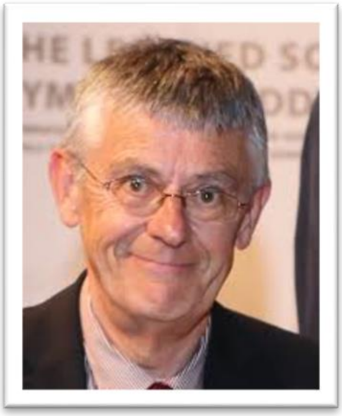
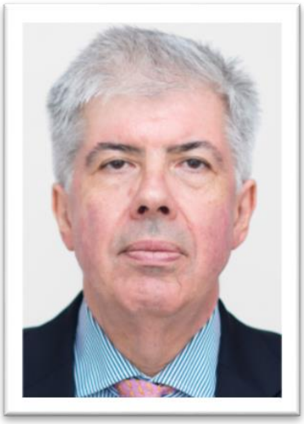
Architects of the Euro: Intellectuals in the Making of European Monetary Union





Kenneth Dyson – Cardiff University

Ivo Maes - National Bank of Belgium and Robert Triffin Chair, University of Louvain

Characteristically, when confronted by existential threat, the defenders of a polity look back to its founders – either for inspiration in its renewal and reform or to condemn the founders for their failings of design. *Architects of the Euro: Intellectuals in the Making of European Monetary Union* (Oxford University Press, 2016) reflects the circumstances out of which the book emerged – namely, the intensification of the Euro Area crisis in 2011-2012. The euro area crisis acted as a spur to look back to the architects of the euro to examine their role and legacy. The question arises of whether the architects were part of the problem of the Euro Area or part of the solution. Had they foreseen what might occur? Had the architects offered solutions that were discarded? Or must they be held responsible for costly, potentially fatal mistakes? Had they lain inadequate foundations or committed structural miscalculations, potentially compounded by later failures to adequately correct these initial mistakes?

This book is timely in addressing these questions. It is also timely in a second sense: it fills a gap in the literature on European monetary union. In their past research monographs the editors have dealt in detail with two sets of players in the foundation of European monetary union. The political founders or patrons drove the process through setting timetables, establishing institutional venues, providing a supportive public discourse of historical legitimation, and defining what was acceptable, above all in terms of renouncing sovereignty (notably Dyson and Featherstone 1999). At the other end of the spectrum were the academic economic policy experts who provided relevant concepts and theories, such as the impossible trinity, optimum currency theory, and central bank independence (Maes 2002). In this book, we join forces to deal with a neglected, but vital middle-ground: the architects who were charged with the task of designing a workable and sustainable monetary union. They were institutionally embedded, most typically in the European Commission or in European central banking, or both. Their expert role was in bringing substantive policy knowledge to bear on this task and in managing the complex negotiation processes through their networking skills. They were individuals of exceptional intellectual power and energy. They were also exceptional networkers at the interfaces of politics and academia and of national and European affairs.

Taking Biography Seriously

In addition to being timely in these ways, and filling a gap in the literature, this book reasserts the value of biographical study in understanding how European monetary union has evolved. In a very real sense the nature of monetary union in Europe was the product of the individual intelligences and creativity of its original architects. Original archival research – and, where still possible, elite interview research – helps us to reconstruct the situations of constraint and choice in which they operated. It also makes it possible to recapture something of the urgency of the moment and to dispel any teleological bias in narratives about monetary union. Designing monetary union was not simply a matter of realizing an already pre-formed economic or political vision. In the circumstances of designing to a tight, politically-defined timetable, the process was more one of precipitate self-revelation. The political patrons of monetary union defined more than just the timetable. They defined the institutional venues in which monetary union was to be designed. They also vetoed certain matters as not for consideration, above all with respect to the delegation or sharing of sovereignty (for the details, Dyson and Featherstone 1999). The main sources of the tactical and psychological advantage that was possessed by the architects derived from the general lack of experience of economic, financial and monetary issues on the part of the political patrons and the fear that overriding technical advice could undermine the legitimacy of their efforts.

