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Klaus Reeh*

A Second Look at the Maastricht Treaty

The Maastricht Treaty aims to define the path towards a single currency in the European Community by the end of the century. The following article analyzes the strategy laid down in the Treaty in the light of recent events, highlights its internal contradictions and the obstacles it is likely to meet, and assesses its chances of success.

If the European Community manages to create a single currency and sustain its use the Community will inevitably develop an entirely new identity. A Community with a single market at its core can remain just a community of sovereign states, but a Community with both a single market and a single currency will eventually have to give rise to a new social organization, reshaping the behaviour of enterprises, of jurisdictions, and ultimately also of normal citizens. This is in short both the aspiration and the fear in relation to the Maastricht Treaty: a new European Community.

The way chosen in Maastricht, which it was hoped would lead towards such a new European Community is at first glance technically feasible, but at second glance it turns out to be politically too unstable and too fragile, perhaps even unsustainable and downright dangerous. The European Community as it exists today might well become jeopardized, starting with the EMS and finishing with the not yet even completed internal market. The strategy must therefore be changed if the objective is still regarded as a valid one.

The introduction of a single currency together with the creation of the necessary institutions is the overriding objective on the agenda of the European Community for the final decade of this century. The Maastricht Treaty, agreed upon in December 1991, signed in February 1992 and until now ratified by 11 out of 12 Member States was concluded in the hope of achieving this objective by 1999. The Treaty consists of two elements, a first one that might be labelled the "Maastricht deal" and a second one that might be labelled the "Maastricht way". The deal is the complex give and take between Member States that made

them sign and perhaps ratify the Treaty. The way is the strategy agreed upon to be pursued to achieve the introduction of a single currency by 1999 at the latest.

The Maastricht Treaty aims at introducing a single currency in the context of an Economic and Monetary Union (EMU), embedded in a European Union (EU) with a much wider political scope. Given the Member States' different political, economic and social priorities as well as perceptions, a single currency could only be introduced on the basis of a broad political package which reconciled different priorities and eased different perceptions. Most important, this package had to assure that the costs and benefits, but also the risks, were balanced out and equitably distributed during the run-up to the introduction of a single currency as well as afterwards. Important elements of this deal were the institutional arrangements of the System of European Central Banks, notably central bank independence, but also the enlarged scope for policy cooperation in foreign and home affairs as well as the commitment to Community-wide solidarity through the cohesion fund. Most important, the strategy itself was part of this deal, too, because the strategy determines costs and benefits.

The "Maastricht way" consists of two elements: a kind of general convergence and joint decision-making procedures at certain dates. Two types of convergence have to be distinguished: institutional and macro-economic convergence. Concerning institutions Member States have to grant independence to their central banks and allow for full convertibility of their national currencies, all by certain deadlines. Concerning macroeconomics Member States have to achieve a series of political and economic results: budgetary sustainability, exchange rate stability within the EMS, (downward) inflation rate convergence and (downward) long-term interest rate convergence.

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Concerning the decision-making it has been agreed that for a single currency to be introduced a qualified majority has to decide, by the end of 1996, if a majority of Member States is ready to introduce a single currency and to judge if the introduction of a single currency is appropriate. Only if this is the case will a qualified majority, which must not necessarily consist of all Member States judged to be ready to introduce a single currency, determine the date for its introduction with no restrictions imposed on the choice of date. If a date has not been set by 1996, because a qualified majority of Member States is of the opinion either that only a minority qualifies or that the introduction of a single currency is not appropriate, the single currency will be introduced in 1999. The Member States which are ready to do so will then again be determined by a qualified majority. The appropriateness will not be assessed. Similarly procedures for determining the final conversion rates have been agreed upon.

Feasibility

In general, a feasible strategy for introducing a single currency has to resolve the following conflicts:

- ☐ conflicts about the distribution of adjustment costs;
- ☐ conflicts about the timing of the introduction;
- ☐ conflicts caused by divergent preferences.

The Member States have probably agreed upon the "Maastricht way" with these conflicts in mind.

The general convergence is meant to assure that all important costs that are different for different Member States will be assumed before the introduction of the single currency. In a certain way the required convergence levies a utility tax, albeit alleviated by the transfers from the cohesion fund. Those Member States that are supposed to benefit the most from a single currency, in particular from not being exposed to permanent monetary competition, have to pay a higher tax than those likely to benefit less.

