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*The Maastricht negotiations and the establishment of EMU:
The influence of the 1989 German Unification*

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European monetary integration has come a long way since the establishment of the Rome Treaty in 1957. Subject to this paper is the influence of the German unification on the establishment of EMU. Key-literature on the subject varies a great deal in perspective. Some claim that EMU is the direct result of national political-economic preferences, while others argue that without the prospect of German unification there would have been no such thing as a European monetary union. Most authors seem determined in taking one particular point of view, favoring either national political-economic or geopolitical preferences.

On the basis of two hypotheses, a study of key-scientific publications (Moravcsik, 1998; Staal, 1999; Baun, 1995 and Sandholtz, 1993) and a situational analysis involving the EMS period, the EMU negotiation process and the period after Maastricht, this paper discusses the probability if the negotiations on EMU would have reached a deadlock without the prospect of German unification or if EMU would have been established also without this prospect, while it was a direct result of Franco-German national political-economic considerations.

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1. Introduction

European monetary integration has come a long way since the establishment of the Rome Treaty in 1957. Via the Werner Report in 1970, the establishment of the European Monetary System (EMS) in 1979 and the Delors Report in 1989 to the 1992 Maastricht Treaty including the three stages towards the European Monetary Union (EMU) in 1999. However the current economic crisis, by some referred to as the sovereign debt crisis, put a hold on these promising developments. The trust in EMU in its current form and the interrelated Euro has vanished altogether. Today the EU finds itself at the start of a new era of fiscal integration: the 'European Banking Union' as laid down in the Fiscal Compact entered into force at January 1st 2013. The time has come for the Euro-area member states to, once again, hand over a part of their fiscal sovereignty to Brussels. These recent developments have put the topic of monetary integration back into the limelight; especially the discussion about the dynamics behind European monetary integration blazed up again. Articles in newspapers like NRC Handelsblad (October 29th – 30th 2011) and Der Spiegel (Vol. 30, 2010) prove that the European media is still very much into the subject.

One important aspect of the discussion is the one about the influence the 1989 German Unification had on the Maastricht negotiations leading to EMU. Discrepancies can be found in key literature regarding this subject while its authors vary a great deal in opinion. Some claim that the German Unification had no influence on the Maastricht negotiations and EMU (Moravcsik, 1998; Staal, 1999) while others argue that the German Unification left a significant mark on the Maastricht negotiations and EMU. Some even claim that EMU probably would not exist today if it wasn't for the German unification (Baun, 1995; Sandholtz, 1993). These varying opinions offered me the incentive to dive into this subject to figure out how key authors interpret the significance of the 1989 German Unification, on which grounds their opinions defer and how this relates to the situation practice. The following research question lies at the basis of this thesis:

"In which capacity and to what extend has the 1989 German Unification influenced the Maastricht negotiations up till the establishment of EMU in 1999?"

The research question will be tested on the basis of the significance of two hypotheses:

- 1. EMU would have been established without the prospect of German unification while the establishment of EMU solely depended on national political-economic preferences.*
- 2. The establishment of EMU would have reached a deadlock without the prospect of German unification.*

The significance of the hypotheses will be tested making use of a qualitative literature study. This thesis focuses solely on the German and French incentives while these countries are claimed to be the most important actors during the Maastricht negotiations towards EMU (Loedel, 1995; Feldstein 1997; Moravcsik, 1998).

First some key scientific publications in the field of monetary integration will be studied and compared in order to get descent insight in the varying views regarding the capacity and extent of the influence of the 1989 German Unification on the Maastricht negotiations and the establishment of EMU. These key scientific publications cover the two hypotheses mentioned before. Subsequently a situational analysis will be conducted in order to test the relevance of the scientific publications and thus the hypotheses. The situational analysis consists out of three time-spans, describing 'the road towards phase one' between 1979 and 1989, the 1989 negotiation period on phase two and three and the period after the signing and ratification of the Maastricht Treaty. This analysis will be conducted on the basis of primary and secondary academic sources like Community working papers and independent policy papers. While the hypotheses cannot be proven, only falsified, the outcome of this research is based solely on reasonable assumptions derived from the studied literature.

2. Study of key scientific publications

This chapter includes a literature review on key papers concerning the incentives that played a role in the establishment of EMU. Moravcsik (1998, pp. 386) and Staal (1999, pp. 4) argue that the German unification had no influence on the establishment of EMU while it was in fact the product of national political-economic preferences. On the other hand, Sandholtz (pp. 1-41, 1993) and Baun (pp. 606-614, 1995) argue that the German unification was crucial to the establishment of EMU considering that the D-Mark was the price Germany had to pay for its unification.

2.1 Moravcsik: the Choice for Europe

Moravcsik's key-work 'The Choice for Europe' (1998) is often referred to in various position papers regarding the establishment of EMU, for example in Staal (1999). According to Moravcsik the five main steps in Europe's integration process, including the establishment of EMU, were driven mainly by national political-economic preferences while:

- European integration was the rational answer of member states to the growing interdependence in world economics (pp. 3-6);
- Negotiations between member states are efficient (pp. 7);

- Member states primarily delegated their sovereignty to guard the credibility of their enclosed agreements (pp. 9).

To structure his theory Moravcsik refers to the rationalist framework of international cooperation (pp. 19-21). This framework proposes that international negotiation can be divided into three stages: national preference formation, interstate bargaining and institutional choice. According to Moravcsik member states' preferences are no subject to changes during negotiations and thus they are stable: "The preferences are formed by national politics and thus they are exogenous compared to the negotiation process" (pp. 24, 25, 462). With this vision Moravcsik denies the integrated dynamics of the monetary integration process and downsizes the general accepted version that geopolitical factors played an important role in the European monetary integration process. National political-economic preferences shifted due to the weak position of the dollar and its influence on intra-European exchange-rates and due to emerging macroeconomic convergence, capital mobility and market-integration, not due to the process of negotiation in the context of European monetary integration (pp. 401, 408-412). Moravcsik argues that the German and French urge to strive towards EMU, and the pattern of disagreement between them, already existed and stabilized in the late 1960's, thus in advance of the fall of the Berlin Wall, and continued to exist after the German Unification was completed in August 1990 (pp. 381, 397). The German political economic preferences for EMU were focused on price stability, low inflation rates and economic convergence and based on the domestic compromise between the German government and businesses. The reason for peak business groups in Germany to support further monetary integration was positive experience in the EMS. This positive atmosphere offered the Kohl government the possibility to pursue its European Federalist ambitions (pp. 389, 391-393). The Maastricht Treaty reflected the German preferences for EMU and the collapse of the Berlin wall in November 1989 did not changed these preferences. According to Moravcsik (pp. 7) the role of the political bargaining process among France and Germany contributed immensely to the monetary integration process. He claims that the negotiations surrounding Maastricht pointed towards an intergovernmental way of bargaining, also called the 'concept of political linkage'. This means that "the outcome of the negotiations reflect the relative intensity of national preferences in each area carried out by the most interested governments and those that intensely seek agreement making the largest concessions". While Germany had the strongest status quo where it came

to monetary stability, it had the strongest bargaining power. In exchange for giving up its monetary autonomy, it was able to dictate the largest extent of the negotiation outcomes. According to Moravcsik this proves his theory, in line with the rationalist framework, that the Maastricht negotiations on the establishment of EMU were primarily influenced by national political-economic preferences (pp. 389-396). The fact that Moravcsik avoids to explain the sudden shift in German preference, concerning the transitional provisions of EMU, only one month after the collapse of the Berlin wall was already considered remarkable by Van Riel (1999, pp. 222).

