Adaptational Pressure, Domestic Politics and the Evolution of the European Monetary System

Bai, Byoung-Inn
(Seoul National University)

〈CONTENTS〉

Ⅰ. Introduction
Ⅱ. Limits of the Extant Theories
 1. Interest Group Politics
 2. Spillover from the Single Market
 3. Neoliberal Policy Consensus and the Norm of Domestic Price Stability
 4. The Voice Opportunity Hypothesis
Ⅲ. The Paradox of the Successful EMS
Ⅳ. Why Commit? Domestic Politics and the Transition to EMU
Ⅴ. Conclusion

· Keywords : European Monetary System, Economic Monetary Union, domestic Politics, *Vincolo Esterno*

【ABSTRACT】

Extant literature on EMU fails to explain why European countries chose it at the expense of other alternatives that might have been equally promising. I argue in this article that the transition to EMU was facilitated by the factors associated with the paradoxical nature of the successful EMS: adaptational pressure and domestic political conflicts. Adaptational pressure refers to the increasing vulnerability to monetary policy differentials within EMS. The EMS could be successful due to the policy convergence on disinflation. Yet, this convergence rendered member countries more vulnerable to monetary policy differentials within the EMS. The EMU was envisioned as a solution to the rising costs of policy adaptation that was brought about by the successful EMS. Against this backdrop, domestic political actors were sharply divided over the appropriate monetary policies. Those political actors who committed themselves to domestic price stability found in the EMU a vincolo esterno (external tie) to engineer otherwise elusive domestic reform.

Ⅰ. Introduction

With the establishment of an Economic and Monetary Union (EMU), European countries initiated what has been described as "the most radical single policy commitment undertaken by west European governments since 1945."[1] None of the countries in the EMU are now able to enjoy monetary sovereignty as they did before and the newly founded European Central Bank (ECB) and the European System of Central Banks (ESCB) take charge of monetary policy making. It is truly a historic and path-breaking achievement in the history of European integration in that supranational institutions have taken over national sovereignty in a wholesale manner.

Yet, the launch of the EMU leaves it puzzling as to the motivation behind monetary delegation in Europe. In retrospect, monetary cooperation is not new to European countries. The Treaty of Rome mentioned price stability and the external stability of the currencies as the "common, general objectives of economic policy in the Community" (Article 104). The stop-and-go patterns of the monetary cooperation throughout the 1970s and 1980s did not prevent Europe from setting up the European Monetary System (EMS). The success of EMS in the late 1980s truly paved the way for the full-fledged monetary union. However, the transition from EMS to EMU was neither inevitable nor deterministic. As Wayne Sandholtz[2] persuasively argues European countries could have chosen other alternatives than a currency union. Then, what explains this choice?

Utilizing the literature on the political economy of monetary cooperation, I argue that the transition to the EMU is a function of the problems associated with the commitment to domestic price stability: adaptational pressure and domestic political conflicts. I define adaptational pressure as the extent to which countries are able to internalize the costs emanating from international policy externality.[3] The success of the EMS was largely due to the drastic policy shift in European countries, notably in France and Italy, toward disinflation.[4] While this policy reorientation made the EMS successful, it at the

---

1) Kenneth Dyson, "Benign or Malevolent Leviathan? Social Democratic Governments in a Neo-Liberal Euro Area," *Political Quarterly* 70-2 (1999), p. 195.

2) Wayne Sandholtz, "Choosing Union: Monetary Politics and Maastricht," *International Organization* 47-1 (1993), pp. 1-39.

3) This term originates from the literature that explores the impact of Europeanization of policy making on domestic politics. In this literature, the 'goodness-of-fit' between EU and national policies constitutes the adaptational pressure, which in turn provides a basis for EU countries' domestic changes. I use this term in a broader sense than its original usage. For the original one, see Maria G. Cowles, James A. Caporaso, and Thomas Risse (eds.), *Transforming Europe: Europeanization and Domestic Change* (Ithaca, NY: Cornell University Press, 2001).

4) James Walsh, *European Monetary Integration and Domestic Politics: Britain, France, and*

same time caused increasing vulnerability to inflation differentials within the EMS. These increasing costs from policy differentials constitute adaptational pressure that brought about an institutional reform for a single monetary policy.

With this adaptational pressure, I argue, the choice of EMU was facilitated by domestic political conflicts over the appropriate monetary policies. As many have pointed out, a single currency can be used as a commitment device for domestic price stability and more so in a country where those political actors with preference over price stability experience difficulty in overcoming domestic constraints.[5] Following this logic, I argue that the EMU was envisioned as a *vincolo esterno* (external tie) to secure the commitment to price stability against the possible perturbation by the successor governments.

The puzzle of monetary delegation in Europe and contemporary theories of it are discussed in the next section. The sections following provide an alternative explanation through the lenses of adaptational pressure and domestic political conflicts. By elaborating the paradox of the stable EMS, I first argue that the very factors conducive to the successful EMS exerted a specific kind of adaptational pressure that made it necessary to move toward a single monetary policy. With this analysis in mind, I then explore the domestic political conflicts over macroeconomic policy tools in the 1980s with a focus on France.

Ⅱ. Limits of the Extant Theories

As many have pointed out, the most important precondition for the transition to EMU was the anti-inflationary discipline on which a core group of European Community(EC) countries converged in the 1980s.[6] Without this policy conversion, the drive for

---

Italy (Boulder: Lynne Rienner Publishers, 2000); John T. Wooley, "Policy Credibility and European Monetary Institutions," in Alberta M. Sbragia (ed.), *Euro-Politics: Institutions and Policymaking in the "New" European Community* (Washington, D.C.: The Brookings Institution, 1992).

5) William Bernhard and David Leblang, "Democratic Institutions and Exchange Rate Commitments," *International Organization* 53-1 (1999), pp. 71-97; William Bernhard and David Leblang, "Political Parties and Monetary Commitments," *International Organization* 56-4 (2002), pp. 803-830; Francesco Giavazzi and Marco Pagano, "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review* 32-5 (1988), pp. 1055-1082; Kenneth Dyson and Kevin Featherstone, "Italy and EMU as a '*Vincolo Esterno*': Empowering the Technocrats, Transforming the State," *South European Society and Politics* 1-2 (1996), pp.272-299; Kenneth Dyson and Kevin Featherstone, *The Road to Maastricht: Negotiating Economic and Monetary Union* (Oxford and New York: Oxford University Press, 1999).

6) David Cameron, "The 1992 Initiative: Causes and Consequences," in Alberta M. Sbragia (ed.),

monetary union would have been impossible. Yet, monetary union is not the only means that countries can adopt for the sake of disinflationary policy. Wayne Sandholtz[7] succinctly summarizes three possibilities: unilateral, multilateral, and integrative approaches.

One extreme is that countries could commit themselves to macroeconomic discipline without belonging to any sort of fixed exchange-rate regime or currency union. It suffices to recall that the rich literature on the independence of the central bank argues that monetary commitment can be enhanced by delegating monetary authority to independent and conservative central banks.

