comments of the report suggest that it clearly situates itself in the arc of *monetary history* beginning with the decline of the Bretton Woods order, considering the historical meaning of the Werner Report, the "snake" (1972), the EMCF (1973) and the EMS (1979). It explicitly takes its cue from the success of the EMS and the solid foundation provided by the adoption of the Single European Act. The focus of the success is clearly in the monetary sector. Indeed, the historical assessment contained in Chapter I of the report, "Past and present developments in economic and monetary integration in the Community" hardly stakes a claim for economic union or economic integration. The economic is only thematised in the ultimate section on "Problems and perspectives".

The jewel in the crown of the European Community is clearly the EMU. As the Delors Report underscores, the participants in its framework have succeeded in creating a zone of "increasing monetary stability", which has had as a consequence increased price stability in individual European countries and better exchange-rate stability. The Single European Act of 1985 added to this success by simplifying the requirements of harmonising national law (later on, in implementation, to a large extent by re-casting the concept of "harmonisation" as "mutual recognition"), by extending qualified majority voting, by expanding the role of the European Parliament, and by reaffirming the need to strengthen the Community's economic and social cohesion.

There are two sides to the Delorsian understanding of European Unity. On the one side, there is a concern for the particular destinies of individual European countries, regions, and local cultures. After attaining an economic and monetary union, the Community will clearly continue to consist of "individual nations with differing economic, social, cultural and political characteristics. The existence and preservation of this *plurality* would require a degree of autonomy in economic decision-making to remain with individual member countries and a balance to be struck between national and Community competencies"[31]. On the other side, there is a clear conviction that the success of the ambition to assure the economic, social, cultural and political viability of individual countries will depend upon the perfection of a monetary system capable of maintaining price and exchange stability. The realisation of the single market as it is set forth in the Single European Act,

[31] Delors Report, p. 17.

and operationalised in the Economic and Monetary Union to come, will bring with it deep economic integration entailing profound structural changes in the individual member countries. "These changes offer considerable opportunities for economic advancement, but many of the potential gains can only materialise if economic policy – at both national and Community levels – responds adequately to the structural changes." Clearly this "adequacy" is a one-way street, determined not by the "economic, social, cultural and political" viability of member countries, but by the logic, conditions, and givens of the monetary union alone. This is the (new) double-logic of Delors, and – by fiat – of the new European economic and monetary order. The question of economic, social, cultural and political viability returns, in proto-Keynesian clothing, under the sign of monetary prioritisation. The economic, social, cultural and political will follow implicitly from the instrumental presuppositions of monetary well-being. When the "economic" is evoked in the Delors Report it is automatically thematised as "performance", or "convergence or "cooperative policy-making" where the "measure" of these concepts is quantitative or instrumentalised[32]. As a concept the "economic" is socially-culturally enriched, while at the same time being shrunk to the merely quantifiable.

The Tension between the Economic and the Monetary

The relationship between the realm of the economic and the realm of the monetary takes the form of a certain principle of parallelism between the discourses of the economic and the monetary. This parallelism develops into an explicit concept in the Delors Report, with all the inherent ambiguities this entails:

> [...] monetary union without a sufficient degree of convergence of economic policies is unlikely to be durable and could be damaging to the Community. Parallel advancement in economic and monetary integration would be indispensable in order to avoid imbalances which could cause economic strains and loss of political support for developing the Community further into an economic and monetary union. Perfect parallelism at each and every point of time would be impossible and could even be counterproductive. Already in the past the advancement of the Community in certain areas has taken place with temporary standstill in others, so that parallelism has been only partial. Some temporary deviations from parallelism are part of the dynamic process of the Community. But bearing in mind the need to achieve a substantial degree of economic union if monetary union is to be successful, and given the degree of monetary coordination already achieved, it is clear that material progress on the

[32] Delors Report, p. 15f.

economic policy front would be necessary for further progress in the monetary policy front. Parallelism would have to be maintained in the medium term and also before proceeding from one stage to the next.[33]

Accordingly Delors goes on to outline the double ("parallel") process, which is intended to lead to the definitive form of economic and monetary union. There are two paths to be taken, the economic and monetary, two different (but "parallel") sets of givens, two different parallel goals, two different parallel means etc. This is the same attempt to build a bridge between two approaches as was undertaken in the discussions of the Werner Plan (see the chapter by Verdun).

