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Germanizing Europe? The evolution of the European Stability and Growth Pact

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No 24

Germanizing Europe?

The Evolution of the European Stability and Growth Pact

by

Ruth Hoekstra, Cécile Horstmann, Juliane Knabl, Derek Kruse,
Sarah Wiedemann

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1 Introduction

In 1992, the Member States of the European Community signed the Treaty on European Union in Maastricht, one of the most remarkable political achievements of the twentieth century. However, the boldness of the Treaty was apparently more than large segments of the European public were ready for. The replacement of national currencies by the euro and the ensuing permanent interlocking of the Member States' national economies were particularly unsettling developments for many Europeans. One political response to this skepticism regarding the economic future of the European Union was the creation of the Stability and Growth Pact (SGP) in 1997.

With the introduction of the common euro currency, Member States would lose the ability to adjust currency exchange rates to deal with economic problems. An underlying concern throughout the development of European Monetary Union was that Member States, deprived of the exchange rate monetary tool, might be tempted to amass excessive levels of debt to solve national economic problems. Such high public debt would ultimately undermine the European Central Bank's ability to ensure the common economic good of the monetary union, namely price stability, and would therefore have to be safeguarded against. In Maastricht, specific economic convergence criteria were laid out that Member States had to achieve before they would be allowed to adopt the euro. The SGP essentially hardened these standards and kept them in effect indefinitely. The pact had the explicit goal of permanently maintaining fiscal and budgetary discipline amongst European Union Member States who had adopted the euro currency. As adopted in 1997, it imposed a national debt limit of 60% of GDP, as well as a cap to the annual budget deficit of no higher than 3% of GDP. The pact had the practical effect of strengthening the provisions of the Treaty on fiscal discipline, particularly Articles 99 and 104, the Excessive Deficit Procedure. These debt and deficit limits were regarded as the best route to achieving low inflation within the Eurozone, since they effectively prevented any single country from pursuing a fiscal policy incongruent with that of the rest of the Member States (von Hagen 2002: 3-7).

Germany was easily the most influential country during the formative stage of the SGP. It had played the leading role in Europe's economy for decades. At the time, it appeared to many political observers that Germany, with its strong and stable economy, had much to gain from such an agreement, which would ensure that other Member States would not be able to

negatively affect it by pursuing unsound fiscal policy. Indeed, the very idea of such a pact was initially put forward by the German finance minister, Theo Waigel.

Fiscal policy is one of the most important instruments of national policy making. It certainly falls under the category of “high politics” which can be used to national advantage. Obviously then, from a national perspective, there is a cost associated with transferring fiscal policy decision-making to the European supranational level. And yet, that is precisely what the SGP does; by imposing limits on the allowable size of national debts and deficits, the pact restricts the flexibility that national politicians can make use of to deal with fiscal concerns facing their countries. Even given the potential benefits to Germany, what would prompt such an economically strong and stable nation to willingly transfer some of its fiscal policy authority to the supranational level? In order to investigate this subject, this paper will examine the positions taken by all the relevant actors in the German political process during the creation and development of the SGP. In particular, we will attempt to answer the following research question:

Can the European Stability and Growth Pact be explained in a framework of ideas, ideologies and interests in media democracies?

The question is posed in such a manner so as to determine whether the Agenda Theory can be used to explain this particular evolution of European fiscal governance. Before we can begin to answer this question, though, it will be useful to examine the Agenda Theory and its application to contemporary politics.

1.1 Theoretical approach – Agenda Theory

According to the Agenda Theory of political economy, voters are guided by self-interest; however, they do not have complete information and are therefore restricted in the rationality of their voting behavior. To compensate for this, many voters rely on the ideologies put forth by political parties to assist them in deciding who to vote for (generally speaking, the lower the voter’s ability to absorb all the information available, the higher their propensity for relying on an ideological crutch). These ideologies provide voters with a solid foundation from which they can better make sense of a complex world (Heise 2005: 5).

Some theories view the ideologies of political parties as mere “black boxes,” which can be filled with the political preferences of the median voter before an election, then altered to reflect shifts in public opinion before the next election. The Agenda Theory posits that the development of party ideology is not merely carried out to achieve short-term success at the polling stations, but is rather focused on achieving a coherent and enduring party brand that will maintain its appeal to voters. The successful use of such a branding technique will secure a long-term attachment between voter and party (Heise 2005: 5-6).

However, the challenge for political parties is to get their messages across to the voting public. In the modern mass media environment (consisting primarily of television, newspapers, and the internet), it is extremely difficult for a party to achieve direct contact with the voters. Most of the time, its message will have to be conveyed through the media, which should not be regarded as neutral transmitters of these messages. Based on the ideological position and economic interests of the media, as well as the ideological position of the media elites (who can strongly influence the way messages are conveyed in the media), party ideology and message are filtered and reframed before they reach their intended audience (Heise 2005: 7-8).

The interaction of media, political parties, and voters is more complex than this one-directional description, though. Each of the three players exerts influence on the other two. The attempts by parties to get their message on the list of issues that the media deem newsworthy is referred to by Heise (2005: 8-9) as *agenda building*. The media, in turn, are responsible for *agenda setting*, that is, determining which party messages are worthy of inclusion in their products. The media are also in control of *policy agenda setting*, by informing the parties of public opinion, presumably based on what issues provoke the most interest and passion in their viewers/readers (and therefore the highest ratings/sales figures). Finally, the voters themselves, often via lobbies, are responsible for *policy agenda building*, whereby they let their opinions be known to the political parties. However, because of their agenda setting role, the media has already played a major role in shaping the policy orientation of the electorate (Heise 2005: 8-9).

It becomes clear that the media play the largest role in this process, actively taking part in three of the four processes and heavily influencing the fourth. It should therefore come as no surprise to see the term “media democracy” used often in reference to the current political

system. The political parties' loss of power has been offset by the media's gain. In order to gain access to the voters through the media, politicians can no longer rely on sound policy alone, but must also be able to present themselves and their policies in a compelling manner that readers and viewers will be drawn to. In media democracies, public relations have become as important as public policy (Heise 2005: 9).

1.2 Outline

In examining whether there is an agenda theoretic explanation for Germany's role in the development of the SGP, it is important to consider the general political setting in Germany during this time. This will perhaps shed additional light on the motivations of the various actors in our investigation. For this reason, Chapter 2 will examine Germany's role and status within the European Union before and during the SGP negotiations. We will also discuss the unique political situation in Germany, namely the recently completed reunification, to see if this had any impact on the decisions made regarding the SGP.

Chapter 3 will look at the main political actors, i.e. the agenda builders, who were in positions that provided them with the largest potential influence on the creation or blockage of the pact. We will begin with the *Bundesbank*, the German Federal Bank. We will then turn to the government actors, first taking a close look at former finance minister Theo Waigel's motives for making such a proposal in the first place, followed by a review of the role played by the Federal Ministry of Finance as an institutional whole. Continuing our examination of government actors, we will next focus on the German political parties, both the governing center-right coalition (Christian Democratic Party, Christian Social Union, and Free Democratic Party) and the center-left opposition (Social Democratic Party and Green Party). We will then look at the role prominent German academics played, in particular the German Council of Economic Advisors. Finally, we will turn our attention to the German trade unions and employer associations.

Chapter 4 will examine public opinion regarding the increasing coalescence of the European Union by sifting through the results of the semi-annual Eurobarometer polls. Though the polling questions may not directly address the SGP, they do give a good indication of the public's general sentiment toward European integration. Through the process of policy

agenda building, such polling data will aid political parties with their agenda building, a vital process of the Agenda Theory.

Finally, Chapter 5 will focus on the role of the Agenda Theory's most important actor, the media. We will first examine the nature of media democracies and the effects of their emergence upon public policy. The portrayal of the SGP in the media will be presented and analyzed, along with a re-examination of public opinion regarding the SGP from a different vantage point than that of Chapter 4. Here, we will give additional scrutiny to the complicated give and take between the media and public opinion and their influences on one another. We will conclude the chapter by tying our media findings together within the framework of the Agenda Theory.

2 Initial status in Germany

Germany had not only played an important role in shaping the Treaty on European Union in Maastricht in 1991, but it was the moving force behind the Stability and Growth Pact (SGP) and dominated its negotiations. Reunited Germany, being the most populous and economically strongest country in Europe, surged ahead to assume joint responsibility in enforcing fiscal discipline as a permanent feature of EMU (Bundesministerium für Finanzen 1995: 1).

2.1 Germany's role and position in the negotiations

With the introduction of the D-Mark on June 20th, 1948, the beginning of a long-lasting phase of German currency stability was heralded, which was of great importance in ensuring autonomy in monetary policy in Europe – which was the precondition for the functioning of the European Central Bank (ECB) (Eichel 2006: 2).