Second, countries could have stuck to the then-successful EMS rules. The major advantage of this option is that the EMS rules, unlike monetary union, provide countries with enough flexibility to deal with domestic macroeconomic problems they may encounter in preserving exchange parities while allowing them to enjoy disciplinary benefits of the fixed exchange-rate regime. In light of the Optimum Currency Area (OCA) theory, a fixed exchange-rate regime with built-in flexibility like the EMS can be a superior solution to those countries like European countries that are heavily trade dependent on each other but with divergent business cycles and low factor mobility.[8]

The last option is a currency union that effectively deprives member states of the tools of nominal exchange-rate adjustment and capital controls, which have been used as means to accommodate declining national competitiveness. One obvious merit of this option is the reduction in transaction costs as the EC Commission advocated it.[9] The drawback, however, is that individual countries have to cope with asymmetric economic shocks by solely relying on domestic inflation control at the expense of other macroeconomic objectives, which may exert a dampening effect on their economies.[10]

In sum, by the time European countries initiated an ambitious plan of monetary union with the built-in commitment to price stability, they could have chosen other alternatives. Further, there is no a priori reason to believe that a currency union is a

---

Euro-Politics: Institutions and Policymaking in the 'New' European Community (Washington, D.C.: Brookings Institution, 1992).

7) Sandholtz (1993).

8) Barry Eichengreen, "One Money for Europe? Lessons from the U.S. Currency Union," *Economic Policy* 5-10 (1990), pp. 117-187; Clas Wihlborg and Thomas D. Willett, "Optimal Currency Areas Revisited," in Clas Whilborg, Michele Fratianni, and Thomas D. Willett (eds.), *Financial Regulation and Monetary Arrangements After 1992* (Amsterdam: North-Holland, 1992).

9) The EC Commission estimated that the savings in transaction costs would amount to about 0.5 percent of GDP per year for the largest countries and up to 1.0 percent for the smallest countries. See Commission of the European Communities, "One Market, One Money," *European Economy* 44 (1990).

10) Eichengreen (1990).

superior means to achieve the proposed goal of price stability. The question then is why European countries chose a currency union at the expense of other possibilities. Several theories have been proposed to answer this question, but with some limitations. I review four theories here: interest group politics, the spillover argument, the norm-based explanation, and the voice opportunity hypothesis.

1. Interest Group Politics

One conventional explanation is to focus on the interest group politics.[11] It starts with the distributional impact of the exchange-rate policy and then speculates the policy demand from relevant interest groups for the completion of full monetary union. To the extent that currency volatility increases the risk and uncertainty of cross-border transactions, financial firms and cross-border investors should prefer exchange rate stability. On the other hand, import competitors and producers of non-tradable goods should prefer exchange rate flexibility since it allows governments to affect the relative prices of domestic and foreign goods through devaluation. Policy makers thus face a trade-off between exchange rate flexibility and stability, and the relative importance of groups in society who stand to gain from one or the other side of the trade-off has a powerful impact on the ultimate choice.[12]

Two general problems can be identified with this logic. First, it is not so easy to identify the preferences of interest groups with respect to the proposed trade-off between exchange-rate stability and flexibility. Manufacturing exporters, for example, should prefer exchange rate flexibility to the degree that it makes exported goods cheaper in world market. At the same time, however, they prefer exchange rate stability as a way to reduce uncertainty since the changes in nominal exchange rates are not fully passed through in many cases.[13] Thus, it is fair to say that interest groups prefer policies that stabilize the currency at a competitive level.[14]

The second and more important problem is that empirical data do not support the proposition that those segments of economic interest groups that would benefit most

11) Jeffry A. Frieden, "The Impact of Goods and Capital Market Integration on European Monetary Politics," *Comparative Political Studies* 29-2 (1996), pp. 193-222; Jeffry A. Frieden, "Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration," *International Organization* 56-4 (2002), pp. 831-860; Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca, NY: Cornell University Press, 1998).
12) Frieden (2002); Moravcsik (1998).
13) Frieden (2002), p. 840.
14) Walsh (2000), p. 7.

supported and lobbied for the EMU. In fact, empirical evidence has revealed the opposite: business groups were at best indifferent, and in many cases skeptical.[15]

2. Spillover from the Single Market

The spillover proposition is that the Single Market program has increased the support for and the necessity of EC-level initiatives in monetary policy. Broad support for the Single Market, the argument goes, has tilted preferences toward programs that might cement the gains from a single market. The EC Commission advocated the idea of monetary union in this framework by declaring that "the economic advantages of 1992 [single market program] are certainly not fully achievable without a single currency."[16] According to the same report, the launch of the single market program, especially complete capital liberalization, and exchange-rate stability in the EMS are incompatible with divergent national monetary policies. Thus, without a move to the EMU, either EMS or the single market program would be stalled.[17]

This logic, however, suffers from two major weaknesses. The first one is the time-inconsistency problem: the decision to liberalize capital markets and to explore the possibility of monetary union came about simultaneously. The European Council decision to establish the Delors Committee on EMU was made in 1988, the same year as the capital liberalization directive and one year before the directive on banking services. Since the logic of spillover involves a learning process in which political actors adjust their expectations and preferences,[18] this simultaneity renders the spillover argument problematic.

Second, it is highly questionable whether the single market program necessitates a currency union. In fact, many economists argue that a fully liberalized market can effectively operate without a common currency.[19] Further, from the perspective of OCA

---

15) Dorothee Heisenberg, "Taking a Second Look at Germany's Motivation to Establish Economic and Monetary Union: A Critique of 'Economic Interests' Claims," *German Politics* 14-1 (2005), pp. 95-109; Karl Kaltenthaler, *Germany and the Politics of Europe's Money* (Durham and London: Duke University Press, 1998).

16) Commission of the European Communities (1990), p. 17.

17) See also Tommaso Padoa-Schioppa, "The European Monetary System: A Long-term View," in Francesco Giavazzi, Stefano Micossi, and Marcus Miller (eds.), *The European Monetary System* (Cambridge: Cambridge University Press, 1988).

18) Peter M. Haas and Ernst B. Haas, "Learning to Learn: Improving International Governance," *Global Governance* 1-3 (1995), pp. 255-284.

19) Marcello de Cecco and Alberto Giovannini (eds.), *A European Central Bank? Perspectives on Monetary Union after Ten Years of the EMS* (New York: Cambridge University Press, 1989); Francesco Giavazzi, Stefano Micossi, and Marcus Miller (eds.), *The European Monetary*

literature, even the core EMS countries do not meet the necessary condition for a currency union despite the progress toward the Single European Market.[20] As shown in Table 1, the business cycles of the core EMS countries became less similar in the 1980s than in the 1970s. Thus, there is no strong economic rationale to expect that the launch of the European Single Market necessitated the transition to EMU.

Table 1. Symmetry of Business Cycles in Europe (1970-1990)

	With all other countries			With Germany		
	1970-1979	1980-1990	Whole Period	1970-1979	1980-1990	Whole Period
Austria	0.7544	0.6732	0.7597	0.6462	0.6687	0.6784
Belgium	0.8511	0.7940	0.8486	0.7367	0.4103	0.6363
Denmark	0.7155	0.1009	0.5137	0.8426	0.0768	0.5301
Finland	0.6582	0.3752	0.5797	0.4162	-0.3065	0.1942
France	0.9179	0.7895	0.8823	0.8336	0.4654	0.7069
Germany	0.8870	0.7150	0.8273			
Greece	0.4786	0.6973	0.5919	0.5157	0.3297	0.4998
Ireland	0.1873	0.4357	0.2983	-0.0258	0.6010	0.3177
Italy	0.7855	0.7978	0.7718	0.9324	0.4143	0.7527
Luxembourg	0.8112	0.8541	0.6974	0.6262	0.5725	0.5167
The Netherlands	0.7485	0.7758	0.7646	0.6837	0.8771	0.7953
Portugal	0.9651	0.5775	0.8579	0.9087	0.2529	0.6788
Spain	0.6520	0.8533	0.7293	0.3108	0.6187	0.4555
Sweden	0.3063	0.6592	0.4228	0.1203	0.4172	0.2443
UK	0.7983	0.5773	0.6643	0.7572	0.3448	0.5415

Note: Entries are the correlation coefficients of growth rates. Data on growth rates are from OECD, *Economic Outlook* (various years).

