



ARCHITECTS OF THE EURO

INTELLECTUALS IN THE MAKING OF
EUROPEAN MONETARY UNION

Edited by
KENNETH DYSON & IVO MAES

OXFORD

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*Intellectuals in the Making of European
Monetary Union*

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and
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UNIVERSITY PRESS

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Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
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First Edition published in 2016

Impression: 1

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Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data
Data available

Library of Congress Control Number: 2016931582

ISBN 978-0-19-873591-5

Printed in Great Britain by
Clays Ltd, St Ives plc

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Preface

'I am not an economist. I am an architect. But I know political economy better than the economists do.'

(Jaffé 1935)

These words of the eminent Lausanne economist Léon Walras offer an insight into the character of the intellectuals who contributed to the epic process of designing European monetary union with which this book is concerned. They were neither the political leaders who drove the process nor narrow expert economists. At the same time their qualities as active networkers and as interrogators of ideas led them to cross these boundaries during their often long careers. The architects of the euro were intellectuals who grappled with the acutely difficult, large-scale, and practical challenges of designing Economic and Monetary Union (EMU) in Europe, often under acute political pressures. Their habitat was political economy. The architects occupied the difficult terrain between often very constraining and unwelcome political constraints and the frequently conflicting prescriptions of professional economists.

The intellectual challenge was to flesh out the nature of EMU. What should be its economic and monetary constitution? How to design EMU on a sustainable basis, not least on terms that would satisfy the political leaders who commissioned the work? The architects were intellectuals in the highly complex EMU policy process rather than experts in a narrow specialist sense.

In assessing their individual contributions and legacies, one needs to bear in mind the distinction between architects and architecture. The EMU architecture that was agreed by the European Council in Maastricht in December 1991 bore the imprint of the European political leaders, especially those of France and Germany, who commissioned this ambitious project (Dyson and Featherstone 1999). The design defects were very much inherent in the commissioning, above all in considerations of limiting the loss of economic and fiscal sovereignty and of protecting domestic institutional interests, for instance in banking supervision and regulation.

The result was an asymmetric design of EMU (Dyson 2000; Maes 2002). On the one hand, monetary policy became supranational. There was to be a new single currency—the euro—and an independent European Central Bank (ECB) with a mandate to secure price stability. On the other hand, Member States were to retain sovereignty over fiscal policy, banking supervision and regulation, and policies that affected competitiveness, like labour markets, social provision, and wage bargaining.

The architecture was unbalanced. The euro was a ‘market-making’ project that eliminated transaction costs in doing business. In this way it reinforced the European single market, including the single market in financial services. However, the euro was deficient as a ‘market-correcting’ project, one that could address market failure and consequent systemic risk. This unbalanced design reflected an exceptional feature of its architecture. It was a monetary union without a state. Overall, the Maastricht architecture of the EMU was deemed unsatisfactory—if in different ways and to different degrees—by the individual architects. No architect would wish to claim that this architecture was their own; and all perceived it as larger and as more economically and politically heterogeneous than they had envisaged.

Throughout the period in which we have led and managed this cross-national research project, we have been able to draw on the support and encouragement of numerous people and institutions. In a short acknowledgement it is far from easy to express just how grateful we are to all those involved. They range from our own institutions—Cardiff University and the National Bank of Belgium—to the wide range of sponsoring bodies, our expert advisory group, and not least the colleagues working on the project. All have contributed insights and comments, as well as energy and time, to the project. Without their commitment the book would have been immeasurably poorer.

We are delighted that the governor of the National Bank of Belgium was kind enough to contribute a foreword to the book and grateful to the National Bank of Belgium for its support of this project from its inception to its completion. It illustrates once again the way in which over decades the National Bank of Belgium has been a pace-setter in contributing not just ideas to the process of European monetary union but also to our understanding of the history of this remarkable historical project.

Particular thanks are due to the institutions that provided financial and moral support for this project. In addition to the National Bank of Belgium, they included the British Academy, the Centre virtuel de la connaissance sur l’Europe (CVCE) in Luxembourg, the European Central Bank (ECB), the Gutt Foundation, Robert Triffin International, the University of Luxembourg, and the Pierre Werner Foundation. Their support enabled us to organize three research workshops which brought together the contributors. They were held in London in October 2013, in Luxembourg in April 2014, and in Brussels in March 2015. The discussions at these workshops extended beyond contributors to include a wide range of discussants with practical experience of the making of EMU as well as external academic reviewers.

The three research workshops were invaluable in offering deeper insights into the role of intellectuals in the making of EMU. They helped to establish a common framework of questions and a process of convergence in how we addressed these questions. At the same time the workshops also revealed the

remaining diversity of views amongst the contributors about how best to understand the nature of EMU and the role of individual architects. The reasons for this diversity, like the structure/agency problem and the problem of levels of analysis, are examined in Chapter 1.

We also benefited from panel discussions at various conferences, including the University Association for Contemporary European Studies (UACES), the European Society for the History of Economic Thought (ESHET), the Italian Association for the Study of Economic Thought (AISPE), and the Italian Association for the Study of Political Economy (STOREP).

A distinctive and important feature of the project was the work of its expert advisory group, which comprised veterans of the EMU process. We owe special thanks to them for the interest that they showed in the project and for devoting so much time in offering both general advice to the editors and comments on individual chapters. The members also participated actively in the workshops.

