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The Informal Eurogroup: a New Working Method and an Institutional Compromise

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Introduction¹

The informal Eurogroup² is a major institutional innovation within the economic pillar of Economic and Monetary Union (EMU). Its institutional design is unique – even in the multifarious environment of the European Union (EU). Comprising the top policy-makers of the euro-zone, this small ministerial circle has no formal decision-making powers nor do any Treaty provisions legitimise its work. The Eurogroup’s secretive and informal working method reminds one of epistemic communities and experts groups rather than of intergovernmental gatherings at a ministerial level. Moreover, the Eurogroup has hit the headlines as the future “gouvernement économique” of the euro-zone and as the other major player beside the European Central Bank (ECB) in EMU. Finally, it is an open secret that the group challenges the role of the regular Economic and Financial Affairs Council (ECOFIN), which is according to the Treaty provisions the central decision-making body within the economic pillar.

This paper argues that the emergence of the Eurogroup within the framework of EMU is the product of a development commencing in the late 1990s and resulting in a more positive attitude towards the economic pillar of EMU. A new consensus – which is inspired by social democratic ideas but is at the same time explicitly non-Keynesian – facilitated the focus on new priorities in the realm of economic policy coordination after the nearly exclusive orientation towards the enforcement of budgetary discipline during the negotiations of the Maastricht Treaty and in the years after. With the transition to Stage III

¹ I would like to thank Antje Wiener for her comments and Ben Muller and Guido Schwellnus for the discussion of earlier drafts. The responsibility of this version is mine.

² The Eurogroup was formerly also entitled “Euro-X Council” and “Euro-11/12 Group”.

of EMU, the increasing demand of the euro-zone countries for closer coordination complemented the change of the agenda and eased the old conflict between Germany and France on central bank independence vs. a strong economic pillar, which dominated the years before and after Maastricht. The Eurogroup's informal working method has essentially two dimensions: Firstly, the new consensus and the need for closer coordination of economic policies created the demand for an intergovernmental framework, which stimulates discussion among top policy-makers and focusses not entirely on the negotiation of new legislation. This paper argues that particularly processes of arguing and deliberation are crucial for the acceptance of the Eurogroup as a legitimate source of "peer pressure" within EMU. The group should be understood as a *generator of informal resources*, which guide policy-makers even in the absence of formal provisions. Secondly, the new agenda of EMU, the demand for new working methods and above all the asymmetry of interest between the participants in Stage III and the "outs" were not addressed by the architects of the Maastricht Treaty. Subsequently, the informal nature of the Eurogroup can be characterised as the expression of an institutional dilemma. The creation of the group institutionalises a practice deviating from the framework of the Treaty provisions while preserving the formal status of the latter ones. Theoretically, the paper argues that a pure intergovernmentalist framework of analysis cannot account for the peculiar style of the Eurogroup's intergovernmental working method. In contrast, the discussion of constructivist and institutionalist approaches to European integration and international relations can provide fruitful insights for the analysis of the Eurogroup.

The paper is divided into three chapters. The first chapter points to the shortcomings of a mere intergovernmentalist perspective with regard to the case of the Eurogroup and introduces constructivist and institutionalist considerations, which inspire the argument in this paper. The second chapter is primarily historical and demonstrates how the overall change of EMU's agenda, which led to the establishment of the Eurogroup, came about. It offers an outline of the fundamental differences of the current approach to economic policy coordination and the attitudes, which influenced the provisions on EMU in the Maastricht Treaty. The third chapter analyses the ambiguity of the informal nature of the Eurogroup. Stressing the importance of arguing and deliberation, it highlights the distinct character of the Eurogroup's intergovernmental framework and discusses the importance of this working method for the further development of economic policy coordination within EMU. Finally, the chapter interprets informality as an institutional compromise, which resulted from unintended consequences of the Maastricht provisions on EMU.

I. Analysing the Eurogroup's unique intergovernmental nature: constructivist and institutionalist perspectives

At first glance, the ministerial rank of the participants in the Eurogroup-meetings reminds one of the key assumptions of intergovernmental approaches to European integration – most prominently Andrew Moravcsik's Liberal Intergovernmentalism.³ Above all, the Eurogroup's emergence seems to confirm the view that Member State governments are determined to keep control over the agenda and hesitate to create new supranational structures where it is not necessary with regard to the demonstration of commitment as in the case of the ECB. However, a mere intergovernmental perspective misses decisive features of the Eurogroup's day-to-day business as well as of the process, which led to its creation. The analysis of the Eurogroup has to account for the peculiar nature of the group's intergovernmental structure and the way in which the informal circle influences the coordination of economic policies within the euro-zone. Moreover, the appearance of the group on the EU's institutional horizon is not coherent with the outcome of the negotiations, which led to the provisions on EMU in the Maastricht Treaty. This paper argues that with regard to these questions the additional discussion of constructivist and institutionalist approaches offers important analytical tools.

Building on discussions within the German literature on international relations Thomas Risse has argued that "processes of arguing, deliberation and persuasion constitute a distinct mode of social interaction to be differentiated from both strategic bargaining – the realm of rational choice – and rule guided behaviour – the realm of sociological institutionalism."⁴ With reference to Habermas' theory of communicative action, Risse stresses that arguing and deliberation are characterised by the aim to reach a "mutual understanding based on a reasoned consensus (*verständigungsorientiertes Handeln*)"⁵. Consequently, actors who engage in such processes are prepared to change their preferences, policy beliefs or identities. These attitudes are all the more important in the context of economic policy coordination within the euro-zone. While intergovernmentalism is the organising principle of this coordination process and Member States are fundamentally opposed to a further strengthening of supranational competences, we can observe at the same time an increasing demand for greater political unity. In this context,

³ Cf. Moravcsik 1997, 1993.

⁴ Risse 2000, p.1.

⁵ Ibid.

Risse's argument that arguing, deliberation and persuasion play a crucial role in problem solving and the establishment of shared normative frameworks is noteworthy. Moreover, the "logic of arguing"⁶ implicates a creative or constitutive dimension, which is decisive for the emergence of norms and ideas. Risse's insight that processes of arguing and deliberation constitute a distinct mode of social interaction is the key to the understanding of informality as a working method of intergovernmental circles in the EU. It helps to assess the ability of such circles to lay the foundations for the integration of diverse policy traditions into a coherent framework of policy coordination. Moreover, the focus on arguing and deliberation furthers the understanding of the Eurogroup's potential to fulfil tasks, which have been associated with supranational structures in the past – such as the initiation of new policies at the EU level.

In her work on the "embedded *acquis communautaire*"⁷ Antje Wiener has demonstrated that the establishment of the formal resources of EU policy-making such as treaty provisions and directives is essentially linked to the existing set of informal resources such as shared norms and established practices. The day-to-day business in the EU is understood to be a constructive or constitutive process. This perspective accounts for a dualism of the policy process in the institutional environment of the EU, which is on the one hand the execution of the principles and policies laid down in the formal *acquis communautaire* and on the other hand in itself a source of the alteration of the formal resources. These insights are crucial for the understanding of how the Eurogroup as an informal institution without any formal decision-making competences fits into the institutional environment of EMU and influences the policy process at the EU-level and within the Member States.