3. Neoliberal Policy Consensus and the Norm of Domestic Price Stability

McNamara[21] presents an alternative explanation arguing that the neoliberal policy consensus among European political leaders made the EMS successful and paved the way for the later transition toward EMU. According to her, as increasing capital mobility undermined the efficacy of expansionary monetary and fiscal policy, the post-

System (Cambridge: Cambridge University Press, 1988); Geoffrey E. Wood, "One Money for Europe? A Review Essay," *Journal of Monetary Economics* 25-2 (1990), pp. 313-322.

20) Eichengreen (1990).

21) Kathleen McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca, NY: Cornell University Press, 1998).

WWII consensus on 'embedded liberalism' was seriously questioned and the new ideology of neoliberalism (monetarism) gained credit among European political leaders in the 1980s.

This ideological shift was facilitated by the success of German "institutionalized monetarism," which was characterized by an independent central bank committed to price stability.[22] As the German model provided a "focal point" for policy emulation in a time of economic difficulty,[23] drastic neoliberal policy shifts took place in France and Italy. The Barre government in France proclaimed the "*Modell Deutschland* for France"[24] in 1976, which aimed at a radical policy shift toward monetary rigor (*franc fort*), and the Andreotti government in Italy followed suit.[25] This emerging norm of domestic price stability and the concomitant policy shift in France and Italy, according to her, contributed to the success of the EMS in the 1980s and made it easier for the European countries to move on to the EMU.

This logic, however, makes it obscure why European countries ever imagined the relinquishment of monetary sovereignty given that EMS functioned well in combination with the norm of domestic price stability. That is, while the emerging consensus on domestic price stability was truly the precondition for the successful EMS, it does not necessitate the transition to EMU. This problem arises in this logic because it overlooks the extent to which political leaders could use the fixed exchange-rate regime as a means to commit to price stability.[26] In fact, political debate over monetary policy within high-inflation countries such as France and Italy in the 1980s was centered on whether the exchange-rate realignments or the competitive disinflationary policy was a proper

---

22) Fritz Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca: Cornell University Press, 1991); Wolfgang Streeck, "German Capitalism: Does It Exist? Can It Survive?" in Colin Crouch and Wolfgang Streeck (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997).

23) David Cameron, "Transnational Relations and the Development of European and Economic Monetary Union," in Thomas Risse-Kappen (ed.), *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (New York: Cambridge University Press, 1995b); Kenneth Dyson, Kevin Featherstone and George Michalopoulos, "Strapped to the Mast: EC Central Bankers Between Global Financial Markets and Regional Integration," *Journal of European Public Policy* 2-3 (1995), pp. 465-487; Wayne Sandholtz, "Monetary Bargains: The Treaty on EMU," in Alan Cafruny and Glenda Rosenthal (eds.), *The State of the European Community: The Maastricht Debates and Beyond* (Boulder: Lynne Rienner, 1995).

24) Jonathan Story, "Convergence at the Core? The Franco-German Relationship and Its Implications for the Community," in Michael Hodges and William Wallace (eds.), *Economic Divergence in the European Community* (London: Allen and Unwin, 1981), p. 173.

25) McNamara (1998), Ch. 6.

26) Giavazzi and Pagano (1988); Berthold Herrendorf, "Transparency, Reputation, and Credibility under Floating and Pegged Exchange Rates," *Journal of International Economics* 49-1 (1999), pp. 31-50.

choice to compensate for the dampening effect of domestic inflation.[27] As I will discuss later, those political leaders who committed to domestic price stability sought the more rigorous exchange rate regime as a means to buttress their policy choice.

4. The Voice Opportunity Hypothesis

Grieco[28] develops a neorealist explanation of the transition from the EMS to the EMU. In line with his previous work on the importance of relative gains in international cooperation,[29] he argues that the transition from EMS to EMU can be explained by what he called the "voice opportunity hypothesis." The essence of this hypothesis reads as follows:

> [I]f states share a common interest and undertake negotiations on rules constituting a collaborating arrangement, then the weaker but still influential partners will seek to ensure that the rules so constructed will provide sufficient opportunities for them to voice their concerns and interests and thereby prevent or at least ameliorate their domination by strong partners.[30]

The underlying assumption of this hypothesis is that EMS had become a "hierarchic and asymmetric system"[31] in which Germany played a leading role, imposing constraints on other countries' domestic monetary and fiscal policies. In fact, the motivation for Balladur's proposal on the EMU in 1988 was the French and Italian perception that EMS had functioned asymmetrically so that German monetary policy set the ground rules for monetary policies in the system.[32] Yet, while this hypothesis may explain the French and Italian motivation for the Europeanization of monetary policy, it nevertheless fails to

---

27) David Cameron, "From Barre to Balladur: Economic Policy in the Era of the EMS," in Gregory Flynn (ed.), *Remaking the Hexagon: the New France in the New Europe* (Boulder, CO: Westview Press, 1995a); George Ross, "French Social Democracy and the EMU," *ARENA Working Papers 98/19* (1998). Available online at: http://www.arena.uio.no/publications/working-papers1998/papers/wp98_19.htm.

28) Joseph Grieco, "The Maastricht Treaty, Economic and Monetary Union and the Neo-Realist Research Programme," *Review of International Studies* 21-1 (1995), pp. 21-40.

29) Joseph Grieco, *Cooperation among Nations: Europe, America, and Non-Tariff Barriers to Trade* (Ithaca and London: Cornell University Press, 1990).

30) Grieco (1995), p. 34.

31) Daniel Gros and Niels Thygesen, "Le SME: Performances and Perspectives," *Observations et Diagnostics Economiques* 24 (1988), p. 62.

32) Cameron (1995b); Horst Ungerer, *A Concise History of European Monetary Integration: From EPU to EMU* (Westport and London: Quorum Books, 1997), pp. 191-192.

explain why the EMU ended up with the commitment to the German-style price stability as opposed to Balladur's vision of a more lax monetary union.[33)]

The second issue relates to the nature of the asymmetry and the institutional adaptability of the EMS. As many have pointed out, the EMS *became* asymmetric as the French and Italian governments followed suit with German monetary policy -- i.e., EMS was symmetric by design, but became asymmetric in operation.[34)] Article 3.5 of the Council Resolution establishing the EMS stresses that actions cannot be taken unilaterally but must be in "concertation between central banks."[35)] Further, the flexibility of the EMS provided member countries with the opportunity to address the issue of asymmetry within the system. In fact, the changes in EMS rules in 1987 (the Basle-Nyborg Agreements) were a response to the asymmetry allegation and aimed at enabling the EMS to cope with problems experienced by weak currency countries without sacrificing the stability of the system.[36)] Thus, relatively weak countries could have chosen to ameliorate asymmetry within the EMS rules without moving toward EMU.