The advisory group comprised Charles Goodhart, FBA, Emeritus Professor at the London School of Economics and former chief economist and former member of the Monetary Policy Committee of the Bank of England; Francesco Papadia, formerly at the Banca d'Italia and economic adviser at the European Commission, as well as director-general for market operations at the ECB from 1998 to 2012; Robert Raymond, formerly at the Banque de France, later director-general at the European Monetary Institute (EMI) from 1994 to 1998, and then ECB representative at the International Monetary Fund (IMF); Fabrizio Saccomanni, formerly deputy governor of the Banca d'Italia and Italy's minister of economics and finance; André Sapir, Emeritus Professor of the Université Libre de Bruxelles, Senior Fellow at the Breugel think-tank in Brussels and long-time adviser to the European Commission; Hanspeter Scheller, formerly at the German Bundesbank, later general secretary of the EMI from 1994 to 1998, general director of the ECB, and later special adviser to the ECB executive board; and Niels Thygesen, Emeritus Professor at the University of Copenhagen and former member of the Delors Committee and of various earlier committees on European monetary integration.

We also benefited from the advice of numerous scholars, notably Frédéric Allemand (CVCE), Michele Chang (College of Europe), Thierry Grosbois (CVCE), Jack Hayward (Hull University), Jean-Claude Koeune (Université catholique de Louvain), René Leboutte (University of Luxembourg), Jean-Victor Louis (Université libre de Bruxelles), Susana Munoz (CVCE), Paolo Tedeschi (CVCE), and Ad Van Riet (ECB).

As editors we owe a great debt to the continuous and enthusiastic support of Oxford University Press. Dominic Byatt and his colleagues showed once again how it is possible to be congenial as well as efficient in helping to guide a project of this type to a successful conclusion.

In the final analysis, as ever, the usual disclaimer applies. The contents of this book remain the exclusive responsibility of the editors and the authors. Neither the various institutions nor the members of the advisory group are responsible for any of the views expressed in this volume.

Kenneth Dyson
Cardiff University, Wales

Ivo Maes
*National Bank of Belgium
Université catholique de Louvain*

24 November 2015

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European Central Bank, Frankfurt (ECBA)
European University Institute, Fiesole (EUIA)
German Federal Archives, Koblenz (BArch)
Historical Archives of the European Union (HAEU)
Historisches Archiv der Deutschen Bundesbank, Frankfurt (HADB)
Italian Historical Diplomatic Archives, Rome (IHDA)
Jean Monnet, Fondation Jean Monnet, Lausanne (JMA)
National Bank of Belgium, Brussels (NBBA)
Pierre Werner family archives, Luxembourg (PWLux)
Robert Marjolin, Fondation Jean Monnet, Lausanne (ARM)
Robert Triffin, Université catholique de Louvain, Louvain-la-Neuve (RTA)
Tickell Papers, All Souls College, Oxford (TP)

Notes on Contributors

Eric Bussière is a Professor at the Université Paris IV—Sorbonne and holder of the Jean Monnet Chair in the History of European Integration. His research focuses on the history of European integration, especially the monetary and financial dimension. His publications include *La France, la Belgique et l'organisation économique de l'Europe, 1918–1935* (CHEFF, 1992); *Paribas, l'Europe et le monde, 1872–1992* (Fonds Mercator, 1992); and *London and Paris as International Financial Centres* (Oxford University Press, 2005, with Y. Cassis).

Elena Danescu is a Research Fellow at the University of Luxembourg. She was previously a Researcher in European Integration Studies at the Centre Virtuel de la Connaissance sur l'Europe, Luxembourg. Her research areas include the transition in Central and Eastern Europe, EU enlargement and EMU. Her current research is based on the Werner family archives and deals with Pierre Werner and Europe. Recent publications have focused on reinterpreting the Werner Plan, for instance 'The Werner Report and the Financial Crisis during the 1970s' in *Eurochange: European responses to economic and social changes. From the 1970s to the New Millennium* (P.I.E. Peter Lang, forthcoming, with P. Tedeschi); 'Pierre Werner: l'homme et son oeuvre' in *Pierre Werner and Europe: His Approach, Action and Legacy* (P.I.E. Peter Lang, 2015); and *La revue d'histoire économique et sociale du XVIe au XXe siècle* (2011).

Kenneth Dyson is a Fellow of the British Academy, a Fellow of the Royal Historical Society, a Founding Fellow of the Learned Society of Wales, and Research Professor in European Political Studies at Cardiff University. His research interests encompass the European state, German policies and politics, comparative and international political economy, and the EU. His best-known books include *States, Debt and Power: 'Saints' and 'Sinners' in European History and Integration* (Oxford University Press, 2014)—winner of the UACES Best Book Prize; *The State Tradition in Western Europe* (republished in the ECPR Classics Series, 2011); *Elusive Union* (Longman, 1994); *The Road to Maastricht* (Oxford University Press, 1999, with K. Featherstone)—Choice academic book of the year; *The Politics of the Euro-Zone* (Oxford University Press, 2001); and the two-volume *European Economic Governance and Policies* (Oxford University Press, 2010, with L. Quaglia).

Dermot Hodson is Senior Lecturer in Political Economy at Birkbeck College, University of London. Earlier he was an economist at DG Economic and Financial Affairs of the European Commission. His research focuses on EU

policy-making, global economic governance, and UK public policy. He is author of *Governing the Euro Area in Good Times and Bad* (Oxford University Press, 2011) and of articles in the *Journal of Common Market Studies*, the *Journal of European Public Policy*, and the *Review of International Political Economy*.

David Howarth is Professor of Political Economy at the University of Luxembourg and has written extensively on banking and financial regulation, economic and monetary union, and the Euro Area crisis. His books include *The French Road to European Monetary Union* (Palgrave Macmillan, 2001); *The ECB: The New European Leviathan* (Palgrave Macmillan, 2005, with P. Loedel); and *Market-Based Banking and International Financial Crisis* (Oxford University Press, 2013, edited with I. Hardie).