The adoption of these convergence principles has allowed the Member States to strike a balance between the costs and benefits of *introducing* the single currency on the one hand, and the costs and benefits of *having* a single currency on the other. As all Member States have signed the Treaty they apparently regard the whole undertaking as beneficial and accept the implicit utility taxation.

Conflicts caused by divergent preferences are also meant to be alleviated by the general convergence. It is supposed to lead to a convergence of preferences, too. Conversely, non-convergence is considered to be evidence of divergent preferences. This is why the Treaty envisages that only those Member States that have revealed convergent preferences are to be allowed to

participate, while those that have revealed differing preferences are to be excluded as long as they do not reveal that their preferences are as convergent as those of the participants.

Convergence is also meant to alleviate timing conflicts. Member States are supposed to invest in convergence (e.g. central bank independence, low inflation) because this is perceived as being beneficial independently of the introduction of a single currency. The timing conflict itself, however, cannot be overcome by convergence alone, if some Member States have doubts about the usefulness of a single currency. This is meant to be achieved through irreversibility and an opt-out clause for the United Kingdom.

If a single currency were only to be introduced if at a certain date a majority of Member States fulfilled the conditions and delivered the results, this would imply that a majority of Member States not living up to the requirements of the Treaty would be protected permanently against a minority of Member States living up to its requirements. As it is costly to maintain over several years some of the results which the Member States are required to achieve (e.g. exchange rate stability), the optimum strategy even of a committed Member State would be to try to be the last one to fulfil the requirements. The optimum strategy of a non-committed Member State would be not to fulfil the requirements, or at least not to the extent required. Thus, the permanent protection of a majority of non-performers would create an obstacle to achieving a majority of performers. The investment of a minority of performers thus had to be protected. The profitability of their investment would otherwise be at the perpetual mercy of a majority of non-performers.

It has therefore been agreed that until 1997 a majority of non-performers, that are, of course, supposed to be only not-yet-performers, is protected against a minority of performers charging ahead too rapidly. Thereafter, however, each single performing Member State is protected against a majority of non-performing and/or non-willing Member States because the irreversibility principle requires the introduction of a single currency in 1999 at the latest, also by a minority of performers regardless of their willingness.

"Culture of Stability"

In view of the still prevailing differences between the Member States in the conduct of economic policies, especially with the single market not yet in full swing, advances in general economic policy convergence were felt to be necessary, too. This implied, above all, a stronger convergence of perceptions of the possible impact of economic policy instruments, notably of fiscal and

monetary policy instruments, and not just a convergence of economic policy priorities. A corresponding Community-wide social learning process had already been under way for quite some time, fostered, of course, by the move towards the single market and by the constraints imposed by the EMS ever since 1979. Economic policy makers in the different Member States, almost independently of their ideological orientation, had moved towards ever more common perceptions.

The very existence of the EMS led to an expansion of the learning process from monetary policies into the realm of macroeconomic policies. The EMS revealed policy failures, sending a clear message not only to those who had pursued ill-fated policies but also to those tempted to pursue similar policies. Both the ever narrower limits set for the conduct of national monetary policies and the ever more apparent need for closer monetary coordination were slowly accepted. The need for economic stability in general and monetary stability in particular started to dominate the policy agenda, so that priorities eventually seemed to converge as well.

Something that might be called a "culture of stability" was therefore slowly advancing throughout the Community during the eighties. Member States managed to codify the budgetary aspects of this "culture of stability" in the Treaty and introduced even some surveillance procedures. The result was a kind of mini-constitution of macroeconomic inspiration. The feasibility of the "Maastricht way" was therefore enhanced through the adoption of this mini-constitution, because future conflicts about the quality of the single currency were regarded as less likely if stability is held in high esteem throughout the Community.

The "culture of stability", however, was meant to ease not only potential conflicts *after* the introduction of a single currency, but also the still unresolved conflicts *about* the very introduction of a single currency. With all Member States committed to the "culture of stability" those Member States strongly in favour of a single currency hoped that the differences about the usefulness of a single currency might disappear with time passing by. Those Member States with reservations about the usefulness of a single currency were nevertheless able to agree to the development of such a "culture of stability" because this was regarded as beneficial anyway.