Ⅲ. The Paradox of the Successful EMS

The existing theories do not provide a satisfactory answer as to why European countries would have ever imagined changing the successfully functioning EMS. The answer, I argue, lies in the nature of this success. Paradoxically, the success of the EMS dug its own grave so as to be taken over by a new form of monetary arrangement in two important aspects. First, as the EMS became stable and successful, member countries became more vulnerable to monetary policy differentials among themselves. With deepening economic integration, any inflation differentials among the EMS countries came to exert a significant influence on the national competitiveness. Those countries with higher inflation rates than others experienced the loss of competitiveness through

---

33) Kenneth Dyson, *Elusive Union: The Process of Economic and Monetary Union in Europe* (London: Longman, 1994); Craig Parsons, *A Certain Idea of Europe* (Ithaca and London: Cornell University Press, 2003).

34) Daniel Gros and Niels Thygesen, *European Monetary Integration: From the European Monetary Systems to European Monetary Union* (New York: St. Martin's Press, 1992), pp. 149-150; Ungerer (1997), pp. 188-192.

35) Commission of the European Communities, "The European Monetary System," *European Economy* 3 (1979), p. 95; Michele Fratianni and Jürgen von Hagen, *The European Monetary System and European Monetary Union* (Boulder, San Francisco and Oxford: Westview Press, 1992), p. 23.

36) Ungerer (1997), p. 180.

the appreciation of real exchange rates. To the extent that EMS allowed nationally divergent monetary policies, the success of EMS simply meant the rising adaptation costs for them. The demand for a single currency and, thus, a single monetary policy was a response to this problem.

Second, in relation to the costs associated with the stable EMS, domestic political actors were sharply divided over the choice of macroeconomic tools. This increasing divergence among political actors within domestic politics led the incumbents to seek monetary delegation as a means to lock in the course of policy they chose. I begin with the first proposition.

EC countries regarded exchange-rate stability as so important that by the mid-1960s a return to flexible exchange rates was already perceived as too harmful for the Community.[37] The Bretton Woods system provided EC countries with this desirable exchange rate stability until it finally ended in 1972. Right after the collapse of Bretton Woods, European countries launched the Snake as a regional exchange rate arrangement, but soon noticed its failure. A new initiative on fixed exchange rates came out in 1979 under the leadership of German Chancellor Helmut Schmidt and French President Giscard d'Estaing. This new system, called the EMS, persisted much longer than many economists originally expected and remained stable throughout the 1980s.

This system turned out to be stable in two important aspects: membership and macroeconomic convergence. Unlike the Snake, the membership of the EMS remained stable throughout the 1980s. Also, EMS countries achieved an important convergence in monetary policies. The average inflation rate in the EMS peaked in 1980 at 11.6% and declined steadily thereafter to 2.2 percent in 1987. At the same time, the standard deviation of inflation rates among the members fell from 6.2 percent to 1.9 percent during the same period. The average inflation rate rose slightly after 1987, but the standard deviation did not. Further, the exchange rate variability of the EMS countries continually decreased throughout the 1980s.[38]

There is no doubt that the success of the EMS paved the way for the transition to the EMU. However, the dynamism behind this linkage is more complicated than it appears at first glance. The EMS was intended to use fixed exchange rates as an instrument to strengthen the coordination of monetary policies among the European economies in order to overcome the unsatisfactory performance of flexible exchange rates and exogenous economic shocks.[39] Using fixed exchange rates as a vehicle for policy

---

37) Loukas Tsoukalis, *The Politics and Economics of European Monetary Integration* (London: Allen and Unwin, 1977).

38) See Fratianni and von Hagen (1992); Ungerer (1997).

coordination, however, creates a conflict between the desire to adopt a joint monetary policy in the short run and the desire of the member countries to choose their domestic inflation rates independently in the long run. This could no longer be the case if there was a general agreement on the group's joint inflation rates, which was not the case by the time the EMS was envisaged. To resolve this inherent conflict, the design of the EMS was based on two principles: flexibility and symmetry.

The principle of flexibility included two important aspects. First, it meant that the central parities in the EMS should not be regarded as rigidly fixed and could be changed in realignments with the consent of all the members. From the beginning, it was stressed that the infrequency of realignments should not be taken as a criterion of success of the EMS.[40] Second, the flexibility principle allowed member countries to impose capital and exchange controls to preserve some effectiveness and independence of their domestic monetary policies. These means of capital and exchange controls sheltered domestic from international money and capital markets and played an important role in providing high-inflation countries, such as France and Italy, with room for an independent domestic monetary policy.[41]

The principle of symmetry meant that no EMS member country should carry a disproportionate cost of adjustment to balance-of-payments disequilibria.[42] The 1978 Bremen Resolution of the European Council, the founding document of the EMS, declares "a system of closer monetary cooperation will only be successful if participating countries pursue policies conducive to greater stability at home and abroad; this applies to the deficit and surplus countries alike."[43]

Flexibility and symmetry together imply that the long-run inflation trend of the EMS was left undetermined. This was the main reason why most macroeconomists expected the EMS to fail by trying to forge high-inflation France and Italy into an exchange-rate arrangement with low-inflation Germany. Some predicted that the EMS might last longer due to political reasons, but it would end up with generally higher inflation rates

---

39) Fratianni and vin Hagen (1992), p. 45.

40) Commission of the European Communities (1979), p. 78; Jacques van Ypersele, "Operating Principles and Procedures of the EMS," in Philip H. Trezise (ed.), *The EMS: Its Promise and Prospects* (Washington, D.C.: The Brookings Institution, 1979), p. 9.

41) Francesco Giavazzi and Alberto Giovannini, "Models of the EMS: Is Europe a Greater Deutschmark Area?" in Ralph C. Bryant and Richard Portes (eds.), *Global Macroeconomics: Policy Conflict and Cooperation* (New York: St. Martin's Press, 1987); Charles Wyplosz, "Monetary Policy in France: Monetarism or Darwinism?" *Finanzmarkt und Portfolio Management* 2-1 (1988), pp. 56-67.

42) van Ypersele (1979), p. 6.

43) Commission of the European Communities (1979), p. 93.

without putting pressure on the high-inflation countries to pursue a more disciplinary monetary stance.[44)]

While the EMS was in its design symmetrical in the sense that all participants have the same rights and obligations with regard to intervention, the provision and the use of credit lines, it turned out that Germany set the standard for other countries' monetary policies. In fact, the French and the Italian authorities kept arguing that the EMS was plagued by the deflationary bias that resulted from the Bundesbank's restrictive monetary policies.[45)] The major reason behind this accusation was the devastating effect of real exchange rate appreciation on those high-inflation countries. Throughout the 1980s, the intra-European trade dependence of major European countries increased at least two times over the 1970s. This exponentially increased trade dependence made it vital to keep real exchange rates competitive vis-à-vis other European currencies. Since Germany kept its inflation lower than France and Italy owing to the Bundesbank's commitment to domestic price stability, these two countries had to experience a continuing loss of competitiveness.

To compensate for this, the weak-currency countries had virtually two options. One solution, of course, was to rely on periodic realignments, the devaluation of weak currencies and the revaluation of the German mark. As envisioned by the original designers of the EMS, the weak-currency countries could cope with inflation differentials in this way so that they had room for various domestic macroeconomic objectives. The second choice was to change the course of macroeconomic policies in such a way as to control domestic inflation. This would be a viable option in the long run, but required restrictive macroeconomic policies that might have negative impacts on other macroeconomic goals such as growth and employment.