Since the beginning of the 1980s, most European countries tied their currency to the German Mark to fight inflationary forces and keep their exchange rates stable. On the one hand, this turned out to be a successful system, leading to monetary and exchange rate stability by the late 1980s. On the other hand, many European states feared German superiority and their own dependence on the German currency. European monetary policy was de facto determined by

the *Bundesbank* alone. This asymmetrical structure put the German position under pressure. Germany's credibility was hinged to their currency policy. In the *Genscher-Memorandum* in 1988, Germany indicated its willingness to further European monetary integration for the first time, yet without giving up monetary leadership and its paramount commitment to price stability (Hillenbrand 1999: 503ff.).

Indeed, Germany's power position in the negotiations of the SGP can be traced back to its monetary leadership for decades. Giving up its power position, Germany declared the SGP to be in the crucial national interest of Germany. With the introduction of the SGP, Germany wanted to ensure that no country would evade the ECB's anti-inflation policy, that there was no free-riding by poorer Member States, and that fiscal discipline would prevent excessive deficits in EMU. The convergence criteria of Maastricht include two fiscal limits – the 3 percent and 60 percent criteria – which stress the importance of fiscal policy at the European level and deprive the Member States of the instrument of expansive fiscal policy measures. The proposal of German Finance Minister Theo Waigel aimed to mitigate the imbalance between national economic policy and European currency policy without questioning the contractual basis laid down in the Treaty of Maastricht. Again, Germany was accused of building up barriers for EMU to push through its own tradition of an independent central bank, price stability, and constrained fiscal policy (Hillenbrand 1999: 512ff.). Nevertheless, the German institutional model held prominence in the negotiations, based on German ordoliberal ideas and the successful history of German monetary policy. After nerve-racking debates on how to construct EMU and SGP, which mainly focused on the aforementioned fiscal criteria, the Council of Ministers finally agreed to the SGP. Surprisingly, thirteen Member States were classified as eligible in the reference year 1997 to enter the third stage of EMU – Belgium, Germany, Finland, France, Ireland, Italy, Luxemburg, the Netherlands, Austria, Portugal and Spain. Meanwhile, Denmark and Great Britain, despite having met the convergence requirements, opted not to participate in EMU.

Particularly for Germany with its miserable past, EMU was a milestone to prove the country's commitment to European integration and assume responsibility for ensuring peace and prosperity in the European Union (Bundesministerium für Finanzen 1995: 1).

2.2 German unification

The reactions to German unification in 1990 were quite mixed. German unity was cause for great joy around the world and especially for the people of East Germany, but it came to be a heavy burden for the German economy. German inflation was already rising prior to 1989, and reunification only intensified inflationary pressures, as the exchange rate between the East German and West German currencies was artificially inflated to one-to-one and massive fiscal transfers to the former East Germany increased the money supply. The German Federal Bank raised interest rates four times between 1990 and 1992, heavily affecting all European countries which had tied their currencies to the D-mark and creating pressure for them to realign their exchange rates. German monetary policies were harshly criticized and the process towards EMU suffered a setback. But European economies recovered soon after the conclusion of the monetary crisis in August 1993, and the German Federal Bank was able to maintain its credibility (Rhodes/Mazey 1995: 259).

In addition to Germany's domestic constraints, which ultimately affected all European countries, old fears of German dominance were evoked by German unity. Germany, now the largest and most powerful country in the middle of Europe, was regarded as a possible threat to its neighbors. The urgent need to integrate Germany into Europe can therefore be explained as a result of the recently completed unification.

Germany was expected to show full commitment to European integration. As a consequence, Chancellor Helmut Kohl was dedicated to European unity, especially during the Maastricht negotiations, in order to overcome history and to prevent further conflicts in Europe. Yet for Germany to sign the treaty, a necessary prerequisite was the implementation of the German model in EMU and SGP. The tradition of price stability and central bank independence was associated with economic prosperity, and Germany would never have agreed upon a SGP conflicting with these deeply rooted German ideals. In the end, the SGP turned out to be heavily biased toward the German institutional model. This can be explained by Germany's evident monetary power and prowess, but also by its domestic institutional structures and actors to which we turn now in the third chapter.

3 Main actors

When analyzing the Agenda Theory's main actors in the shaping of German fiscal policy, one has to consider two "typically German principles" that both determine and shape the actors' attitudes during the conceptualization of and negotiations over the SGP: the so-called "D-Mark patriotism" and ordoliberalism. We will now briefly describe both of these important German values.

Germany's historic experience of two hyperinflations during the 20th century (1922/23 and 1948) is one important reason for German economic policy's strong orientation toward stability since World War II. Having suffered critical restrictions to their national freedoms (a divided country, controlled by the allies), the Federal Republic of Germany had to redefine itself after the war. Shortly after 1945, the German economy embarked on an unprecedented boom (known as the *Wirtschaftswunder*, or "German economic miracle"). The freshly devastated country began to be rebuilt, bit by bit. Over the ensuing years, Germany grew to become the strongest economy in Western Europe. Its stable D-Mark currency became a common point of identification and national self-confidence. Deprived of independence in questions of foreign policy, the European integration process – also referred to as "reflexive multilateralism" (Verdun 2002: 204) – was regarded as an important step toward regaining credibility on the continent as well as to compensate for this lack. Although Germany could not participate in international interventions of the UN or within Europe for many years, they compensated for this restriction by making large money transfers ("soft power"), the so-called "check-book diplomacy" (Verdun 2002: 205). This practice reflected the German cultural identity, which was built around two main elements: first, the self-perception as a civilian power on the one hand and, secondly, as a strong economy compensating for its restricted powers via a strong and stable D-Mark. "Germans had, for a long time after the war, few points of orientation or symbols of identification, and the D-Mark was the strongest of them by far." (Sloam 2005: 132) When it came to the question of replacing the D-Mark with another currency, old fears reappeared, and people felt as though one of their most important sources of pride, their country's economic (monetary) power, was being threatened. On the other hand, the country saw itself as one of the driving forces of European integration, of which the coordination of economic and monetary policies was a highly symbolic and historical step. Nonetheless, giving up such an important determinant of

national identity seemed much more difficult for Germany than for other countries, a phenomenon that Thomas Risse had described as “D-Mark patriotism” (Risse 1999: 159).

Born out of the experience of political and economic failures during the Weimar Republic and the Third Reich, combined with the post-war economic boom, ordoliberalism was the underlying economic ideology that shaped the German negotiations over European Monetary Union. The German economy was respected abroad and served as a guarantee for stability and self-confidence domestically which was of the utmost importance for the country’s particular identity. Germany’s economy was the embodiment of ordoliberalism, as evinced by the efficient and long-term functioning of the competitive German market in combination with its strong independent *Bundesbank* committed to low inflation and price stability. Germany’s commitment to ordoliberalism served as a role model in Europe that paved the way to an Economic and Monetary Union (Dyson/Padgett 2005: 5).

3.1 Bundesbank (German Federal Bank)

One of the most influential actors during the creation of the Stability and Growth pact was undoubtedly the German *Bundesbank*. Indeed, outside of the German and the French Ministries of Finance, the *Bundesbank* may have been the most powerful actor. Therefore, when trying to identify and explain the prevailing ideas in Germany on the eve of the SGP, one has to consider the role of the *Bundesbank* and its powerful position, not only within Germany, but also with regard to its influence upon the other Member States of the European Union.

3.1.1 German ordoliberalism and the Bundesbank

During the negotiations over the Maastricht Treaty evidence of Germany’s leading role concerning monetary power in the European Union was on display. Germany’s successful push for the “Europeanization of the German model of an independent, powerful central bank” (Dyson 2002: 186) was driven by its sound ordoliberal convictions. The *Bundesbank* and its president, Hans Tietmeyer (1993-1999), were seen as the pre-eminent guardians of price stability (Dyson 2002: 186), not only in the academic and political spheres, but also in the public.

3.1.2 *First moves towards a Stability Pact*

After the heads of government of the Member States of the European Community had decided to establish a European Monetary Union, the *Bundesbank* gave its first statement concerning the EMU in September 1990. Its main recommendations in this statement were as follows:

First, the EMU would irrevocably bind the European currencies together by fixing their exchange rates. In the next step, monetary power would have to be handed over from the national to the supranational, namely the European, level. The resulting solidarity community would need a complementary Political Union in order to function well. Thus, the first request from the *Bundesbank* was for closer political cooperation, even a political union, though it did not specify what this cooperation should look like, how it should be managed, or how it should function (Deutsche Bundesbank 1990: 5-6).

Secondly, the *Bundesbank* highlighted in its early statement that a huge divergence between the Member States of the European Community existed and hence, that the envisaged EMU was not be able to work without additional stability. Moreover, the transfer of monetary power to the European level would result in a risk to stability, especially for Germany. Consequently, efforts for greater convergence would have to be made at the European level and monitored by the ECOFIN-Council and the European Commission (Deutsche Bundesbank 1990: 7).