There can be considered more flaws in Moravcsik's exogenous preferences theory while emerging capital mobility and market-integration cannot be seen separate from the European integration process. In defense he argues that market-integration is not empirically relevant in explaining member states' preferences, there were no cases of spill-over in European integration and the final step in monetary integration was convergence to a single currency which was a exogenous factor; all rather weak claims, also according to Van Riel (1999, pp. 224). Moravcsik also argues: "The primacy of economic interests does not relegate geopolitical ideology to insignificance while taken by themselves, naked economic preferences would probably have led to a highly institutionalized pan-European monetary stabilization free trade area with flanking policies of regulatory harmonization" (pp. 6, 153, 389, 396, 477). Claiming this, Moravcsik acknowledges the fact that there are holes in his argumentation. However, economic interests remain the primary factor in the five main steps of Europe's integration process: "When one factor had to give away, it tended to be geopolitics. Economic interests, moreover, determined the circumstances under which geopolitical could influence policy. Only where economic interests were weak, diffuse, or indeterminate could national politicians indulge the temptation to consider geopolitical goals" (pp. 7). According to Moravcsik Germany pursued a remarkably stable net national position in European monetary discussions which is in line with the rationalist framework Moravcsik builds his theory upon (pp. 23). However, were Moravcsik on the one hand treats critics of the Bundesbank as 'objections from extreme elements on the spectrum of German opinion' (pp. 446-447) he also claims that 'Kohl's winset in European monetary negotiations was limited by the Bundesbank' (pp. 403-404, 478). In my opinion,

and according to Van Riel these statements can be considered rather conflicting (1999, pp. 223).

2.2 Staal: the German Political-Economic Trilemma

Similar to Moravcsik (1998), Staal (1999) challenges the Unification imperative (pp. 4). "Standard explanations suggest that German acceptance of EMU is attributed to an 'unification imperative.' My analysis challenges such claims. For Germany, European monetary union is no mere diplomatic expedient that comes at the cost of the national economic interest". His main argumentation is that the German unification can be deduced to a positive foreign policy externality (pp. 10-14). Similar to Moravcsik (1998), Staal refers to the fact that the discussion on EMU had started before the collapse of the Berlin wall as a result of the flaws in the EMS (pp. 8-9). According to Staal, already two decades in advance of the 1989 German Unification German decision-makers favored monetary union to escape a 'political-economic trilemma' deriving from the reserve currency function of the Deutschmark within the EMS. Germany became a hegemon not by design but default" (pp. 4-5). Germany's hegemonic character undermined the exchange rate cooperation of Germany's trading partners and Kohl's policy commitment to European integration. Kohl believed that EMU would solve Germany's unfavorable position by exchanging the Deutschmark for a common European currency. According to German economic policy EMU's success required solid guarantees of price stability. "Based on this analysis, the German position on EMU was genuine determination to minimize the serious risks involved. The logic of EMU for Germany rested on a solid foreign and economic policy foundation" (pp. 5). Theodor Waigel, Germany's minister of finance during the negotiations, more or less confirms this theory. He stated: "Der Euro is genau im vorgesehenen Zeitplan gekommen". According to Staal (pp. 10) there was no French pressure on Germany to cooperate on EMU or to deepen the European Community. On the contrary; German leaders were eager to demonstrate their commitment to Europe. "Throughout the history of the Federal Republic the two objectives of European integration and German unification had been two sides of the same foreign policy. For Kohl political and monetary union were the logical and desirable extension of earlier policies." With this statement concerning the important role of spill-over in EMU preferences, Staal differentiates his argumentation from Moravcsik's. He argues that "in the nineties the French and

the entire European Community would have great advantages from the strengthened economic power of Germany” (pp. 10-11). Staal, correctly, refers to the fact that monetary integration was already in progress before November 1989. According to Staal this occurred due to the political-economic trilemma in the EMS and due to spill-over from the European Single Market Act (SEA), indicating the importance of national political-economic preferences. However, later on in his paper he refers to various geopolitical incentives at the time, which damages the credibility of his argumentation concerning the unifications marginal importance. Staal argues: “By anchoring the unified Germany more firmly in the European Community, EMU could address the French misgivings about German unification.” This indicates that Germany did felt French pressure in EMU negotiations (pp. 14). The establishment of EMU was a decisive factor in Mitterrand’s agreement to German unification. For Mitterrand, ‘deepening’ the European Community was even meant to nurture German unity. The ongoing developments within Europe, especially with regard to the East, would bring Europe closer to the day on which Germany could be reunified. In this light, for both countries, the establishment of EMU was a positive development for the unification eventuality (pp. 8). This is supported by Dyson and Featherstone (1999, pp. 363-365). The Chancellory’s documentation shows the perception that Mitterrand supported unification as early as July 1989 but that he did not considered it as a short-term outcome until early 1990 (pp. 9). The accelerating reality of German unification in early 1990 stimulated both France and Germany to overcome their outstanding differences over implementing the final two stages of the Delors plan and the necessary institutional reforms. These statements do not implicate that the German unification was just a marginal positive externality. On the contrary, they implicate that the German unification played a crucial role in the process of EMU negotiations while it influenced as well France and Germany to overcome their outstanding differences leading to accelerated agreement. “But”, Staal claims, “Both the German and French governments resolved to accelerate the European Political Union (EPU), indicating that EMU itself was not a quid pro quo for French acceptance of unification” (pp. 19). The primary determinants of the German decision for EMU therefore must be found in considerations relevant before unification. In my opinion Staal uses a very weak argument to rest his case, while EPU was a German demand in order to gain national public support for agreement upon EMU and eventually French support for German unification. France in its turn only agreed upon the acceleration of

EPU in order to gain German agreement on EMU's irrevocability, indicating that EMU indeed was a quid pro quo for French acceptance of unification. In my opinion this endangers the credibility of Staal's argumentation even further. The creditability of Staal's research gets further induced in his concluding remarks while he, again, argues in favor of geopolitical importance: "Still, EMU undeniably had clear positive diplomatic externalities for German unification and the accelerating reality of German unification in early 1990 gave additional impetus to both France and Germany to overcome their outstanding differences over implementing the final two stages of the Delors plan" (pp. 9).