---

44) Michele Fratianni and Jürgen von Hagen, "The European Monetary System Ten Years After," *Carnegie-Rochester Conference Series on Public Policy* 32 (1990), pp. 173-241; Roland Vaubel, "The Return to the New EMS," in Karl Brunner and Allan H. Meltzer (eds.), *Monetary Institutions and the Policy Process* (Amsterdam: North Holland, 1980).

45) Ungerer (1997), pp. 188-192.

Table 2. Exchange-Rate Realignments within EMS, 1979-1990

	DM	HFL	FF	BFR	LIT	DKR	IRL
SEP. 24, 1979	2.0					−2.9	
NOV. 30, 1979						−4.8	
MAR. 23, 1981					−6.0		
OCT. 5, 1981	5.5	5.5	−3.5		−3.0		
FEB. 22, 1982				−8.5		−3.0	
JUN. 14, 1982	4.25	4.25	−5.75		−2.75		
MAR. 21, 1983	5.5	3.5	−2.5	1.5	−2.5	2.5	−3.5
JUL. 22, 1985	2.0	2.0	2.0	2.0	−6.0	2.0	2.0
APR. 7, 1986	3.0	3.0	−3.0	1.0		1.0	
AUG. 4, 1986							−8.0
JAN. 12. 1987	3.0	3.0		2.0			
JAN. 5, 1990					−3.7		

Source: Fratianni and von Hagen 1992, p. 22, Table 2-2.
Note: the numbers are percent changes of a given currency's bilateral central rate against those currencies whose bilateral parities were not changed. On March 21, 1983, and on July 22, 1985, all parities were realigned.
Abbreviations: DM=Deutsche mark; HFL=Dutch guilder; FF=French franc; BFR=Belgian/Luxembourg franc; LIT=Italian lira; DKR=Danish kroner; IRL=Irish punt.

The course chosen by the weak-currency countries was the latter. While reliance on exchange rates realignments was common practice throughout the 1980s, it became less frequent after 1983, and there was no realignment between 1987 and 1990 (see Table 2). In the mid-1980s, a policy reorientation stressing domestic price stability took place among the weak-currency countries. Behind the success of the EMS lies this policy shift, which exemplifies politicians' willingness to pursue unpopular restrictive policies.[46] Yet, this policy reorientation made these countries more vulnerable to changes in German monetary policy. Given that domestic inflation control became the only remaining macroeconomic tool and that these countries had higher inflation than Germany, monetary policy should closely respond to any changes in German monetary policy with much higher interest rates.

Figure 1 depicts the long-term interest rates of Germany and France from 1960 to 2000. As is apparent from this figure, France had to keep interest rates much higher than Germany throughout the 1980s once it chose to refrain from using devaluations but to rely on inflation control. France could only lower interest rates once inflation rates became stabilized in the late 1980s. This restrictive monetary policy undoubtedly helped France overcome endemic inflationary bias, but reduced the flow of credit into

46) Wooley (1992).

the economy so that growth rates and employment declined over time.[47] It is in this context that the EMS became a more asymmetric system in operation, in which Germany, specifically the Bundesbank, set the standard for other countries' monetary policies.[48]

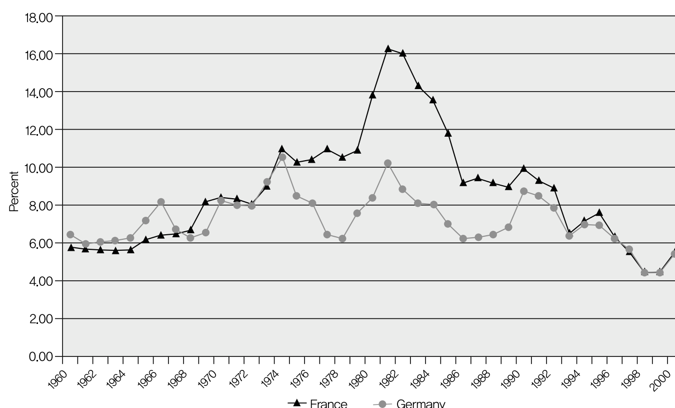

Figure 1. Long-term Interest Rates in France and Germany, 1960-2000
(Source: OECD, *Economic Outlook, various years*)

The paradox of the stable EMS lies in the fact that the very factor conducive to making EMS successful actually made it institutionally unsustainable. Once EMS countries started to refrain from devaluation as a macroeconomic tool to neutralize real exchange rate appreciation, the institutional structure that allowed monetary autonomy became less viable. The more they committed to domestic price stability, the more they became sensitive to the lowest inflation country's monetary policy since it would eventually determine real exchange rates differentials.

Of course, they would not have been so sensitive had they not heavily depended on each other's economies. Increasing economic interdependence culminated with the removal of capital controls in the late 1980s. On June 24, 1988, the Council of Ministers adopted a new directive. It stipulated complete capital movement liberalization for most EC members by July 1, 1990, but granted certain derogations to Greece, Ireland, Portugal, and Spain.[49] Following this new directive, Denmark abolished virtually all remaining restrictions on capital movements on October 1, 1988. France and Italy followed suit in January and May of 1990, respectively. This new initiative deprived EMS countries of the bulwark against speculative attacks and deterioration of balance-of-payments.[50]

47) Cameron (1995a).
48) Fratianni and von Hagen (1992); Ungerer (1997).
49) Horst Ungerer, Jouko J. Hauvonen, Augusto Lopez-Claros, and Thomas Mayer, "The European Monetary System: Developments and Prospects," *IMF Occasional Paper* 73 (1990), pp. 34-35.

Combined with the EMS countries' reluctance to use devaluation as a viable option, the removal of capital controls left member states with one single macroeconomic policy tool: inflation control. Again, the sole macroeconomic tool of domestic inflation control renders member countries to be vulnerable to monetary policy differentials in the system.

It has been pointed out that the success of the EMS in the 1980s was mainly due to this policy convergence toward low inflation.[51] What has been overlooked in this story is that the very success of the EMS brought about adaptation costs to those countries that experienced higher inflation than Germany. This concern was the major motivation behind Balladur's proposal in 1988 for reform of the EMS and transition to the monetary union.[52] In his memorandum proposing a transition to a monetary union, Balladur argued that "the European Monetary System should resist the influence of countries with the most restrictive monetary policies."[53] Paradoxically, this asymmetric burden-sharing was actually the result of policy choices that European countries made in the mid 1980s. The policy convergence among European countries was Janus-faced in the sense that it made the EMS successful, but hard to live with. Given inflation differentials and their impact on national competitiveness, the system characterized by distinct monetary policies could not stand firm. Only a new system applying a single monetary policy to Europe could be considered a proper solution to adaptation costs.

Ⅳ. Why Commit? Domestic Politics and the Transition to EMU

Asymmetric adaptation costs under the stable EMS were the motivation behind the

---

50) Minford argues that without capital controls, a fixed-but-adjustable exchange rate faces speculative attack "with markets betting on a devaluation for a safe one-way option bet" because they do not lose anyway even if there is no devaluation. While the removal of capital controls was the sign of deepening economic integration, it nevertheless made EMS countries vulnerable to inflation differentials that constitute a ground for speculative attack. See Patrick Minford, "The Lessons of European Monetary and Exchange Rate Experience," in Sebastian Edwards (ed.), *Capital Controls, Exchange Rates, and Monetary Policy in the World Economy* (New York: Cambridge University Press, 1995), p. 94.

