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has Europe become (too) Germanic?**

The Consequences of EMU without a proper  
European Economic Governance system

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# Has Germany been Europeanized or has Europe become (too) Germanic?

## The Consequences of EMU without a proper European Economic Governance system

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### Summary

It has often been argued that European Monetary Unification must basically be seen as a device to Europeanize the re-unified Germany. For the Germans it seemed to be the best possible way to prevent a German *Sonderweg* and end any German ambition for hegemony. For the rest of Europe and, particularly France, it seemed to be the best way to curb German monetary dominance and to secure a French imprint on EU policy making. In this article, however, it is argued that the German impact on the Economic Governance regime of EMU and its fencing off the French proposal of a 'gouvernement économique' is as substantial that the term 'Germanic Europe' seems adequate. More importantly, the Economic Governance system of 'Germanic Europe' has locked in the European Union into a politics of disinflation which makes it difficult for the EU to prosper in ripe the potential fruits of European integration.

## 1. Introduction\*

It has often been argued that European monetary integration would not have been thinkable without the fall of the Berlin wall and ensuing German unification at the end of the 1980ies.<sup>1</sup> Although European Monetary Union (EMU) had been set *en route* by the Single European Act (SEA) as early as 1986 – i.e. prior to the peaceful revolution in Eastern Europe and the German Democratic Republic – as a child of *Europhoria* after a long phase of economic well-going in Europe in the 1980ies, it is far from clear whether EMU along the Maastricht Treaty route would have had a better fate than the WERNER plan to monetary union of the late 1960ies if it was not for one over-arching reason: to embed a re-unified Germany, feared to explode the European Community by sheer size and potential *German Sonderweg*, into a strong and (politically) constraining European Union. If not for this challenge, to overcome national prerogatives in monetary and exchange rate policies in an ultimate, irreversible way – particularly after the crisis of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in the early 1990ies – would have been very difficult to achieve.

A ‘Europeanized Germany’ has definitely been in the heads of the most powerful propagators and proponents of European monetary integration: Chancellor Helmut Kohl and President Francois Mitterrand and all other public officials involved in European affairs on the French and German sides. What was enshrined in German post-war public opinion and unrivaled to German policy-making with respect to European relations (“*Ein starkes Deutschland nur in einem starken Europa*”), was also part of French political economy of EMU: It was seen as the best way to break German monetary dominance – which by way of a *Franc fort* policy (pegging the French franc to the Deutsch mark since 1983) has been made responsible for France’s poor economic performance since the early 1980ies – and to keep a French imprint on European politics if not strengthen France’s position in the world economy (e.g. by reducing London’s financial dominance). Although it was inconceivable to get Germany to join a monetary union not based on a ‘sound money’ culture (including central bank independence and a price stability doctrine), to have some French central banker on the board of a European Central Bank was regarded as much better than to have none on the board of the Bundesbank.

A ‘Europeanized Germany’ in a monetarily integrated Europe was also seen as compatible with the French political culture of ‘*Dirigisme*’ – even in liberal and conservative political circles in France, the government is taken to having a responsibility not only for a legal framework (German *Ordnungspolitik*) but also for growth and employment and industrial policy. Therefore, joining EMU with ‘*gouvernement économique*’ was seen not only as ‘taming unified Germany’ but also as maintaining a French way of policy-making in a wider European context.

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<sup>1</sup> The list is long and the subtle diversity of arguments impressing; see e.g. Middlemas 1995; Sandholtz 1993; Grieco 1995; Garrett 1993; Pond 1993.