2.3 Baun: The Maastricht Treaty as High Politics

Baun (1995) analyses the Maastricht Treaty on the basis of high (public safety grounds) and low (economic) politics which is also argued in Dyson and Featherstone (pp. 47, 1999). He argues that EMU was not established on economic grounds but that it was a French political response to German unification and the end of the old war. "This political consideration would prove to be the primary force behind new initiatives for European monetary union in the late 1980's" (pp. 606). However, according to Baun, ever since France was forced to abandon its expansionary economic program in order to remain in the EMS, it resented the German hegemonic position and its main objective was to establish control over German monetary policy through the creation of supranational monetary institutions (pp. 608). With this statement Baun indicates that national political-economic factors did play a role in the decision to put EMU back on the European agenda. In January 1988 France made a renewed attempt at monetary union with a proposal for the creation of a European central bank. The German government was wary, however, it allowed discussion of the idea mainly for political reasons and despite the strong opposition of its Bundesbank while the developments in the East made the prospect of German unification more and more likely in the relative short term. In April 1989, the Commission published the Delors Plan, envisaging a three-stage process leading to full monetary and currency union. At the Madrid summit of June 1989 national leaders endorsed the content of the Delors Plan and approved the July 1990 date for beginning stage one (pp. 608-609). The remaining steps for achieving economic and monetary union were to be discussed at a special intergovernmental conference (IGC) for which the starting-date would be decided upon at the December 1989 Strasbourg

Council. However, the fall of the Berlin wall in November 1989 placed the issue of monetary union in an entire new context. With the German unification knocking at their front door, concern about the power of a united Germany led many European leaders to support deepening of European integration in order to bind Germany permanently to the Community. France would lose most from German unification. Not only would a united Germany be larger than France, also the end of the cold war would mean a removal of all international constraints on German sovereignty which would weaken the French position compared to Germany. According to Baun "a shift from a security order dominated by military power to an economic order would favor Germany over France. In order to retain some influence and control over its powerful neighbor, France sought a deepening of EC structures" (pp. 609-610). Also Germany was in favor of EC deepening. Even though this found its basis in fundamental national economic and political interests, more immediately the German government was well aware of the suspicion and fear of its neighbors and was anxious to secure them. Kohl wanted to show that German unification and European integration were not contradictory but complementary and he was eager to safeguard a positive relationship with France as the basis of Germany's European policy. "For these reasons, he viewed Germany's agreement to further EC integration and in particular monetary union as the price that had to be paid for gaining Europe's acceptance of German unification" (pp. 611).

When Kohl presented the Ten-point-plan for German unification at the end of November 1989 most European leaders were afraid that their fears regarding an independent nationalistic Germany would become reality. According to Baun, Germany's position on monetary union and especially transitional provisions for EMU negotiations became an instrument in testing Germany's commitment to the Community and European integration. However, the Bundesbank and Germany's Finance Ministry argued that with the prospect of German unification the time was not ripe to start EMU negotiations on stage two and three. They argued in favor of more preparatory work and the completion of the SEA and the first stage of EMU. Also national parties in Germany were keen on delaying the process while they were afraid the EMU issue would become subject to domestic elections. The German Foreign Minister Genscher on the other hand wanted to set firm dates for further monetary integration in order to prevent German isolation in Europe (612-613). Where Kohl was against fixing transitional

provisions in the first place, he finally had no other choice then to agree upon the French demand for an EMU conference in the second half of 1990, while France accepted the German condition of delaying the EMU conference until after the German elections in early December (pp. 613) This agreement was reached just a few hours in advance of the Strasbourg summit. The EMU conference would be formally opened at the EC summit scheduled for mid-December, with actual negotiations beginning in early 1991. Like the French, the Germans were pleased with the outcome of the meeting, which Kohl personally described as 'extraordinary successful' (pp. 613-614).

Baun's argumentation offers a detailed insight in the Franco-German negotiation process, correctly placing crucial importance on the unification imperative. He states that the initial choice for EMU was based upon issues of high politics regarding the French fear of the German unification. According to Baun this fear was already present and understood by Germany in advance of the collapse of the Berlin wall, leading to the publication of the Delors report in April 1989 and creating an incentive for Germany to make the necessary concessions in order to gain support for its unification. However, Baun does not place the right amount of importance on the national political-economic factors that contributed to the initial Franco-German choice for EMU, while the issue of economic convergence vs. exchange-rate stability can reasonably be assumed one of the key Franco-German deterrents for moving to EMU in the first place, the reason for the French irrevocability demand and the main reason for Germany's reluctance regarding the transitional provisions. In my opinion this argumentation-gap damages the exhaustiveness and thus the credibility of Baun's research.

2.4. Sandholtz: Choosing union

Sandholtz (1993) analyzed the motivations of the member states to participate in EMU. He distinguishes multiple factors that contributed to this choice. However, according to Sandholtz, the most important factor to enhance European monetary integration was the political aspect of tying the unified Germany to the Community in order to prevent future aggression. Not only France regarded this as very important, also Germany was willing to commit itself to European integration for its own benefit. Sandholtz (1993) and Baun (1995) are on the same page while also Sandholtz argues that only the geopolitical perspective explains German support for EMU while it cannot be explained on economic

grounds. "Germany was the only country that gave up sovereignty by participating in EMU while all other European countries had already given up their sovereignty by participating in the EMS since 1979". In order to remain within the EMS' determined fluctuation band European member states had no other choice than to fix their currency to the D-Mark which was the strongest currency in the system. According to Sandholtz, EMU brought Germany no economic or monetary benefits and therefore the prospect of German unification can be considered as the most effective impulse to the establishment of EMU (pp. 1-41).

Sandholtz claims that EMU brought Germany no economic or monetary benefits. This explanation however is far too simplistic. It is certainly true that Germany favored the traditional economic approach and it can be considered assumable that Germany agreed upon the 'monetarist' transitional provisions in order to gain support for its unification. Otherwise it would have fixed progress in EMU entirely to the progress in economic convergence. However, the content of EMU was very German in nature, it contained initiatives for an independent central bank, focus on price-stability and strict convergence-criteria on budget-discipline and public debt. Therefore it cannot be argued that Germany gained no economic or monetary benefits at all from the establishment of EMU. It can, at best, be claimed that the economic and monetary outcomes for Germany were sub-optimal.

2.5 Evaluating key-literature

What stands out in the examined key-literature is that none of the authors provides a complete and objective account of events. The authors seem determined in taking one particular point of view in favoring either national political-economic preferences or geopolitical ideology. They do not place a value judgment on the Franco-German motives and the interlinked cause of events. This offers an incomplete image of the establishment of EMU in general and the correlation of economic and geopolitical interests in particular. While the authors insist on focusing on one particular perspective, they intent to deduce the importance of other important events which do not support their argumentation. Also, they tend to produce argumentations which are contradictory to the subsequent situational analysis. In my opinion this results in explanations which are incomplete and only partly credible. The interaction between economic and

geopolitical incentives shall be described objectively in the following chapter. This chapter describes in which way national political-economic and geopolitical incentives influence each other and succeed each other in terms of dominance during; the 'road towards phase one' between 1979 and 1989, the 1989 negotiation period on phase two and three and the period after the signing and ratification of the Maastricht Treaty.