Finally, with regard to the emergence of the Eurogroup the argument of this paper is inspired by historical-institutionalist perspectives. Generally, the Member States try to exercise their power as the agenda setters of European integration in the context of an already existing Euro-polity and within a dense institutional framework of established procedures guiding the negotiation of reform. Moreover, domestic developments and decision-making at the EU-level are rarely completely in line and one can observe increasing interdependencies among different policy areas. These features of policy-making within the EU are the source of unintended consequences of the integration process. As Paul Pierson has argued "actors may be in a strong initial position, seek to maximize their interests, and nevertheless carry out institutional and policy reforms that fundamentally

⁶ Risse 2000.

⁷ Wiener 1998.

transform their own positions (or those of their successors) in ways that are unanticipated and/or undesired⁸. With regard to the case of the Eurogroup Pierson's argument that the time-horizons of policy-makers are often restricted is of particular importance. The reflection on the long-term consequences of the integration process and its actual impact on national sovereignty is often influenced by short-term considerations related to the position of the respective government in the domestic arena. The most prominent example is the orientation towards the electoral cycle of national parliaments. Institutional perspectives on intergovernmental conferences have added the focus on the institutional framework of treaty negotiation to this argument.⁹ Even if policy-makers are aware of certain long-term problems or interdependencies, the time limits for negotiation processes do not always allow to tackle such issues in advance.

II. The economic pillar of EMU and its new agenda

Compared with the institutional design of EMU laid down in the Maastricht Treaty the establishment of the informal Eurogroup was not a foregone conclusion. According to the treaty provisions¹⁰, ECOFIN is in the centre of the economic pillar of EMU. Neither ECOFIN's working method nor the fact that it comprises the participants in Stage III as well as the "outs" were seen as inappropriate for the proper functioning of economic policy coordination within the framework of EMU. During the last years, this perspective has been challenged and the emergence of the Eurogroup took place against the background of a change in the overall agenda of EMU. The paper argues that during the negotiation of the Maastricht Treaty and in the years afterwards, EMU was characterised by a *negative approach* towards economic policy coordination. The economic pillar of EMU was mainly seen in terms of the enforcement of budgetary discipline according to predetermined targets for spending and deficit in relation to the GNP, which would provide the right environment for a monetary policy focussing on strict price stability. In the end of the 1990s this attitude towards economic policy coordination within EMU changed. While recognising the importance of price stability and budgetary discipline as core elements of EMU the current way of coordination is more inclusive and constructive. Initiating structural reform and reviewing nearly all important aspects of economic policy making at the European level the

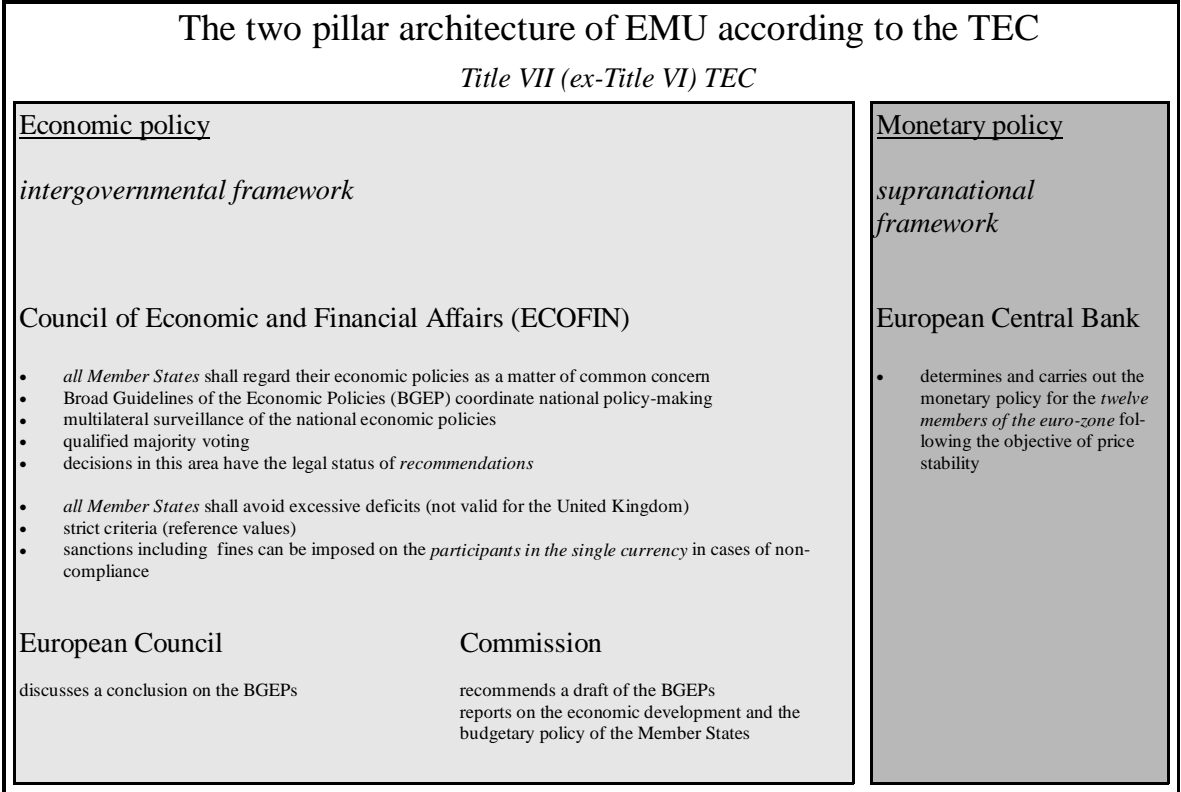
⁸ Pierson 1998, p.30.

⁹ Cf. Sverdrup 1999, Christiansen/Jørgensen 1999.

¹⁰ Cf. Figure I.

euro-zone countries pursue a *positive approach* to coordination, which moves beyond a mainly restrictive perception of national economic policies.