## 2. EMU and a European Economic Governance system – some normative aspects

EMU is unique in European integration history as it is the only example of ‘positive integration’, i.e. “common European policies to shape the conditions under which markets operate” (Scharpf 1996: 15), where a whole policy area – namely monetary policy – has been completely supra-nationalized and handed over to a genuinely European institution: the European Central Bank (ECB). Expect on neoliberal or Hayekian premises (see Scharpf 1997: 210), it was clear to social scientists as well as political actors (such as central bankers who shaped the ‘economist advocacy position’) that growing market integration in general and monetary unification in particular meant increasing ‘stress’ to national public goods provision (or ‘policy-making’ as it is ordinarily termed): Due to externalities (e.g. competitive pressures due to social policy measures impinging upon unit labour cost) that can no longer be compensated by exchange rate movements, or spill over effects (e.g. demand spill over effects of Keynesian type intervention policies), all such national public goods that need to be provided at a central level will loose in efficiency and legitimacy. And also the increasing ‘exit options’ for economic actors provided by cross-border mobility give very unevenly distributed chances to escape financial burdens. As far as experience goes (Genschel 2002), the result of such inefficiency is a mixture of under-provision of public goods (no complete ‘social dumping’ for example), a growing ‘lack of distributional justice’, a ‘democracy deficit’ (loss of sovereignty) and a commodification of meritoric goods (in terms of privatization of network goods or ‘natural monopolies’ such as public utilities or education). This, of course, is exactly, what (neo-)liberal and conservative scientists, political advisors and actors, at least in Germany, were hoping for as they believed the post-war welfare and interventionist state to be the *Leviathan* image of grand-scale ‘government failure’ (see e.g. Streit/Musseler 1995; Sinn 1993, Berthold/Neumann 2001).

In order to overcome these problems, two ways are conceivable: (1) Either a supra-national policy-maker, endowed with the legal rights and financial resources, will take over public goods provision from the national governments (as the ECB has taken over from the national central banks) – some form of ‘European Republic’ (see e.g. Collignon 2003 or Schmitter 1996), or (2) some form of cooperation between the national governments needs to be initiated. Although both possibilities are often seen as mutually exclusive, it rather seems that an appropriate governance system will be a mixture of supra-national agencies and institutions and hard and softly coordinated national policies – depending on whether there are policy interdependencies or not and whether the national governments pursue common goals or not (Heise 2005a). The problem, of course, is that the more interdependent the politics (means) with conflicting goals (ends), the less likely a self-organized coordination becomes – or cooperation must be institutionalized either by supra-nationalization or by hard forms of cooperation providing the necessary incentives to overcome the rationality trap known as ‘prisoner’s dilemma’. And again, agreement on such supra-nationalized or hard forms of cooperation would imply the basic, and highly contestable, assumption of common national goals and perceptions on European integration and EMU.

### 3. French and German ideas about EMU and Economic Governance

I have already touched upon the different approaches to EMU taken by France and Germany. While deepening European integration is a policy goal in itself in Germany, and any concrete initiative – in this case taken by the European Commission under President Jacques Delors – falling on fertile ground in this respect, this does not mean that the Germans would have accepted EMU on all terms. The link between an overall positive stance towards EMU and possible reservations against unfavorable terms was, of course, the so called ‘economist advocacy position’: Monetary unification as the ultimate coronation of real and nominal integration, i.e. when not only the internal market has been achieved, but also nominal developments (prices, interest rates, wages) have converged and common economic policy perspectives established (*Politikkultur* such as a stability culture with respect to low inflation) – that was definitely the position of the Bundesbank, but also of most politicians and economists. The lever to strengthen that position in bi-lateral and intergovernmental negotiations was the knowledge of German negotiators that Germany’s participation in EMU was not only central but also indispensable. Although a ‘coronation approach’ to EMU was – after the failure of the WERNER plan in the early 1970ies due to a lack of a definite time horizon and any automatism in the event of economic crisis – no viable strategy if EMU was not to be postponed indefinitely, it gave Germany a rather strong negotiating position. What is also important to notice is that almost all political actors involved – the political parties, the Bundesbank, the Chancellery, the Finance and Economics Ministries, the trade unions, the employers associations – were favoring EMU, but on very different, even contradictory grounds. While trade unions and the leftist parties hoped that EMU would create the room for manoeuvre of a re-invented Keynesian-type interventionist economic policy that seemed ever more unviable at national level in the age of globalization and Bundesbank autonomy<sup>2</sup>, the conservative and (neo-)liberal political spectrum including the employers’ organizations openly favored EMU on the expectations of growth and employment gains from lower transaction cost and ultimate exchange rate stability so important for the ‘export champion’ Germany. More secretly, it was made clear that they hoped for structural effects (labour market flexibilisation, welfare state retrenchment, fiscal prudence) to be triggered by EMU (almost as a hidden agenda).<sup>3</sup>

The French position was straightforward and uniting the French elite<sup>4</sup>: 1) breaking German monetary dominance without giving up a ‘sound money’ policy stance entirely and without breaking with the French traditionally state-led interventionism. 2) Re-inforcing the French position within the EU and in the world economy. Or,

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<sup>2</sup> Only very few progressive social scientists and economists were openly critical to EMU or, at least, named the pre-conditions under which EMU were expected to be beneficial to wage earners; see e.g. Busch 1994, Heise/Küchle 1996. Interestingly, it was a Keynesian economist, Prof. Bofinger, who was at the forefront of EMU-support and who organised the public counter-attack after conservative economists launched a late attack against EMU in 1998!