Competition, Cooperation and Solidarity

Existing national currencies differ considerably in many respects. They differ with respect to convertibility: some are freely convertible for a long time, while others were until recently subject to exchange control. Some currencies are mainly national ones, and others international ones, one currency was even a reserve

currency with a worldwide role. Consequently, currencies differ with respect to their reputation: some are considered to be rather weak, others quite strong. And even among the strong ones, there are considerable differences, as some of them had enhanced their reputation only recently.

The various differences are the expression of different preferences: not necessarily different social preferences as a whole, but at least different preferences as allowed to be expressed within the existing national organizational framework of relevance for the conduct of monetary policy. Thus, some of the existing differences are due more to differences in the adequacy of organization and the degree of organizational sclerosis in the national context than to differences in social preferences.

Convergence was meant to reconcile these basic divergences with the help of a flexible and tailor-made "CCS control stick" at the core of the EMS, keeping Member States on track through a fine-tuning of monetary *competition, cooperation and solidarity*. Competition was perceived to be necessary to overcome organizational deficiencies that prevent the reflection of social preferences for sound money. Cooperation was perceived to be necessary to regain collectively some extra room for the conduct of monetary policies ever more constrained by the full liberalization of capital movements. Solidarity was perceived to be necessary to overcome evident structural monetary disadvantages such as the size, but also the legacy, of a currency. Thus the CCS framework was equally seen as enhancing the feasibility of the "Maastricht way".

With all the main conflicts supposed to be resolved or removed and with the favourable conditions supposed to be created by the "culture of stability" and the "CCS framework", the introduction of a single currency along the lines of the Maastricht Treaty was thus regarded as feasible and Member States therefore signed the Treaty. However, since then the Community has slipped into a deep crisis, revealing that the feasibility of a strategy does not guarantee its success. Other attributes like stability, resilience, efficiency, transparency or popular acceptance are at least as important to assure success, but the "Maastricht way" lacks quite a few of them.

General Instability

A stabilizing strategy is a strategy that facilitates achieving a particular objective, so that if the actual course of events deviates from the envisaged course, contingency actions are triggered off that guide the actual course of events back to the envisaged one. The "Maastricht way" is far from being a stabilizing strategy. If there is a stabilizing element in it, it is the hope that the strength of the commitment to the introduction of a single currency will automatically close any gap between the actual and the envisaged course of events. No doubt, a commitment can

achieve just that. However, if credibility is weakened, let alone destroyed, the strategy changes its character, and instead of closing the gap between the envisaged and the actual course, it will undoubtedly widen it. Thus it is a high risk strategy, because if credibility is lost, there is nothing left to stop the gap from widening. And once credibility has gone it will become ever more difficult to re-establish it because of the widening gap.

Credibility always has to be maintained to guarantee stability, but credibility is difficult to maintain because of a severe internal contradiction. The strategy intends to use convergence for discrimination between qualifiers and non-qualifiers. With the discriminatory part working, the number of Member States that are likely to qualify has to shrink. But it is not at all certain that credibility, notably political credibility, is reinforced for those who have survived. With ever fewer survivors the whole project will simply be cast into doubt. The built-in contradiction between convergence and discrimination simply will not disappear and credibility will thus be weakened as long as those who have gone under continue to struggle to get back on board and as long as those who have not yet gone under can still go under. The "Maastricht way" is thus more like a joint dance on a high wire than a joint ascent on a safe path to the apex of a single currency.

Political Vulnerability

It is always very difficult to live with a political commitment over too long a period of time. Almost any political commitment is permanently challenged in the political arena, for better or worse. This is what the political market place is about. The challenge will be the stronger, and thus the more difficult to fend off, the more the commitment requires change; and a single currency implies a great deal of change.

The political commitment is also under permanent challenge because it is closely tied to a complex and fragile political compromise. All Member States have based their agreement to the compromise on a political and economic cost-benefit calculation under uncertainty. In the course of time uncertainties are replaced by certainties, costs and benefits become reality. Of course, surprises are inevitable as actual economic development usually falls short of the expected economic development, primarily because expectations are often only hopes. The political consequences are obvious. Political stress in the national context is converted into political stress in the European context. In some Member States the perception will grow that the initial deal was a bad one, and in others that they are cheated, as perceived costs are mounting and expected benefits are not forthcoming.

In the political arena resistance to change cannot be overcome and distributional conflicts cannot be settled by

signing a treaty, particularly if the costs and benefits are as elusive and as dispersed in time as those of a single currency. The resistance continues to exist subliminally and conflicts simply linger on re-emerging again and again, only to be exploited whenever possible, making the "Maastricht way" politically highly vulnerable at any moment of time.