Harold James is Professor of European Studies at Princeton University and has written extensively on economic and financial history and on modern German history. His books include *The German Slump, 1924–36* (Clarendon Press, 1986); *International Monetary Cooperation since Bretton Woods* (Oxford University Press, 1996); *The End of Globalization: Lessons from the Great Depression* (Harvard University Press, 2001); and *Making the European Monetary Union* (Harvard University Press, 2012).

N. Piers Ludlow is Associate Professor in the Department of International History at the London School of Economics and has written extensively on the history of Western Europe since 1945 and in particular on the historical roots of European integration. His books include *Dealing with Britain: The Six and the First British Membership Application* (Cambridge University Press, 1997); *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge* (Routledge, 2006); and (ed.) *Visions of the End of the Cold War, 1945–1990* (Berghahn, 2012). He is currently writing a monograph on Roy Jenkins' period as president of the European Commission.

Ivo Maes is Senior Adviser at the Research Department of the National Bank of Belgium and Professor, Robert Triffin Chair, at the Université Catholique de Louvain and at ICHEC Brussels Business School. He is President of the Council of the European Society for the History of Economic Thought. In 2003, he was a member of the Committee for Institutional Reform of the West African Monetary Union. His research focuses on the history of central banking and European monetary and financial integration. His books include *Economic Thought and the Making of European Monetary Union* (Edward Elgar, 2002); *Half a Century of European Financial Integration: From the Rome Treaty to the 21st Century* (Mercatorfonds, 2007); and *Alexandre Lamfalussy: The Wise Man of the Euro—A Conversation with Christophe Lamfalussy, Ivo Maes and Sabine Péters* (LannooCampus, 2014).

Fabio Masini is Associate Professor at the University of Rome III and has worked as a consultant on EU affairs. His research interests include the history of economic thought, the international political economy, and EMU. His most recent journal articles have appeared in the *European Journal of the History of Economic Thought*, *Constitutional Political Economy*, *Storia del Pensiero Economico*, and *History of Economic Thought and Policy*.

Katja Seidel is a Visiting Lecturer at the University of Westminster. Her research interests include the history of the European Commission, the origins and development of European policies (such as competition policy and the common agricultural policy), and biographical studies of European elites. Recent publications include *The Process of Politics in Europe: The Rise of European Elites and Supranational Institutions* (I.B. Tauris, 2010); *Europeanization in the 20th Century: The Historical Lens / Pour une lecture historique de l'eupéanisation au XXe siècle* (Peter Lang 2012, ed. with Matthieu Osmond et al.).

Foreword

The Euro Area crisis has led to profound debates, not only in the academic community, but also among economic policy-makers and society at large. It has rekindled the issue of the relationship between monetary union and political union. So, this book is very timely, as it places these discussions in a broader historical context. It focuses on the challenges and dilemmas of intellectuals as policy-makers in the construction of EMU, torn between the academic and political worlds.

The sovereign debt crisis highlighted the structural defects of European Economic and Monetary Union. It demonstrated that membership of a single currency, in a common economic and financial market, creates extremely deep and complex interdependencies. Much more advanced integration of economic policy is thus absolutely vital.

Over the last few years, there have been significant reforms in economic governance in the Euro Area. They include the so-called 'Six-Pack' legislation to strengthen macro-economic coordination, with the new Macro-Economic Imbalance Procedure; the Euro Area's Fiscal Compact Treaty; and the Single Supervisory Mechanism as a key first pillar of European banking union. Moreover, a new blueprint for EMU was drawn up, in a report by European Council President Herman van Rompuy, in close collaboration with the presidents of the European Commission, Eurogroup, and the European Central Bank, entitled *Towards a Genuine Economic and Monetary Union* (Van Rompuy 2012). The report put forward a vision for EMU with a banking union and moves towards a political union to complement its economic and monetary arm. This vision has been elaborated and refined in the so-called 'Five Presidents Report' published in June 2015.

It was not the first time that these types of ideas have been formulated. In fact, they are close to the traditional Belgian vision of a symmetric economic and monetary union (Smets et al. 2003). They were clearly present in the January 1970 Snoy Plan, named after the then Belgian Finance Minister: 'Un Plan de Solidarité Monétaire Européenne en Trois Étapes 1971–1977' (Ministère des Finances 1970). The Belgian plan argued that for a 'European monetary community' two conditions had to be fulfilled: a unification of economic policies and a certain homogeneity of the economies of the Member States. It further emphasized that major institutional reforms were necessary for the final phase of EMU. Establishment of two new supranational Community institutions was essential: first, a 'Community Monetary System', like the Federal Reserve System in the United States, and, second, a kind of

supranational European economic government, 'made up of Community organs endowed with the necessary powers to conduct a single economic policy'. Economic policy was defined as encompassing budgetary and income policies. For budgetary policy, the new Community institutions would establish the general framework wherein the Member States had to administer their budget. The Community budget should, gradually, gain in importance and certain Community transfer mechanisms should be developed. The Belgian plan further proposed that the European Community should become an 'autonomous entity' vis-à-vis the rest of the world.

As Jean Monnet observed, crises often act as a catalyst for change. The Euro Area crisis has followed this pattern. It highlighted the fragility of its institutional architecture. The crisis made clear that the Euro Area needs a quantum leap towards a stronger and more efficient institutional architecture, making EMU more resilient and remedying its fragilities.