<sup>3</sup> This hidden agenda can be inferred from a) the bi-lateral and intergovernmental negotiations, b) from the underlying neo-classical economic model and c) from the fact that those conservative economists opposing EMU did that on exactly the same grounds - only they feared that EMU would not be strong enough to exert such pressure!

<sup>4</sup> See e.g. Moravcsik 1998; Dyson/Featherstone 1999; Pisani-Ferry 1997; Howarth 2002.

as Andrew Moravcsik (1998: 411) puts it: "...the more symmetrical EMU appeared to offer advantages over the more asymmetrical EMS, including lower risk premia and exchange-rate volatility, greater political legitimation, and, above all, more symmetrical obligations *vis-à-vis* Germany, which would translate into looser constraints on macroeconomic policy. ..., the French government, like French business, maintained the traditional French support for monetary union on 'monetarist' terms – that is, with looser convergence criteria, greater political control over the ECB, a relatively large number of members, an explicit mandate to target employment and growth, and a weaker European currency than favored by Germany." Altogether, the French position sounded very much like the hopes of the leftist German EMU-proponents and the French were confident enough to finally carve out EMU on its own terms – which would include a Europeanized Germany. Since socialist Finance Minister Bérégovoy's legacy, the French response to Germany's demand for an independent central bank was a 'gouvernement économique'. Although it has nowhere been made entirely explicit what is exactly meant by a 'gouvernement économique'<sup>5</sup>, the intention was to counter-balance autonomous, de-politicized (technocratic) monetary policy by politically controlled fiscal policy<sup>6</sup> and this idea has been embraced by all French political actors as a corner-stone of the French way of taming a Germanic approach to Europe ever since.

#### 4. EMU and European Economic Governance – some positivistic aspects

Before we will try to answer the question of whether EMU and the present European Economic Governance system can be seen as a Europeanization of Germany or rather a Germanic moulding of the European Union, let us take a closer look at the way, EMU is finally institutionalized and practiced.

Concerning the status of the ECB, Bundesbank officials – particularly its then President Hans Tietmeyer<sup>7</sup> – and Finance Ministry officials – particularly then CDU-junior minister Horst Köhler<sup>8</sup> – pressed for a one-to-one copy of the Bundesbank model: legally and personally complete autonomy of the ECB from any national or EU institutions or political bodies and a clear priority for price stability in its policy goals; or to put it differently: like the Bundesbank, the European

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<sup>5</sup> Under the heading 'Nous voulons un gouvernement économique au service de la croissance et un vrai budget pour l'Europe' the liberal UDF defines: "Ce gouverneman économique serait à la fois un soutien et un contrepoids à la Banque centrale européenne, tut en preservant son interpendance. Il s'agit de coordonner les politiques monétaires et budgétaire de l'Union, de rapprocher les politiques de change avec l'objectif de lutte contre l'inflation. Surtout, un gouvernement économique fort pourra prendre des mesures sur la fiscalité des entreprises, pour lutter contra le dumping social" (UDF 2004 : 17)

<sup>6</sup> "Bérégovoy remained a frustrated social radical who suspected that trying to negotiate EMU with Germany would only add to the constraints on French politics. Hence, later, he adopted with enthusiasm the idea of a strong 'political pole' to balance the 'monetary pole' of EMU (later rechristened *gouvernement économique* by the Elysee)" (Dyson/Featherstone 1999: 175; italics in the original).

<sup>7</sup> Former CSU-junior minister (*Staatssekretär*) in the Finance Ministry and now a leading proponent of the ultra-liberal 'Initiative New Social Market Economy' (*Initiative Neue Soziale Marktwirtschaft*).

<sup>8</sup> Leading German negotiator in the Intergovernmental Conferences (IGC) and now President of the Federal Republic of Germany.