Political Exchange Rate Strain

A close tie between the stability of the exchange rate and the single currency commitment has been built into the Treaty. A sufficiently long period of exchange rate stability, which is regarded as helpful for legitimizing the ultimate conversion rates,¹ is one of the key conditions. This feature is not helpful for lessening any convergence gaps, and instead it is likely to amplify them because it requires the conversion of the single currency commitment into a stable exchange rate commitment.

Political and economic convergence is widely perceived as leading automatically to stable exchange rates. As exchange rates are determined in the highly political money market, the temptation is quite strong to present stable exchange rates as being proof that political and economic convergence are forthcoming. Exchange rates are therefore defended, notably by drawing attention to the so-called fundamentals (inflation rate, current account) even if the political convergence is not forthcoming. But as exchange rates reflect not just today's, but also tomorrow's expected fundamentals, both the political ones and the economic ones, a show-down in the money markets not only between economic realities and economic objectives, but also between political realities and political commitments, is almost inevitable.

For fiduciary money the odds are strongly in favour of central banks² defending a given exchange rate, because they dispose in principle of all the means to defend any exchange rate. They can only lose if the political commitment to defend exchange rates is weakened, at least on one of either side of the exchange rate. The attacked central bank might not be willing to accept

¹ If exchange rates between national currencies were sufficiently stable during the convergence process they could be frozen at a certain date, allowing all national currencies to be converted into a single currency. Thus exchange rate stability, after having been baptized by the market over a sufficiently long period, was meant to provide the legitimate conversion rates required. It is, however, by no means clear what is going to happen with the final date approaching. End games are usually not known for their stability. Exchange rates will then probably reflect a lot of phenomena, others than those one would like to be reflected for a universally acceptable and legitimate conversion of creditor and debtor positions.

² When speaking of central banks it goes without saying that we are speaking of all authorities relevant for the conduct of monetary policy. Of course, the central banks, especially if independent, are the key authorities, but it should be born in mind that there are more authorities acting on the monetary stage.

interest rates as high and liquidity as tight as required nor to incur debt in the amounts required; the supporting central bank might not be willing to expand its money supply to the extent, nor to grant credits in the amounts, required. Each central bank might have its own agenda. Furthermore, central banks might have different views about the distribution of the burden, that comes along in different forms of risks: financial, economic or political. Thus in the end it always boils down to the question of whether the joint political will survives under divergent domestic stress. The CCS fine-tuning is quite likely not to be as subtle as required for staying on an all too narrow course of stable exchange rates, that have to be not stable but rigid for political reasons, as long as Member States have or are perceived to have divergent interests and want or are perceived to want to pull the control stick in different directions.

The whole scenario is thus nothing but a permanent invitation to bet on the outcome, reinforced by the fact that a weakened commitment reveals deeper political conflicts which are translated into lower economic expectations and amplified cycles through excessive credit expansion and contraction, which in turn justifies the exchange rate pressure's having emerged in the first place. The stakes are high, and artificially so, and this above all for political reasons. They are increased even further by the political business cycle, because in the end it is not only the credibility of the single currency commitment or the credibility of a particular stable exchange rate, but the credibility of a government or even a head of government that is cast in doubt and thus questioned by speculators. The "Maastricht way" is thus a rough way where even the slightest political stumbling, be it in an interview, in a communique or in a public debate, can be very expensive, in political as well as financial terms.

Alienation and Frustration

Convergence revolves around a couple of macroeconomic indicators. Success and failure of economic policy-making are compressed and converted into indicator differentials. These differentials make the headlines of the media and give rise to a highly abstract debate. Ordinary citizens faced almost daily with a range of real economic problems such as unemployment are likely to be alienated. Catch words with a nationalistic undertone have already been invented to bring more real life into the debate (e.g. the "Franc fort") in the hope that people can relate more easily to them than to the highly abstract convergence indicators.

However, the political dynamic of the debate is very troubling. Alienation is quickly converted into frustration, perhaps even anger, if sacrifices are required to close

indicator differentials. Frustration is then converted into outright protest if the indicator differentials or the related concepts encapsulated by a catchword are used in the public debate to explain either that nothing can be done with respect to the real problems, or that the measures undertaken were not as effective as envisaged because of the constraints imposed. The complete degeneration of the public debate is finally reached with the universally accepted conclusion that there is little one can do about most of the real problems but that one has been quite successful in handling those widely perceived as unreal. Thus the "Maastricht way" almost inevitably creates a poisoned political climate.