Figure I



The ‘negative’ approach to economic policy coordination¹¹

“It [the ECB] is an absolute necessity and we shall concede that it has to be politically autonomous, to reassure the Germans. I do not believe that monetary authorities can escape any relationship with political authorities; you cannot fight a war without the central bank working with the government. But Europe deserves some sacrifices...” (Michel Rocard, former French prime minister)¹²

It was not by coincidence that during the negotiations of the Maastricht Treaty and in the advent of the final stage of EMU the economic pillar was not provided with strong institutional powers.¹³ This does not mean that the Member States forgot about economic policy. On the contrary, many countries saw the strengthening of economic policy coordination as an integral part of the architecture of EMU in order to introduce new common measures with regard to economic growth and the reduction of regional disparities. Led by France and Italy these countries wanted to end restrictions on their ability to pursue a more effective economic policy within the framework of the former European Monetary System (EMS).¹⁴ Germany supported by the Netherlands did not share this perspective. The idea of price stability or in other words the “Stabilitätsphilosophie”

¹¹ Note that the use of the terms *negative* and *positive approach* in this paper is not interchangeable with the terms “negative” and “positive integration” used by Fritz W. Scharpf and others following the tradition of economic policy theory. The term “negative integration” characterizes a process of market integration, which is not accompanied by a similar process of integration in the political realm of economic regulation (“positive integration”). With regard to the case of EMU discussed here, it is important to bear in mind that the row was rather about the style of coordinated regulation than about its scale or whether or not to have “positive integration” in connection with EMU at all. Moreover, the talk about how far coordination should go was mainly inspired by the concern of the Germans and the Dutch to avoid any weakening of the power and independence of the ECB. The terms *negative* and *positive approach* in this paper characterize the specific positions towards the institutional design of EMU and are of no use beyond that. (Cf. Scharpf 1999, p.45, also Dyson 2000a, pp. 44-45)

¹² Financial Times, 24-10-1988, in: Deutsche Bundesbank, Auszüge aus Presseartikeln, Nr. 78, 25-10-1988.

¹³ As David R. Cameron has put it: “In the single minded effort to create a strong independent central bank, the authors of the Treaty ignored a simple and obvious fact of political life – that no central bank, independent or otherwise, has ever operated, or could ever operate, without a political counterpart that is responsible for shaping the overall contours of economic policy.” (Cameron 1997)

¹⁴ Also the Delors Report and the Commission’s study “One Market – One Money” highlighted the importance of a ‘symmetrical’ architecture of EMU, which takes monetary policy as well as economic policy into account. Cf. Committee for the Study of Economic and Monetary Union 1989, Emerson et al 1992.

(‘philosophy of stability’)¹⁵ of the Bundesbank was seen as the key organising principle of EMU and any other political priorities were treated *a priori* as threats to this objective.

The Germans saw the economic pillar in a *negative* or restrictive way. They refrained from institutionalising any common initiatives in order to promote growth or to reduce regional disparities that would go beyond the already existing instruments of the Community. Instead, they interpreted the task of economic policy coordination primarily as the enforcement of budgetary discipline throughout Europe, which was considered vital for the success of the ECB’s monetary policy. This strategy is not only characterised by the strong focus on the coordination of budgetary policies but also by the style of the coordination procedure based on the compliance with predetermined targets.¹⁶ These targets are abstract in the sense that they apply to all participants in the single currency in the same way regardless of their respective economic situation and their long-term development. The initiative of German finance minister Theo Waigel for the Stability and Growth Pact, which was in economic terms nothing else than the reiteration of the convergence criteria with the renewed warning that even minimal deviations should not be tolerable for the participants in the single currency, underlined the commitment to this policy. To put it briefly, according to this attitude to EMU, which was derived from the German model of central bank independence and strict price stability¹⁷, the success of the single currency would be guaranteed if all members of the euro club would subscribe to the principle of budgetary discipline. Additionally, the national autonomy of economic policy-making was not seen as anachronistic as long as price stability would not be in danger. According to this approach, the relationship between the monetary and the economic pillar of EMU is a “one-dimensional”¹⁸ one – resulting in an “ECB-centric”¹⁹ euro-zone. Economic policy

¹⁵ Cf. press release of the Bundesministerium der Finanzen, Stabilitätspakt für Europa – Finanzpolitik in der dritten Stufe der WWU, Bonn, 10-11-1995, in: Deutsche Bundesbank, Auszüge aus Presseartikeln, No. 77, 1995.

¹⁶ Cf. Article 104 TEC and the Protocol on the Excessive Deficit Procedure.

¹⁷ Legally, the task of the Bundesbank was to “secure the currency” (cf. “Gesetz über die Deutsche Bundesbank vom 26. Juli 1957”, §3). The Bundesbank interpreted this legal provision from the very beginning in terms of the maintenance of strict price stability and contributed with this practice to the establishment of the idea that the “stability of the currency (“Geldwertstabilität“) is an essential precondition for the smooth functioning of the market economy“ (my translation; Bundesbank 1993, p. 11) as a cornerstone of German monetary policy. The overall importance of this strategy was underlined by the so-called “stability law” (‘Stabilitätsgesetz’) from 1967, which required the federal institutions and the federal states to conduct their policies in an appropriate manner with regard to the maintenance of stability (cf. *ibid.*).

¹⁸ Jaquet/Pisani-Ferry 2001, p.11.

coordination should create the appropriate environment for monetary policy. The instruments are mainly the enforcement of budgetary discipline and structural reform in terms of the liberalisation of product and labour markets.

Therefore, the French idea of a strong economic pillar or a “gouvernement économique”, which was supposed to be a “political counterweight” to the ECB, was removed from the agenda.²⁰ This had a lot to do with power politics pursued by the Germans and it was the behaviour of the German government before the beginning of the final stage of EMU, which shaped the notion of ECOFIN as a synonym for the clash of irreconcilable economic ideas – best described in terms of bargaining theories. Nevertheless, it would be misleading to conclude that the German model was only adopted because of the bargaining power of this country and its force to overrule the others by the threat of exclusion.²¹ At the end of the 1980s when EMU was set on the agenda, the focus on price stability was common sense within ECOFIN and among EC’s central bank governors. This informal consensus had evolved during the practice of monetary policy-making within the framework of the European Monetary System (EMS).²² When the negotiations on EMU began, the question was not if the main task of a common monetary policy would be price stability or not. The power struggle rather concerned Germany’s claim to be the authority, which finally defines the appropriate grade of budgetary discipline and which is able to veto the emergence of other objectives of EMU.²³

¹⁹ Dyson 2000a.

²⁰ Cf. the French government’s draft of the treaty on EMU for the intergovernmental conference in January 1991, reprinted in: Krägenau/Wetter 1993, pp. 343-347.

²¹ Cf. Sandholtz 1993b.

²² Cf. Dyson 1994, Marcussen 1998, McNamara 1998.

²³ “Within this context, the convergence criteria served as a demonstration of “commitment” on the part of the rest of Europe not to abuse the German-style institutions of EMU for non-German economic policy objectives...” (Frieden/Jones 1998, p. 168)

Beyond budgetary discipline: the 'positive' approach

“Je n'ai pas l'intention que nous discussions uniquement de fiscalité ou de technique budgétaire : nous parlerons du vieillissement et donc de l'avenir des retraites, des dépenses de santé, d'éducation, de l'organisation du marché du travail, etc.” (Didier Reynders, Belgian finance minister and president of the Eurogroup during the year 2001)²⁴

In December 1996 when the Dublin European Council stated that agreement on the main elements of the Stability and Growth Pact had been reached the *negative approach* dominated the agenda of EMU. However, at the same meeting another chain of events began, which established step-by-step the so far not existing link between the economic pillar of EMU and common initiatives against a persisting high degree of unemployment in the EU. In the course of this process, structural policy became an important topic within the economic pillar and finally nearly every important project in the realm of economic reform was in some way linked to the European agenda.