Central Bank has been freed from any obligation to pursue other – probably competing or even conflicting – goals than price stability (such as economic growth for example). And, again according to the Bundesbank model, the ECB is heading the European System of Central Banks (ESCB) with a strong position of the Executive Board of the ECB as compared to the presidents of the national central banks being represented in the Governing Council: a system of centralized decentralization rather than – as might have been expected in a European Union comprising strong nation-states – a decentralized centralization. Proposals of strong accountability (to national governments and/or the European parliament) had been watered down, never played more than a secondary role in the IGC and had no impact on ECB's abilities to conduct monetary policy.<sup>9</sup>

Although it looked like the Germans had obtained what they wanted in terms of monetary constitution, the Bundesbank was unhappy with the sloppy nature of the convergence criteria of the Maastricht Treaty – particularly the fiscal criterion of budgetary deficits was seen as still too excessive. According to the Maastricht Treaty, 3% of GDP was regarded as the average budgetary deficit reconcilable with the sustainability criterion of public debt set at a maximum of 60% of GDP<sup>10</sup>, i.e. there would be considerable fiscal policy room to manoeuvre left. Under the heading of 'preventing monetary bail-out' the German Finance Minister Theo Waigel<sup>11</sup> pressed for a sharpening of the fiscal convergence criterion: the Waigel plan, which eventually become known as the European Stability and Growth Pact (ESGP), set the average public deficit target at 'close to zero or above' with the 3%-threshold as the ultimate upper limit that goes sanction-free. Up to now, no convincing theoretical backing has been provided for this fiscal policy rule and ongoing controversy about its viability in the light of continuing non-compliance by the French and the Germans themselves has led to a minor revision of the ESGP, yet its restrictive impact on fiscal policy in Europe cannot seriously be denied<sup>12</sup> and the possibility of sanctions makes it the only institution of 'hard coordination' in European Economic Governance.

What happened to the French proposal of a 'gouvernement économique'? After the almost complete success of German negotiators in terms of the principles of 'sound money' and even 'sound finance' having been enshrined in the Amsterdam revision

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<sup>9</sup> " ..., an ECB has to attend to building and retaining a constituency of political support. In order to meet this requirement, arrangements for democratic accountability of the ECB take on a special importance. This point was grasped in the French Tresor as early as 1988, but played a very secondary role in the negotiations. ... The treaty negotiations were far more preoccupied with criteria of central bank independence than with criteria of transparency and accountability,... On such matters the Maastricht Treaty was unclear and undemanding" (Dyson/Featherstone 1999: 786). For the impact of accountability on monetary policy see Eijffinger/Hoerberichts/Schalling 2000; Caporale/Cipollini 2002.

<sup>10</sup> The so called Domar formula of sustainable public deficits produces 3% under the assumption of stabilizing 60% of public debts (over the business cycle) and an average nominal GDP-growth rate of 5%. In this scenario, 3% is clearly not the upper limit of public deficits but the average over the business cycle; see e.g. Heise 2005b: .

<sup>11</sup> Deputy chair of the Bavarian sister party of the CDU, the Christian Social Union (CSU), which signalled reluctance towards EMU if budgetary policy was not tightened.

<sup>12</sup> This is particularly true, as the 'excessive deficit' of Germany and France is not due to massive public expenditure (i.e. active fiscal policy) but rather due to shortfalls in public incomes because of tax redemption programmes and a slack economy (i.e. passive fiscal deficit); see e.g. Heise 2002a.



of the Maastricht Treaty and the ECB statute, it would have been most important for the French to strongly cling to its idea of a countervailing institutional setting. Alas, not much is left in today's Economic Governance system operating in the EU: Again, the Germans strongly opposed any institutionalised form of 'gouvernement économique', watering it down to the mere confession of the need for more coordination in economic policy: the Broad Economic Policy Guidelines (BEPG) and the Employment Policy Guidelines (EPG) issued by the European Commission on a yearly basis after a long process of consultations with the national governments and social partners may be regarded as the acceptance of responsibilities for growth and employment enhancement assumed by the European Union (as against the German proposal of a wide interpretation of the subsidiarity principle), their impact on actual economic policy making is certainly rather weak: only very broad targets are being set and almost no definite means are prescribed (see e.g. Heise 2002b). And although the Open Method of Coordination (OMC) being operated in labour market and basic social policy areas<sup>13</sup> and structural (market) reforms<sup>14</sup> seems, at least, to converge policy agendas and perceptions in the EU, to increase information transparency (by benchmarking and best practice procedures) and to assert peer pressure on national policy makers, it nevertheless only comprises exactly such policy areas that show the least coordination needs (no interdependencies and common goals) and are, thus, easiest to agree upon (Heise 2005a).