51) Massimo Russo and Giuseppe Tullio, "Monetary Policy Coordination within the European Monetary System: Is There a Rule?" in Francesco Giavazzi, Stefano Micossi, and Marcus Miller (eds.), *The European Monetary System* (Cambridge: Cambridge University Press, 1988); Wooley (1992).

52) Cameron (1995b).

53) Quoted in Dorothee Heisenberg, *The Mark of the Bundesbank: Germany's Role in European Monetary Cooperation* (Boulder and London: Lynne Rienner Publishers, 1999), p. 100.

proposal for the EMU in the late 1980s. One remaining complication is that the concern for the asymmetric costs could have led to a more lax monetary union than the current EMU. In fact, French Finance Minister Balladur's proposal was motivated by the intention to free France from the Bundesbank's domination. In line with his accusation of an asymmetric EMS, he originally envisioned a less restrictive monetary policy than Germany in the new monetary union. The final outcome was not what he envisioned, however. The agreement on the EMU was made by French President Mitterrand, who was willing to accept the German terms in the EMU negotiations. Despite domestic discontent, Mitterrand was the one who proposed a European central bank (ECB) for the first time in October 1987 and agreed to capital liberalization in June 1988 in order to induce German Chancellor Kohl's agreement to launch a committee on EMU under Commission President Delors.[54] This discrepancy between what Balladur envisioned and what Mitterrand finally agreed to reflects domestic disagreement on macroeconomic policies.[55]

Balladur's memo in January 1988 was a response to two important developments in Europe. One is the Basle-Nyborg Accord of September 1987, which extended and liberalized intervention financing for the defense of exchange rate parity.[56] While it was designed to make the EMS more symmetric, Balladur saw it as insufficient. The other was the Commission's proposal of directives on capital liberalization in November 1987. France hoped to block or delay capital liberalization since any hint of divergence from German monetary policies could spark massive speculation so that the pressure on the franc would be worsened. Balladur thus argued that further integration in the monetary area was the only possible solution. But his memo focused on less drastic ways of reforming the EMS and did not contain fundamental institutional reform.[57] Further, his reference to a European central bank and common currency was more like political rhetoric designed to secure the coalescence of the right-wing coalition in the run-up to Chirac's presidential bid in May 1988.[58]

President Mitterrand, on the other hand, took an ambitious step toward the EMU.

---

54) Parsons (2003).
55) Parsons (2003) explains this discrepancy in terms of the ideational conflicts in France over the European issue. According to him, Mitterrand's pro-Community commitment finally led him to agree to an EMU that is essentially in German-defined terms despite various domestic disagreements. While this logic is useful to highlight the domestic conflict over the EMU in France, it overlooks that the conflicts over EMU was not only about the idea of Europe, but proper macroeconomic policy tools.
56) Ungerer et al. (1990), pp. 87-89.
57) Dyson (1994), p. 125.
58) Parsons (2003), p. 212.

After his reelection in 1988, he moved to the establishment of the Delors Committee and accepted the proposal that was largely in German-defined terms. His willingness to accept an EMU following the German model became clear in his acceptance of the capital liberalization directive even without concessions from Germany in the harmonization of capital tax gains. Originally, Mitterrand had agreed to withdraw his objection to the capital liberalization directive at the Franco-German summit in June 1988 in exchange for Kohl's promise to harmonize capital tax gains. Given that the capital gains tax was higher in France than in Germany, this exchange was considered a necessary step for French acceptance of the transition to a single currency. However, Kohl reneged on his promise later in the same year.[59] Despite this unfavorable reaction from Germany and domestic opposition, Mitterrand was fully committed to move further toward the German-defined EMU. What explains this commitment?

The answer lies in that Mitterrand saw the EMU as an external source of domestic empowerment for the *franc fort policy.*[60] Mitterrand's commitment to the *franc fort* policy goes back to the policy turnaround in 1983. When Mitterrand took office in 1981, he brought in a host of Keynesian expansionary policies despite the fact that the franc was overvalued by about 15 percent and under speculative assault in currency markets.[61] Expecting that the world economy would recover, the Socialist government initially refused to devalue the franc or to withdraw from the EMS, but kept stimulating the economy through expansionary fiscal and monetary policies.[62] Enjoying a secure parliamentary majority, the Mitterrand government had little difficulty in enacting into law a variety of expansionary measures. Without the expected recovery of the world economy, however, the Socialist government realized by the fall of 1981 that it could not stand the overvaluation of and concomitant speculative attack on the franc. From the fall of 1981 to 1983, the cycle of expansionary policy followed by periodic devaluation persisted.

The policy turnaround took place after the devaluation in March 1983. Since then,

59) Parsons (2003), p. 217.

60) Dyson and Featherstone (1999); Kevin Featherstone, "The Political Dynamics of External Empowerment: the Emergence of EMU and the Challenge to the European Social Model," in Andrew Martin and George Ross (eds.), *Euros and Europeans: Monetary Integration and the European Model of Society* (Cambridge and New York: Cambridge University Press, 2004).

61) Cameron (1995a), p. 128.

62) Marc Lombard, "A Re-examination of the Reasons for the Failure of Keynesian Expansionary Policies in France, 1981-1983," *Cambridge Journal of Economics* 19-2 (1995), pp. 359-372; Pierre-Alain Muet, "Economic Management and the International Environment, 1981-1983," in Howard Machin and Vincent Wright (eds.), *Economic Policy and Policy-Making under the Mitterrand Presidency 1981-1984* (London: Frances Pinter, 1985).

none of the Socialist governments have devalued the franc once. Instead, restrictive fiscal and monetary policies were introduced in order to lower inflation rates. The main reason for this policy turnaround was, among others, the Socialist government's new-found aversion to devaluation. By the end of the 1983 currency crisis, Mitterrand was fed up with the recurring pattern in each crisis: EMS negotiation for the devaluation of the franc followed by the contraction of the economy. Moreover, he believed that the Socialists would suffer electoral retribution for devaluation.[63] As a result of this policy turnaround, inflation rates started to decline, marking 7.4 percent in 1984 and 5.8 percent in 1985 as compared to 13.4 in 1981 and 11.8 in 1982. This policy shift did not come without a price, however. While inflation rates dramatically declined by 1986, unemployment rates rose up to 10.2 percent in the same year (see Figure 2).