In Dublin, the French President Jacques Chirac presented his “Memorandum on a European Social Model” and the “Dublin Declaration on Employment” was agreed.²⁵ Half a year later, the Amsterdam European Council concluded the intergovernmental conference, which led to the new Title VIII TEC on employment. The provisions include guidelines on employment – similar to the Broad Guidelines of the Economic Policies of the Member States (BGEP).²⁶ Additionally, the Amsterdam European Council established in its conclusions a clear link between the new emphasis on employment and the framework for common economic policy-making provided by EMU. It called on ECOFIN “to strengthen the employment focus of the broad guidelines [BGEP]” and asked the Council and the Commission to “examine and indicate how to improve the processes of economic co-ordination in stage three of Economic and Monetary Union”.²⁷ The summit's Resolution on Growth and Employment underlined this position. The chapter on “Developing the Economic Pillar” expressed the will to develop the BGEP into an “effective instrument for

²⁴ “I don't have the intention that we only discuss fiscal policy or technical matters of the budget: we will talk about the ageing population and consequently about the future of the pensions, about spending in the health sector, about education, about the organisation of the labour market etc.” (My translation; Interview with Le Monde, 20-1-2001)

²⁵ Dublin European Council, Presidency Conclusions, Press Release: Brussels (16-12-1996) - Nr: 00401-x/96.

²⁶ Cf. Figure I.

²⁷ Amsterdam European Council, Presidency Conclusions, Press Release: Brussels (16-06-1997) - Nr: SN00150/97.

ensuring sustained convergence of the economic performances of the Member States“.²⁸ The importance of these steps becomes obvious if one compares them to the conclusions of the Essen European Council meeting in 1994, which marked the beginning of the increased efforts to fight unemployment within the framework of Union-wide initiatives. At this stage, no link with the institutional framework of EMU existed. The strict interpretation of the convergence criteria dominated the agenda.

In November 1997, the first meeting of the European Council, which focused entirely on employment issues, was convened. The Cologne Summit in June 1999 established the European Employment Pact, which is an expression of the results that have been reached so far and comprises the major levels of Community engagement. The so-called “macroeconomic dialogue” forms an important part of the pact. This dialogue involves the Council, the Commission, the ECB and the social partners.²⁹ The Helsinki European Council in December 1999 reiterated the demand for greater synergy between the BGEP, the guidelines on employment and the monitoring of structural reform. Additionally, the European Council claimed an enhanced role for ECOFIN and the Eurogroup in economic policy coordination.³⁰ Finally, with the Lisbon Summit in summer 2000 the EU set the task to make the so-called knowledge based economy a cornerstone of Europe’s future competitiveness and economic growth.

The change of Europe’s political landscape has facilitated these developments. In May and June 1997, new centre left governments in Britain and France came into office. One year later the era of the Kohl administration ended in Germany. Finally, centre left governments found themselves in an unusually strong position within the EU. This process brought new policies to the top of EMU’s agenda and eased off the *a priori* reservations against additional priorities within the economic pillar of EMU. Growth, employment and structural reform were no longer odd words but recognised as prior matters of common concern more than ever before.

Beside this change in the overall agenda the institutionalisation of an increased coordination among the participants in Stage III of EMU was the decisive step towards a *positive approach* to economic policy coordination. It became clearer that the future euro-zone countries not only have a particular interest in coordinating their policies in an

²⁸ Ibid.

²⁹ Cologne European Council, Presidency Conclusions, Press Release: Brussels (04-06-1999) - Nr: 150/99.

³⁰ Helsinki European Council, Presidency Conclusions, Press Release: Brussels (11-12-1999) - Nr: 00300/1/99.

exclusive way with regard to technical matters concerning the introduction of single currency and with regard to the external representation of the euro-zone. Compared with the “outs“ the euro-zone countries are more ambitious with regard to economic policy coordination. The fact that they belong from now on to a single currency area makes them feel the interdependencies between their economic policies much more pressing – be it budgetary policy, structural reform or tax harmonisation. Moreover, the equal treatment of all members of the euro-zone through the monetary policy of the ECB highlights the importance of economic policy as a means of adjustment. While, for example, Germany with its relative moderate growth is in favour of lower interest rates in order to boost its economy, simultaneously the fast growing economy of Ireland could face the danger of overheating. Furthermore, the ECB orients its policy towards the major economies of the euro-zone, which constitute the average. This fact underlines the need for new forms of adjustment especially for those countries like Ireland, Portugal and increasingly Greece. For the long run, these countries cannot carry out the necessary adjustment alone. The failure of the Community to address these specific situations would threaten the cohesion of the single currency club.

In this context and after an election campaign in which his party promised a “euro social” initiative including the relaxation of the criteria for budgetary discipline, the new French socialist economic and finance minister Dominique Strauss-Kahn revived the old French idea of a “gouvernement économique” as an integral part of EMU.³¹ In October 1997, he persuaded the German finance minister Theo Waigel who almost personified the *negative approach* to the economic pillar of EMU to create an informal group of all participants in the single currency in order to enhance the political unity among euro-zone countries and discuss new forms of cooperation. The Luxembourg European Council in December 1997 endorsed the Eurogroup, emphasising however, that every formal decision has to be made within the framework of ECOFIN as before. The group held its first meeting in June 1998 but the breakthrough with regard to Mr Strauss-Kahn’s initiative came a few months later when the strong German reservations were finally blown away and the new German social democratic finance minister Oskar Lafontaine joined the Eurogroup and supported Mr Strauss-Kahn’s demand for closer economic policy coordination.³²

³¹ Cf. Howarth 2000, pp. 156-157.

³² A statement in favour of a softer interpretation of the convergence criteria given by Mr Lafontaine during a visit in Madrid at the beginning of 1999 demonstrated how far Mr Lafontaine distanced himself from the position of his predecessor Waigel. (Cf. Bundesbank, Auszüge aus Presseartikeln, No. 8, 1999.)