The Euro Area's present institutional framework is still too fragile with respect to economic, fiscal, and financial affairs. A major weakness is that the ECB does not have a strong political counterpart. This weakness became very obvious during the financial crisis. It points to a major difference from the United States. The US Federal Reserve could focus on fighting the financial crisis, without having to worry about the integrity of the dollar area. This contrasted with the ECB, which played a key role in maintaining the integrity of the Euro Area.

As a consequence of the crisis, significant efforts were made to strengthen the institutional framework of the Euro Area. However, some of the new instruments, particularly the financial assistance programmes to help Member States in difficulty, are characterized by intergovernmental decision-making mechanisms, which are not conducive to the development of shared responsibilities. They run the risk of a conflict between the legitimate democratic interests of individual Member States, without offering sufficient legitimacy at European level. To remedy this deficit, we should share decisions that affect the future of the Euro Area within common institutions with a European mandate and democratic oversight at European level. The history of the ECB illustrates the merits of such an institutional approach.

Naturally, one has to accept that a deepening of EMU, and shared responsibilities, go together with shared risks. More solidarity should then go hand in hand with domestic ownership and national responsibility. It is evident that a monetary union brings not only new rights but also new obligations and reinforces the importance of establishing a level playing field for all economic actors.

Moreover, for a monetary union, resilience is crucial in the face of shocks that lead to consistently higher unemployment and economic divergence between Member States. Structural reforms are essential, not only to increase potential output, but also to strengthen the resilience of the economy to shocks, which have direct implications for the integrity and coherence of the

Euro Area. A stronger common governance of structural reforms is certainly necessary for this.

For these reasons, the Euro Area needs to build institutions that reinforce the cohesion of economic, monetary, and political union. To this end, it must recreate a sense of shared responsibility. This book on the architects of the Euro is an important contribution to this process. It shows that, whatever their background, the architects cooperated to make a success of this historical project. They accepted the trust which Europe's leaders had bestowed on them, to advance the European integration project, which has brought peace and prosperity to a continent that was formerly divided with tragic consequences.

Jan Smets

Governor of the National Bank of Belgium

Member of the Governing Council of the European Central Bank

Intellectuals as Policy-Makers

The Value of Biography in the History of European Monetary Union

Kenneth Dyson and Ivo Maes

The creation of the Euro Area was one of the most extraordinary and momentous events in modern European history. It centred on the launch of a single currency, the euro, managed by a European Central Bank (ECB) whose independence was guaranteed by the Maastricht Treaty, as agreed in December 1991. The Euro Area represented an ambitious and bold political commitment to the promotion of European unification, an affirmation of the importance of political leadership, above all by France and Germany (Dyson and Featherstone 1999). In addition, European monetary union remained an extraordinary technical feat of construction—both in complexity and in scale—encompassing eleven European Union (EU) Member States in 1999.

However, from the outset many economists, especially Anglo-American, raised serious doubts about the viability and sustainability of the project. Thus Martin Feldstein (1992) concluded that monetary union was not necessary to achieve the advantages of a free-trade area. Moreover, it posed risks to future peace and stability in Europe. Closer to the launch of the euro, he warned in even starker terms of the possibility of future war in Europe (Feldstein 1997). Bernard Connolly, a senior official in the Commission's monetary department, was scathing: 'The true lesson of the ERM [Exchange-Rate Mechanism] story is that a Europe, even a Rhenish Europe, built on its money would be a Europe sitting atop the fault lines of an earthquake zone. Those fault lines correspond with the borders of nation-states, for the Commission slogan "One Market, One Money" is no more than a prediction of discredited "neo-functionalist" theory' (Connolly 1995: 378). Milton Friedman (1997) argued that politics had triumphed over economics. Monetary union would 'exacerbate political tensions by converting divergent shocks that could have

been readily accommodated by exchange-rate changes into divisive political issues . . . Monetary unity imposed under unfavourable conditions will prove a barrier to the achievement of political unity.’ Early assessments of its construction concluded that it was a fair-weather project, vulnerable to the political economy of bad times, its design lacking instruments of crisis management (e.g. Dyson 2000).

The critics were also to be found within continental Europe. In June 1992 over sixty German economists signed an open letter attacking the weaknesses in the Maastricht Treaty. They claimed that the convergence criteria for euro entry were too lax, argued that convergence must come before a specific date, doubted that there was a shared stability culture, and concluded that the outcome could endanger rather than promote European integration (for details see Dyson and Quaglia 2010a: 493–4). In May 1992 the Bank for International Settlements, the central bankers’ bank, pointed to the risk that political considerations could triumph in applying the convergence criteria. It noted that too little thought had been given to the implications of the wide variation in wage and price levels in the European Community (Dyson and Quaglia 2010a: 491–3).

The unfolding financial, economic, and sovereign debt crisis of the Euro Area—just ten years after its birth—exposed in vivid terms the design faults of the Euro Area, notably in banking and financial market union as well as in economic and fiscal union. The imperfections of European economic governance, the naïvety of assumptions about Member State compliance, and the failure to consider issues of state capacity were clearly revealed (Dyson 2014). The highly respected economic journalist Martin Wolf (2014) wrote of the euro as a disaster, an exercise in blind arrogance and wishful thinking. Thomas Mayer (2012), former chief economist of Deutsche Bank, went so far as to suggest a Plan B of ‘monetary unions in EMU’: a ‘softer’ Latin monetary union; a hard parallel currency for Germany and the Nordic Member States; and peripheral Member States with softer parallel currencies of their own. Fears of a transfer union and of serial circumvention of fiscal rules heightened risks that German elites might begin to disengage from the EU.