Finally, the *Bundesbank* demanded a contractual safeguarding of stability-oriented fiscal-policy by the Member States with clear rules and sanctions. With this demand, the bank wanted to ensure that the criteria that it wanted laid down would be interpreted in a strict manner, meaning that there would not be any softening of such criteria through contractually fixed dates (Deutsche Bundesbank 1990: 9-10).

In the following years, the *Bundesbank* made another statement concerning the European Monetary Union and the claim for stability-oriented fiscal policy in the Member States. This statement must be interpreted in light of the political and economic situation in which it had been made.

The 1992 statement was given just after the signature of the Maastricht Treaty and mainly commented upon this treaty and its major accomplishments. The Central Bank Council¹ stated that the decision over whether the EMU had to be established was only a political decision taken by the government. Even though the *Bundesbank* had served in an advisory function during the negotiations for the German government, and as a result, the Treaty was generally in line with the ideas of the bank, there were still some concerns that the bank wanted to highlight: the establishment of a Political Union was seen as an important foundation for the success of the Monetary Union, which not only needed a common monetary policy but also a common social consensus that could only be reached via a Political Union. Without such a union, a dispute between Member States could lead to a crucial test for the European Union, as there were no common structures of political decision-making that could find a solution for this problem (Tietmeyer 1996: 66). Furthermore, the proposed Common Market made several demands upon the Member States that they had to be aware of: their economic, fiscal and social policies would have to be amended in a way that would lead to more convergence concerning the price stability. Moreover, the independence of the Member State's Central Banks was seen as a crucial factor for the success of EMU. Certainly, the most important point for the *Bundesbank* was the strict fulfilment of the convergence criteria² that had been laid down in the Maastricht Treaty for the selection of the Member States taking part in the EMU. Compliance with the entry criteria and a stability-oriented fiscal policy were far more important for the *Bundesbank* than contractually fixed dates. To sum up, the *Bundesbank* held the very strong opinion that no Member State was to be allowed to join the European Monetary Union without having fulfilled the convergence criteria (Deutsche Bundesbank 1992: 11-13).

Hans Tietmeyer and the Central Bank Council were the first to claim the need for a “Stability Pact” in 1995 and thus expressed the latently existing fear and criticism of the German public concerning the EMU. In January, Tietmeyer stated that only some of the Member States of the EU would be able to adopt the common currency on time and tied a condition to the adoption: the states had to accept restrictions to their national budgetary policies in order to assure a

¹ The Central Bank Council (*Zentralbankrat*) is the supreme board of the German *Bundesbank* and is composed of the president and the vice-president of the *Bundesbank*, the members of the directorate and the presidents of the Federal State Central Banks (*Landeszentralbanken*).

² Those criteria, laid down in the Maastricht Treaty, are the following: the first criterion demands that the Member State in question has to have a high degree of price stability. Secondly, the government's financial position has to be sustainable (at most, 3% government deficit in GDP at market prices and 60% ratio of government debt to GDP at market prices); thirdly, the Member State in question was a member of the European Monetary System for at least two years without any problems. The fourth criterion asks for a durable convergence expressed in the long-term interest-rate level (Galahan 1996: 149-152).

stability-oriented fiscal policy. Only three months later, he demanded effective rules and sanctions for the safeguarding of fiscal discipline in the EU; in other words, he claimed the need for a “Stability Pact” (Heipertz 2005: 59-61). The Federal Ministry of Finance – after meeting with Tietmeyer – then took a very similar position concerning the need for such a pact. However, the next step in the process of creating the official SGP was one of political bargaining, a step in which the *Bundesbank* had no more influence. The description of this process will be laid out in the next chapter about government and political parties (see chap. 3.2).

3.1.3 *The Bundesbank – an exterior view*

The last section presented the statements, views and ideas that the *Bundesbank* had concerning EMU, and in particular the SGP. We will now focus on the “outside” view of the *Bundesbank*, meaning its perception in the public and its influence on the process of establishing the SGP. From the analysis, we will be able to draw conclusions about its impact in terms of the Agenda Theory.

During the 1990s, the *Bundesbank* had a strong and influential position. The *Bundesbank* law from 1957 gave it the position of safeguarding the currency, so there was a clear legal basis on which the *Bundesbank* could operate and “define its role as guardian of the stability foundations of EMU, ensuring that convergence was strict and sustainable” (Dyson 2002: 200). Its excellent reputation as being the most successful central bank throughout Europe, coupled with the strong D-Mark, gave the *Bundesbank* the confidence of the global financial markets. Moreover, the German public trusted it. For these reasons, the German government decided to include the *Bundesbank* during the EMU negotiations, rather than leaving it out. The government wanted to make sure that the bank was in agreement with all of the key points of EMU (Dyson 2002: 200-201) and to have the bank as “a critical but constructive partner” (Heipertz 2001: 41).

This leads to the very important observation that, during the negotiations for the SGP, the *Bundesbank* held an “informal veto position” (Heipertz 2005: 68), also referred to as an “implicit veto position”. This position was based on the excellent reputation that the *Bundesbank* held with the public (Heipertz 2005: 181-182). Consequently, a negative

statement from the bank concerning the entry into stage three of EMU³ would have resulted in enormous political costs for the government (Dyson 2002: 187). Therefore, the inclusion of the *Bundesbank* in the negotiation sessions was of crucial importance for the government.

3.1.4 Conclusion

The German *Bundesbank* played its most influential role during the conceptualization stage of the SGP. After the idea of a “Stability Pact” was launched and then adopted by the Federal Ministry of Finance, the *Bundesbank*’s role was reduced to that of a discrete advisor, rather than playing an important role in the public.

Nevertheless, the huge influence on public opinion and the resulting informal veto position that the *Bundesbank* held were factors that could not be ignored by the German government and the Federal Ministry of Finance. The political costs to the government of a negative statement by the *Bundesbank* would have been extremely high, due to the bank’s high esteem in the eyes of the public. Therefore, the government decided to include the bank as an advisor in the process of establishing and negotiating the SGP.

Concerning the Agenda Theory, the *Bundesbank* had a certain influence with the media through its credibility as a guarantor of price stability. When the bank first stated that there was a need for stability-oriented fiscal policy, the media took this position and set it on the agenda. During the 1990s, and especially during the period of entering stage three of EMU, Tietmeyer appeared quite frequently in the media. Consequently, the public was undoubtedly influenced by the statements and positions of the *Bundesbank*, as put forward via the media.

³ According to the Treaty of Maastricht, the EMU should be established in three stages: in stage one from July 1990 until the end of 1993, the financial markets were to be liberalized and the economic policies of the Member States should be coordinated. In stage two, which started in 1994 and ended in 1998, there should be no further exchange rate adjustments to the currencies that have been bound together in the European Monetary System; moreover a European Monetary Institute was to be established as a precursor of a European Central Bank and all preparations had to be made for entering into stage three. In stage three, which began in 1999, all exchange rates from the countries that would take part in the EMU were fixed, the control over the common monetary policy was transferred to the Eurosystem, and the SGP came into force (Heipertz 2005: 56-58).

3.2 German government and political parties

When considering the attitude of political parties towards the discussion of the SGP, it is important to take two facts into account. First of all, there has always been a consensus on stability despite different points of view regarding the economic system. Highly inflationary policies, as witnessed in France until the early 1980s, for example, would never have been acceptable. Secondly, the D-Mark had been the ancillary currency in the Economic and Monetary System and therefore had already achieved a trustworthy status; giving up the D-Mark would mean abdicating Germany's leading position in the EMS for a currency dependent on different economic policy cultures.

As head of the German government since 1982, Chancellor Helmut Kohl had always emphasized Germany's attachment to the European project. He considered himself to be "Adenauer's grandson" and declared his "political fate associated with it" (Sloam 2005: 138). The "chancellor of the reunification," Helmut Kohl wanted to effectively implement the larger and therefore (in the eyes of most partners) more threatening Germany into the network of the European Union and its common currency project.

The following text will examine the role of the government (especially the Finance Minister) and the political parties during the discussion of the SGP in Germany. First, a short historical overview of the discussion and German economic ideology will be given. Thereafter, the roles and the positions of the opposition and the government will be discussed, in order to conclude on an agenda-theoretic evaluation of their influence or performance.

3.2.1 Implementation of the Stability Culture in EU Politics – From Genscher to Waigel

The *Genscher-Memorandum* in 1988 served as a first draft on how to implement the Economic and Monetary Union; Hans-Dietrich Genscher, the German Minister of Foreign Affairs, proposed the introduction of a European Central Bank based on the example of the German *Bundesbank*. This was not only an important step towards the creation of the EMU, but Germany thereby also wanted to continue its stability-oriented monetary policy within the Eurozone. A few weeks later, the *Delors-Report* (1988/89) set the goal of an effective, well-functioning introduction of a common currency in Europe by 1999 (FES 1997: 96). For the second stage of EMU (which states should enter in January, 1994), the report foresaw the

strengthening of the economic convergence as well as a higher coordination of monetary policies. Also, it forbade the central bank from giving credits to the public sector.