To make it as blunt as necessary: the French succeeded in getting some symbolic notions right. They managed to persuade the Germans to call BEPG and EPG 'guidelines' instead of the softer German version of 'orientations' and, anyway, insisted on the acceptance of EU-responsibilities for growth and employment instead of merely for price stability. They also implanted the vision of 'growth' into the Waigel plan and, thus, re-named the Stability Pact into Stability and Growth Pact. But at the end of the day, the German impact was much more substantial and deeper: they not only transformed EMU into a 'sound money' and 'sound finance' area completely on their own terms and institutionalised it in a way which will make future revisions very difficult and unlikely indeed: while the Bundesbank autonomy could have been abolished with a simple legislative act in the Bundestag, to abandon ECB's autonomy would need the unanimous acceptance of all EMU member states – the same is true for a revision of the ESGP. But they also prevented any counterbalancing, effective governance structure worth the name.

## **5. Getting Europe off the German hook**

The 1990ies have seen a European wide (if not world wide) focus of attention on price stabilisation and fiscal restriction: inflation rates have converged at very low levels, the end of the decade has even seen many countries with some years of public budget surpluses. These developments were definitely not entirely due to the pressure stemming from monetary integration (as they went beyond the EMU borders) but also from a world wide process of framing an economic outlook and building and setting an economic policy agenda in a very particular (often described as 'neo-liberal') way. Despite this seemingly agreement on economic policy programmes within the EU, the acceptance of a European Economic Governance

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<sup>13</sup> What has become known as the 'Luxembourg process'.

<sup>14</sup> What has become known as the 'Cardiff process'.

system entirely on the terms of German conservatism is far from obvious and certainly a strong ‘achievement’ of the German side. To accept central bank independence, for instance, is not a step to be taken by many EU members as easy as it might seem from a German perspective, but rather a fundamental break with traditional policy-making in most EU member states (see e.g. Howarth 2002). France is only the most explicit candidate which might have placed all its political and economic weight on rendering EMU less Germanic – and, with most likelihood, capitalising on Germany’s multilateralism and overt avoidance of becoming ‘hegemonic’ (see e.g. Dyson 2000: 254ff.).<sup>15</sup>

It is difficult to decide about what really paved the way for the very Germanic approach to European Economic Governance: 1) was it the outstanding reputation of the Bundesbank and the immodest behaviour of its representatives on the German IGC negotiating board or 2) the idea to institutionally pre-determine as little as possible in order to keep the EMU door open to late-comers such as the UK or 3) the French’s ‘monetarist advocacy position’ which seems to favour action (i.e. establishing EMU) to consistent structure (i.e. an adequate governance system) and relying on future amendments to the governance system once problems come up? And it is also true that some German demands – especially a stronger mentioning of supply-side policies (e.g. labour market deregulation) in the official papers (see e.g. Dyson/Featherstone 1999: 428) – were not approved. But indisputably, the conservative German governments of the Kohl-era (1983 – 1998) were able to advance the kind of dis-inflationary, balanced-budgetary macro-economic pressure that they were relying on to discipline and reform the ‘German model’<sup>16</sup> at home to the EMU level – and even introduced institutional (almost constitutional) safeguards that go far beyond what would have been able to achieve at national level.

Whether this is best summed up as ‘EMU – a neo-liberal project’ or such notion should be rejected – as Kenneth Dyson (2002: 359f.) argues – purely on the grounds that social democratic governments nowadays pursue successfully a similar type of policy, must not be decided. More important is that Europe needs to get off the German hook if it wants to prosper: (1) the Germanic impact on the European Economic Governance system tailors a macro-economic coat which is too narrow for overall economic growth and locks EMU into a politics of disinflation, (2) the

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<sup>15</sup> Dyson (2000: 255) even argues that a “key motive of the German Foreign Ministry in taking the lead role in agenda-setting on EMU in 1988 had been to put a final end to German hegemony within the EMS and thereby to put European unification on a more secure political footing.” However, my argument would rather be that Germany has succeeded in lifting up its ideational ‘hegemonic position’ from a fragile system of cooperation (within EMS) to a well established institutional regime (EMU).