Additionally, the topic of an exchange-rate regime comprising the euro and the dollar was set on the agenda. While Mr Lafontaine showed a certain affinity to Keynesian strategies his colleagues within the Eurogroup and the British Chancellor of the Exchequer Gordon Brown, who was the other main centre left figure beside the Franco-German duo in ECOFIN, where the initiatives on employment were developed, did not. Consequently, the applause in connection with Mr Lafontaine's retreat from the political scene in March 1999 underlined another core element of the new consensus, which is the basis of the *positive approach*: The new position to economic policy coordination is significantly influenced and structured by social democratic ideas but at the same time, it is explicitly non-Keynesian.³³

The other important aspect of the new consensus is the way in which the major players in the euro-zone see the relationship between the monetary and the economic pillar of EMU. As the outline of the *negative approach* has demonstrated the conflict of the past was about central bank independence vs. political control of the monetary pillar. The French perceived a strong economic pillar of EMU as a means to "control" the ECB. In contrast, the Germans were against a strong institution in this pillar in order to protect the ECB's independence. While Germany's support for the new priorities of EMU's agenda involved the country in the process of strengthening the importance of the economic pillar the crucial step with regard to the French position is France's renewed commitment to the independence of the ECB. While Mr Strauss-Kahn deliberately referred to the old term "gouvernement économique" the current economic and finance minister Laurent Fabius is keen to stress that the Eurogroup is not the embryo of such a project and that the

³³ The successor in office, Hans Eichel, distanced himself clearly from Mr Lafontaine's ideas: "Klar ist deshalb, dass der Staat auch in Zukunft auf eine Feinsteuerung der Konjunktur durch die Haushaltspolitik verzichten wird. In einer international verflochtenen Wirtschaft funktioniert dies nicht. Ich erinnere nur an die schmerzhaften Erfahrungen mit der Stagflation, die sich an die Versuche der Feinsteuerung in den siebziger Jahren anschloss. Da wurden schon die Grenzen der Feinsteuerung überdeutlich.

Eine Konjunkturpolitik gegen den Trend lässt sich national innerhalb der Europäischen Union auch gar nicht mehr machen. Dafür sind die Handelsverflechtungen zu eng. Einseitige expansive Maßnahmen würden auch ins Ausland abfließen, die Wirkung verpuffen. So wenig wie es für eine deutsche Gemeinde sinnvoll ist, eine eigene Konjunkturpolitik gegen den nationalen Trend zu betreiben, so wenig sinnvoll ist es inzwischen für einzelne Mitgliedstaaten innerhalb der Europäischen Union." (Hans Eichel: Finanzpolitik für das nächste Jahrzehnt, Speech at the Humboldt University, Berlin 9 November 2000) Cf. also Tony Blair/ Gerhard Schröder: Der Weg nach vorne für Europas Sozialdemokraten, Paper, 8-6-1999.

controversial debate about the independence of the ECB and the importance of the Eurogroup between France and Germany is definitely over.³⁴

The future will show if and how the current approach, which is essentially based on a compromise between two antagonistic models of coordination, can survive. For the first time, there is a clear consensus among all players in favour of a *positive approach*, which is more inclusive and constructive. The focus is not only on common surveillance and control of budgetary discipline following predetermined targets. Instead, it is increasingly recognised that the Community has to play its role in initiating and stimulating policies. However, it is likely that future disputes will take up the controversies of the past when it comes to further development of the tool of ex-ante coordination, which is crucial for a more effective way of coordination. The Eurogroup has to discuss major economic policy decisions before they are endorsed in the national context in order to take possible interdependencies between policy sectors or countries into account and contribute to an adjustment at an early stage. The delicate question will be in which way such a “proactive approach”³⁵ deals with the relation between the monetary and the economic pillar and affects the independence of the ECB. While some consider to reform the “one-dimensional”³⁶ relation of the two pillars the ECB and the Bundesbank are suspicious of a Eurogroup focusing more and more on ex-ante coordination and see such a scenario as a threat to central bank independence.³⁷

³⁴ Cf. Süddeutsche Zeitung, 31-3-2001, Financial Times, 3-7-2000. The view that the old controversy is over is also echoed by the new president of the Eurogroup Didier Reynders (Financial Times, 15-12-2000).

³⁵ Didier Reynders, Financial Times, 15-12-2000.

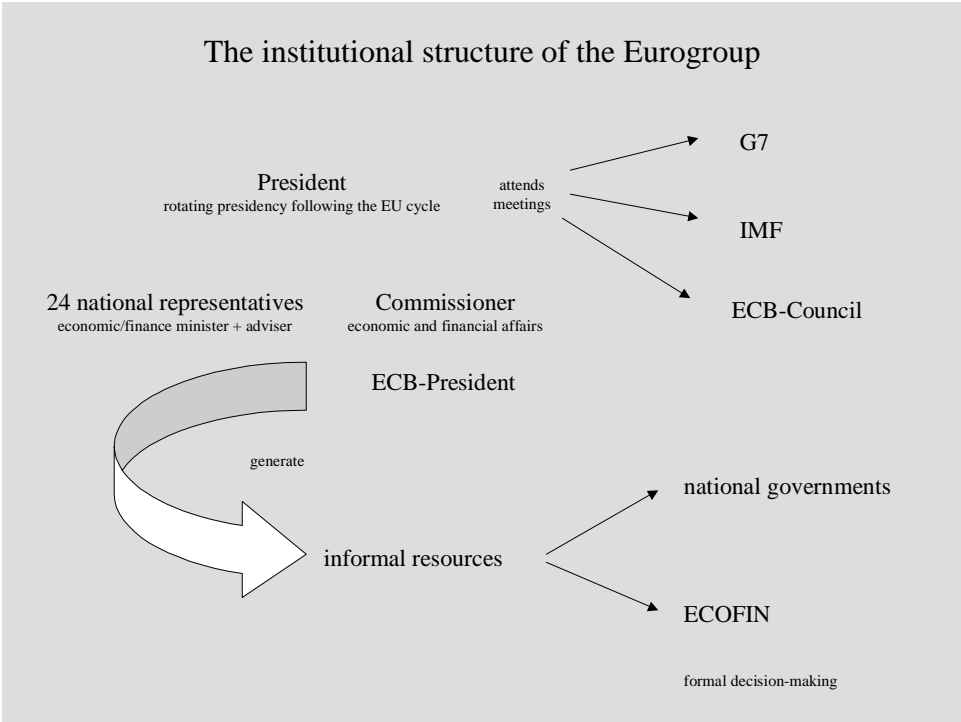
³⁶ Jaquet/Pisani-Ferry 2001, p. 11.

³⁷ How delicate the issue is was demonstrated by the comments of the president of the Bundesbank Ernst Welteke on a statement of Laurent Fabius that the Eurogroup could set inflation targets for the ECB: “How important the independence of monetary policy is for a successful stability policy, I do not have to stress – or perhaps I do? One can gain the impression that I do have to, in the light of certain comments on the other side of the Rhine.” (Financial Times, 18-7-2000) Cf. also Deutsche Bundesbank 2001, Issing 2000. For the contrary position, cf. Boyer 1999, Mancini 2000.