Against this background, it is timely to assess the contribution and legacy of the architects of the euro. The crisis poses questions about the quality of the original design of the Euro Area; and about whether the architects were part of the design problems or were disregarded on key issues and can be seen as still providing a source of inspiration for solving the design problems. Just how prescient were the architects in identifying the problems to which monetary union would give rise and in suggesting solutions that were overlooked at the time?

This book also fills a niche by examining the history of European monetary union through the lens of biography. It employs the metaphor of architect to examine the role of individuals who were directly involved in the process of

constructing Economic and Monetary Union (EMU) and contributed ideas to its design in the period before the launch of monetary union on 1 January 1999. Some of these architects—like Robert Marjolin, Robert Triffin, and Pierre Werner—were most heavily involved in the period before the process of negotiating the Maastricht Treaty, which committed the EU to monetary union. Others made their main contribution during the relaunching of the EMU process and the negotiations of the Maastricht Treaty, for instance Jacques Delors. Certain architects—notably Hans Tietmeyer—spanned both periods.

QUESTIONS AND THEME

The book addresses a set of questions that arise as the Euro Area confronts the implication of its own extraordinary character. Who were its architects? From what sort of backgrounds did they come? Notably, with one exception, they came from the six founding Member States. What kind of attitudes and beliefs inspired their engagement with EMU? Was there a shared factor of generational experience? In their various ways, they had in common shared personal exposure to the horrors of European war and the aftermath of the Versailles Treaty and the Great Depression. It led them to hold a profound core belief in building a new and different Europe. EMU was inexorably bound up in a much larger sense of historic purpose: to create a Europe in which war was no longer a possibility. German unification in 1990 was to reawaken this sense of historic purpose. EMU was to be a means of anchoring more firmly a more powerful united Germany into Europe. The character of many of the architects had also been influenced by the early post-war revival of Christian social ethics. It helped endow them with a shared, strong moral earnestness and sense of public duty. The demise of the Bretton Woods system and its aftermath, including the oil crises, was another shared formative influence. It highlighted the intimate connection between external and internal economic stability and its importance to European integration. Many shared a sense that Bretton Woods had to be recreated on a regional scale.

What kind of project did the architects seek to construct, how, and with whom? There was no consensus of purpose. For Raymond Barre, it was a matter of exchange-rate stabilization, a tool for disciplining and modernizing Member States, not least France. For Triffin, and for Tommaso Padoa-Schioppa in the early 1980s, monetary union was very much about a European currency, also as a contribution to the design of a multipolar international monetary system. Like Marjolin, Triffin's conception of EMU was embedded in a strongly Atlanticist approach. For Karl-Otto Pöhl and for Tietmeyer, monetary union was about a single currency and a single monetary policy. The question of 'how' to create a monetary union involved a division of views

about whether economic convergence or a gradualist monetary integration should take primacy. There was more consensus about 'with whom' a monetary union should be formed. Despite what happened later (a Euro Area of eleven Member States in 1999), the architects had envisaged a small monetary union built around the original founding Member States. On this issue the thinking in the German 'core Europe' paper of Wolfgang Schäuble and Karl Lamers in 1994 was close to the views of the architects (for details see Dyson and Quaglia 2010a: 541–3). Five or six Member States would initially form this core.

How successful were the architects in embedding their ideas in the final design? Here there were significant differences. The Maastricht design went well beyond the expectations of Barre and Triffin. Though they would emphasize the limitations of the design of the euro, Pöhl and Tietmeyer were more successful than other architects in this respect. However, seen from the perspective of the crisis, had the architects been prescient in recognizing design requirements and faults? All of the architects thought something was missing in the Maastricht Treaty. Nevertheless, they differed about what they thought was missing and what should be done. Seen in the light of later developments, Alexandre Lamfalussy proved perhaps the most prescient of all the architects.

Were the design failures attributable to the architects' lack of warnings about the risks involved? Or were the design faults attributable to the failure of politicians to listen and to wishing the end of monetary union without paying sufficient attention to the means? Pöhl, Tietmeyer, and the German Bundesbank had issued numerous warnings about setting deadlines and about the risks in establishing monetary union without the preconditions of firm fiscal discipline, economic convergence, and political union. In his paper for the Delors Committee in 1988 Lamfalussy had pointed to the risks in not having a strong macro-economic policy framework. On the whole, it is remarkable that all the architects were in favour of a much more 'symmetric' EMU than the one negotiated in Maastricht.

In addressing these questions the lens of biography draws out the complex and dynamic interplay of conviction and expediency in the thinking of architects. Their thoughts involved a compound of ideas with interests. This theme arose with respect to the relationship of the pursuit of EMU with national interest, for instance in Werner's promotion of Luxembourg as a laboratory for the development of new ECU (European currency unit) business. It also surfaced in the conflict of institutional interests between the European Commission and European central banks. Which was to be empowered by EMU? A further instance of the complex interplay of conviction and expediency was evident in the different incentives and constraints facing architects when in and out of office. In office, they were disposed to think in more cautious and diplomatic terms; out of office, they were likely to be more

forceful, whether in expressing their disappointment, like Marjolin in the 1970s, or in advocating bolder reforms, like Padoa-Schioppa after leaving the ECB.

DESIGN FAULTS

In the first pre-crisis decade of the euro the record of policy outcomes associated with the euro was mixed (for details see Dyson 2008). On the positive side, there was evidence of the quality of the work of these architects in the trouble-free launch of European monetary union on 1 January 1999. The new ECB took charge of the single monetary policy for the Euro Area, as well as a euro payment and settlement system. This step was followed by the smooth introduction of euro banknotes and coins on 1 January 2002. Also, for longer than the first decade of the euro, the ECB proved capable of locking-in long-term expectations of Euro Area inflation in a manner consistent with its price stability target of ‘below but close to’ 2 per cent.