<sup>16</sup> The ‘German model’ comprises highly corporatist employer’s and employee’s organisations, consensual industrial relations, centralised collective bargaining and an interventionist Keynesian welfare state resulting in comparatively high levels of productivity growth, low inflation and unemployment and, to the detriment of real and human capital owner’s, rather low wage and income dispersion. It seems that it was exactly this outcome which the policies of ‘sound money’ and ‘sound finance’ targeted while leaving German industrial relations and collective bargaining institutions (being the foundation of German success in high-skilled, high-productivity industries) nearly unaltered (see e.g. Heise (2000) and Heise (1999) for the institutional stability in Germany under the conservative-liberal Kohl administrations as compared to the radical changes of the British labour market system under Margaret Thatcher).

inappropriateness of the European Economic Governance system also shows in a competition of regulatory, social and tax systems which is a 'zero-sum game' for the whole of Europe and (3) finally, Germany is not only equally suffering under the wrong-headed economic policy but, due to the cost of German unification still amounting to (annually and net) 4% of GDP, even more so than any other EMU member. This is, probably, why the European Economic Governance system is not more often addressed as 'Germanic' as one might expect the Germans to gain from a policy that its government forced on the Europeans. Yet, such reasoning would portray economic policy to be too *zweckrational* in a social welfare sense instead of being driven by material interests of societal groups or classes (s. footnote 16). However, if Germany is locked into economic stagnation, the European Union will find it difficult expand.<sup>17</sup>

There have been a lot of arguments, particularly among progressive social scientists and leftist politicians, that run as follows: "If the essence of the European social model can be embodied in pan-European policy-making, and if the sustainability of national systems can be reinforced by a combination of supranational steering and subsidiary national bargains, then,..., the possibility that the new stability-biased macroeconomic regime will also be welfare-enhancing will be increased" (Rhodes 2002: 333). Yes, indeed, if everything turns out to be good, everything will be good.<sup>18</sup> Unfortunately, the hopes for the better have not yet been fulfilled and, as Dyson (2002: 341) realised, the Germanic Economic Governance system has proved structurally resistant to changes in agenda-setting and instrumental polity: (1) even after Germany and France had elected left governments in 1997/1998, the narrow 'window of opportunity' quickly closed before the European Macro-Dialogue (EMD) set up in early 1999 on the Cologne summit could have been made effective.<sup>19</sup> After the resignation of German Finance Minister Oskar Lafontaine (labelled as 'The most dangerous man in Europe' by one British tabloid) in the first half of 1999, any initiative to bring the idea of 'gouvernement économique' back on the agenda again, lost momentum.<sup>20</sup> And as the logic of the EMD (*ex ante* coordination) was opposed to the logic of the ESGP (implicit coordination or assignment), the institutionally hard<sup>21</sup> form of coordination of the ESGP clearly outperformed the institutionally soft form of the EMD (not even part of OMC). (2) Albeit the usefulness and economic feasibility of the ESGP has been ever more

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<sup>17</sup> This may look different from the perspective of a single country, but is definitely true for the whole of Europe. And it sometimes looks very odd when the country most depended on Germany – namely Austria – pleads Germany to pursue an even more restrictive fiscal policy stance.

<sup>18</sup> Of course, one must admit that Rhodes's statement was made only very short after monetary union started, i.e. without the years of experience that we have now.

<sup>19</sup> For an introduction to the history, working and shortcomings of the EMD read an insider-report: Koll 2005.

<sup>20</sup> Lafontaine's resignation symbolized the defeat of a clear policy shift towards more interventionist policies. Thereafter, 'third way politics' or, as it has been called, 'left supply-side politics' (see Priddat 2001) dominated the political agenda in Germany and the German approach to economic policy-making at EU level.

<sup>21</sup> Including non-credible material and more effective immaterial sanctions such as a loss of reputation.

questioned with every day of its existence<sup>22</sup>, until today no major revision has been achieved. The recent amendment rather proved its fatal stability (see European Council 2005).

For the very different nature of welfare regimes and different political cultures in Europe, a truly European system of welfare state will have to be developed. In order to do so in a healthy economic environment and in a public opinion setting which does not exclusively identify the EU with negatively connotated notions such as 'competition', 'retrenchment' or 'welfare loss', the Germanic design of the existing European Economic Governance system will have to be corrected and developed into something which combines the ability to produce interventionist public goods (particularly social policy and stabilizing policies) more effectively, the unquestioned need for price stability and the public demand for legitimacy (see Dyson 2000: 251ff.). All this can only be realised once the national actors take a more European, less national perspective.

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<sup>22</sup> For a most recent and very detailed account of the arguments see the symposium 'Reforming Fiscal Policy Co-ordination under EMU: What Should Become of the Stability and Growth Pact' in the *Journal of Common Market Studies*, Vol. 42, No.5, 2004, pp. 1023 – 1059.

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