III. The Eurogroup as an informal arrangement

The establishment of the Eurogroup is noteworthy especially with regard to two factors: Firstly, the informal nature of the group brings the top policy-makers of the euro-zone countries closer together than ever before. This happens at a time when these actors are in search for a new “culture of co-ordination”³⁸, which enables them to deal with the fact that a single currency is issued in an area of diverse economic policy traditions. Secondly, the Eurogroup is an exclusive arrangement comprising only the participants in the single currency. Its existence reflects a deep asymmetry of interests between the euro-zone countries and the non-euro states. The crucial role of the Eurogroup for the development of the intellectual and cultural foundations of the closer coordination of economic policies at the EU level challenges the role of ECOFIN as the political centre of EMU as intended by the architects of the Maastricht Treaty.

Figure II



³⁸ Cf. Jaquet/Pisani-Ferry 2001.

Informality as a new working method and the generation of informal resources

“There was a clear need to create something more informal than Ecofin where there are as many as 100 people between ministers and officials. With the Euro-11 there are only 22 members: each minister and one adviser. This means we can have a real exchange of views.” (Dominique Strauss-Kahn, former French economic and finance minister)³⁹

The change in the general attitude towards the economic pillar of EMU is most significantly reflected in the new intergovernmental working method of the Eurogroup, which brings the top policy-makers of the euro-zone closer together than ever before. This method reduces the number of participants in the process to a level where real discussions are possible and it does not restrict the agenda to a certain category of economic policy issues – “there is no topic beyond debate”⁴⁰. Indeed, it is reported that participants of the Eurogroup value the unconstrained atmosphere and take the opportunity to discuss their domestic approaches in order to get a better understanding of the positions of their respective counterparts or to assure each other mutual support with regard to domestically sensible subjects such as spending cuts.⁴¹ The new importance of the Eurogroup is characterized by the tendency to reject integral parts of the prevailing concept of intergovernmentalism such as the competitive atmosphere of bargaining situations and the use of publicity as a means to put pressure on the respective bargaining partners. Arguing and deliberation are, more than ever before, seen as a necessary part of the coordination process and policy-makers are increasingly prepared to learn from each other.⁴² The decision to apply the “one minister plus one” approach to the Eurogroup sessions created the adequate institutional framework for these processes.

³⁹ Interview with the Financial Times, 12-2-1999. Cf. also the Presidency Conclusions of the Luxembourg European Council in December 1997, which introduced the new working method for the regular ECOFIN council *and* established the Eurogroup applying exclusively this working method: “Monitoring of the economic situation and policy discussions should become a regular item on the agenda of informal ECOFIN sessions. In order to stimulate an open and frank debate, the ECOFIN Council should from time to time meet in restricted sessions (minister plus one), particularly when conducting multilateral surveillance.” (Press Release: Luxembourg (12-12-1997) - Nr: SN400/97)

⁴⁰ Fabius 2000.

⁴¹ Financial Times, 8-2-2000.

⁴² Bearing in mind Germany’s uncompromising position in the run-up to the Maastricht Treaty and later during the negotiations of the Stability and Growth Pact it is noteworthy that today it is no longer a red rag to policy-makers and experts in this country to talk about coordination in these terms. Cf. e.g. Glomb 1998, p. 23.

Since the Eurogroup is not an official decision-making body, the understanding of the specific nature of how the work of the group influences policy-making within the economic pillar of EMU is crucial. Building on Wiener's argument on the "embedded *acquis communautaire*"⁴³, this paper understands the outcomes of the discussions within the Eurogroup as informal resources including shared norms, ideas and practices, which guide policy-makers even in the absence of formal procedures. The peculiarity of the group is however that it institutionalises the generation of such informal resources, which influence decisions elsewhere – be it at the European or at the Member State level. Therefore, the Eurogroup should be understood as a *generator of informal resources* within the economic pillar of EMU.⁴⁴ There are essentially two dimensions of this generation process, which can be distinguished in theoretical terms even if there is no clear cut between them in the day-to-day business: firstly, informal negotiations and secondly, the construction of new positions and preferences towards economic policy-making in the euro-zone through arguing, deliberation and learning.

The category of informal negotiations is known in the literature mainly as a characteristic of EU negotiation processes, which "take place in the plethora of expert groups, working parties and comitology committees working in Brussels"⁴⁵. However, the Eurogroup operates on a ministerial level and comprises the same people, which eventually make decisions within ECOFIN or within the national executives. In so far the importance of the Eurogroup lies in its ability to pave the way for a majority or even a consensus in ECOFIN by agreeing on a common line of the euro-zone countries in advance. Indeed, this function of the Eurogroup contributes to the delicate relationship between the "ins" and "outs" of the third stage of EMU, which is analysed below. Discussing a common position in the Eurogroup could lead to a situation where the political process in ECOFIN comes to a standstill and where this council only approves decisions made elsewhere. Given the informal nature of the Eurogroup and the fact that political unity among the participants in the single currency is of much greater importance than in other policy areas of EU engagement one should expect an atmosphere dominated by an overall orientation towards problem-solving rather than bargaining.⁴⁶

⁴³ Wiener 1998.

⁴⁴ Cf. Figure II.

⁴⁵ Elgström/Smith 2000.

⁴⁶ Cf. Elgström/Jönsson 2000.

This analytical perspective allows identifying the first peculiarity of the Eurogroup's intergovernmental nature. A feature, which the Eurogroup has in common with many other institutional arrangements within the EU and which distinguishes it from bargaining circles involving government representatives in other international contexts. However, this perspective does not account for the creative or constructive element, which is so important for the work of the Eurogroup. The focus on problem-solving vs. bargaining is still based on the concentration on the outcome of a negotiation process in terms of material factors as gains and losses of the participants in the coordination process.

The euro-zone represents a so far unknown challenge to economic policy-making. Triggered by the overall process of globalisation, the persisting high degree of unemployment in the EU and the necessity to comply with the convergence criteria of the Maastricht Treaty in the run-up to EMU established policy styles have been under review in all euro-zone countries. In this situation, one should expect that policy-makers are looking for new policy solutions. Consequently, they are increasingly prepared to change their preferences and identities.⁴⁷ Therefore, their discussions are likely to be structured more and more by the "logic of arguing"⁴⁸ and the focus on deliberation.⁴⁹ The informal nature of the Eurogroup facilitates such processes since the ministerial rank of participants contributes to the tendency that discussions are rather of a political character than of a technical one.⁵⁰ Because there is no definite conclusion of a discussion in terms of the approval of a formal and therefore final decision, it is easier for policy-makers to move beyond fixed positions – even if only provisionally. Moreover, the exchange of information on the respective domestic economic situations and the pursued national policies stimulates learning processes, which build on and develop even further the EU's general strategy to use benchmarking and best practice in order to trigger progress in the realm of economic reform.

Arguing, deliberation and learning as part of the Eurogroup's unique working method is of particular importance for the development of the euro-zone. The emergence of an intellectual consensus among the top policy-makers – be it called a "culture of coordination"⁵¹ or even a "single economic philosophy"⁵² – is likely to be the key to the

⁴⁷ Cf. Hall 1993.