For the consideration of the role of German parties and the government, two main aspects revealed by these initiatives have to be kept in mind. First, both initiatives were mainly influenced by German politicians. While the former was a national proposition, the latter had been initiated at the Council of Hannover in 1988 on the insistence of the Chancellor Kohl and the French president François Mitterand. This strong influence of the Federal Republic on EMU also is reflected in the second aspect: the prior criteria of stability and convergence, which Germany felt were crucial toward guaranteeing a strong and stable Euro, are granted high importance in both proposals. Furthermore, the German foreign (European) policy had - due to its historical and institutional setting - always been focused on integration. It is true that political parties had different points of view on its design and on which aspect should come first, economic or political union, but there was always a general cross-party consensus on this fact. When the SGP was being discussed, EMU was a *fait accompli*, the Maastricht Treaty was ratified and renegotiations were not even on the agenda.

With the entry into stage two of EMU in 1994, the first official demands arose from politicians for a supervision of the currency's stability. At that time, liberalization of the financial markets as well as closer cooperation between the national central banks regarding coordination of economic policies was already advancing. The increasing dissatisfaction of the public, as demonstrated by their fear of the Euro (see chap. 4), threatened to dominate the domestic debate on Europe. Additionally, memories of the EMU-crisis in 1992/93 had seriously affected the German EMU leadership, which until then had gone unchallenged⁴: the widening of the exchange rate mechanism's (ERM) band from 2.25% to 15% was seen as heralding its decline. (Ahrens/Ohr 2003: 62).

3.2.2 Opposition - Social Democrats and Greens

From 1982 until 1998, Germany was governed by a Conservative-Liberal coalition, composed of the CDU/CSU and the FDP. As the opposition parties, the SPD and the Green

⁴ Due to a devaluation of the British pound and the Italian lira and the unwillingness of realignment of the partners, both countries had to leave the exchange rate mechanism of the EMS (as it prescribed fixed exchange rates). A few months later, the increase of the interest rates in France and Germany led to rivalries concerning the role of the anchor currency.

Party could not exert a strong influence on creating the concepts of the Monetary Union at the Intergovernmental Conference (IGC), even though the initiative had originally been taken by a social-democratic chancellor, Helmut Schmidt, in 1979 (Waigel 1996: 236). Generally, the SPD played a much larger role concerning the SGP, since the Green Party at that time was just beginning to realign its political vision with the now established EMU. Having fought against the economically-oriented EU since its creation in the 1980s (they compared it to a corporate group), the Greens were against the Maastricht Treaty in general. The constitutional complaint in Germany against its ratification was led by an important Green politician and lawyer, Hans-Christian Ströbele. Thus, the Greens scarcely participated in the debate on the coordination of fiscal policy during the considered time, but instead criticized EMU and the EU in general.

3.2.2.1 *Constitutional renewals - a threat?*

After the debate on the Maastricht Treaty in 1992, the SPD found a way to increase its influence- or more generally, the influence of German opposition parties- on European politics. In October 1992, the German constitution was revised: the *Bundesrat*⁵ was given a right to veto (by two-third majority) in the case of sovereignty transfer to any international decision-making body. Hence, in times when opposition parties held a majority in the *Bundesrat* (which was the case since 1992), they had a more effective means of pressure on the government (Rhodes/Mazey 1995: 253). Since the SGP was not a primary source of law and was foreseen as a “common position paper,” there is no question that this influence was restricted to a rather symbolic or rhetorical one. But as the German public grew increasingly skeptical towards the Euro the closer it came, a “stab in the back” from the opposition and a potential blocking of European integration was much too risky for the government.

3.2.2.2 *1995-1996: turning of the SPD towards the anti-EMU platform?*

When the countries entered stage two of the *Delors-Report* in 1994, only two of the participating countries, Germany and Luxemburg, fulfilled the fiscal convergence criteria as defined in the Maastricht Treaty. The SPD used this widespread failing to criticize the government: during a general debate on the budget in the German parliament in November

⁵ The second legislative chamber in Germany, composed of the prime ministers of the *Länder*.

1995, the party leader Rudolf Scharping attacked the governing coalition of leading an unsound fiscal policy that might endanger the fulfillment of the convergence criteria and thus the EMU. Picking up the accusations of the academics that EMU had been created too quickly and was not well-planned (“*mit heißer Nadel gestrickt*”), they criticized the lack of a Political Union that Kohl and his partners had declared essential for a functioning EMU (*Die Welt*, 11.11.1995).

A few days later, the SPD held its party conference in Mannheim. In his opening address, Commission President Delors emphasized that neither the simple compliance with the Maastricht criteria nor the creation of the ECB were sufficient to achieve fiscal stability: an “economic government” keeping surveillance on general macro-economic orientation was needed⁶. The speeches of Chairman Rudolf Scharping and his deputy Oskar Lafontaine (minister president of Saarland) both expressed regret for the underdeveloped Political Union, although a general approval of the European project was stressed (*Die Welt*, 16.11.1995). Nonetheless, the issue of stability was still considered highly important- it even had its own place on the agenda of the conference. Echoing the *Bundesbank’s* criticisms, they claimed the convergence criteria deserved more respect than the entry into stage three within the given time period (1997 until no later than 1999), taking up the criticisms given by the *Bundesbank*. Scharping proposed a delay of stage three until Italy satisfied the conditions (“controlled delay”⁷). The question of which factor should be given preference, “convergence or time-table,” as well as deciding how firmly the criteria should be fixed, was discussed within the SPD leadership as well, though not without controversy (Dyson 2002: 198): Oskar Lafontaine also supported the idea of a delay, since he considered the “tight fiscal policies” needed for strict compliance with the convergence criteria as “costing jobs” (Notermans 2001: 90), but he did not share the *Bundesbank’s* point of view. The minister president of Lower Saxony, Gerhard Schröder⁸, doubting the power of EMU to establish fiscal discipline in the participating countries, wanted the regional elections in Baden-Württemberg and Hamburg to serve as a “referendum on the Economic and Monetary Union” (Heipertz 2005: 69). Former chancellor Helmut Schmidt (SPD) openly criticized his own party colleagues as well as the Euroskepticals within the government as “strategic pygmies” (Sloam 2005: 142).

⁶ This issue became the subject of a big debate between Germany and France during the following years, with France willing to introduce a *gouvernement économique* to counterbalance the power of the independent ECB.

⁷ This was one of the alternatives Ordoliberals had mentioned in order to achieve a stable EMU.

⁸ Who eventually became German chancellor (1998-2005).

Since these elections had shown that voters were reassured by the pact, the opposition responded by criticizing the economic performance of Germany and the unrealistic timetable that could not be carried out (Sloam 2005: 138). Additionally, they raised criticisms against the government on a more traditionally “social democratic” subject, namely the missing EU employment policy (Sloam 2005: 149).

Their method of discussing EU integration as well as their exploitation of the matter for the national elections reveal the populist appeal of the issue. As mentioned above, parties, politicians, and the public feared the abandonment of the D-Mark, the heretofore driving force of German self-perception as a civilian and economic power. By repeating the criticism of the *Bundesbank*, the SPD intended to gain credibility in economic, especially fiscal, questions of the EMU. Secondly, the topic of monetary integration and the common currency were closely linked to the person of Helmut Kohl, who was seen as strongly attached to the European project. The government therefore could be criticized easily and effectively at the same time, as this topic touched important pillars of German national identity. Despite this attitude of the opposition, it should be kept in mind that there was at any time a general consensus among all parties regarding the importance of European integration and a stable common currency (Sloam 2005: 132). Contrary to what had been announced in 1995, the European policy became a minor issue in the upcoming national elections of 1998, a fact that also reveals that the SPD had abandoned its anti-EMU criticism.

3.2.3 *The government - Theo Waigel under pressure*

Due to the nature of the pact, its development was mainly accorded to the Minister of Finance, Theo Waigel; an important switch of competencies had thus taken place. As the linking element between the national and European level, he faced several difficulties. First, he had to reassure the European partners fearing a German hegemony in the EMU (since, after all, the design of the independent ECB and the Maastricht criteria clearly reflected the ideologies of German monetary policy). Secondly, internal party disputes, the open criticism coming from the opposition, as well as the worsening public opinion of the Euro put him under pressure to act. Our research question places the emphasis of our evaluation clearly on actors in the domestic arena; nonetheless, this general situation has to be kept in mind when observing Waigel’s behavior.