On the negative side, there were problems. The convergence criteria for euro entry were not applied strictly, notably in the case of Greece. Economic growth was lacklustre, not least for France, Germany, and Italy. Member State fiscal discipline was weak. Aggregate public debt remained above the Maastricht reference value of 60 per cent of gross domestic product (GDP). Sharp divergence in unit labour cost development was linked to serious and growing trade and financial imbalances within the Euro Area. Interest-rate convergence led to cheap credit and serious asset-price bubbles in the housing and property markets of certain Member States, notably Ireland and Spain.

This ambivalent pre-crisis record suggested a discord between relative—though still partial—success in the monetary dimension and relative failure in the economic and financial dimensions of EMU. It attested to design faults linked to asymmetry in the design of its two central pillars, economic union and monetary union.

The Euro Area’s construction was exceptional in a number of senses. It was an impressive feat in overcoming problems of sheer technical scale and complexity. However, it rested on Member States jealously guarding their sovereignty in economic, fiscal, and banking policies, whilst delegating sovereignty in monetary policy to the supranational level—and thus giving up exchange-rate and interest-rate instruments of domestic adjustment. Its institutional construction took on the distinctive and problematic form of ‘a monetary union without a state’. A durable construction on such terms seemed to be without historical precedent. Huge responsibility was vested in the institutionally lonely and exposed ECB, which lacked the supportive framework of a European banking union and a European fiscal union.

Above all, EMU was a rule-based construction. In effect, the Euro Area was ‘a monetary union with many states’, a construction that proved the source of many of its problems. The Euro Area lacked the formal attributes of independent sovereign powers over fiscal and economic policies and over banking and financial markets, not least to ensure financial stability in conditions of deepening market integration. Possession of these attributes presupposed an institutional framework of European political union. Such a framework was not in evidence (in 2005 France and the Netherlands had rejected the European Constitutional Treaty). Political union was essential to provide the democratic legitimacy that such far-reaching transfers of sovereignty, above all in fiscal policy, require.

This institutional vacuum created serious doubts about the robustness and sustainability of the construction of European monetary union and posed questions about the quality of the work by its architects. It was by no means clear whether—in existential crisis—the bonds of political solidarity would prove strong enough to hold the construction together. The architecture had to be resilient enough to cope with contagious cross-national financial panic, to contain the dynamics of market disintegration, and—not least—to be able to manage cross-national political contagion. As we shall see, few architects anticipated just how serious this problem of institutional vacuum was in their thinking about the design of monetary union.

Moreover, the construction of European monetary union did not rest on a consensus amongst its architects about who bears liability for adjustment to internal trade and financial imbalances within the Euro Area. This issue had haunted the European integration process from the outset. It was central to the Bretton Woods negotiations in 1944; to the design and operation of the European Payments Union (EPU) in the 1950s; and to the European Monetary System (EMS), which was launched in 1979 and formed an important part of the context of the Maastricht negotiations (Dyson 2014). The problem of imbalances was not centrally addressed in the early architecture of the Euro Area. The emphasis in the Maastricht Treaty was on nominal criteria of convergence rather than on real convergence as conditions for euro entry. Most telling was the absence of a collective financial assistance mechanism to help manage adjustment and the discursive victory of the ‘no bail-out’ idea. The implications were clear: debtor states must bear responsibility for problems of adjustment that were seen as ‘home-made’. The crisis was to reopen this central issue as a contest not just of economic belief but also of political solidarity and its limits.

The design faults of the Maastricht framework, notably in crisis management, were to be graphically highlighted as the financial, economic, and sovereign debt crisis unfolded from 2007. The period from the inception of the Greek crisis in 2009–10 led to a major reconfiguration of institutional arrangements and policy instruments. European economic governance evolved

to include stronger and more intrusive economic surveillance, with greater attention to trade and financial imbalances; tougher monitoring of fiscal rules; new financial assistance mechanisms; the strict conditionality associated with rescue programmes for Member States in debt crises; and the new pillars of European banking union. The ECB used its longer-term refinancing operations to provide liquidity to the Euro Area financial system and the economy. It also bought bonds of Member States facing market difficulties, like Italy and Spain. This cumulative process of radical change led to executive empowerment. The element of ‘integration by stealth’ also stimulated new, highly politically sensitive debates about sovereignty, national identity, technocracy, and democracy in Europe.

The construction of the Euro Area could be seen as having evolved from a ‘monetary union of Member States’ into a new form of ‘monetary union beyond the state’. It was one in which the EU and the Member States could be seen as joint sovereigns behind the euro (Hoeksma and Schoenmaker 2011). This shift to a conception of joint sovereignty was evident in major political breakthroughs: the creation of the European Financial Stability Facility (EFSF) in May 2010—later the permanent, treaty-anchored European Stability Mechanism (ESM); the fiscal compact treaty in December 2011; and European banking union, with a Euro Area Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM) and fund for restructuring and winding-down banks.

THE LENS OF BIOGRAPHY

The distinctiveness of this book lies in its attempt to answer questions about the role of architects of the euro by using original archival sources and, where possible, elite interviews and by drawing on established experts in the history of European monetary integration. Methodologically, the book rests on a range of historical sources. They include archival records; autobiographies, diaries, journals, unpublished papers, testimonials, and personal correspondence; and oral history, which involves the individual architect and/or collaborators, as well as senior people still active in EMU, not least to assess the reputation of the architect (cf. Weintraub 1991).