The capacity of the editors to ensure coherence, consistency and rigour in addressing the role of the architects of the euro was augmented by three factors. First, we benefitted from generous funding from a range of organizations which were quick to identify the importance of the research. We owe an enormous debt of gratitude to the British Academy, the CVCE in Luxembourg, the European Central Bank, the Gutt Foundation, the Robert Triffin Foundation, the Pierre Werner Foundation, and the University of Luxembourg. Special thanks are due to the National Bank of Belgium, whose support has been vital throughout the process of research. This support made possible three principal research workshops which brought together the contributors.

Secondly, we were fortunate in recruiting a distinguished, highly experienced cross-national group of economists, historians and political scientists to delve deeply into the backgrounds and the roles of individual architects. The project's quality derived from their access to original archival materials and, in some instances, from elite interviewing. The availability of these kinds of research materials was one of several factors in selecting the architects for inclusion because consistency of quality was an important consideration.

Finally, our stress on coherence, consistency and rigour was underpinned by the appointment of an advisory group of highly experienced 'euro veterans'. Its task was to examine our selection criteria in identifying architects, to review our application of these criteria, to provide a quality review of draft chapters, and to participate in the three principal research workshops. The group comprised Charles Goodhart, Francesco Papadia, Robert Raymond, Fabrizio Saccomanni, André Sapir, Hanspeter Scheller and Niels Thygesen. We are enormously indebted to the members of the group for their dedication to the project. There was striking agreement within the group about both the criteria and about whom we should select. The criteria included engagement in monetary union pre-1999; occupation of nodal positions in negotiations at key times; country balance; and longevity of involvement.

Insights and Legacies

The biographical study of architects of the euro highlights both similarities and differences. In the first place, they were bound together by certain shared, often implicit understandings which helped them to share a discourse about Europe and to be able to forge a mutual consensus. A key factor in their personal backgrounds was the 'shadow of history'. The architects had a common generational experience, with shared memories rooted in the tragic events of the 1930s and the catastrophe of war and holocaust in Europe. The architects were part of the generation of post-1945 reconstruction, dedicated to playing a role in creating a 'new', more civilized Europe, founded on forging cooperation through trade, investment, growth and employment.

A second basis of shared understanding was provided by the travails of the Bretton Woods system and its eventual collapse in 1971-73. Exchange-rate volatility revealed the Achilles heel of the nation state and the integration process. The search for monetary stability – internationally, in Europe, and at home – was a shared preoccupation of the architects.

Thirdly, the architects had in common their participation in building and in working within new institutional frameworks in Europe, from the European Payments Union through to the European Economic Community and beyond. They were Europeanized in the sense of socialized into European norms and of sharing in common adaptive learning processes. Finally, as loyal public servants, the architects were very aware of the limits of their expertise. They had to work within the constraints of political mandates. European political union might be something that they saw as an essential precondition: whether to provide the supranational authority to discipline errant fiscal and economic policy behaviour or to provide an ultimate fiscal backstop. However, this issue was out of bounds for the architects. It was a matter for heads of state and government. Sovereignty issues were to prove the Achilles heel of monetary union.

Notwithstanding these shared understandings, the architects of the euro differed in their views about EMU. These differences become apparent in their views about a supranational EMU. Here Raymond Barre was reluctant; Robert Marjolin, Karl-Otto Pöhl, and Hans Tietmeyer were cautiously positive; whilst most of them were favourable. A similar dispersal of views was apparent towards monetary cooperation before the final stage of EMU. Pöhl and Tietmeyer were reluctant; Barre, Alexandre Lamfalussy, and Pierre Werner were cautiously positive; whilst Jacques Delors, Tommaso Padoa-Schioppa and others were favourable.

What then is the legacy of the architects, viewed from the perspective of the Euro Area crisis? EMU suffered from inadequate foundations and structural miscalculations in its design. These mistakes were compounded by later complacency in what proved to be a superficially benign international economic context for the first decade. First and foremost, the design was asymmetric. Monetary policy was Europeanized with a powerful new European central bank. However, fiscal policies, economic policies, and banking supervision remained firmly the sovereign preserve of Member-State governments. Compliance with fiscal rules and broad economic policy guidelines was more obvious in the breach than in their ownership by these governments. Secondly, the Euro Area was founded as a large and heterogenous union and grew more so with successive enlargements. This scale problem added to problems of a 'one-size-fits-all' monetary policy.