Dangerous External Pressure

The indicators were initially invented for guiding an intergovernmental debate. The identification of macroeconomic imbalances was meant to pressure governments into doing something about these imbalances. As such imbalances are often the consequence of microeconomic imbalances, caused by the privileges of powerful interest groups, this pressure was welcomed. The obligation laid down in the Treaty to strive for macroeconomic convergence was meant to generate the additional external pressure regarded as necessary to tackle microeconomic imbalances. Microeconomic reform was meant to be triggered off by macroeconomic pressure. Internal weakness was meant to be overcome by European pressure.

Such a strategy for domestic microeconomic reform is very risky, because society's commitment to the European idea might be weakened and microeconomic reforms might still be blocked, depending on the strength of the interest groups. This danger is quite real because of the unequal exposure of different parts of society to external convergence pressure of dubious internal legitimacy. The aggravation of social imbalances might be the result, in particular as the priorities for microeconomic reform are set by macroeconomic constraints. If a painful reform is justified by reference to European obligations, it is quite possible that this justification will be refuted, and with it the whole European project. The "Maastricht way" is thus one on which the European political leadership can easily lose popular allegiance, and this not just for the introduction of a single currency.

European integration has always provided frameworks for societies to learn. The generalized convergence provides nothing but another such framework, the objective being that Member States learn to live with a strong and fully convertible national currency, albeit supported by the CCS framework. The reputation of the Member States' central banks determines to a large extent

the costs and speed of their learning. For Member States with central banks with a weak reputation, the costs will be high and the speed low. Smaller Member States can cut costs and increase speed if they refrain from pursuing a national monetary rate policy and follow more or less explicitly the German Bundesbank to profit from its reputation. For the bigger Member States this simple way out is not available, mainly for political reasons. They have to build up their reputation as more or less autonomous actors, and thus they are obliged to learn at higher costs and a lower speed.

But convergence requires Member States to learn and prove more than is necessary for living with a single currency. Most of them are involved in a tiring uphill race, trailing already as they are forced to undo their national monetary past in order to gain a European monetary future. Member States get ever more exhausted in the course of time and some may simply have to drop out. The "Maastricht way" is therefore a mercilessly steep ascent as more emphasis is put on Member States undoing their monetary past than on a true Community shaping its monetary future.

Dangerous Nationalism

The reputation of the European Central Bank (ECB) is supposed to be of particular importance for the smooth introduction of a single currency. It has to gain a strong reputation for pursuing monetary stability as quickly as possible. It is assumed that this task is automatically facilitated if all the participating central banks have acquired such a reputation on their own, because an almost uniform reputation is assumed to be easily transferable to the ECS.

The adopted strategy thus requires that the central banks of all Member States gain their reputation through "inter-collective competition" for users of their national currencies. Convergence might well lead to a uniform reputation, but what is really required is a reputation for an adequately ordered "intra-collective competition" that determines the quality of the single currency on the basis of shared principles. No doubt the convergence strategy with its CCS framework envisages some cooperation among central banks, but not only are there limits to this cooperation, this type of cooperation has little in common with the type of intra-collective competition in the future ECB. Worse of all, even if all central banks have eventually and successfully shown their capacity to stand the intense heat in Darwin's kitchen of monetary nationalism³ they

have gained at considerable cost a primarily national reputation. But with the introduction of the single currency this national reputation is going to disappear as soon as it has been gained.

The inefficiency of this strategy is all too apparent and so are its dangers. Intense monetary nationalism increases financial, economic and political stress that is created by excessive credit expansion and contraction sending shock waves through the ever more interdependent economies of the Community. Such nationalism can easily lead to economic nationalism and ultimately to straightforward political and thus ordinary nationalism. There are already signs that monetary matters are being discussed with an ever more nationalistic undertone (e.g. German interest rate dictatorship, obstruction by Anglo-Saxon speculators). The "Maastricht way" simply requires Member States to take a good drink from the bottle of nationalism to be able to arrive at the end of this way, knowing that it has to be the last drink from this dangerous bottle. It might well be, however, that they by then have become politically addicted to this drink. Monetary supranationalism is unlikely to be brought about by monetary nationalism.