3.2.3.1 Internal party skepticism: Edmund Stoiber and the CSU

In September 1993, the first negative critiques of EMU and its organization arose within Waigel's own party, the CSU: due to the experiences of the ERM crisis that had lasted until summer 1993 and fearing a shift towards the extreme-right in the upcoming elections, D-Mark patriotism was a topic that seemed highly exploitable. Anticipating this, the Bavarian Prime Minister Edmund Stoiber wrote a letter to Kohl in which he proposed delaying entry to stage two until June 1994, when elections to the European parliament would have taken place (Dyson 2002: 198). Furthermore, the rivalries between the CSU party leader Waigel and Prime Minister Stoiber increased during the ensuing months: in 1995, both were candidates for the prime minister post (the more prestigious one) as well as for the chairman's position. Especially for the latter, the anti-EMU sentiments were pushed by Stoiber (*FAZ*, 4.11.1995), whereas during the prime minister elections, a more domestically oriented campaign denouncing Waigel's credibility and honorableness had been run⁹. Politically weakened by these rivalries and facing increasing Euroskeptical attacks from the prime minister, Waigel had to react.

3.2.3.2 EMU as a German responsibility: Helmut Kohl and the CDU

In addition to the pressure from his own party, Waigel was also constrained by Kohl's statements at the IGCs and to the German public. The chancellor refused to delay the timetable because of the "special responsibility" he believed Germany had for the EMU: a symbolic gesture that would show the German desire to make European integration irreversible, deriving from Germany's self-perception as the driving force of the European Union and its leadership role on monetary integration. Nevertheless, Kohl insisted on strict compliance with the criteria and made clear that Germany was not willing to make any compromises concerning stability and convergence (*German News*, 7.12.1995). One important reason for this stance surely stems from the difficulties that Kohl faced during ratification of the Maastricht Treaty in Germany. The narrow majority within the two chambers and the constitutional complaint that had been lodged against the Treaty generated high domestic political costs (Rhodes/Mazey 1995: 259).

⁹ Comparable to the actual situation in Bavaria, the illegitimate relationship of Waigel was denounced intolerable for a future representative.

While the influence of the *Bundesbank* had grown ever larger during European negotiations (see chap.3.1), Kohl also needed to convince his domestic partners to commit to the common project by making credible promises. For example, his Secretary of Finance at the time, Jürgen Stark, stressed that the introduction of the euro was clearly not a currency reform as it had no consequences for the real values, but was rather simply a technical process (Waigel 1996: 288). He thereby proclaimed the introduction of the common currency as a simple exchange of one banknote by another. Theo Waigel, on the other side, repeated incessantly that the Euro would be “at least as stable as the D-Mark” (Dyson 2002: 196). Indeed, this was also the title of an information brochure edited by the Finance Ministry on the EMU.

As the third stage of the *Delors-Report* was planned to start in 1997 and to last until 1999, another problem aggravated the situation: after having fought for strict convergence by all Member States, Germany was no longer completely sure if it would be able to reach the 3% ceiling negotiated in Maastricht. Waigel’s statement that “3 percent means three point zero percent” (Ahrens/Ohr 2003: 57) now hung like a sword of Damocles over him: making a public pledge to guarantee price stability as well as Germany’s economic (and thus political) credibility seemed insufficient; an institutional framework was needed. 1997 had been fixed as a reference year for measuring the achievement of the deficit criteria within the EU-countries, and in late 1995, time was running out - there was need for action. However, this did not necessarily require a strict set of mandatory rules, as the SGP would later be perceived. As originally intended, the primary objective of the pact was to calm the German public, though it also clearly spelled out the German position for the upcoming IGCs regarding the so-called “Maastricht leftovers” (Sloam 2005: 133) and put pressure on domestic politics concerning the implementation of the Maastricht Treaty. Additionally, the future accession countries (negotiations had already started), which had traditionally rather weak economies, had to be bound to the stability values on a long-term basis. In particular, Germany feared the free-riding of certain countries, which would seriously endanger the euro’s credibility (Ahrens/Ohr 2003: 59).

3.2.3.3 The Federal Ministry of Finance - birthplace of the SGP

Shortly after his re-election as leader of the CSU, Theo Waigel announced at the German *Bundestag* his initial proposals on how to guarantee a generally sound fiscal policy within the Eurozone. Immediately, a working group within the Federal Ministry of Finance (FMF) was

set up: it consisted of four members, two from the *Grundsatzabteilung* (Department of Financial Policy) and two from the subdivision for European issues (Department for International Affairs). Only one month later, in November 1995, the FMF presented a working paper titled “Stability Pact for Europe,” declared as a starting point for a common European position paper. It defined the maximum deficit ceiling at 3% and made clear that in times of economic growth, this shall be reduced by as much as 1% - thus, the 3% limit was not to be exceeded even in times of recession. In case of a breach of the rule, an automatic mechanism of sanctions would be set in motion, allowing exceptions of this mechanism in case of difficult economic situations. In addition to the convergence criteria, it foresaw a “stability council” (now called *Eurogroup*), consisting of the national ministers of economy and finance, to supervise the coordination of the fiscal policies and to work as an advisory body for Member States and the EcoFin conferences (FES 1997: 110). Even though the proposal was frequently criticized by the European partners in the following months, the domestic political controversies decreased.

3.2.4 Conclusion

The debate amongst the political parties concerning the SGP was relatively short. It began in late 1992 with the difficult ratification process of the Maastricht Treaty in Germany and France and was aggravated by the ERM crisis in 1992, which culminated in the de facto collapse of the ERM system in 1993 (Ahrens/Ohr 2003: 62). With the presentation of Waigel’s paper in November 1995, a general cross-party consensus regarding the question of how to continue toward EMU had been reached. Even if there was a sound economic argument for the SGP which derived from the European level (i.e. to guarantee a long-term fiscal discipline of the Euro-countries), the main impetus for the pact was a domestic political pressure: the annual budget debate was in full swing and the opposition parties would surely point out the flagging economic performance of Germany. The domestic pressure aspect can also be seen in the conception of the pact as it was perceived during its elaboration: it was by no means intended to be a strict set of rules, but rather as a means of reassuring the public. Consequently, the sanctions were not introduced with the intention of actually being applied (the exceptional arrangements mentioned above reveal this), but rather as a mechanism of deterrence. Nonetheless, this never challenged the common perception of the SGP as an important political arrangement that necessarily should accompany the economic integration. Generally, it was primarily due to Waigel’s political abilities and his quick reaction that the

SGP could convince the political parties to commit to the uncontested common goal: the introduction of a stable, credible euro. As mentioned above, the domestic discussion in Germany was mainly concerned with the question of which was more important: respecting a firm timetable or favoring the strict convergence (Dyson 2002: 192).

In the agenda-theoretic context, the political parties play an important role, in that they provide ideologies upon which voters may rely. Chancellor Kohl's symbolic self-perception as an architect of the "European house" (Sloam 2005: 139) surely contributed to the credibility of the government's performance in economic policies. By establishing the concept of the SGP, in close cooperation with the *Bundesbank*, Germany's culture of stability seemed to be safeguarded, and the Euroskeptic wing of the party-coalition (notably Stoiber) was reassured by this political accompaniment to the EMU. The voters were also newly bound - in an ideological dimension - to the European project of the government. Therefore, the criticism coming from the opposition parties as well as the escalating threat posed by the growing success of the extreme-right parties could be absorbed. The former's attempts at repeating the *Bundesbank's* arguments in order to wear the mantle of populist appeal and thereby win additional votes was thwarted by the party's inner disunity on the topic of how to successfully implement the EMU. This was further reflected in its ideological problems: there were no clear, unanimous statements from the SPD in the media regarding the SGP. Some experts saw this as a major reason for the considerable defeats of the SPD in the regional elections in early 1996 (Notermans 2001: 90). Nevertheless, it is to the merit of the SPD that the missing "stability organ" was put on the agenda of the domestic political discussion in the first place.

3.3 Academics

When trying to explain the ideas and ideologies existing in Germany before and during the negotiations of the Stability and Growth Pact, one has to focus on those who formed the relevant actors' orientations. Experts like scholars and academics shape ideas, they do not make decisions – and they are therefore constitutive in influencing the public opinion and the policy makers.

The SGP was primarily a politically motivated pact and German academics did not have a say in the negotiations. Nevertheless, the academics contributed to the public debate – they seem

to have been quite present in the German public and German media. The German Council of Economic Advisors (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*), an academic body which advises the German government and Parliament on economic policy issues, publishes an annual report on current issues which is generally perceived as leading the economic discourse in Germany, and thus it receives effective media attention each year. The German Council of Economic Advisors is dealt with here as an institutional representative of official economic think-tanks in Germany (other important institutions like the German Institute of Economic Research (DIW) and special advisory boards of the German Ministry of Finance and the Ministry of Economics followed a similar approach). Furthermore, in addition to individually published papers, speeches, and statements which are neglected here, several manifestos of German economists expressing their passionate views on the SGP were published in well-known and popular newspapers like the *Handelsblatt* or the *Frankfurter Allgemeine Zeitung* (FAZ) during the 1990s. We will focus on two opposing manifestos: the manifesto of the Group of Sixty from June 11th, 1992 in the FAZ, which argued against the SGP and its counter-manifesto three days later.