Three foundational weaknesses were revealed by the Euro Area crisis. First, as Alan Walters, the economic adviser to Mrs Thatcher, had earlier argued, moves to monetary union would have to be able to address the issue of differentials in competitiveness and resultant economic and financial imbalances resulting in a 'boom bust 'cycle. Failure to address this issue would lead inexorably to a 'convergence crisis', capital flight and crisis. This scenario unfolded from 2009, beginning with Greece and then spreading. Secondly, the Euro Area treaty arrangements had failed to create a solid foundation for banking union to address the issues that would arise from financial integration in a monetary union. No effective institutional arrangements had been created to safeguard financial stability within the Euro Area. Thirdly, fiscal union was either incomplete in providing effective discipline on Member States or lacking in risk sharing through counter-cyclical stabilizers and through fiscal backstop for bank resolution.

The outcome of Euro Area crisis management and reform was hurried, belated attempts to patch, extend, and improve the architecture of EMU. Examples included the new European Semester, the Macro-Economic Imbalance Procedure, the European Stability Mechanism, the so-called Euro Area fiscal compact treaty, the new European Systemic Risk Board, the Single Supervisory Mechanism, and the Single Resolution Mechanism. However, despite the furious pace of change to the architecture, the sense remained that EMU was imperfectly designed in relation to the pressures to which it was subjected, notably financial and political shocks.

Just how prescient and how culpable were the architects of the euro? In two respects, they escape – by and large - the charge of culpability. The decision to launch EMU as large and asymmetric was political. The architects had envisaged a smaller union, limited to 5/6 and comprising essentially the founding Member States of the EEC. This decision, and subsequent enlargement decisions, notably Greece, was to compound the difficulties of monetary union. It had profound implications for the capacity of the original design to bear the weight of problems to which it was exposed. These problems included the imperfect knowledge that centralized decision makers possessed in a highly heterogenous monetary union characterized not just by local structural differences but also by varying economic cultures.

Secondly, many of the architects were Cassandras. They had serious doubts and reservations, though they differed in the objects of these doubts and concerns. For some, like Pöhl and Tietmeyer, but also Padoa-Schioppa and Delors, European political union was the missing foundation stone. Monetary union would prove fragile in the absence of European political union. It required deep reserves of democratic legitimacy at the European level that were lacking, not least to ensure compliance with fiscal rules. For Roy Jenkins, and others of a Keynesian persuasion, the prime requirement was a counter-cyclical stabilization facility. As the international consensus shifted towards active fiscal stimulus to kick-start economic growth, the Euro Area was seen to be poorly designed to deliver. Robert Triffin's much earlier proposal for a European Reserve Fund had pointed the way to provision of a risk-sharing facility to give Member States time and support to adjust. The European Stability Mechanism can be said to reflect this type of thinking. Last, and not least, Lamfalussy had identified the problem of macro-prudential supervision and regulation from his time at the Bank for International Settlements. Again, his concerns to have adequate institutional arrangements to safeguard financial stability in a monetary union proved prescient. These concerns also reflected Keynesian thinking about financial market instability.

Assessing the role and the legacy of the architects is more problematic in relation to legitimacy. As we stressed above, they shared the implicit understandings of their generation of Europeanists. European integration was understood to depend on a 'permissive consensus' at political elite and public levels. This belief fitted a 'rule-based' design of European monetary union. It also fitted a confidence that economic growth would continue to provide 'output' legitimacy for the EU. These two beliefs proved vulnerable. EMU failed to provide the enhanced economic growth performance that its architects had expected. The optimistic expectations about growth performance served to sharpen the legitimacy issue, above all when the Euro Area crisis struck. In turn, crisis management and reforms highlighted the distributional consequences of Euro Area policies. There was criticism of 'austerity' policies, of the penalties facing savers from monetary policy measures, and of inadequate market-correcting or compensating measures.

The age of permissive consensus in which the architects had worked was over. The question was not just whether the design of EMU was adequate to meet current and prospective challenges but whether it was helping to promote these challenges. The predicament became existential: how to design a monetary union that was fit for purpose in a context in which the prospects for European political union seemed to be receding. The architects had not been dreamers. If anything, their bias was towards being Cassandras. Nevertheless, they would have been amongst the first to see the nightmare that could face Europe if its heads of state and government could not summon the conviction and resolution to go much further towards 'completing EMU'.

References

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