3. Situational analysis

3.1 The road to EMU

Moravcsik (1998, pp. 24, 25, 462) suggests that the German unification had no or mostly marginal influence on EMU negotiations while the process towards EMU depended on national political-economic preferences which have not changed during the EMU negotiation process. The latter part of this argumentation can be related to the period up till the collapse of the Berlin wall in November 1989. During the ERM period the Deutschmark was undervalued compared to the other European member states and the US, this can be proven by the fact that Germany maintained a continuing balance of payments surplus. "The averaging

of hard and soft currencies within the ERM has facilitated the undervaluation of the Deutschmark" (Nobay, pp. 11-16, 2011). Also, under the ERM Germany had to cope with a higher inflation rate than would have been the case without the ERM. Its monetary policy has been the dominant but not the only considerable force within the ERM. As a result, Germany's preference for price stability could not be achieved within the EMS (Nobay, pp. 11-16, 2011). "Since the late 1960's Germany has faced three undesirable options: uncompetitive exports, domestic inflation, or regional monetary hegemony, also referred to as the 'political-economic trilemma'. German export competitiveness depended on European exchange rate stability, the satisfaction of which meant that Germany either import inflation from its European trading partners or export higher interest rates abroad (Staal, pp. 4,1999). Institutionally and politically averse to inflation, Germany's hegemonic character undermined the exchange rate cooperation of Germany's trading partners and Kohl's policy commitment to European integration. Kohl believed that EMU would solve Germany's unfavorable position by exchanging the Deutschmark for a common European currency. According to German economic policy EMU's success required solid guarantees of price stability (Moravcsik, 1998; Staal, 1999). Feldstein (pp, 9-14, 1997) also refers to the German political-economic trilemma. He states that Germany, by agreeing upon EMU, hoped to dominate European monetary policy and create fiscal discipline among the Union. As Kohl frequently stated: "Germany is our fatherland but Europe is our future." The German wish of a unified Europe dominated by Germany strongly conflicted with the French political economic incentive for monetary equality. According to Maes (pp. 18-26, 2002), Germany traditionally favored the coordination of economic policies and supported a long convergence process to favor an alignment of monetary policies. For Germany, and especially the Bundesbank, the convergence of economic performances was a precondition for EMU. While convergence needed to be attained first, EMU was a step that could be taken only in the far future. The EMU partner countries first needed to implement the German financial-economic best practices before EMU could start. (Segers and Van Riel, 2012). The German opinion conflicted with the traditional French political economic 'monetarist view'. The French were traditionally in favor of plans for greater exchange rate stability and exchange rate support mechanisms. "Monetary integration could have a driving role in the convergence process. The credibility of the new ECB will shape future expectations while past expectations become irrelevant. Such a bank can secure

low inflation in all countries, even in those with a track record of higher inflation. The emphasis is then on institution building, while disinflation processes could otherwise be lengthy and costly” (Maes, pp. 11-16, 2002; Maes, 2007).

Ever since the 1960's France perceived EMU as being the means to greater economic independence from the USA and to rebalance international monetary power between Europe and the USA, this influenced French negotiation positions on EMU in an important way (Dyson and Featherstone, pp. 97, 1999). This was also the case for the French reluctance against the German hegemonic power in monetary affairs, the asymmetric functioning of the snake in the 1970's left a big mark on the French position in EMU negotiations, There was a broad underlying consensus that the priority of EMU should lie in fighting asymmetry. Via EMU France wished to regain some influence over monetary policy both in Europe and globally. French interests on national, European and global level were defined in terms of a new scope for political leadership of economic and monetary policy consistent with the republican tradition, and the opportunity to use Europe as a tool in creating domestic discipline and modernization (Dyson and Featherstone, pp. 62-64, 1999). Obviously the French favored to proceed immediately with EMU while according to them this had to be seen as the first step in reaching economic convergence fixing the fundamental asymmetry in the burdens of monetary integration (Moravcsik, pp. ,1995). Even though the Franco-German solidarity was obvious because of their cooperation in the EMS initiative, Moravcsik (1995) stated that it helped disguise a “fundamental asymmetry in the burdens of monetary integration”. It came down to the fact that the EMS favored the countries with a strong currency, like Germany, and placed the burden on the countries with weak currencies, like France. The varying effect the EMS had on France and Germany led to a firm disagreement between the two. Schmidt favored a system under which bilateral intervention in the exchange rate system was necessary. According to Moravcsik (1995) this system led to “disproportionate burdens” on weak currencies (devaluation) while it appeared to impose “symmetrical obligations.” This system preferred by Germany laid the foundation for the EMS. The French government under [Valéry Giscard d'Estaing](#) (1974-1981) on the contrary was in support of a system in which the national currencies would be pegged to a ‘basket unit’, the ECU. Where the German system implied symmetrical obligations but actually led to disproportionate effects, the system preferred by France seemed asymmetrical, because of

unilateral intervention, but led to proportionate effects for as well the weak as the strong currencies. The EMS was based on leadership of the strongest currency, which at the time was the Deutschmark. "Officially no currency was designated as an anchor. However, the Deutschmark and the Bundesbank were unquestionably the center of the EMS: all other currencies followed its lead. Monetary cooperation became closer, and links between National Central Banks were strengthened. Internal and external monetary stability became important goals. Domestic economic policies were instrumental in achieving exchange rate stability. Countries with relatively high inflation found it easier to pursue disinflation policies. This fostered a downward convergence of inflation rates, reduced excessive exchange rate volatility, and promoted trade and an improvement in overall economic performance. Capital controls were gradually relaxed (Paolo Mongelli, pp. 9-18 ,2008).

However, the lack of fiscal convergence and symmetry remained a problem as some countries continuously ran large budget deficits (Paolo Mongelli, pp. 9-18, 2008). It came down to the fact that countries that were unwilling to follow the German policy focused on price stability and disinflationary measures were forced into repeated devaluation (Issing, pp. 3-10, 2010). "Under this system, there was no other alternative than to align monetary policy with the Bundesbank or to devalue from time to time one's own currency" (Issing, 2008). The memorandum from the French members of the Monetary Committee (February 10th 1987) supports this fact. It argued that: "the EMS has not succeeded in the implementation of a common policy towards third currencies, it has been no more successful in avoiding the reef of asymmetry by which the burden of adjustment and settlement in cash falls automatically on the countries whose currencies are weakest. The EMS has a value, but it is inadequate and it in fact conceals the lack of an effective common procedure for examining the coherence and the compatibility of economic policies with each other". The continuing loss of French economic competitiveness and capital outflows continuously put strong pressure on the French Franc. This increased interest rates and the number of devaluations. In March 1983 Mitterrand decided that it was enough. France would stay in the EMS but from then on drastically change its economic policy to avoid further devaluations. This policy was also called the "politique de rigueur" (Maes, pp. 2-8, 2002). Mitterrand's policy shift was perceived as a 'U-turn decision' but actually represented an ongoing reforms process already initiated under his