The "principal steps in stage one", for example, aim at "greater convergence of economic performance through the strengthening of economic and monetary policy coordination within the existing institutional frameworks"[34]. This "convergence" of "performance" involves removal of "physical, technical and fiscal barriers" and the reform of "structural and regional policies". How is consistency between the economic domain and the monetary to be assured? By the participation of the Chairman of the Committee on Central Bank governors in "appropriate Council Meetings". In other words "convergence" of "performance" is the responsibility of the central figure of the monetary organisation. This conception of unilateral "coordination" is the same that structures the work of the Delors committee itself. The resolution of the Summit of Hanover in June, 1988 calling for the formation of the Delors committee also allows for the "president or Governor of the national central banks" to take part in "a personal capacity" in the proceedings of the Committee.

These reflections and the negotiations on how to speed up European integration through monetary unification gained unexpected momentum in November 1989 with the Fall of the Berlin Wall and the re-emergence in France of a perception of a German threat. The transformation of the *Deutsche Mark* into the euro under European supervision became a key instrument in order to control the perceived risks involved in the *Wiedervereinigung* at the EC Council in Strasbourg in December 1989 under French presidency. This French interest in containment of Germany was, as a matter of fact, an exact repeat of the scenario in 1969 when the German *Ostpolitik*, and the fears implicit in the strong DM at that time, was a factor that promoted the Werner Plan[35].

33 Delors Report, p. 32.
34 Delors Report, p. 34.
35 Loedel, 1999.

The 1990s and the Third Way

The rest of the chapter is going to discuss how the social came back on the agenda in a more prominent way than during the 1980s, but how it did so under remaining requirements for economic discipline and budget rigidity. It is going to discuss how the development of the European integration project up to around 1990, as it has been analysed above, connected to the developments in the 1990s. It was not the old type of expansive social politics that recurred. At the same time, or somewhat later, as the social returned in a new economic entanglement, the institutional and regulative setting was transformed with a migration of power from the Commission to the Member State governments, from harmonisation to soft law. This migration of power occurred under growing strains between France and Germany, which will also be discussed on the remaining pages of the chapter. The French-German political coordination has from the very beginning been the generator of dynamics in the European post-1945 integration, which makes the strains between them more problematical. We will use our historical map to reflect on the present situation of the European integration.

Maastricht, the Social Protocol and the Treaty of Amsterdam are linked together through the White Paper in 1993 and the Essen Council in 1994. The Luxembourg agreement in 1997, the Employment Pact in Cologne in 1999, and Lisbon in 2000 with the emphasis on the quality of employment are continued indications of a social Europe as a kind of reverse of the monetary discourse, both presupposing and constituting one another. The social and the monetary discourses should not be seen as two parallel tracks but as an entanglement, where the two dimensions presuppose and use each other as critical corrections under mutual transformation. The continuous existence of a social dimension does not say anything about its strength and power or content, of course. Robert Salais is in his chapter critical with respect to the power of the social dimension. In retrospect, ten to twelve years after the social pacts around 1990, the outcome can be described mostly in terms of moderate wage agreements and limited labour market effects.

Moreover, the continuous existence of the social dimension was under permanent adjustment and transformation, as Diamond Ashiagbor so clearly demonstrates in her chapter. This adjustment and transformation was full of contingencies. The question of whether to include employment targets in the convergence criteria or not was discussed during the Inter-Governmental Conference preparing the Maastricht Treaty, but ultimately the insistence of the Member States on retaining employment policy as a national prerogative gained the upper hand. This insistence came particularly from those governments, which in their self-understanding considered themselves as "progressive", and which fell back on well elaborated national welfare and labour market policy traditions.