Inevitable Speculation

There is no monetary speculation without monetary nationalism and the more nationalism there is the more speculators are brought to the scene. Thus speculators were able to hit the Community quite hard in recent months on its "Maastricht way", because monetary matters have become as political and thus as national as never before in the history of the European Community. The Community's CCS framework for conducting monetary policies still consists of a lot of monetary competition, some albeit limited monetary cooperation and a little bit of monetary solidarity, but nobody knows how this mixture changes in response to events in the currency markets. There are only few rules and procedures and a lot of dangerous political talk calling upon speculators not only to reveal apparent contradictions and persistent illusions in the political arena but also to remove the contradictions and to contain the illusions.

The "Maastricht way" is plagued by speculation based either on an economic rationale or on a political one or a combination thereof. The speculation against the Lira was based mainly on an economic rationale. Speculators could be sure that the credit line at the disposal of the Italian central bank was fairly limited, once they got going. In the end speculators were paid by the Italian taxpayers for revealing that Italy was an economically non-convergent Member State. The speculation against the Pound was a

³ For an in-depth discussion of the concept of monetary nationalism see K. F. Hayek's lecture on this topic held in 1937 in Geneva and published under the title "Monetary Nationalism and International Stability" (London 1937).

mixture of both types. A lot of political and economic divergencies existed ready for exploitation. Reticence in the United Kingdom to let short-term interest rates go up paired with reticence in Germany to grant credit on the scale required. Thus the UK taxpayer had to foot a hefty bill. In contrast the speculation against the French Franc was always based on a political rationale. In the first round Germany was willing to grant the required credit, France was willing to incur the required debt and both were able to handle the liquidity shifts in the wake of the speculative attack without too much political fall-out. Both positions were credible and thus sustainable. Speculation tapered off. In the second round, however, although the narrow economic fundamentals usually presented as relevant for exchange rates had not changed, the broader economic and political fundamentals had changed. This time the EMS even had to be dispensed of. The French taxpayer has yet to foot the entire bill. Everything has been put on hold in an effort to reduce that bill. All this reveals that political fundamentals are as important as economic ones.

Speculation will accompany Member States all along the "Maastricht way" towards a single currency whatever the EMS margins are, because currency markets are still supposed to provide the ultimate conversion rates. Politicians in charge of economic, and particularly monetary, policy will have to put the taxpayers' money at risk only to find out if their own political will, changing in the winds of public sentiments, is strong enough to go ahead with a single currency. By stigmatizing speculation and presenting themselves as victims of ferocious foreign speculators, politicians have a scapegoat at hand to hide their inability to find the necessary political consensus for a single currency. However, stigmatizing speculators is not only dangerous, as it increases monetary nationalism, it is also expensive, as it attracts even more of their breed. Worse, it conceals the fact that speculators are above all owners of the currency under attack, thus either nationals or foreigners that have obtained credit from nationals. In the end there is no way to do away with speculators, national or foreign ones, short of introducing capital controls or taxation of capital transactions.

Member States have simply chosen a way that has permanent scrutiny by speculators built in. In the end, however, speculators will have to disappear because they will have forced political reason to prevail over political illusion. The "Maastricht way" will simply become ever more expensive. Speculators will force Member States either to abandon the project or to change strategy and come to an encompassing political consensus about the single currency that the current strategy only seemed not to require.

False Impression

The introduction of a single currency is a full-fledged monetary reform for all Member States regardless of the strength of their national currency. The monetary constitution for all Member States and thus the way of creating and cancelling credit will change, other rules will apply, other habits will develop, a different mixture of economic and political agents will produce and use the single currency with different mediating practices and different preferences. A different monetary spirit will come into existence reflecting expectations as to what extent promises of different maturities that are denominated in this currency will be honoured. A single currency will simply be different from any national currency used today.

All this, however, is not admitted; worse, it is concealed behind a political smokescreen of convergence created at considerable cost. Convergence is presented as a means of making the various national currencies ever more alike, designed only to create the impression that little will change once they are replaced by the single currency. Nothing, however, is more dangerous in political and economic terms than the creation of false impressions. These will be unmasked sooner or later, discrediting not only the strategy applied but also the objective pursued. Thus the "Maastricht way" is a kind of detour through a maze of political and economic convergence concealing the fact that in the end the national currencies are not simply converted in a purely technical operation at yet to be determined conversion rates into a single currency, but that *all* Member States have to undergo a true monetary reform, the extent of which is not only entirely unclear but willingly left open.