predecessors (Bernhard, 2002). “By the mid 1980’s, French policymakers had abolished their system of credit controls and established broader and deeper financial markets, culminating with the adoption of monetary policy mechanisms based on indirect instruments designed to influence interest rates” (Loriaux, 1991). Meanwhile the French kept complaining about the Bundesbank’s low inflation policy, in 1987 the French Finance Minister Edouard Balladur argued for further institutional changes that led to the nonbinding Basel-Nyborg accords. “As in earlier negotiations, the French wanted reforms that would distribute the burdens of policy adjustment more symmetrically among countries with appreciating and depreciating currencies. It called for a multilateral obligation to engage in foreign-exchange market intervention before currencies reached their fluctuation margins” (Walsh, 2001). The Basle-Nyborg agreement decreased the asymmetry of the EMS intervention mechanism by expanding credit facilities but did not include provisions for more required intervention, greater surveillance, or use of a divergence indicator. “The Bundesbank sought to offset the risks to price stability by institutionalizing the practice of preventing realignments from compensating for inflation differentials and pledging non-intervention on behalf of overvalued currencies. The Bundesbank’s countermeasures neutralized hopes that reforms could sufficiently remedy the asymmetry” (Staal, pp. 31, 1999).

With regard to the EMS there were only three options open according to Staal (pp. 4 ,1999). It could be abandoned all together, it could be reformatted or it could be transformed. While the costs for achieving currency and exchange-rate stability had been enormous, the European member states were not eager to abandon the EMS. Also this would mean a deadlock on further European integration. Therefore the decision was made to reform the EMS, this happened under French leadership. In 1988 a political debate started on the role of the German Bundesbank in the EMS. It brought the political aspects of monetary and exchange rate management into the limelight. The Germans were aware of the political fact that they could not maintain their dominant monetary position over France and the other member states for long. Various reforms of the EMS did not solve the asymmetry due to the Bundesbank’s low-inflation policy. In a speech in January 1988, the German minister of foreign affairs, Hans Dietrich Genscher, acknowledged that “without new institutional precautions the scope for reform of the EMS was small” (Staal, pp. 31 ,1999). According to the Germans EMU had the power to eliminate the pressure for appreciation and the asymmetry. However,

there had to be institutional guarantees against inflation: above all sufficient economic convergence and central bank independence. These were two of the most important bargaining points during the Maastricht Intergovernmental Conference (IGC) on EMU which was initiated by France in advance of the December 1989 Strasbourg summit on the completion of the Single European Act and which was formally accepted during the Strasbourg summit. The French statement was the following: "France has already offered its contribution, namely through the liberalization of capital flows and through acknowledgement and acceptance of the leading role of the Deutschmark and the German orientation of price stability and independence" (Staal, pp. 31 ,1999). So France was willing to remain within the EMS but it wanted clarity on the monetary future for the burden it carried to tackle domestic inflation. "Insofar, the 1988 political debate was a conspicuous precursor to important issues which later on were intensely discussed in connection with the Delors Report and during the IGC on EMU which began in December 1990" (Ungerer, pp. 6, 1995).

Germany and France agreed upon the fact that German unification had to be reached parallel to European unification. During the European Council meeting of June 1988 the Council appointed a special committee chaired by Jacques Delors, President of the Commission. The task of the committee was to present the path to monetary union. The committee published its report in April 1989. Next to Delors the governors and presidents of twelve national central banks, one extra member of the Commission and three independent experts took part in the committee. According to Ungerer (pp. 3, 1995) "the decision to have top central bankers form the core of the committee was significant and in large part determined not only the results of the committee's work but also the future discussions and negotiations about the nature of the intended monetary union." Especially the presence of Karl Otto Pöhl, the President of the Bundesbank at the Madrid Council in June 1989, was very important. At Madrid the Delors Report was accepted by the European Council as the guiding document in the process towards EMU. The Delors Report laid down the format of the 1992 Maastricht Treaty: "A three-stage process leading to a single currency and designing the corresponding institutions was completely mapped out at the end of the decade" (Paolo Mongelli, pp. 9-18, 2008). The European Council agreed that the first stage toward the realization of EMU would start on July 1st 1990, parallel to the deadline for the liberalization of capital movements; and requested the assigned

committee to start the preparatory activities for the IGC on the fixation of the starting dates of phase two and three of EMU.

3.2 The EMU negotiations

The irrevocability of EMU

November 16th 1989 marked one of the greatest events in modern German history; the collapse of the Berlin wall. With it came the prospect of German unification. From this moment on Germany's 'economist' political economic position in EMU negotiations suddenly shifted towards the traditional French 'monetary view', at least in terms of EMU's transitional provisions. Originally, the German preference was not to fix a timeframe for EMU but to link monetary union to the progress in economic convergence. This shift in fact indicates a causal linkage between the EMU negotiation process and the changes in German monetary preferences which is, unlike the previous sub-paragraph, not covered by Moravcsik's theory (1998). Sandholtz (1993) and Baun (1995) on the other hand do offer an explanation for this shift in Germany's negotiation position. They argue that the prospect of German unification had a crucial influence on the negotiations on the establishment of EMU while Germany had to give up its D-Mark in return for French agreement upon the German unification. Also Szász claims that Kohl privately announced that EMU offered Germany no benefits but that agreement upon it was a necessary concession. A good relationship with its neighbors was crucial with the prospect of German unification. According to Kohl, German unity and European integration were two sides of the same medal (2001, pp. 169). The German Weekly, Der Spiegel (2010), wrote: "The Chancellor of unity gave up the mark in favor of the euro, much earlier and under other conditions than he had ever planned and not even for unification, but only for the vague hope of a German-German confederation." At the time, Germany was not ready for EMU and it offered no direct monetary benefits for the country. According to the Bundesbank in general and Waigel and Pöhl in particular, the progress in economic convergence was not sufficient in order to proceed with monetary integration. Schlesinger was doubtful that two such large projects as German unification and EMU could realistically be undertaken at once. Tietmeyer could see the linkage between German unification and political union but he was reluctant about the connection to EMU. He argued: "To use German unification to accelerate EMU is potentially irresponsible. Taking risks with price stability is not