Nevertheless, the referendum on the TEU in Denmark and France in 1992 and 1993 gave many European policy-makers second thoughts (see in particular the chapter by Ulrike Liebert for this development). A rhetoric of unemployment and a European employment policy emerged. Although social policy was included in the Maastricht approach through the Social Protocol, and thus had a much more solid treaty base than Article 118 in the Rome Treaty, the social dimension was quite subordinated to the macroeconomic dictates. In an attempt to show strength in the social and labour market field the Commission published a White Paper in December, 1993 with the brave and future-oriented title *The Challenges and Ways Forward into the 21st Century*. The framework was the fears that the European project was loosing popular support after the referendums on the Maastricht Treaty in France, in September 1992, and in Denmark, in May 1993. In the assertive White Paper the Commission proposed a massive employment programme through heavy European investments in communication and transport structures. This approach would have required more budget resources to the Commission. Its brave move was tacitly rejected by the governments under transformation of the employment rhetoric, which was set on an alternative track under alignment to the macroeconomic thinking so central in the convergence criteria. The contours of the Stability and Growth Pact took shape through the European Council in Essen in 1994, Dublin in 1996 and Amsterdam in 1997. The meeting in Luxembourg that year confirmed this development of not only employment policy alignment to macroeconomic politics but also of a migration of power from the Commission to the Council, *i.e.* the Member States. The Stability and Growth Pact was not the recurrence of counter-cyclical "Keynesian"/neoclassical (see Chapter 3) ideas, as they possibly can be traced still in the White Paper in 1993, but the continuity and implementation of the convergence criteria. It must be emphasised that this development has, in particular, been promoted by those governments, which have understood themselves as being more "progressive" in terms of social and employment politics, in particular Germany. This development had very little to do with the implementation of EMU *per se*.

From the philosophy of the Treaty of Rome where the free trade instrument automatically was seen as levelling out differences in labour standards, and where remaining differences were seen as reflections of different degrees of productivity, via the philosophy in the 1970s and 1980s, in the wake of the Werner Plan, of a European labour standard, the arguments in the 1990s again went from European labour legislation

to national employment policies coordinated at the European level. This is not to argue that the development had gone full circle back to the 1950s but that elements of the philosophy by then were taken up again. There was one important difference. In the 1950s the whole issue was tucked away in a remote corner, because unemployment was not a problem. In the 1990s the issue was much more centrally embedded in a forceful rhetoric with a pretension of an ability to take action.

Post-National Social Politics in the 1990s

The activation of the social issue before, and, in particular, after Maastricht, as a supplement to the negotiation of the formulation of the monetary and security policies, and as an instrument to integrate potential popular protests, provoked objections not only from the "progressive" governments. Philippe Pochet has demonstrated that the emergence of the concept of subsidiarity was a powerful instrument of such objections. An unholy alliance of British Conservatives, with a neo-liberal blend (Brittan: "[subsidiarity is] an ugly word but a useful concept") and German *Länder* lobbies incorporated a key concept from social catholic doctrines (*Quadragesima Anno 1931* in commemoration of *Rerum Novarum* in 1891) in their arguments against a European social policy[36]. In more secular, *i.e.* less Catholic readings the concept of subsidiarity connoted closely to "nearness", which was a key concept in the neo-liberal flexibility rhetoric.[37] The unholy alliance became even more unholy through the "progressive" opposition to a European regulation.