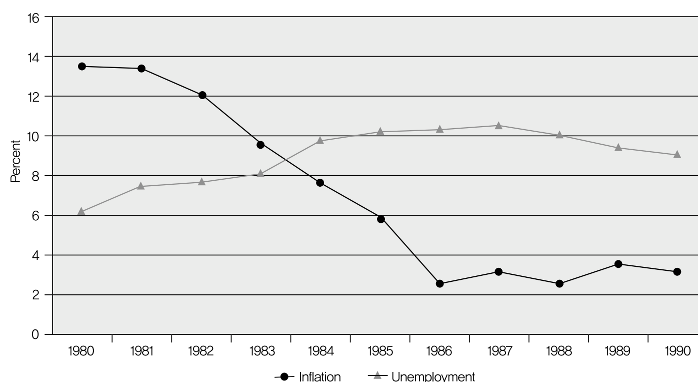

Figure 2. Inflation and Unemployment Rates in France, 1980-1990
(Source: OECD, *Economic Outlook, various years*)

Despite Mitterrand's belief that devaluation would lead to electoral defeat, the Socialist Party and its allies lost their majority in the 1986 election and a *co-habitation* government headed by Jacques Chirac, the leader of the neo-Gaullist *Rassemblement pour la République* (RPR), was formed by the RPR and the *Union pour la démocratie française*. The Chirac government effected two realignments in the franc-mark exchange rate although it was in office only a little more than two years. The first occurred in a month of taking office, when Chirac's close ally Eduard Balladur negotiated realignment in the franc-mark rate. In the 1987 realignment, Balladur deliberately let the franc fall through its floor in order to force the German government to revalue the mark, which resulted in the first unilateral revaluation of the mark since 1979. These

63) See Cameron (1995a).

two realignments did offset the cumulative difference in French and German inflation rates after 1984 and effected a considerable reduction in the extent of overvaluation of the franc. That, in turn, contributed to an increase in the rate of growth, a diminution in the level of unemployment, and a slight reduction in the trade deficit in 1988.[64]

When the Socialist government returned in 1988, it reaffirmed its commitment not to use devaluation as a macroeconomic tool and reverted to the policy of "competitive disinflation."[65] While declining inflation in France gave credit to this policy of competitive disinflation, conditions were not so favorable. In fact, as of mid-1988, the franc was overvalued vis-à-vis the mark by about 12 percent and French inflation rates remained higher than Germany's until 1991.[66] This commitment to disinflation reflects Mitterrand's belief that devaluation provides only a short-term and transitory correction to the erosion in competitiveness and that restoring external competitiveness requires a reduction in relative costs and prices, which could only occur through a process of competitive disinflation.[67]

It is in this context that Mitterrand saw the EMU as a means to bind his policy commitment to disinflation. The experience of the co-habitation government between 1986 and 1988 proved that the unpopularity of disinflationary policy might lead to the recurrent use of devaluation as a means to restore external competitiveness. Mitterrand's proposal on the EMU and his willingness to accept German-defined terms reflect his intention to secure this new policy direction against possible reversal. With the single currency, i.e., without the exchange rate instrument and capital controls, any decline in competitiveness must be addressed by domestic policy changes, such as a lowering of wages and related costs. To the extent that this policy commitment could have been secured domestically, the need for a supranational solution might have diminished. Yet, the recurring policy conflicts with domestic opponents led Mitterrand to envision the EMU as a tool to pre-commit France to a disinflationary policy.

V. Conclusion

The transition from EMS to EMU raises an important puzzle as to what explains

64) Cameron (1995a), p. 137.
65) Walsh (2000), pp. 124-125.
66) Cameron (1995a), p. 137.
67) Olivier J. Blanchard and Pierre-Alain Muet, "Competitiveness through Disinflation: An Assessment of the French Macroeconomic Strategy," *Economic Policy* 8-16 (1993), pp. 11-56.

European countries' willingness to give up monetary sovereignty. Many theories have been proposed to explain it, but with limitations. Among others, extant theories fail to explain why European countries chose EMU at the expense of the then-successful EMS. While there is no doubt that the successful EMS in the 1980s provided a favorable ground for the launch of EMU, the linkage between them is neither inevitable nor deterministic.

In this article, I argue that the transition to EMU was facilitated by the adaptation costs associated with the paradoxical nature of the successful EMS and domestic political conflicts therein. As many have pointed out, the major factor that made EMS successful was the policy convergence on domestic price stability among the member countries. Yet, this policy convergence at the same time rendered member countries more vulnerable to the monetary policy differentials within the EMS. With the deepening economic integration, any inflation differential within the EMS could result in the loss of national competitiveness through the appreciation of real exchange rates. In order to prevent this, those countries with higher inflation rates had to adapt to the monetary policy of the lowest inflation country, but with painful costs.

To the extent that EMS allowed nationally distinct monetary policies, the devastating effect of real appreciation could only be addressed by domestic inflation control. Yet, the more high inflation countries committed to domestic price stability, the more adaptation costs they had to pay. The EMU was envisioned as a solution to this problem since it would eliminate monetary policy differential within the EMS.

Against this backdrop, domestic political actors were sharply divided over the appropriate monetary policies and those political actors who committed themselves to monetary discipline found in the EMU a means to lock in their policy choice. It has long been argued that a fixed exchange rate regime or a currency union can be used as a *vincolo esterno* to engineer otherwise elusive domestic reform.[68] In both France and Italy, those political and institutional actors who committed to the new policy paradigm of price stability thought of the EMU as a means to secure their preferred policy shift and bind successor governments.[69] The built-in commitment to price stability that characterizes the EMU reflects these domestic political conflicts over the appropriate monetary policies.

---

68) Giavazzi and Pagano (1988).
69) See Dyson and Featherstone (1996, 1999).

REFERENCES

Bernhard, William and David Leblang. "Democratic Institutions and Exchange Rate Commitments." *International Organization* 53-1 (1999).

_________. "Political Parties and Monetary Commitments." *International Organization* 56-4 (2002).

Blanchard, Olivier J. and Pierre A. Muet. "Competitiveness through Disinflation: An Assessment of the French Macroeconomic Strategy." *Economic Policy* 8-16 (1993).

Cameron, David. "The 1992 Initiative: Causes and Consequences," in Alberta M. Sbragia (ed.), *Euro-Politics: Institutions and Policymaking in the 'New' European Community.* Washington, D.C.: Brookings Institution, 1992.

_________. "From Barre to Balladur: Economic Policy in the Era of the EMS," in Gregory Flynn (ed.), *Remaking the Hexagon: the New France in the New Europe.* Boulder, CO: Westview Press, 1995a.

_________. "Transnational Relations and the Development of European and Economic Monetary Union." In Thomas Risse-Kappen (ed.), *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions.* New York: Cambridge University Press, 1995b.

Commission of the European Communities. "The European Monetary System." *European Economy* 3 (1979).

Commission of the European Communities. "One Market, One Money." *European Economy* 44 (1990).

Cowles, Maria G., James A. Caporaso, and Thomas Risse, eds. *Transforming Europe: Europeanization and Domestic Change.* Ithaca, NY: Cornell University Press, 2001.

De Cecco, Marcello and Alberto Giovannini, eds. *A European Central Bank? Perspectives on Monetary Union after Ten Years of the EMS.* New York: Cambridge University Press, 1989.

Dyson, Kenneth. "Benign or Malevolent Leviathan? Social Democratic Governments in a Neo-Liberal Euro Area." *Political Quarterly* 70-2 (1999).

_________. *Elusive Union: The Process of Economic and Monetary Union in Europe.* London: Longman, 1994.

Dyson, Kenneth and Kevin Featherstone. "Italy and EMU as a 'Vincolo Esterno': Empowering the Technocrats, Transforming the State." *South European Society and Politics* 1-2 (1996).

_________. *The Road to Maastricht: Negotiating Economic and Monetary Union.* Oxford and New York: Oxford University Press, 1999.

Dyson, Kenneth, Kevin Featherstone and George Michalopoulos. "Strapped to the Mast: EC Central Bankers Between Global Financial Markets and Regional Integration." *Journal of European Public Policy* 2-3 (1995).