Illusory Pre-emption

The claimed irreversibility protects a minority of Member States that not only qualifies to introduce a single currency but also wants to do so. A majority of Member States, either unwilling or unable, would not be able to stop them. The minority of qualifiers, however, is not only protected, but also tied, by the decision-making. A majority of non-qualifiers can determine who belongs to the minority of qualifiers, perhaps even contrary to the latter's own assessment. Once established, this minority has no right to reconsider the adequacy of the introduction of a single currency by 1999, but simply has the obligation to introduce it at that time.

The protection of each qualifier within the minority of qualifiers could have been achieved if the qualifiers had also been given the right to fix unanimously a date other than 1999. Now not even their unanimous opposition can stop the introduction of a single currency without violating the Treaty. Contrary, however, to common belief the

introduction of a single currency by 1999 is not guaranteed. The decision-making procedure protects and ties the minority of qualifiers after 1997 but gives total freedom concerning timing to a majority of qualifiers before 1997. The decision-making procedure allows for delaying the introduction of a single currency by a majority of qualifiers before 1997 and pre-empts the decision of a minority of qualifiers after 1997. The political sustainability of such a strange arrangement must be doubted. Severe conflicts are therefore still looming at the end of the "Maastricht way" if this end is ever reached. It will then be conflicts about compliance or non-compliance with the Treaty, but such a conflict can easily jeopardize the Community as a whole.

Political Infeasibility

At the first glance the adopted strategy appears to be technically feasible and thus quite promising. It fits into the political landscape. The short-term risks seem to be contained, the long-term risks eliminated. Costs seem to be shared according to utility as evaluated by Member States. A common "culture of stability" is under way, leading to a general convergence of perceptions, hopefully including those on the usefulness of a single currency. A majority of Member States cannot forever prevent a minority from going ahead. Even a final date is meant to be set. And the CCS fine-tuning is supposed to be at hand to respond to any divergences emerging during the implementation of the strategy.

At the second glance the strategy is plagued, however, by deeply rooted weaknesses. Its stability hinges on the credibility of the commitment. This credibility is difficult to maintain because it has to survive the upheavals created by the built-in selection process. Distributional conflicts, meant to be settled for good in the Treaty, re-emerge and cast permanent doubt on the sustainability of the commitment. The political interplay between macro-economic convergence and exchange rate stability creates unnecessary and inevitably rising tensions adding to the doubts. The macroeconomic indicator pressure leads to an economic policy debate that at best alienates the population or blocks microeconomic reforms, and at worse discredits the single currency project and perhaps even the European project.

Member States are learning but they are acquiring capabilities that are not necessarily required once a single currency has been introduced. The solution of establishing a uniform reputation of central banks to guarantee the reputation transfer to the ECB is a very costly one. Uniformity is probably neither necessary nor sufficient for a successful transfer. Worse, it might not even work, not only because of the inevitable increase in both monetary

nationalism and speculation but also because the introduction of a single currency will in the end be nothing but a full-fledged monetary reform that is insincerely concealed at considerable cost behind the veil of gradual convergence.

The strategy simply transforms the risks of *operating* into the risks of *having* a single currency. This transformation is very costly, absorbing a lot of economic and political resources and likely to create a lot of political fall-out. But in the current state of affairs this transformation is also inevitable because Member States still hold contradictory political perceptions about currencies, both their national currencies and a single currency. Member States simply do not share the perception that a single currency must be a much more neutral currency with less room for any monetary policy, be it inflationary or deflationary, that is directed towards objectives other than monetary stability. Those Member States where monetary nationalism is deeply rooted regard the conduct of a monetary policy as an integral part of their national sovereignty. Others less committed to this doctrine still believe that a single currency in the end requires a European sovereign. Unable or unwilling either to create such a sovereign with unforeseeable consequences or to renounce monetary nationalism, Member States felt obliged to settle for the half-way house whereby some kind of joint sovereignty might emerge gradually together with a somewhat more neutral single currency.