The German political economy was respected abroad and served as a guarantee for stability and self-confidence domestically, which was of great importance for the country's particular identity. Germany's economic ideas on the efficient and long-term functioning of a competitive market in combination with its strong independent *Bundesbank* committed to low inflation and price stability served as a role model in Europe that paved the way to an Economic and Monetary Union (Dyson/Padgett 2005: 5).

The German tradition of a Central Bank independent of political pressure to assure economic stability was at the heart of German ordoliberalism. As a consequence, German academics in general favored strict rules of convergence and the coordination of monetary and fiscal policy on a large scale. But opinions differed on how and when to institutionalize a control organ and if the SGP was the right means to do so.

3.3.1 The German Council of Economic Advisors

The German Council of Economic Advisors, the most influential economic authority in Germany, argued in its annual reports in 1995 and 1996 that an effective stability pact is indispensable for economic reasons and for increasing the acceptance of EMU in public. The

Council promoted the compliance of strict convergence criteria to ensure development and growth of the European economies, to set the preconditions for a stable monetary value and to avoid the burden of excessive deficits on the public budgets. (Sachverständigenrat 1996: 219).

Although the Council was thoroughly pro-stability pact, it viewed the SGP as insufficient and inadequate to ensure the functional efficiency of EMU. To guarantee a credible mechanism of sanctions, the Council argued for a budgetary pact (*Haushaltspolitischer Pakt*) in 1995 which would go beyond the designated measures of the SGP. In addition to the 3 percent criteria and the non-interest-bearing deposit at the European Central Bank in case of violation, extensive automatic sanctions intervening with the sovereign rights of the Member States were recommended. The Council suggested prompting the Member States to include a public credit limitation in their constitutions which would safeguard the compliance of the Maastricht-criteria concerning the deficit quota and the debt level (Sachverständigenrat 1995: 255).

As expected, the Council's proposals were refused as being too far-reaching and unenforceable; the Member States would have never agreed to such a pact. In the Council's annual report one year later, in 1996, the Council had already discarded the option of a budgetary pact and focused on the SGP, which by then was quite obviously going to be implemented one year later.

The Council then underlined the importance of strict convergence criteria without exceptions and recommended a postponement of the pact in the following scenarios:

- not enough countries adhere to the debt level and excessive deficit criteria by spring 1998;
- the Member States cannot agree on an appropriate definition of when sanctions set in;
- the mechanism for sanctions leaves too much room for interpretation, so that the stability of EMU would be endangered. (Sachverständigenrat 1996: 214-215)

The argument for securing monetary stability at any cost reflects the ordoliberal character of the academic discussion at that time. Although the German government agreed with the main points of the German Council of Economic Advisors, it was not economically, but primarily politically, motivated to push through the SGP. A postponement of the pact would have made it impossible to remain credible to the German public and to not scare off the financial markets, and Theo Waigel remained true to his principles of strict compliance with the three

percent criteria as well as the absolute refusal of new negotiations and/or postponement of the SGP (Hanke/Wernicke 1997). To sum up, the German Council of Economic Advisors feared the divergence of monetary policy and fiscal and economic policy by the Member States and was skeptical about the inadequate consideration of economic needs in the pact. In the end, the German Council of Economic Advisors played an important role in shaping the public academic opinion, but its recommendations remained unheard and ultimately not crucial in the decision-making process of the SGP.

3.3.2 Pro and contra Stability and Growth Pact

Due to the broad common background of ordoliberal ideas, economists in Germany were opposing one another only with regard to the discussion about when and how to implement EMU and the SGP, and not about whether to implement it at all. Since the SGP is part of EMU and cannot be separated from it adequately, this chapter deals with the pros and cons of SGP and EMU. Below are the main statements and manifestos in the 1990s:

Statements against Maastricht

- Manifesto of 60 economists against EMU; published on June 11th 1992 in the *FAZ*
- The Euro-lawsuit. Four professors take legal action against EMU and SGP: Wilhelm Hankel, Wilhelm Nölling, Karl Albrecht Schachtschneider and Joachim Starbatty; published on January 12th, 1998 in the *Handelsblatt*
- Manifesto of 150 economists against the early implementation of the Euro, led by the Professors Wim Kösters, Manfred Neumann, Renate Ohr and Roland Vaubel; published on February 9th, 1998 in the *FAZ*

Statements pro Maastricht

- Response to the Manifesto of 60 economists against EMU by the chief economists of the major banks: Ernst Moritz Lipp, Dresdner Bank, Ulrich Ramm, Commerzbank, Norbert Walter, Deutsche Bank with their counter-arguments; published on June 15th, 1992
- Response to the Manifesto of 60 economists against EMU by European economists, pro-EMU; published on July 8th, 1992
- Manifesto by more than 50 economists: Plea for the Euro – 10 points to counter Euro-skepticism; published in September 1997 in the *Manager-Magazin*

3.3.3 *Manifesto of 60 economists against EMU and the response of chief economists*

The two main opposing manifestos will be dealt with now in more detail. On June 11th, 1992, sixty German economists published a manifesto in the *Frankfurter Allgemeine Zeitung* in which they criticized in eleven statements why the steps towards EMU have been taken too early and are not sufficient. One of the signers was Roland Vaubel, professor of economics at the University of Mannheim, who promoted “thoroughness before rapidity” (Vaubel 2001: 63) and opposed the process towards EMU and SGP. Vaubel would later argue that between 1988 and 1998, the majority of the German citizens were against EMU, but the *Bundestag* nevertheless voted for EMU in 1993 and 1998. Claiming an insurmountable gap between Europe’s politics and the European citizens’ will, especially during the negotiations towards EMU, one can grasp his and other economists’ frustrations over their lack of impact on the decision-making process (Vaubel 2001: 115).

On June 15th, 1992, only three days later, the chief economists of Germany’s major banks, Ernst Moritz Lipp (*Dresdner Bank*), Ulrich Ramm (*Commerzbank*) and Norbert Walter (*Deutsche Bank*) responded to the Manifesto of 60, trying to disprove each of the eleven arguments and to generate pro-EMU counterarguments. They complained that the Group of Sixty’s statements endangered Europe’s institutional design and the process of integration in Europe. By coming out as absolutely pro-European, they tried to counteract the impression that most German economists were against EMU and SGP.

Below, each of the eleven statements is set in contrast with the corresponding counter-argument of EMU’s advocates (Bofinger/Collignon/Lipp 1993: 233-234):

	Group of Sixty: Arguments against EMU	Chief economists of major banks: Counter-arguments pro EMU
1.	An economic and monetary union is a desirable aim for the European integration process. However, the Maastricht decisions are unsuitable for doing so.	An economic and monetary union is not only a “desirable aim,” but rather the consistent completion of the European Single Market.
2.	A functioning economic and monetary union requires the long-lasting and proven convergence of relevant economic structures of the Member States. A one-time compliance at a reference date does not give evidence if a country will be able to fulfill the convergence criteria in the long run.	Convergence has been in process – statistically verifiable – for many years, and the adjustment of the Member States’ economic structures is at the heart of the agreement. Furthermore, the Member States committed to present perennial convergence programs (which has already been carried out by

		six countries, among them Germany).
3.	The Maastricht convergence criteria are not binding enough. As an economic precondition, price stability has to be defined in absolute terms.	The convergence criteria are rigorous indeed. The criterion of 60 percent for the public debt gives even stability-oriented countries like Belgium and Ireland a hard time to comply. If one calls for absolute price stability, this should already be demanded of the Bundesbank now, which is unrealistic for Germany and Europe.
4.	By fixing the date of the implementation of EMU to January 1 st , 1999, political decisions will weaken the agreed convergence criteria: In particular, the inflation and deficit criteria will be softened so as not to discriminate against single countries.	This statement is a reproach to the Treaty of Maastricht, implying that the stability-oriented German economic politics will be softened and not followed anymore. Softening the convergence criteria would breach the Treaty of Maastricht and will not be considered.
5.	The European Central Bank will not achieve price stability, even if independent, since diverging interests of national decision-makers preclude a strong incentive to do so. There are no sanctions if price stability is disobeyed.	An institutional independent European Central Bank has the incentive to guarantee stability since there have been strategies to fight inflation even in weak currency countries since the 1980s. The statute of the European Central Bank provides for the priority of price stability and the institutional, operational and personal independence of the executive committee.
6.	To achieve price stability, the European Central Bank must be endowed with the competence to assign exchange rates towards third countries. Otherwise, there is the danger that the stability of monetary policy will be negatively affected due to lobbying over the exchange rates.	It is true that the policies of price stability have to be supported by the European Central Bank's competence to decide over exchange rates towards third countries. The Maastricht Treaty explicitly ensures that monetary value stability takes precedence over the decisions made by the Council of Ministers on exchange rates.
7.	A consensus on price stability as the top priority, as it has traditionally been in Germany, has not been reached in all of Europe.	This argument might have been true in the early 1980s, but is not valid any more. A consensus on price stability has already been reached in Germany, France, Ireland, Denmark and the Benelux-Countries; other states are on the right track to follow a policy of price stability.
8.	The economically weaker European countries will suffer from increasing competition in EMU. Their weaker productivity and competitiveness will lead to increasing unemployment. Thus, high transfer payments will be inevitable.	The argument that EMU will lead to a cutthroat competition for weaker European countries would only be valid if all European Community Member States had to participate in EMU ab initio. Member states have to qualify to enter EMU by complying with the Maastricht criteria.
9.	Pushing through a monetary union in an economically and socially diverse Europe cannot be economically justified. The realization of a European Single Market does not necessarily involve a common European currency.	The Member States themselves decide whether to enter EMU or not; it is not a top-down procedure.
10.	The hasty implementation of EMU will lead to serious tensions within western Europe and will jeopardize the integration process.	The achieved convergence processes not only prove this argument wrong, but a reference date puts positive pressure on the Member States to fulfill the criteria.
11.	The Maastricht decisions, not the criticism of them, put Europe's integration at great risk.	European integration has to advance and become successful right now – the perpetuation of the status quo is not an alternative.