in the best interest of integrating Germany into Europe. It involves a misordering of priorities” (Dyson and Featherstone, pp. 390-391, 1999). While their priority was the protection of price-stability by pressing for a ‘German style’ monetary and budgetary policy, they were not open to concessions. For Kohl and Genscher on the other hand, German isolation within Europe seemed like a undesirable real-time possibility which they wanted to avoid at all costs. Kohl was aware of the European anxiety about German motives. Moderation was vital if Germany was to build Europe on a basis of reassuring Germany’s suspicious neighbors. Regarding EMU, to Kohl it was very important to take French susceptibilities as “a proud and wounded European power” seriously (Dyson and Featherstone, 363-364, 1999). Genscher and Kohl were well aware of the fact that France wanted the guarantee that EMU would be irrevocable. “Also German national political-economic interests required an irreversible process of EMU, but Kohl’s conception of irreversibility was essentially philosophical and historical and did not extend to an interest in its precise legal implications and forms in EC law” (Dyson and Featherstone, pp. 261, 370, 1999). On November 27th 1989 Kohl sent Mitterrand a letter containing a proposition regarding a mutual Franco-German timeframe starting right after the Strasbourg summit. The letter was focused on taking the irrevocable steps towards EMU as favored by France. Joachim Bitterlich, Kohl’s national security advisor, stated that to Mitterrand everything was completely subordinate to EMU and from Mitterrand’s perspective, “France already contributed more than its share already while the blueprint for EMU, as presented in the Delors Report, was already very ‘German in nature’. It contained initiatives for an independent central bank, focus on price-stability and strict convergence-criteria on budget-discipline and public debt. Also, during the 1980’s, France had agreed upon capital liberalization against its will. Moreover, according to Mitterrand it was time to act” (Segers and Van Riel, 2012). France stated only to accept the ‘German blueprint’ of EMU if it could be certain of the fact that EMU would be implemented (Segers and Van Riel, 2012). So France considered this term, unlike the terms on monetary and budgetary content, non-negotiable. “They did not wanted to be confronted with a hurdle race (the convergence criteria) without a finish ” (Van Riel, 1999, pp. 222-223). Rejecting the French term on fixed transitional provisions would lead to a huge conflict with France, something that Kohl wanted to avoid. “The prospects for German unity supplied the Frenchman the long awaited means of pressure to extort from the German the necessary yes for monetary union and shake off the predominance of

the German Bundesbank.” (Der Spiegel, 2010). Therefore, at both the Rome and Maastricht summits, Kohl outvoted the preference of the German delegation and agreed upon the fixed transitional provisions for EMU.

In the spring of 1990 Kohl declared to Mitterrand that he would truly support EMU during the upcoming Rome summit late 1990. He did not want anyone to think that he favored German integration before European integration. However, Kohl waited until after the German elections before he gave his permission to fix the starting date of the second phase of EMU. After Kohl won the elections already in October 1990 he declared to the Italian presidency of the Council that Germany was ready to thigh itself to EMU. This led to a break-through in the negotiations concerning the starting date of phase two of EMU that almost reached a deadlock in the past months. Against the will of the Bundesbank Kohl agreed to fix the starting date of phase two on January 1st 1994 against ‘mild conditions’. However, he refused to fix the establishment of the ECB on the same date. A year later, at the December 1991 Maastricht summit, Kohl again made a sole decision to fix the starting date of phase three of EMU making it irrevocable. Kohl stated he would not sign the Treaty if it did not include a provision on the irrevocability of EMU, however, while Kohl could not count on the support of the Bundesbank, the German delegation could not come up with proposals of its own. When in November 1991 it became clear that the IGC on Political Union was doomed to fail it became even more important for Kohl to establish EMU irrevocably. To Kohl EMU was not only a goal on itself but also a way to deepen European integration which he considered necessary to secure German Unification. The decision to agree upon the starting date for phase three of EMU was not without domestic political risk due to the opposition of the Bundesbank. However, to Kohl the risk of German isolation in Europe or the rise of anti-German sentiment after unification seemed worse to him (Van Riel and Metten, 2000).

The former President of the German Bundesbank, Pöhl, argued: “Möglicherweise wäre die Europäische Währungsunion gar nicht zustande gekommen ohne deutsche Einheit.” Kohl knew that if he wanted to create European acceptance for the German Unification he had to put Europe first, claimed Hubert Védrine, one of Mitterrand’s advisors at the time. Bernd Pfaffenbach, at that time a member of Kohl’s Kanzleramt, argues that at first the German preference was to create EPU before EMU, however, during the bargaining process it had given in to the French preference of a reversed order. It was a political deal of which Mitterrand and Kohl

both profited. Mitterrand was prepared to wait until after the German elections with the negotiations on fixing the starting date of the second phase of EMU. This in return gave Kohl the opportunity to become the Chancellor of the new united Germany and to tie Germany to EMU, which in return was a great victory for Mitterrand (Der Spiegel, 2010).

Franco-German reconciliation

According to Baun (1995) Germany was in favor of a deepening and widening of the European Community. In contrary to what Moravcsik's theory (1998) argues, the German incentives behind favoring European integration had their basis also in fundamental geopolitical interests. The immediate concerns of the German government at the time were targeted at the fear of its neighbors, France in particular (Baun, pp. 606-614, 1995). Therefore Kohl was determined to show that German Unification and European integration were compatible rather than conflicting. "Kohl placed a high priority on maintaining positive relations with France as the basis for Germany's European policy (Sandholtz, pp. 1-41, 1993).

Recently published German reports on conversations between Kohl and Mitterrand indicate that Kohl was already sensitive to the French doubts about German linkage to Europe before the collapse of the Berlin wall. With the prospect of German Unification in the near future these doubts increased. Already at an early stage the German government perceived the French fair as a serious matter. In the light of the German Unification it became more and more important for Kohl to eliminate the French doubts on German linkage to Europe and to prevent German isolation. So when the collapse of the Berlin wall became more and more evident Kohl adapted his strategy rigorous in pro-EMU direction in reaction to French hints and Bitterlich's advises. The week in advance of the collapse Kohl made his first concessions towards France. He ignored the advice given by his ministers Waigel and Genscher while according to Kohl this was a matter of direct contact between Elysée and the Bundeskanzleramt. This pro-EMU strategy was completed already in advance of the December 1989 Strasbourg summit (Correspondence Segers and Van Riel, October 2011). France was reluctant on Kohl's attempts to seize the initiative on German unification in the context of his Ten-points-plan, concerning a decade long process of unification, and his unwillingness to offer final consent on the Oder-Neisse border with Poland. The reason behind Kohl's behavior was his fear of being overrun by

events and other politicians. He expected this was understood by France. Therefore Kohl could not understand why Mitterrand was complaining about Bonn losing its interest in pressing ahead with EMU while Kohl had already agreed upon the convention of the IGC on stage two of EMU during the Italian Presidency. Mitterrand stated: "In the context of preparing the Strasbourg Council, Germany seemed to have emerged as a brake on the European unification process. Without parallel progress on EC unification and German unification a return to the former balance of power politics could occur" (Dyson and Featherstone, pp. 236-245, 363-366, 1999). This created even stronger incentive for Genscher to fix the IGC date at the Strasbourg Council in December 1989.