⁴⁸ Risse 2000.

⁴⁹ Cf. Joerges/Neyer 1997.

⁵⁰ Cf. Didier Reynders, Financial Times, 14-2-2001.

⁵¹ Jaquet/Pisani-Ferry 2001.

⁵² Fabius 2000.

coordination of national economic policies based on Europe's diverse economic policy traditions, which are often linked to very general ideas on the regulative role of the state.⁵³ Moreover, it is essential to develop shared standards for the assessment of the euro-zone's economic situation and of the impact of certain policy strategies. While the improved availability and quality of statistical information on the euro-zone will be an important technical tool with regard to this task, the interpretation of this information by policy-makers is always related to their fundamental economic policy ideas.⁵⁴ The achievement of a consensus with regard to these questions is only possible through a process of argumentation and learning in order to function as a legitimate⁵⁵ and therefore powerful informal resource. Because intergovernmentalism is the organising principle of the economic pillar of EMU and there are no legally binding instruments to force national governments into certain policies, the fact that policy-makers are convinced by the better argument is more important than ever before.⁵⁶ Such a consensus is the precondition for the Eurogroup's ability to exercise "peer pressure" within the euro-zone.

However, the framework for arguing, deliberation and learning provided by the Eurogroup remains fragile. The applied working method does not necessarily mean that policy-makers eventually resort to using these structures. Furthermore, since core competences of national governments are at stake a shift towards the well-known pattern of intergovernmental bargaining situations is always possible.⁵⁷ This would undermine the readiness of participants to exchange information and listen to the better argument. At the same time, a more constructive approach to intergovernmental coordination is vital for the further development of the euro-zone. In their work on comitology, Christian Joerges and Jürgen Neyer have focussed on the deliberative processes in the EU's committee system.⁵⁸ They have stressed that "legal principles and rules civilising the decision-making process

⁵³ Cf. Dyson 2000a.

⁵⁴ Cf. McNamara 1998.

⁵⁵ Cf. Wessels/Linsenmann 2001.

⁵⁶ Fiona Hayes-Renshaw and Helen Wallace have highlighted the link between the importance of a consensus-oriented approach in the Council and the weakness of Community law (Hayes-Renshaw/Wallace 1997, p. 48).

⁵⁷ The potential of conflict inherent of economic policy coordination in the euro-zone was highlighted by the change in rhetoric during the recent row concerning the Irish budget: "The Member States have absolutely the right to determine their appropriate national budgetary policy." (Charlie McCreevy, Irish finance minister, quoted in *Le Monde*, 26-2-2001)

⁵⁸ Joerges/Neyer 1997.

and providing an institutional context for practical reasoning”⁵⁹ are vital for the protection of argumentative and deliberative processes at the EU level. The current intergovernmental structure of EMU’s economic pillar however does not seem to allow any steps towards a “deliberative supranationalism”⁶⁰. Instead, it remains a case of self-imposed moderation exercised by the euro-zone countries to protect the specific culture of discussion within the Eurogroup against more competitive attitudes. In this context, Kenneth Dyson’s argument of the euro-zone’s “Kantian culture”⁶¹ is crucial. A euro-zone following a more Hobbesian or Lockeian approach would not be an adequate environment for a Eurogroup focussing on a more constructive model of intergovernmental policy coordination. To take up Dyson’s political philosophical perspective and bring in another prominent theme of Kantian philosophy: the reference to the common good ‘euro-zone’ will only be recognised as legitimate if it is based on reason and persuasion. In the long run, the kind of political unity required for the successful management of EMU cannot occur in an intergovernmental economic pillar of EMU, which is based on either severe bargaining competition or hegemony since the effectiveness of the coordination process is largely dependent on the realisation of the agreed policies in the domestic arena. It is too early to predict which direction the euro-zone countries will finally pursue.

Informality as an institutional compromise: The Maastricht Treaty and the problem of unintended consequences

“The empowerment of the European Council to strengthen cooperation among the euro area economics and finance ministers therefore took account of a development the increasing significance of which could not necessarily be foreseen when the Maastricht Treaty was formulated.” (Deutsche Bundesbank)⁶²

The informal nature of the Eurogroup is not only a consequence of the search for new workings methods in terms of effective governance. The mere existence of the group indicates a misfit between the institutions set up for EMU at Maastricht and the current practice of economic policy coordination. Building on historical-institutionalism, this paper argues that the existing situation is an unintended consequence of the process, which led to the Maastricht Treaty. The current way of economic policy coordination deviates from the

⁵⁹ Ibid., p. 299.

⁶⁰ Ibid.

⁶¹ Dyson 2000a.

⁶² Deutsche Bundesbank 2001.

“road to Maastricht”⁶³ with regard to two factors: Firstly, the design of institutions for economic policy coordination laid down in the TEC follows much more the *negative approach* than the *positive* one as outlined in the first part of this paper. The revised agenda of the economic pillar of EMU therefore caused the need for new institutional solutions. Secondly, the Treaty provisions were drafted for the coordination of the economic policies of *all* EU Member States. The persisting division of the EU in participants and non-participants in the single currency is reflected in an asymmetry of interests between the more ambitious “ins” and the more reluctant “outs”.

The current practice of EMU shows that economic policy coordination within EMU cannot be restricted to the surveillance of budgetary discipline. There is an increasing demand for greater political unity and there is virtually no field of economic policy-making, which is not in some respect of common interest. Maastricht did not provide either an adequate framework for discussion or an institutional emphasis of greater political unity – even if the Treaty does not rule out this unity in general.⁶⁴ Moreover, the asymmetrical interests of the participants in the single currency and the non-participants question the role of ECOFIN as the central decision-making institution of the economic pillar. The principle of flexible integration used in the sector of monetary policy spills over into the realm of economic policy coordination. This reduces the room for manoeuvre for both the non-euro states and the euro states. The overwhelming importance of issues related to the specific needs of the euro-zone seriously threatens the influence of the former group while the latter group cannot use ECOFIN as the institution, which demonstrates that it speaks with one voice. Especially Britain is concerned that the centre of economic-policy making could shift from ECOFIN to the Eurogroup – which would undermine British attempts to exercise more political leadership in the realm of EU economic policy coordination.

The informal nature of the Eurogroup is therefore also a way of muddling-through. Emphasising informality allows the euro-zone countries to embark on closer coordination and demonstrate their political unity without questioning the status of ECOFIN and appeases the oppositions of the “outs”. Following the intention of the Treaty, the Eurogroup, which symbolises the new agenda of the economic pillar and the asymmetry of

⁶³ Cf. Dyson/Featherstone 1999.