Retrospectively, one can say that much of the misgivings concerning EMU and the SGP have come true later on – countries were allowed to enter EMU without complying with the 60

percent criterion and many countries breached the 3 percent criterion many years in a row, such as Germany from 2002 to 2005. Sanctions were not imposed on Germany: the Council of Ministers did not follow the recommendations of the European Commission for political reasons. The SGP was discredited as being an ineffective political instrument. On the other hand, the Euro has become a stable and reliable currency, the European Central Bank follows a stability-oriented and worldwide accepted monetary policy, and the SGP actively prevented free-riding and overly excessive deficits.

3.3.4 Conclusion

Economic institutions like the German Council of Economic Advisors supported a Stability and Growth Pact, but feared that economic needs were inadequately considered. The Council's approach was rather cautious; it favored a substantiated economic groundwork to eliminate all risk of failure and pleaded for a policy of price stability oriented on the German model, based on German ordoliberalism. In its annual report in 2001, the Council acknowledged the achievements of the stability-oriented policy of the European Central Bank. Although the ECB was criticized for being too ambitious for setting its target at less than two percent, the Council stated that stable monetary conditions are a prerequisite for sustainable economic growth and that the ECB carried on its stable monetary policy in an environment affected by many uncertainties. Per the Council, the ECB was able to strengthen its credibility, to stabilize the inflation expectations at a low level, and therefore to contribute to dynamic economic growth (Sachverständigenrat 2001: 19).

Academics in Germany were split into several camps. German economists convened to publish manifestos before the eyes of the public. The Manifesto of the Group of Sixty argued that EMU required a longer process of adjustment, that the convergence criteria were not binding enough, that the European Central Bank would be influenced by national interests, and that there was no consensus concerning price stability among the Member States. Staking out the opposing view, the chief economists of Germany's major banks published a response to this manifesto and countered that EMU was a motor for European integration, that the convergence criteria were binding enough, that the European Central Bank would be even more independent than the *Bundesbank*, and that the policy of price stability was followed by all Member States, documented through the experience of the last decades.

One can conclude that the prevailing opinion was positive about European unity, but many academics as well as the German public were skeptical about the decisions made in Maastricht. Per Vaubel, this was due to the fact that the citizens' and academics' influence and impact on the political decision-making process was minimal (Vaubel 2001: 114-115).

Using a domestic politics approach, academics are able to influence the agenda building process, meaning the attempt to get certain issues and their interpretation into the media and therefore make them publicly available. The manifestos as well as the annual reports of the German Council of Economic Advisors can be interpreted as such an attempt. It is the only channel with which academics can influence the decision-making process – the media consequently set the agenda. Academics shape ideas – and are important actors to influence the public opinion and politics (Heise 2005: 8-9). Before and during the negotiations of the SGP, the interests of the citizens as well as the academics were overridden by pure political interests (Vaubel 2001: 115). Therefore, academics contributed to the public debate, but were unable to influence the political decision-making process.

3.4 German trade unions and employer associations

The last actors which we will discuss in this chapter are German trade unions and German employer associations. Additional business interest groups will also be mentioned during the analysis. Not only is it worthwhile to highlight whether these actors were able to influence their members, but it is also important to determine whether they had any affect on public opinion and whether they were able to influence the political parties or the government.

3.4.1 Trade unions

In examining the role of the German trade unions, statements from the largest umbrella association of German trade unions, the *Deutscher Gewerkschaftsbund* (DGB), will be analyzed. The DGB was fully in favor of EMU from the beginning, even though a monetary union would lead to higher pressures to reduce the relatively large German social benefits. Through its support for EMU, the DGB hoped to achieve a better coordination of employment and tariff policies on the European level. Moreover, it criticized the stability-oriented view of the German *Bundesbank* and supported a more employment-oriented approach (DGB 1995). As the German industry is primarily export-oriented, the fixing of exchange rates and the

consequential adoption of a common currency throughout Europe would also be beneficial for the German labor market. This was the first of five theses that the DGB presented in a position paper in May 1997, approximately one month prior to the summit of Amsterdam (June 1997). The second thesis stated that the EMU would lead to higher prosperity throughout the EU. But, in its third thesis, the DGB put forward a request for compensation for the resulting reduction in the scope of national maneuvering with regard to economic policy. Thesis four was contrary to the view of the *Bundesbank*, stating that compliance with the Maastricht criteria should not be the most important factor when entering into stage three of EMU, because the rigid budgetary policy that would be required to meet the criteria would lead to an economic downturn and thus to higher unemployment rates. In its final thesis, the DGB clarified that EMU would not implicitly lead to higher employment rates in Europe. Therefore, it insisted upon the inclusion of an explicit employment policy in the Treaty (DGB 1997b). Furthermore, the DGB asked the government to assure that there would be no additional reductions concerning social policy and no further cutbacks of public investment (DGB 1997a).

German trade unions, especially the DGB, tried to further develop a European Social Policy and a European Employment Policy. The DGB's largest success in this field came via the Luxemburg, Cardiff and Cologne Processes¹⁰. At the Luxemburg Summit in 1997, the coordination of labor market policies was agreed upon, while at the Cardiff Summit in 1998, the Member States' governments decided to support the liberalization of the financial markets in order to enhance the structural change of the European economies in terms of knowledge and education. The Cologne Summit in 1999 then introduced a new term called "EU macro-dialogue". The Cologne Process "recognize[d] that a favorable macroeconomic situation is the prerequisite for lasting improvements in growth and employment, and that coordination of budgetary, monetary and incomes policy (...) [was] therefore desirable" (Heise 2002: 89). In this dialogue – for the first time – social partners, meaning mainly the trade unions, would be bound together in a process at the European level in which the European Central Bank's activities had been set in a framework of employment policy (Heise 2002: 89).

By analyzing these statements, one can conclude, even if the DGB did not openly mention the SGP, that the trade union was in favor of EMU overall, though not necessarily of the SGP, as

¹⁰ A detailed description of the developments and enhancements through these summits can be found in Heise 2001 and Heise 2002.

it criticized the *Bundesbank* for its stability-oriented rather than employment-oriented approach.

3.4.2 Employer associations and business interest groups

In examining the employer associations, statements of the *Bundesvereinigung der Deutschen Industrie* (BDI – Federation of German Industry), of the *Bundesvereinigung der Deutschen Arbeitgeberverbände* (BDA – Confederation of German Employer) and of the *Deutscher Industrie- und Handelskammertag* (DIHT – umbrella association of the chambers of commerce and industry) will be analyzed. By naming those organizations, one can see that not only employer associations but also business interest groups are considered here. As they often took the same positions regarding EMU and the SGP, both types of groups will be analyzed together here.

All three of the organizations mentioned above were in favor of creating a monetary union, but they all stipulated that such a union would have to be stability-oriented. Moreover, the BDI stated that such a stability-oriented monetary union would push forward the support for European integration and for a political union. In 1990, the DIHT and the BDI affirmed the *Bundesbank's* statement and again claimed the need for a political union which they argued should be federally and decentrally organized. Later on, as an elementary precondition for the integration of the currencies, all three organizations came out in favor of strict compliance by all Member States with the Maastricht criteria and parroted the *Bundesbank's* approach that compliance with the convergence criteria should be of the utmost importance, more so than strictly adhering to the schedule (Wendt 2002: 298-300). In 1995, the BDI postulated the need of framework conditions for the protection of price stability and consequently supported the idea of establishing some kind of sanctioning mechanism to deal with those states that were not in compliance with the convergence criteria (BDI 1995).

3.4.3 Conclusion

By analyzing the DGB's statements, one can readily conclude that it supported EMU. However, although it did not openly mention the SGP, it is clear that they held reservations regarding the pact. This is especially evident in its criticism of the *Bundesbank* for its

stability-oriented, rather than employment-oriented, approach. Employment orientation was, and of course remains, the main concern of the trade unions.