Was the continuous position of the social question on the European agenda only lip-service without substance? This would be a very biased view. In the 1970s the trade unions put national governments under pressure during the economic crisis, and the governments tried to coordinate their responses to the social pressure at the European level. This was the very meaning of the Eurocorporatist approach. The very fact that the social issue could be moved to the European level is an expression of the mood of crisis. Social politics were historically inscribed in national narrations after class performances and responses to them. This national entrenchment resulted in strong reluctance to giving them up to the European level. In this view the astonishing point is not that the Eurocorporatist efforts were pushed back, or that the Commission's first draft of the social protocol over ten years later were rejected, but that a social protocol could be agreed on at all. Another argument against the "lip-service" view is the emerging subsidiarity

36 Pochet, 2001.

37 Stråth, 2000a.

language, which hardly would have made the breakthrough it made if the threat had not been perceived as both real and dangerous from those who opposed a European social policy. The point here is, however, that the opponents came not only from the Right on a simple right-left schema but also from social democrats afraid of giving up what they perceived as more progressive national schemes. This joint opposition has so far constituted a significant barrier against a European social and employment approach understood in regulative and financial terms.

In the neo-liberal language the social issue more or less disappeared. However, the social issue remained all the time on the agenda, although subordinated to the dictates prescribed by the economists, and adjusted under impression of these dictates. The social problem was not identified in the same terms in 2000 as in the 1970s. Marginalisation and social exclusion emerged silently as social phenomena. For a short while these phenomena were expressed through concepts such as "two-thirds society", but this language disappeared very much under the transformation of the "social language" from "full employment" to "employment through growth and stability" and "quality in employment". The attempts to develop a language to cope with this situation ("two-thirds society") have so far not been very successful. These attempts were all attempts of national politics and they were never really imagined in European terms.

Economy and Social Politics go Separate Ways? The Post-Delors Decline of the European Commission's Legitimacy

The Maastricht process towards the implementation of EMU brought ever more macroeconomic dictates and subordination of the social issues under the convergence criteria. EcoFin and ECB enforced the trade unions to moderate their wage claims. The important long-term development is probably due less to the continuous trial of strength between the social and the monetary issues in European politics than it is to the migration of power from the Commission to the Council, however. After Delors' tenure as President the Commission became weak. Its enforced resignation in 1999 was exceptional but symbolic. Santer and Prodi are not Delors, but it would be a mistake to reduce the power erosion to personal factors. The migration of power must, in particular, be referred to the image of Europe in the Member States and the role Europe has in the perceptions of governments.

A historical case in point is De Gaulle's vision of Europe as nations in the mid-1960s, which clashed with the more post-national views in the Commission, in particular in agricultural politics, to the effect that the President Walter Hallstein was lead to resign. In Nice, in December, 2000 it was obvious that the Council had the full initiative. The arrogant

and condescending treatment of Romano Prodi by the French Presidency during the chaotic negotiations is a good illustration of the development in the 1990s of the power relationships between the Council and the Commission. The Method of Open Coordination (MOC) is the new buzz-word for the heavy decision-making, where the governments in the ministerial meetings look for common denominators and agree on compromises which more often than not are at the mini level. The social policy does not represent a pillar like the monetary or the security policies and is not institutionalised and the object of directives to the same extent. What this means for the future prospects of a European social policy remains an open question.

The shift of power from the Commission to the Council was obvious in Luxembourg, but had already been indicated in the reactions to Delors' White Paper in 1993 and is a connection to the kind of European macroeconomic employment politics that failed as a response to the crisis of the 1970s. With Luxembourg in 1997, a political rather than institutional conceptualisation of the construction of Europe recurs. Agreements negotiated among the governments and the coordination of their politics are the condition *sine qua non* for any progress for Europe. This approach opposes the method Delors developed in relation to the ideas of Jean Monnet, where the production of rules precedes and sets the frames of politics. The Luxembourg approach has in fact incorporated the subsidiarity principle as the principle of governance, as Philippe Pochet has recently emphasised[38]. This institutional re-arrangement can be interpreted in two alternative ways:

1 This is what EC/EU has always been, namely a coordination among nation states, in which nobody was ever interested in giving up more competence than necessary to solve problems efficiently. This is the view most pronouncedly expressed by Alan Milward. The intensified use of the concept of integration in the 1950s and 1960s could shift neither the centres of political legitimacy, nor the basis of this legitimacy, mass production of welfare, from the national level. However, as Perry Anderson has eloquently argued in a critical review of Milward's thesis, this does not necessarily mean that there was no political commitment to institutional arrangements aimed at the transgressing of the national level, and there were other factors in the design of the European Community than the welfare concern[39]. Moreover, Milward builds his analysis on the period before the late 1970s and before Delors.