Challenge Ahead

Recent events have clearly revealed that the dynamic properties of the "Maastricht way" are not very reassuring, indeed are frightening. Attractive static properties are simply not sufficient to guarantee success. The existence of a favourable general political and economic climate cannot be assured all the way long. This climate had already started to get rough even before the Treaty was signed and has worsened considerably ever since. German Unification, initially meant to be accommodated politically by the Treaty, has increased monetary tensions to such an extent that the room available for CCS fine-tuning simply was not sufficient. Policies widely perceived as competitive deflation carried the day with a lot of political fall-out. Worse, a general economic down-turn was in the pipeline for quite a while only to be exacerbated by the bad European climate. The political and economic collapse of the Central and Eastern European countries has increased uncertainties worldwide, but particularly throughout the European Community. The uncertainties generated by the ratification process have added to the previously existing ones. Increased uncertainties, however, have only one economic expression, higher

interest rates, which inevitably accelerated the economic down-turn and increased economic, and finally political, stress.

Despite the currently dismal state of affairs the Maastricht Treaty still has a chance to deliver what is intended to be delivered. The "Maastricht deal" might well withstand any political pressure and the "Maastricht way" to a single currency might not go astray. But the chances are rather slim, because it is the most fragile, most risky, most costly, most contentious, most ambitious and most vague initiative that has ever been launched since the signature of the Treaty of Rome. With this combination of fragility and ambition against a background of political disagreement about the final scope of the Community the success of the Maastricht Treaty balances on a knife's edge.

No doubt, the objective of the Maastricht Treaty, a stable single currency, is still valid; not only can it be achieved, it even must be achieved, because the financial, economic and political, in short the social costs of sticking to the current monetary nationalism will increase rapidly in the years to come. Only a single currency will protect the Community against the outbreak of nationalism because it will make economic events much more readable, not just for enterprises producing for and competing in a single market, but also for normal citizens, be they consumers or investors, employees or voters. Only then would the obfuscatory monetary smoke screen disappear, which today is still in the hands of politicians who are embedded in a purely national political context and who are all too ready to use it in order to detract from their responsibility and to avoid accountability. Only then can economic policy-making in the Community be directed towards real problems instead of being directed towards manipulating monetary illusions in pursuit of what are perceived to be national interests.

But for this to happen profound political convergence going beyond simple macroeconomic convergence is required: firstly convergence of perceptions about money and the conduct of monetary policy within the framework of an encompassing monetary constitution; secondly convergence of perceptions about the scope of sovereignty in monetary matters; thirdly convergence of perceptions about the finality of the Community and thus the room remaining for the exercise of national sovereignty, especially with economic significance. This would allow an end to be put to the current half-way house. The alternatives are clear: either Member States surrender their national sovereignty to the Community as a sovereign political body or they settle for a neutral single currency that does not require Community sovereignty. With the first alternative being almost impossible to retain because of

its broader political implications, Member States will have to choose the second one, and thus a neutral currency with a character entirely different from the character of any of the national currencies which exist today.

If such a broad political convergence existed, "Maastricht way" convergence would be obsolete. There would be no need to introduce a single currency through an obfuscatory, highly painful, extremely expensive, seemingly gradual but highly volatile process, and instead it could be introduced right away. There would be no need to exclude any Community citizens against their wishes from the benefits of a single currency on grounds of nationalistic prejudices nor to force them to adopt such a currency against their wishes. The conditions for an honest and legitimate monetary reform would simply be fulfilled.

But as long as political divergences are allowed to prevail and as long as the true benefits of a single currency are neither recognizable nor universally recognized but are instead concealed by puffing up the spectre of massive financial transfers, the costs of introducing a single currency guided by convergence will mount as time goes by. These costs arise as economic costs through increased political uncertainties, implying interest rates higher than necessary and thus depressing economic activity. They arise as stress in the financial system plagued by inevitably excessive monetary nationalism, transmitting and amplifying inflation and deflation, and submerged by waves of speculative attacks, testing the unsteady political will again and again. They might eventually also arise as political costs through an erosion of the commitment to the single market and the whole European project.

Thus to bring the whole undertaking to the much needed happy ending, only one conclusion has to be drawn: the "Maastricht way" is a false strategic choice – a supra-national economic constitution for the Community is required that is not only compatible with the political constitutions of sovereign Member States but is able to win Community-wide popular approval, reflecting those values of economic relevance that are shared throughout the Community, especially the non-discrimination on grounds of nationality and the freedom of association for the provision of collective goods, and thus also for a single currency. It might not yet be too late to change strategy, because the Maastricht Treaty provides an opportunity to do just this. The Treaty allows for a kind of re-negotiation in 1996, the scope of which, however, is left somewhat unclear. Only why is it necessary to wait until 1996 and not to start right now? Is an even bigger crisis required? Must nationalism first increase even further?