Characteristically, when confronted by acute threats to its identity, coherence, and survival, a polity looks back for inspiration to its architects. The Euro Area crisis provides an opportunity to re-examine their contribution and legacy, in particular the adequacy of the ideas on which monetary union was constructed. Despite certain shared aspects of generational background, experience, and belief, the architects of the euro had often very different visions of Europe and very different understandings of EMU. Padoa-Schioppa

was a European federalist. In contrast, Barre opposed a supranational Europe. Others, for instance Delors, were more reticent or ambiguous about the kind of Europe in which EMU was to be embedded. For some, EMU was a self-contained project; it did not require political union. Solidarity was a matter of fulfilling commitments by respecting fiscal rules and by implementing supply-side reforms, for instance to labour markets and to welfare state provisions. Despite these differences of understanding, each in their own way contributed ideas that shaped the way in which European monetary union was debated and created. Their importance stems from the way in which they were institutionally embedded within the EMU policy process. They occupied nodal positions in the key policy networks, notably in and around the European Commission and in European central banking. Four of the nine architects in this book were European Commissioners; five worked at some stage in central banking; whilst the career paths of two architects, Lamfalussy and Padoa-Schioppa, involved a commercial banking background.

Using the lens of biography helps to provide a corrective in writing about the history of European monetary union. Its history has been viewed from various perspectives, each shedding light on particular aspects of what is a highly complex phenomenon. Structure has proved a particularly influential perspective, pointing to the logic at work in European monetary integration, however fuzzy. It focuses on the way in which individuals are caught up within particular settings which for them take on an impersonal and objective character, to which—consciously or unconsciously—they adjust: economic, financial, political, or ideational, and typically international (e.g. Dyson 1994). These external realities include financial globalization, the evolving institutional arrangements of European integration, the Franco-German relationship, beliefs about markets, and the ideational power of Germany over macro-economic discourse. They are seen as locking the choices of individuals into a particular trajectory of development. Emphasis is placed on historical path dependency and on the institutional constraints on what individuals can do and think they can do.

A variant of this type of account is functionalist narratives of EMU. In this account individuals are enmeshed in the logic of ‘spill-over’ from processes of international capital market liberalization, of making EU common policies like customs union, the Common Agricultural Policy (CAP), and the single European market work effectively, and of power balancing in the Franco-German relationship. Marjolin was strongly motivated by this kind of view of monetary union.

A particular variant of structural accounts is that in which individuals are seen as entrapped within mainstream or ‘hegemonic’ economic ideas. Here EMU is situated in the process of paradigm change from an ascendant Keynesianism in the 1950s–60s to monetarist and supply-side economics from the 1970s onwards (e.g. Maes 1998a; Marcussen 2000; McNamara

1998). This type of ideational change is typically seen as contingent on the accumulating policy problems and failures associated with established economic institutional arrangements and policies, international and domestic. The association of mainstream economic ideas with persisting and mounting policy failures undermines their credibility and opens space for new thinking. Seen in this way, European monetary union was designed in the 1980s–90s within the ‘sound money, sound finances’ paradigm (Dyson 2000). EMU as designed in the Delors Report of 1989 was very different from that envisaged in the Werner Report of 1970. The paradigm of ‘sound money, sound finances’ gained mainstream ascendancy after the collapse of the Bretton Woods system, the oil crises, and the ‘stagflation’ of the 1970s. These events and developments had diminished the credibility of Keynesian ideas of counter-cyclical demand management through activist fiscal policies and macro-economic policy coordination. Increasing emphasis was placed on the role of monetary policy in delivering price stability as the basis for sustainable economic growth and on supply-side reforms as the engine of economic growth and employment. This ideational change was linked to the crucial role of the central banks in creating European monetary union and in the way in which it was designed.

European monetary union has also been depicted as an essentially political process, in which political leaders played a decisive role in driving forward the project (e.g. Dyson and Featherstone 1999). German Federal Chancellor Willy Brandt and French President Georges Pompidou played this role in the first attempt to put EMU on the agenda in 1969–70. Chancellor Helmut Schmidt and President Valéry Giscard d’Estaing were central to the launch of the EMS in 1978–9. Above all, Chancellor Helmut Kohl and President François Mitterrand had a sense of ‘making history’ and binding their successors by ensuring the irreversibility of European monetary union with the Maastricht Treaty. From this perspective, European monetary union is an exercise in ‘high’ politics. Political leaders provide historical legitimacy and help shape history by timely strategic interventions. In the case of EMU they managed the process by establishing institutional venues to circumvent potential veto players or to bind them into the process, by setting tight time deadlines, and by asserting the primacy of the European Council (Dyson and Featherstone 1999).

This book seeks to contribute to our understanding of the history of European monetary union through a lens of biography that focuses not on the political drivers of the process of EMU but on the architects of its substance. Two premises lie at its heart. The first is that individuals matter. The question is in what ways they matter. The role of architects is important if we are to understand ‘what happened when’, how a particular type of monetary union was constructed, and why the Euro Area faced certain kinds of challenge later. Their importance rested in giving substance to the project of monetary union through their exceptional engagement with, and knowledge

of, the often esoteric technical issues and through their networking skills within complex European governance structures. The architects contributed ideas and proposals that shaped institutional development and policies. Alternatively, if not adopted, their ideas and proposals retained a relevance to later challenges that faced European monetary union. The architects contributed more than just a unique intellectual milieu to EMU. They also built up personal networks and institutional structures of support for their ideas, as both intellectuals and policy advocates.