38 Pochet, 2001.

39 Milward, 1994 and Anderson, 1996a,b.

2. As a reaction to the institution building in the 1980s possible after the adjustment to the crisis in the 1970s, which had provoked a substantial pressure for Western European unification. The fact that EC/EU never really took over the legitimacy for political management of the economy, such as fiscal and social politics, from the nation-states was prevented by the introduction of the subsidiarity argument rather than by EU as basically a nation-state project. The subsidiarity approach contains the contours of a more fundamental shift from one institutional image to several: Europe with two or more speeds, Europe with a vanguard, Europe *à la carte* etc. Joschka Fischer's and Gerhard Schröder's proposals of a European federation (with a strong Commission) can in this scenario be seen as a counter-proposal, which provoked influential French politicians to emphasise "Europe of the nations", which, in turn, fits very well with the images of Europe in the UK and Scandinavia. The euro and the enlargement could possibly both underpin the Luxembourg approach, and promote the recreation of a strong and central European decision-making capacity with institutional expressions. The future is as always open.

Conclusion: Political Economy and European Identity

The roots of the new European identity policy lay in the fact that the political-economic linkage of full employment, budget manipulation and low inflation was replaced by a new regime of mass unemployment and high inflation (so called "stagflation"), which shifted the focus of discussion in the centenary long debate between market and state-oriented economists. A political economy paradigm based on the assumption that economies are nationally governable according to political priorities and management lost credibility. The conceptual topography was realigned towards market, small-scale enterprise, decentralisation, local and regional "networks," entrepreneurship, innovation, flexibility, deregulation, and so on. In this conceptual framework "the region" was identified as a new forum for remedy of economic performance. Compensation for the erosion of political legitimacy at the national level and the collapse of politically governed economics was simultaneously sought at the regional and European levels[40].

The principle of policy coordination through harmonisation was gradually reformulated as rules of mutual recognition. Anything which is permitted in one member State is automatically permitted everywhere in the European Union. This principle effectively destroys national sovereignty and undermines the idea of sovereignty in general, since it implicitly questions the legitimacy behind all political and administrative regulation. However, EMU has changed the preconditions of the mutual recognition approach. The establishing of monetary union has rendered the old tension between national autonomy and EU authority increasingly visible. This tension can no longer be ignored. Monetary union implies a sacrifice of monetary prerogatives and the Maastricht Treaty further imposes restrictions on national fiscal policy[41] These restrictions hit national symbols because aside from physical frontier lines and border controls and currency few things symbolise a country's sovereignty better than fiscal authority.

[40] Burgess, 2001 and Burgess and Tunander, 2000.

EMU means that the institutional preconditions for a *European* political redistribution to the benefit of a more solidaristic Europe becomes possible, and with it a restoration of political responsibility at the European level. The institutions exist but to what extent they can or will be used to achieve any such thing is a political question. It could perhaps be interpreted as a sign that a new attitude is emerging that the harmonisation of business taxation has become topical in Brussels. The ex-Internal Market Commissioner Mario Monti, for instance, has argued that low business taxes should be regarded as illegal state aids: as unfair subsidies to domestic firms at the expense of those based elsewhere in the EU[42]. The return to an old policy guideline, which was expressed by the concept of harmonisation, *could* mean that the contours of a European solution to the failure of the market to tackle unemployment are becoming apparent in EMU. Increasingly the concept of "co-ordination" is cited, in a rather obvious attempt to circumvent the now taboo vocabulary of harmonisation, but is there any difference between the two concepts?