Eichengreen, Barry. "One Money for Europe? Lessons from the U.S. Currency Union." *Economic Policy* 5-10 (1990).

Featherstone, Kevin. "The Political Dynamics of External Empowerment: the Emergence of EMU and the Challenge to the European Social Model," in Andrew Martin and George Ross eds, *Euros and Europeans: Monetary Integration and the European Model of Society*. Cambridge and New York: Cambridge University Press, 2004.

Fratianni, Michele and Jürgen von Hagen. "The European Monetary System Ten Years After." *Carnegie-Rochester Conference Series on Public Policy* 32 (1990).

_________. *The European Monetary System and European Monetary Union*. Boulder, San Francisco and Oxford: Westview Press, 1992.

Frieden, Jeffry A. "The Impact of Goods and Capital Market Integration on European Monetary Politics." *Comparative Political Studies* 29-2 (1996).

_________. "Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration." *International Organization* 56-4 (2002).

Giavazzi, Francesco and Alberto Giovannini. *Limiting Exchange Rate Flexibility: The European Monetary System*. Cambridge, MA: MIT Press, 1989.

_________. "Models of the EMS: Is Europe a Greater Deutschmark Area?" in Ralph C. Bryant and Richard Portes (eds.), *Global Macroeconomics: Policy Conflict and Cooperation*. New York: St. Martin's Press, 1987.

Giavazzi, Francesco and Marco Pagano. "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility." *European Economic Review* 32-5 (1988).

Giavazzi, Francesco, Stefano Micossi, and Marcus Miller, eds. *The European Monetary System*. Cambridge: Cambridge University Press, 1988.

Grieco, Joseph. *Cooperation among Nations: Europe, America, and Non-Tariff Barriers to Trade*. Ithaca and London: Cornell University Press, 1990.

Grieco, Joseph. "The Maastricht Treaty, Economic and Monetary Union and the Neo-Realist Research Programme." *Review of International Studies* 21-1 (1995).

Gros, Daniel and Niels Thygesen. "Le SME: Performances and Perspectives." *Observations et Diagnostics Economiques* 24 (1988).

__________. *European Monetary Integration: From the European Monetary Systems to European Monetary Union*. New York: St. Martin's Press, 1992.

Haas, Peter M. and Ernst B. Haas. "Learning to Learn: Improving International Governance." *Global Governance* 1-3 (1995).

Heisenberg, Dorothee. *The Mark of the Bundesbank: Germany's Role in European Monetary Cooperation*. Boulder and London: Lynne Rienner Publishers, 1999.

__________. "Taking a Second Look at Germany's Motivation to Establish Economic and Monetary Union: A Critique of 'Economic Interests' Claims." *German Politics* 14-1 (2005).

Herrendorf, Berthold. "Transparency, Reputation, and Credibility under Floating and Pegged Exchange Rates." *Journal of International Economics* 49-1 (1999).

Kaltenthaler, Karl. *Germany and the Politics of Europe's Money*. Durham and London: Duke University Press, 1998.

Lombard, Marc. "A Re-examination of the Reasons for the Failure of Keynesian Expansionary Policies in France, 1981-1983." *Cambridge Journal of Economics* 19-2 (1995).

McNamara, Kathleen R. *The Currency of Ideas: Monetary Politics in the European Union*. Ithaca, NY: Cornell University Press, 1998.

Minford, Patrick. "The Lessons of European Monetary and Exchange Rate Experience," in Sebastian Edwards (ed.), *Capital Controls, Exchange Rates, and Monetary Policy in the World Economy*. New York: Cambridge University Press, 1995.

Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca, NY: Cornell University Press, 1998.

Muet, Pierre-Alain. "Economic Management and the International Environment, 1981-1983," in Howard Machin and Vincent Wright (eds.), *Economic Policy and Policy-Making under the Mitterrand Presidency 1981-1984*. London: Frances Pinter, 1985.

Padoa-Schioppa, Tommaso. "The European Monetary System: A Long-term View," in Francesco Giavazzi, Stefano Micossi, and Marcus Miller (eds.), *The European Monetary System*. Cambridge: Cambridge University Press, 1988.

Parsons, Craig. *A Certain Idea of Europe*. Ithaca and London: Cornell University Press, 2003.

Ross, George. "French Social Democracy and the EMU." *ARENA Working Papers 98/19* (1998). Available online at: http://www.arena.uio.no/publications/working-papers1998/papers/wp98_19.htm.

Russo, Massimo and Giuseppe Tullio. "Monetary Policy Coordination within the European Monetary System: Is There a Rule?" in Francesco Giavazzi, Stefano Micossi, and Marcus Miller (eds.), *The European Monetary System*. Cambridge: Cambridge University Press, 1988.

Sandholtz, Wayne. "Choosing Union: Monetary Politics and Maastricht." *International Organization* 47-1 (1993).

__________. "Monetary Bargains: The Treaty on EMU," in Alan Cafruny and Glenda Rosenthal (eds.), *The State of the European Community: The Maastricht Debates and Beyond*. Boulder: Lynne Rienner, 1995.

Scharpf, Fritz. *Crisis and Choice in European Social Democracy*. Ithaca: Cornell University Press, 1991.

Story, Jonathan. "Convergence at the Core? The Franco-German Relationship and Its Implications for the Community," in Michael Hodges and William Wallace (eds.), *Economic Divergence in the European Community*, London: Allen and Unwin, 1981.

Streeck, Wolfgang. "German Capitalism: Does It Exist? Can It Survive?" in Colin Crouch and Wolfgang Streeck (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*. London: Sage Publications, 1997.

Tsoukalis, Loukas. *The Politics and Economics of European Monetary Integration*. London: Allen and Unwin, 1977.

Ungerer, Horst. *A Concise History of European Monetary Integration: From EPU to EMU*. Westport, Connecticut and London: Quorum Books, 1997.

Ungerer, Horst, Jouko J. Hauvonen, Augusto Lopez-Claros, and Thomas Mayer. "The European Monetary System: Developments and Prospects." *IMF Occasional Paper* 73 (1990).

Van Ypersele, Jacques. "Operating Principles and Procedures of the EMS," in Philip H. Trezise (ed.), *The EMS: Its Promise and Prospects*. Washington, D.C.: The Brookings Institution, 1979.

Vaubel, Roland. "The Return to the New EMS," in Karl Brunner and Allan H. Meltzer (eds.), *Monetary Institutions and the Policy Process*. Amsterdam: North Holland, 1980.

Walsh, James. *European Monetary Integration and Domestic Politics: Britain, France, and Italy*. Boulder: Lynne Rienner, 2000.

Wihlborg, Clas and Thomas D. Willett. "Optimal Currency Areas Revisited," in Clas Whilborg, Michele Fratianni, and Thomas D. Willett (eds.), *Financial Regulation and Monetary Arrangements After 1992*. Amsterdam: North-Holland, 1992.

Wood, Geoffrey E. "One Money for Europe? A Review Essay." *Journal of Monetary Economics* 25-2 (1990).

Wooley, John T. "Policy Credibility and European Monetary Institutions," in Alberta M. Sbragia (ed.), *Euro-Politics: Institutions and Policymaking in the "New" European Community*. Washington, D.C.: The Brookings Institution, 1992.

Wyplosz, Charles. "Monetary Policy in France: Monetarism or Darwinism?" *Finanzmarkt und Portfolio Management* 2-1 (1988).