The second premise is that debates at a technical level about how to construct a viable and sustainable European monetary union, about its substantive content, and about the management of the policy process matter. These debates were the provenance of the architects of the euro, individuals who sought to design a European monetary union with firm foundations, whilst divided on what those foundations should be. The questions that form the heart of this book are: what form these technical debates took; and who contributed to them, in what ways, and leaving what kind of legacies.

Biography poses a number of challenges. First and foremost, it is possible to become seduced by the individual experts about whom one is writing. In the process one loses both critical perspective and the possibility of arriving at a balanced judgement about their role and impact within the context of the times they lived in and the circumstances they encountered. In stressing what they contributed to European monetary union, one risks overlooking the ways in which they failed to contribute. Biography should be as much a study of failures as of successes if it is to avoid creating mythology and degenerating into hagiography.

Secondly, we must not forget that, in the final analysis, the history of European monetary union was a collective enterprise, not simply the story of one person or a small group of individuals. It is important not to lose sight of the fact that the making of European monetary union involved the ideas and efforts of a wide range of experts. It could not have succeeded without their collaboration. Moreover, the individuals changed over time. Some were active over long periods. Triffin was an active contributor from the period of the EPU, through the protracted demise of the Bretton Woods system, to the design and operation of the EMS. Tietmeyer remained actively engaged from the Werner Committee in 1970 to the establishment of the ECB in 1999. Others, like Roy Jenkins, had a much briefer involvement. It is impossible to include all who played a role and had an impact, and we have had to be selective. In being selective, we should not forget that the story of European monetary union is about the complex dynamics not just amongst the architects chosen here but also with significant others. The significant others included the political leaders who had entrusted them with a negotiating mandate and timescale and on whom they relied for their negotiating space.

Despite these qualifications, some architects merit close attention in writing the history of European monetary union. One reason is that they were representative of larger debates. They played a leading role either in agenda setting or in clarifying and giving content to debates. They stood out as unusually and productively reflective, inquisitive, questioning, and comfortable in exploring across boundaries. The longevity and/or intensity of their engagement with issues of monetary union gave them a personal intellectual authority that could be readily translated into influence. Another reason for focusing on certain architects is that they understood how to negotiate the complex interface between economic and monetary ideas and the structures of power in Europe. They were not just fascinated by, and comfortable with, the world of ideas. They were also engaged in trying to realize them through governance structures, above all in European and central banking structures. They were, in short, not simply 'experts with influence'. They were 'intellectuals as policy-makers'.

SHARED UNDERSTANDINGS: THE SHADOW OF HISTORY, EUROPEANIZATION, AND THE LIMITS OF EXPERTISE

This book does not attempt to present the individual architects of the euro in a tightly preconceived format. Space is left for the individuality of architects to emerge. At the same time, the book brings out a number of themes that cut across the various chapters. These themes invite authors to critically assess the larger role and impact of individual architects of the euro and the ideas and the schemes with which they were associated. In addition, this assessment needs to be qualified by a recognition that, however great their diversity of views on how best to construct a monetary union, and what form to give it, these architects were bound together by a set of shared, often implicit, understandings that facilitated consensus building.

At the heart of these shared understandings were two historical factors. The first was that they were part of a common generational experience, coming to maturity in the aftermath of terrible and ruinous wars and convinced that what Europe needed was a new basis of peace, order, and stability. The second factor was shared experience of adaptive learning about how best to make economic and monetary policies within the new institutional framework of European integration, with its attendant unanticipated consequences. This experience included the demise and the aftermath of the Bretton Woods system and a world of capital liberalization. It also involved factoring out restructuring of Member State sovereign and bank debts as a design issue. The

shared assumption was that debt restructuring was relevant to developing states, not to 'developed' EU Member States, which could be relied on to respect rules of sound public finances. Moreover, there was a third factor: a shared recognition of the limits of their expertise in designing European monetary union.

The Shadow of History

Despite their many and varied differences over how to construct a European monetary union, and what form to give it, the architects of the euro shared a certain broad world-view. They looked to the past, above all inter-war Europe, not for models of economic and monetary policies but in order to learn from the mistakes that had led to hyper-inflation, currency instability, the Great Depression, and the slide into war. The past was deeply unattractive. They had in common a distrust of models of the 'national economy', engaging in bilateral arrangements in pursuit of individual state advantage. Albeit to varying degrees, they were committed to multilateralism and sceptical of appeals to economic sovereignty. They were part of a whole generation of educated elites for whom promoting European unification offered unrivalled opportunities to use their technical knowledge and skills to forge a new and better Europe that would ensure that past horrors of economic dislocation, misery, fascism, and total war were not repeated.

These shared attitudes bound them together as a particular post-war, post-fascist generation. The economic and political turmoil of inter-war Europe and ruinous conflict cut through their personal biographies or at least those of their immediate families. They shared the notion of a different post-national Europe living together in more civilized terms within a framework of common institutions. In this context the revitalization of Christian social ethics, and in particular Catholic social thought, was a major influence on how many of them thought about Europe. It reinforced their moral earnestness and their profound sense of public duty.

The shadow of history was deepest and most profound in European states that had directly lived under fascism—Germany and Italy—and under Nazi occupation, notably France and the small European states like Belgium, Luxembourg, and the Netherlands. As Europe's largest economy, and its major creditor state from 1952–3, German participation was indispensable for a sustainable European monetary union. Crucially, the deep reservations of German *Ordo*-liberals about European monetary union were counterbalanced by the way in which the shadow of history led Germany's own founding fathers to write a responsibility for promoting European unification into the preamble of the Basic Law of 1949. Promoting European unification was recognized by the German Federal Constitutional Court as a 'constitutional