When it is asked how identities and interest definitions have been changed as a consequence of the interaction between national and European bargaining processes, the focus is not so much on trans-national mobility of labour ("free movement of persons") as on the experience in labour markets, historically defined in national terms, in the increasingly competitive international sphere since the 1970s. How have these experiences affected the regulation and norms surrounding national labour markets? To what extent have European standards been developed? These questions indicate a trend towards coordination of labour standards, rather than a movement of labour to areas with most favourable standards, as the Single European Act idea of free movements would have it (without drawing attention to the fact that "most

[41] Eichengreen and Frieden (eds), 1998.

[42] *European Economic Perspectives*. Centre for Economic Policy Research, No. 21, February 1999.

favourable standard" is a very contested concept depending on whether it is seen from the viewpoint of the employees or the employers).

If a trend towards the development of a European standard is discernible (see, in particular, the chapter by Robert Salais for a discussion of that question), has this also resulted in the emergence of transnational European solidarity patterns, *i.e.* a kind of European identity? Has the American flexibility discourse been seen as a model to imitate, or does a European regulation rather reflect a resistance to this model? What do concepts like regulation, deregulation and re-regulation mean in this context?

Thus we come to the issue of the connection between the evolution of economic rhetoric, on the one side, and the idea of a European identity, on the other. The European identity, which in the early 1970s had been designed for another role than that it now plays, for a new definition of Europe's role after Bretton Woods, and, later, in support of a Euro-corporatist order, was reformulated to support the connection of the local/regional small-scale level and the large-scale European framework, a connection in which the nation was in some sense bypassed. In this reformulation the idea of a European identity was connected to the new concept of a European citizenship.

The changing framework of this policy means that the language of European identity has gained what it did not have when it was connected to the Euro-corporatist approach in the 1970s, namely an institutional framework. This means that the identity idea can be brought into action in pragmatic politics rather than merely ideologising rhetoric. Whether this institutional framework will promote the linkage of "identity" to politically guaranteed solidarity and social responsibility, or whether the linkage will in fact be to ideas of individual citizenship and individual responsibility is a matter of how the available institutional instruments are used, in other words whether the European Bank is placed under open political control or a disguised political control. (Compare on this point also the chapter by Barbara MacLennan in this volume where she discusses the broader and deeper potential for new perspectives in the wake of the institutional resetting of the European banking world). The open political control fashioned after the model of the *Banque de France*, would in some sense preserve the politicisation and ideologisation of European economic matters, thereby holding open a certain continuity between the economic technocracy and the social and cultural fabric of the continent. The politically detached model, fashioned after the model of the Bundesbank would be more apt to favour a more technical or technocratic, and less overtly political approach to the questions of economic policy. However, the decisive point is not this difference but the fact that the German policy

tradition wants to anchor the "independence" of the ECB in a strong European economic policy confirmed by the German insistence on the convergence criteria. Through the economic policy and the convergence criteria the operative framework of the ECB is politically set in the direction of a strong Commission. The French tradition prefers a focus on monetary policy where the economic political dimension becomes less important and where the monitoring is more a matter under the control of the Council, *i.e.* the Member States.

Economic-political coordination (SGP) does not necessarily mean expansive and employment creative. The German emphasis on the convergence criteria and the SGP can rather be seen as an expression of the opposite dictated by the interest in a strong European currency as a substitute for the DM. The political control of the monetary regime does not necessarily mean a philosophy of monetary and fiscal rigidity. The French position can rather be seen as less rigid than the German. These differences between German and French priorities reflect deeper divergences concerning power and control, however, provoked by the introduction of the euro. The problem of this German-French competition is less whether the focus should be economic or monetary policy but whether there is institutional strength to control/coordinate at a European level in mutual interaction and in interaction with employment and social goals. The German-French competition can be seen as an illustration of what we said at the beginning of this chapter, that the transfer of meaning, in the wake of the introduction of the euro, can be experienced as a threat to the traditional sovereignty of individual nations. The fact that this experienced threat has a specific German-French touch can also be seen as an issue about the political control of Europe and its money. The control of the money requires political power.