Mitterrand's unease was seen as having its main roots in the perceived threat to French interests and power in Europe from a unified Germany. According to Baun (pp. 606-614, 1995), France had the feeling it had too little influence on the end of the cold war. It was not only afraid of the fact that Germany, after its unification would be larger than France, also the end of the cold war implicated a removal of international constraints on Germany's sovereignty which gave France important advantages in its bilateral relations with Germany. Baun (pp. 62-613, 1995) also argued: " the shift from a security order dominated by military power and concerns to one based on economics favored the German civilian power over the French nuclear state. To compensate for these developments, France sought a deepening of Community structures, which would allow it to retain some influence and control over Germany. Besides, France feared that a Community that neglected further integration and remained instead a simple trading block would be more capable of being dominated by Germany in the future. In such a Community, France's own national standing would be even further diminished". According to Dyson and Featherstone (pp. 64, 257, 1999), Franco-German reconciliation was one of the main deterrents of the French negotiation position on EMU. "It was ultimately the decisive factor at work." The French humiliation by German power was the historic factor that troubled the French the most. According to the French this power had to be neutralized by harnessing it into the construction of a united Europe, via power sharing in common European institutions. "To ensure the defense of French interests in this process of European unification it was essential that France assume the role of leadership in the building of Europe and harness Franco-German reconciliation for that purpose." For Germany the French fear regarding the Eastern European

developments could have negative consequences with regard to its position in EMU negotiations, especially when the German Unification would run parallel to the French presidency in the Council. Therefore it was of utmost importance for Germany to obtain more influence in EMU developments, especially because EMU was an unpopular theme within German domestic politics. Kohl had to convince France of its sincere intentions without looking shady in front of the national public. Therefore Bitterlich linked the idea of a future Political Union to the negotiations on EMU, this could count on great German domestic support, especially when it would be linked to more rights and competences for the European Parliament (Segers and Van Riel, 2012).

In preparation of the Strasbourg Council Kohl sent a letter to Mitterrand containing the proposal for an IGC on political union as a means of countering the concerns about German unification that were likely to figure at the center of the Strasbourg Council deliberations (Dyson and Featherstone, pp. 236-245, 363-366, 1999). By sending this letter Kohl tried to avoid German isolation in Europe and at the same time convince Mitterrand of the depth of his commitment to European unification. Mitterrand however replied that political union was not the top priority, even though desirable. The top priority was to set a fixed date for the IGC on stage two of EMU, Kohl agreed on this, convening the IGC during the Italian Presidency. The Strasbourg Council was a big success for the German Foreign Ministry. It gained clear agreement of support for German unification tied to the perspective of European unification. Prove of this support was shown by the fixed date for the IGC on the second stage of EMU. Strasbourg also gave Kohl a strengthened incentive in reaffirming German ambitions to give a new impulse to European unification. "In its wake Kohl determined to make EMU his personal responsibility; to wrap it up in a refashioned vision of Germany and Europe in the context of German unification; and to make it the focus of his European leadership" (Dyson and Featherstone, pp. 257-266, 1999). When Mitterrand pressed for bringing forward the date for the IGC on EMU, Kohl used this demand to press for an IGC on political union. According to him an accelerated process of European unification of which EMU was a part was vital. Mitterrand agreed on this, showing that a more positive factor was at work between the two nations (Dyson and Featherstone, pp. 236-245, 363-366, 1999).

Monetary power

Traditionally France as well as Germany craved global power. This was also the case in European monetary integration and reflected in their support for EMU (Loedel, 1995; Feldstein, 1997). France saw EMU and the stronger political union to which EMU would lead as an opportunity for France to be a "co-manager" of Europe as an equal to Germany rather than being dominated by a Germany as was the case during the EMS (Dyson and Featherstone, pp. 63, 1999). According to the French the domination of European monetary policy by the German Bundesbank would be replaced by the European Central Bank at which Germany and France would sit and vote as equals. French officials argued that France would benefit more from monetary union and the political evolution that would follow than from the continuation of the EMS in which the burdens of policy adjustment were divided asymmetrically among countries with appreciating and depreciating currencies (Feldstein, pp. 11-14, 1997). "French enthusiasm, with Italian support, for a single currency reflected the distaste for their relative loss of sovereignty and preference for power sharing. According to Dyson and Featherstone (pp. 97, 1999) "Most important as a French motive for EMU were considerations of international and European monetary power. It was in France's vital interest to shield its economy from the negative effects of irresponsible US and German monetary policies. EMU offered France the opportunity to re-establish influence over monetary policy by Europeanizing it." This European system could then be used to shift economic objectives in a manner more compatible with the French domestic economic incentives, and to achieve international monetary reform. As mentioned before, Germany wanted, via monetary union, to eliminate the imported inflation characteristics of the ERM and maintain dominant within monetary policy. The domestic political economic objectives of the parties thus were mutually inconsistent" (Nobay, pp. 11-16, 2011). However, both visions of the monetary future drove their leaders to support the pursuit of EMU (Feldstein, pp. 5-9, 1997). Loedel (1995) argued: "the willingness of the Germans to offer concessions on domestic monetary autonomy to their European partners was the opportunity to export monetary stability to the EU and develop a European zone of monetary power and influence in global monetary affairs. In this sense, a comprehensive account of the Maastricht treaty must include the international level factors that played a role in the negotiations surrounding Maastricht." The Germans were not attracted by the idea of losing monetary autonomy, however, the loss of autonomy was overshadowed by the

desire to secure an absolute sense of power in global monetary affairs. The Germans and the French could realize their desire to enhance the community's monetary influence in world politics by enhancing exchange rate stability in Europe.

3.3 After Maastricht

According to the Treaty of Maastricht an early start of EMU in 1997 would be possible if a majority of the member states would have lived up to the convergence criteria as set in the Treaty (European Union, 1992). The original Maastricht convergence criteria (1992) were based upon Robert Mundell's 'rationale of optimum currency areas' (pp. 657-665, 1961). The goal of the criteria at the time was to sustain the European Union in the future. At the time, as well Germany as France were reluctant of some member states, like Italy, directly participating in EMU while they doubted if these member states were able to meet the agreed convergence criteria. However, if the original convergence criteria were the only criteria to be met in order to participate, a lot of countries would be able to in 1999 or maybe even sooner. During the EMU negotiation period, before 1992, the plan was to start stage three in 1997 with a head-group of countries exclusively meeting 'stricter criteria with regard to excessive deficits' (Cameron, pp. 455-485, 1997). During the negotiations it was expected that compliance with these criteria would not cause Germany and France any trouble. The German inflation- and interest rates would form the basis for the assessment of the other member states at this point. The French interest rate would decline, after decreasing the gap between German and French inflation rates, until it was only marginally above the German interest rate. Both countries had, during the EMU negotiation on convergence criteria, a low government deficit and debt compared to the other member states (Van Riel and Metten, 2000). However, an early start in 1997 was prevented by the Franco-German failure to comply with the convergence criteria, especially with regard to the excessive deficit. When the government deficit and debt of as well Germany as France rose in the first phase of EMU it became doubtful if the initiators of EMU their selves could live up to the criteria. Between 1995 and 1996 both countries maintained a government deficit of more than three percent. In the following years they succeeded in decreasing their rates till they were less than three percent. However, the French debt rate, which was relatively low