⁶⁴ Otmar Issing of the ECB for example underlines therefore that EMU already provides a legal framework for an enhanced and effective coordination of economic policies among the Member States. Consequently, he does not see the need for any changes of the institutional structure (Issing 2000). However, the current situation means that it is up to the Member States to decide in any single case whether they want to follow the decisions of the Community as a whole or not.

interests within the EU, is an unintended consequence. Paradoxically, the need for closer coordination of economic policies was widely considered before and during the negotiations of the Maastricht Treaty.⁶⁵ Moreover, by this time there was no indication that Britain would join the single currency at an early stage. So, what accounts for the restricted time-horizon⁶⁶ of the architects of the Maastricht Treaty?

As outlined in the beginning of this paper Germany's subscription to the *negative approach* should be put in context with its overall goal to make the ECB as independent as possible and ensure the orientation of EMU towards price stability. The achievement of budgetary discipline was seen as the cornerstone of future stability. The demand – mainly raised by France – for a European “gouvernement économique”, which acts as a political counterweight to the ECB was seen as an assault on the commitment to central bank independence and the commitment to price stability. Two factors restricted the time horizon of German policy-makers: Externally Germany refused any compromise on a stronger institution within the economic pillar in order to demonstrate and exercise its political leadership in terms of EMU's orientation towards price stability. This stance on the economic pillar was motivated by the internal challenges the German government faced by this time: a sceptical electorate, which was reluctant to give up the Deutsch Mark and a powerful Bundesbank, which issued Europe's most successful currency for such a long time. The case of the asymmetrical interests of the participants and the non-participants in the single currency highlights that the choice of a two-speed Europe with regard to monetary integration was the result of a deep political crisis within the Community rather than the outcome of a consensual process. With regard to Britain, Denmark and later Sweden, which deliberately refused to join the single currency, the proponents of monetary union shared the view that the withdrawal of these countries was, or better, had to be only temporary. Therefore, the large pro-euro majority in the EU did not see the need to react on the increasing *de facto* exclusion of the non-participants from economic-policy coordination so far. On the other hand, during the negotiations of the Maastricht Treaty Britain took the position that the whole project of EMU should not be worked out very carefully. For a time, there was still the hope that EMU would suffer a setback on the way to the introduction of the single currency. Therefore, even Britain did not want that its role as a non-participant would affect the amendment of the Treaty in a wider sense. Finally, as institutionalist perspectives on intergovernmental conferences have stressed, the time limits

⁶⁵ Cf. e.g. Emerson et al 1992, Committee for the Study of Economic and Monetary Union 1989.

⁶⁶ Cf. Pierson 1998.

of these events should not be underestimated.⁶⁷ Maastricht was essentially about putting the EMU process on track rather than about sorting out all the problems of the future. That is why the positions outlined above dominated the scene.

Conclusions

The paper has demonstrated how the Eurogroup emerged against the background of a general shift in the attitude towards economic policy coordination in EMU. The overall process, which introduced new priorities into the economic pillar, was crucial for overcoming the differences of the past, which represented a significant hurdle for the further development of economic policy coordination. The commitment to non-Keynesian policies, the recognition of the ECB's independence and the importance of budgetary discipline are the ideological basis of a more constructive and inclusive approach to economic policy coordination. In short, the euro-zone countries preserve the intellectual foundations of the *negative approach*, which inspired the Treaty provisions but have strengthened the economic pillar through the widening of the agenda and have overcome the old *a priori* reservations against a more prominent role for economic policy coordination within EMU. However, even if all Member States have subscribed to the *positive approach* to coordination in principle there is at same time a deep asymmetry of interests between the more reluctant "outs" and the more ambitious "ins". Building on constructivist and institutionalist approaches the paper delineated the ambiguous character of the Eurogroup's informal nature. The circle of the euro-zone's top policy-makers is both: a body characterised by an innovative working method, which stimulates a more deliberative dialogue among the participants, and an institutional compromise, which reflects the difficulties of the unintended post-Maastricht structure of the economic pillar of EMU. The focus on arguing, deliberation and learning is crucial for the Eurogroup in order to be capable to put "peer pressure" on the various actors in the euro-zone and to act as a legitimate *generator of informal resources*. Analytically, this perspective moves beyond a view that tries to see the discussions and negotiation processes in the Eurogroup either guided by a "logic of consequentialism" or by a "logic of appropriateness".⁶⁸ The first logic emphasises the consideration of the actor's preferences in terms of negotiation power and possible gains and losses from the coordination process as the organising principle while

⁶⁷ Cf. Sverdrup 1999, Christiansen/Jørgensen 1999.

⁶⁸ Cf. March/Olsen 1998, 1989.

the latter stresses the rule-guided behaviour of actors – in the case of the Eurogroup the common commitment to regard economic policy-making in the euro-zone as a “matter of common concern”⁶⁹. Both perspectives account for important elements of the Eurogroup’s nature but fail to point to the unique method how the Eurogroup influences the coordination process.

Finally, the ambiguity of the group’s informal nature is crucial for its further development. On the one hand the invisibility, the secretive and informal character of the group help processes focussing on arguing, deliberation and learning and preserves the formal status of ECOFIN as the central decision-making body within the economic pillar. On the other hand, it is in the interest of the Eurogroup to strengthen its visibility and to demonstrate that policy-makers are determined to exercise political leadership in the euro-zone. The current president of the Eurogroup Didier Reynders has already made clear that he wants a decision on a “Mr. or Mrs. Euro”, who represents the Eurogroup internally and externally in a more visible way by the end of 2001.⁷⁰ Moreover, the Eurogroup needs official decision-making competences if it wants to coordinate economic policies in the euro-zone more effectively. With regard to its informal working method the question is how the group avoids the problem of overload, which would reduce the advantages of a more informal and constructive approach to coordination compared to the already existing structures in ECOFIN. With regard to the institutional environment of the Eurogroup’s work the asymmetrical interests of the participants and non-participants of the single currency has to be addressed eventually. The current situation endangers both, the development of a more credible style of economic policy coordination with regard to the special needs of a single currency zone *and* the evolution of stronger economic policy links between all members of the EU. Presently, the work of the Eurogroup takes place within a legal vacuum and there are no easy solutions in sight. The intergovernmental conference leading to the Nice Treaty demonstrated once more how delicate the case of the Eurogroup is when it failed to overcome the current informal compromise with the help of the new flexible integration procedure.⁷¹

⁶⁹ Cf. Article 99.1 TEC.

⁷⁰ Interview, *Wirtschaftswoche*, 1-3-2001.

⁷¹ According to Angus Lapsley of the Foreign and Commonwealth Office and Alexander Stubb of Finland’s Permanent Representation in Brussels speaking at the UACES conference “Nice and After” in London, March 2001, the idea to apply the new flexibility procedure to the Eurogroup was dropped at an early stage following an intervention by the finance ministers. This procedure would have meant that also the representatives of the non-euro Member States would have participated in the work of the Eurogroup.

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Ironically, this very fact encouraged the latter ones to reject the idea because they feared that domestically their argument that it is necessary to join the euro club in order to end the exclusion from the political management of EMU would become meaningless.

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