How are in this scenario the varying perspectives of a variegated European cultural identity to be concretely applied to the politics of the European Central Bank regarding the question of work/employment? How can we understand the German-French competition historically?

Since the early 1950s the Commission has had three strong Presidents: Jean Monnet, Walter Hallstein and Jacques Delors. It is not by chance that they all were either French or German. Nor was it by chance that two of the presidents – the French – were successful while the third – the German – was forced by the French President De Gaulle to resign. The French-German axis has been the motor of the European integration from the very beginning. However, it has not been an axis between two equals. The German government has always had to demonstrate its European credibility whereas the French government has always had the pretension of representing Europe, to speak on behalf of

Europe. Germany has had to be European, while France has been Europe and told Germany what being European meant.

This opposition has been particularly palpable in two turbulent situations since 1945. The turbulence has meant among other things that German credibility was at stake. The German government had at these occasions to demonstrate its Europeanness. In 1969-1970 the German *Ostpolitik* provoked a German *Westpolitik* and the Werner Plan, as Hubert Zimmermann demonstrates in this volume. In a parallel fashion the German *Wiedervereinigung* in 1989 provoked the replacement of the *Deutsche Mark* by the euro and the establishment of EMU on French initiative.

The problem for Germany, France and for Europe is that through its response to this latter crisis Germany became too European. When it gave up its currency in exchange for a European currency Germany also became much more immediately interested in exerting control on European politics, *i.e.* in being or representing Europe rather than just demonstrating good Europeanness. This was the unintended and unforeseen consequence of the integration of the unified Germany into the European project. The same situation, seen from the French horizon, prevailed in the mid-1960s when a German President of the Commission became a threat as a representative of a stronger Europe. In the 1990s the German interest in controlling Europe and its new money was demonstrated through its interest in the Stability and Growth Pact as a kind of guarantee of the value of the new money. We have seen a demonstration of the old German interest in being good Europeans for the sake of credibility through offers of a tighter binding of Germany into the European project, as a kind of counter-weight to the fears that this German interest in control of the money might have provoked. On three occasions prominent German politicians have suggested steps for a federal Europe, in September 1994 the CDU-politicians Karl Lamers and Wolfgang Schäuble, in May 2000 the Green Foreign Minister Joschka Fischer and in May 2001 Chancellor Gerhard Schröder. More than anything else these suggestions have provoked French concern. The SGP and the German interest in controlling the euro have eroded the French self-understanding as the true representatives and spokesmen of Europe. The summit in Nice in December 2000 was a clear demonstration of this erosion. Now the French interest seems to be in stopping Germany from being too European, which no doubt is quite a change. The old basis of the European integration, the relationships between Germany and France, is in desperate need of new imagination in order to avoid a disintegrative spiral in the framework of the enlargement. The migration of power from the Commission to the Council has occurred simultaneously with the emergence of the SGP.

This migration can possibly be seen as an attempt to check the German interest in control of the European money. The outcome of this attempt to establish a counter-weight might well be the development of the EU into a kind of United Nations of Europe.

In the 1970s, in the debate about what should come first, the economic-political or monetary unification, the economists were represented by the Germans and the monetarists by the French[43]. This opposition continues in the views on the European Central Bank around 2000 expressed by the German and the French governments. However, the difference can also be related to a more general political-cultural opposition: the French view on Europe as a cooperation of the nation states and Germany's much stronger political interest in a European federation, which has been evident since the 1950s, and most recently demonstrated by the proposals by Joschka Fischer and Gerhard Schröder. It is in this field of opposed priorities that the development of the EMU will take place, where so far Germany and France have constituted the hub of the European dynamics. However, history does not mean all, and it does not give us much guidance to the question of whether the EMU will move in an economist or a monetarist, a federal or an interstate direction.

[43] *Cf.* Amy Verdun's chapter in this volume.