before 1990, increased dramatically in short notice. This was also the case for Germany. In 1998 the German debt rate even exceeded the sixty percent criteria. In 1997 Germany and France were the only member states in which the government deficit, excluding the interest payments, was insufficient to stabilize the government debt (Van Riel and Metten, 2000). During the Cannes European Council in June 1995 and the Madrid Council six months later, it was decided to move to stage three only by January 1st, 1999. During the Dublin European Council in December 1996 the Stability Pact was introduced in order to create fiscal responsibility among the participants (Cameron, pp. 455-485, 1997). Between 1996 and 1999 there remained a lot of unresolved issues with regard to the transition to stage three. One of these issues was the question which countries would be able to meet the convergence criteria by January 1st 1999 in order to participate in stage three. It was highly doubtful if Germany (and France) would be one of those countries. That is why early 1997 the tone of German officials regarding the strict criteria on deficit and debt reference values changed. In 1996 the predominant view was that Germany could not enter the third stage of EMU if it did not meet the criteria, by March 1997 it became apparent that stage three of EMU would start either way at January 1st 1999. Germany stepped away from its demand on stricter criteria on excessive governmental debt and budgetary deficit. This led to a change in the vision that stage three of EMU would only include a head-group of countries, excluding others, like Italy. Stage three of EMU, or the start-up phase, would now become a broad start including also countries that before 1992 were perceived as the 'weaker countries' by Germany and France (Cameron, pp. 455-485, 1997).

The primary reasons for the increased German government debt were the costs involved with the unification in 1989, which increased the structural government deficit. Van Riel and Metten (2000) consider it remarkable that the German government was not able to reverse the increasing trend of its deficit. This vision is supported by Gros (2014) "By 1992 there had not been any change in parity 'realignment' since 1987, although prices and wage competitiveness indicators had diverged considerably between Germany and its main partners. At the same time, Germany experienced considerable inflationary pressures in the aftermath of the boom created by unification." During the Economic and Financial Council of Ministers (Ecofin-Council) on the first German convergence program held in May 1992 it became clear that the German Unification caused an enormous shock to

the German government's financial position. The Ecofin-Council considered the increasing deficit to be a natural consequence under the current circumstances. According to the convergence program the German deficit should be decreased to less than two percent by 1995, however, soon it became clear that this target would not be reached in time. In 1993 Waigel informed his colleagues in Brussels that Germany needed more time to consolidate its financial position. This was the first time that doubts were expressed publicly concerning the early start of EMU. The French government deficit started increasing later, after the 1992-1993 recession. In 1992 the public opinion on the French financial position was very positive, France complied with all convergence criteria. It was expected that the government deficit would rise to two percent in 1993, however in 1993 it became publically known that without additional measures the French government deficit would run up to six percent in 1994. At the Cannes summit in June 1995 the French president Jacques Chirac proposed the official initiative to postpone the EMU's starting date, his proposal was officially accepted at the Madrid summit in December 1995. During the Ecofin-Council on the first French convergence program held in November 1993 it became clear that the French deficit increased because of the effects of the French market conditions. The main factors behind the increasing deficit were the expansive French budgetary policy, because of lower taxes and increased spending, and the fact that the French offered the automatic stabilizers in their financial estimate the possibility to increase the deficit. The French maintained their expansive budgetary policy until 1995 as a counterweight to their monetary policy which, because of the linkage with the German Deutschmark, was obliged to follow the Bundesbank's restrictive policy (Van Riel and Metten, 2000).

4. Conclusion

"In which capacity and to what extend has the 1989 German Unification influenced the Maastricht negotiations up till the establishment of EMU in 1999?"

Moravcsik (1998) and Staal (1999) both claim that the German unification had no, or marginal influence at most, on the establishment of the European monetary union while EMU was built upon the basis of national political-economic preferences. They both claim, correctly, that EMU was put back on the European

agenda before of the collapse of the Berlin Wall. This was mainly due to the stability of the Franco-German traditional economic views, flaws in the EMS and spill-over from the SEA. In my opinion, it can be therefore considered assumable that national political-economic preferences were main drivers behind the first phase of EMU. However, their argumentations are insufficiently adaptive to the period from 1989 forward while with the prospect of German unification the geopolitical aspects started to play a crucial role in EMU negotiations. The long-standing stability of Germany's economic view broke down to make room for the, at that moment, more pressing geopolitical issue of unification. The French on their turn, used this momentum in order to press for EMU, driven mainly by Eastern developments and its fear of German unification.

When German unification became a short term reality, France put more pressure on Germany to start EMU negotiations on phase two and three. Germany agreed upon the French irrevocability demand, which found its basis in national political-economic preferences, in order to safeguard its unification. EPU, in this context, was a German demand in order to gain national public support for agreement upon EMU and eventually French support for German unification. France in its turn only agreed upon the acceleration of EPU in order to gain German agreement on EMU's irrevocability, indicating that the trade-off of as well national political-economic but mainly geopolitical concessions was the driving force behind EMU's negotiation process. Claims as posed by Baun (pp. 606-614, 1995) and Sandholtz (pp. 1-41, 1993) that EMU only finds its basis in geopolitical factors are therefore much too simplistic. Also, the fact that Germany made concessions regarding the transitional provisions does not implicate that it did not benefitted from EMU at all, while the blueprint for EMU was definitely German. It can therefore not be claimed that Germany gave away its D-Mark in return for agreement upon its unification. Overall, it can be assumed that geopolitical factors in general, and the German unification specifically, played a dominant role in the 1989 EMU negotiation. The national political-economic preferences of France and Germany were present at this point, but of subordinate importance.

Also, the German unification had a major influence on the start-up phase of EMU with regard to an accelerated start of phase three and the number of participating countries. This impact only became clear after the negotiation process had ended and the terms on the original timeline and start-up had

already been agreed upon. The German unification influenced Germany's position in such a way that it had to change its original, pre 1992, vision on an accelerated start of stage three of EMU in 1997 only including a head-group of countries into a vision including agreement upon a broad start at January 1st 1999, two years later than originally anticipated.

The conclusion I draw regarding this research is that it cannot be argued that either the national political-economic or geopolitical preferences were the sole deterrents of the establishment of EMU. Moreover it was the correlation of these incentives in the historical context of the EMS and the context of German unification which triggered France and Germany to make the concessions necessary to reach agreement upon EMU's blueprint and its transitional provisions. The relative importance of the preferences within this correlation may be subject to further research.

1. EMU would have been established without the prospect of German unification while the establishment of EMU solely depended on national political-economic preferences.

2. The establishment of EMU would have reached a deadlock without the prospect of German unification.

With regard to the hypotheses, if the negotiations on EMU would have reached a deadlock without the prospect of German unification remains a difficult question to answer. While the traditional national political-economic preferences surrounding EMU deferred a great deal between both countries it can be reasoned assumable that the negotiations surrounding EMU would have stagnated at some point. The concessions in the context of German unification led to an accelerated start of EMU. However, it surely is possible that if the unification of Germany had not occurred at that specific time, the national political-economic preferences would have been sufficient to lead to the establishment of EMU. The time-span however, could have been a whole lot longer.

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