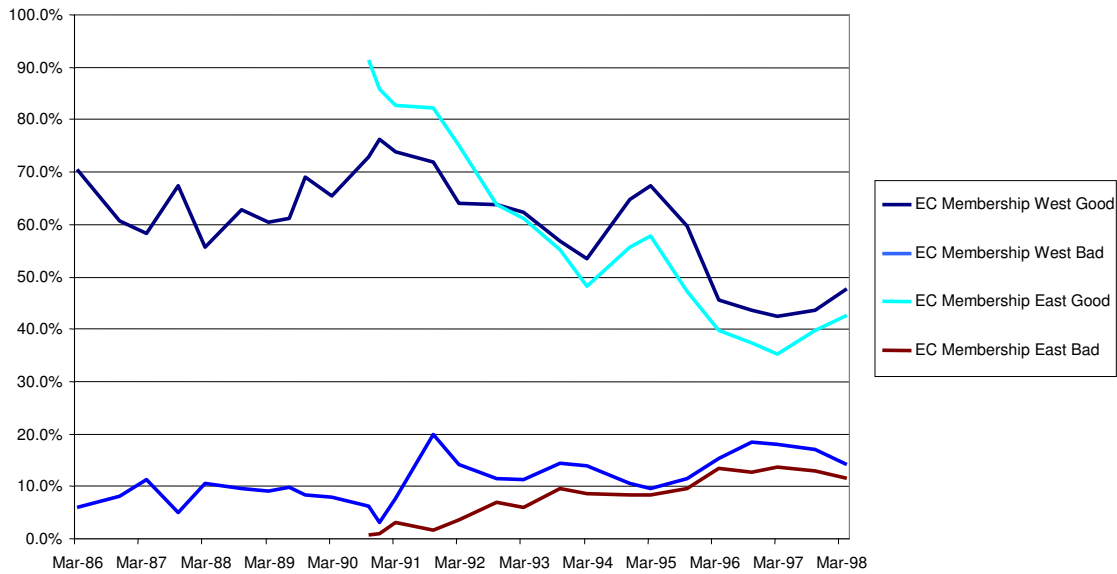
The employer associations and the business interest groups were of a different opinion. Overall, they were in favor of EMU and were clear proponents of the *Bundesbank's* orientation toward stability. They demanded strict compliance with the Maastricht convergence criteria by all Member States when entering into stage three of EMU.

Viewing both “parties” as lobbies within the framework of the Agenda Theory, one must analyze their impact and influence upon the process of policy agenda building. In this process, voters try, via the help of lobbies, to let their opinion be known to the political parties. As the analysis above indicates, the influence of the lobbying parties was not particularly large. The DGB’s claim for a greater emphasis on employment-oriented policies was only pursued long after EMU and the SGP came into force. The Cologne Process can be seen as a gain for the DGB, but the question of to what extent it shaped the political parties’ opinions can not be answered. Oskar Lafontaine, German Finance Minister from 1998 to 1999, was perhaps the strongest advocate of the EU macro-dialogue. But with his resignation, the window of opportunity was closed (Heise 2001: 391). As for the employer associations and business interest groups, their influence on EMU and the SGP are often described as “piggybacking on the *Bundesbank*” (Heisenberg 2005: 98), meaning that they often took the same position as the most recent *Bundesbank* declaration. One can therefore conclude that their influence on the political parties was not particularly strong.

4 Public opinion

Public opinion plays an important role within the agenda theory, since it is the voting public that influences political parties through the policy agenda building process. Indeed, the electorate provides the parties with the mandate they need to enact their agendas, and without pre-existing public support for their proposals, elected officials are faced with the challenge of convincing a skeptical electorate and media of the virtue and necessity of their plan or abandoning it and pursuing a new agenda. The final alternative would of course be to get voted out of office, a prospect no respectable party member is likely to opt for.

Figure 4.1
Views on EC Membership in West and East Germany



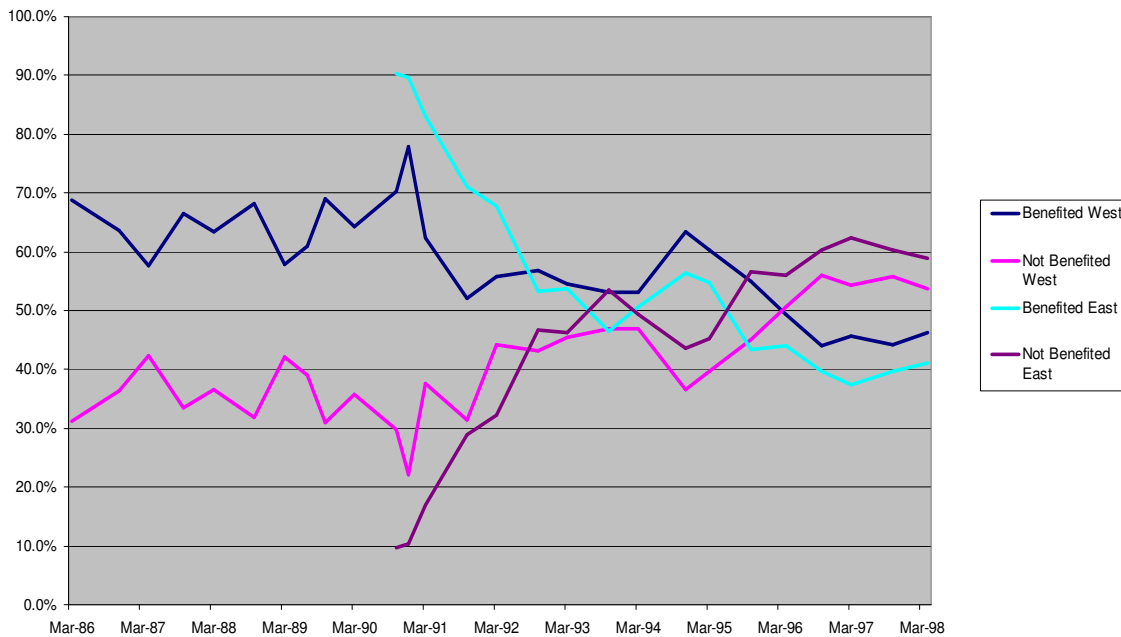
(Source: Eurobarometers 25-49)

4.1 The rise of Euroskepticism

In West Germany, as evidenced by Figure 4.1, public support for European integration generally hovered between 60-70% before 1990 (based on responses to the question “Generally speaking, do you think that Germany’s membership in the European Community is a good thing, a bad thing, or neither bad nor good?”). With the fall of the Berlin Wall and the reunification of East and West Germany, a brief (and distinctly out of character) political euphoria enveloped the country, and polling data from 1990-91 show the German public’s enthusiasm for seemingly any political proposal that fostered integration or unification of any sort. However, this enthusiasm was short-lived, and as it became clear that the opening of the Iron Curtain and the end of the Cold War were not going to lead to political utopia, the large upward spike was soon followed by a sharp erosion of support for European integration. Indeed, from 1991-97, positive responses to the question of whether EC membership is a good thing for Germany dropped thirty-four percentage points in the West and fifty-six percentage points in the East! (European Commission)

Figure 4.2

Views on the Benefits of EC Membership in West and East Germany



(Source: Eurobarometers 25-49)

The only consolation for supporters of the integration process was that the percentage of Germans who felt EC membership is bad for Germany stayed relatively low and stable, between 10-20%, as most of the former supporters only dropped into the “Neither/Nor” response category. Nonetheless, the growth of negative sentiment, rather than a mere drop in positive sentiment, can clearly be seen in Figure 4.2. The question posed was “Taking everything into consideration, would you say that Germany has benefited or not from being a member of the European Community?” Here, one can clearly see the reversal of public opinion from overwhelmingly positive in 1991 to mostly negative in both East and West Germany just five years later (European Commission).

One possible explanation for this massive increase in Euro-skepticism in Germany is that as the dates for monetary and political integration drew ever closer, the German public began to pay more attention to the process. The European Union became less an idyllic abstract notion and more a concrete reality with consequences that would affect ordinary German citizens. As public interest (and doubts) began to grow, media coverage followed suit, and the popular press found it much easier (and more profitable) to resort to Euro scaremongering than to write thorough, incisive articles on the pros and cons of integration. This only reinforced

public doubts and contributed further to the downward slide of support for the European Union within Germany.

4.2 Waigel's response

It was against this backdrop that German Finance Minister Theo Waigel proposed the SGP in late 1995. There were certainly economic justifications for such a pact; however the primary impetus for Waigel's proposal was domestic political pressure. Chancellor Helmut Kohl was under pressure from the opposition parties, in particular regarding federal budgetary issues. The main opposition party had just achieved success in the state elections in Baden-Württemberg by campaigning on an anti-Euro platform. There were clear signs that the German electorate was growing increasingly Euroskeptical (Kastrop/Heipertz 2007).

Waigel's proposal was essentially a political device designed to alleviate the German public's fears of an unstable EMU. Eurobarometer poll data from 1994-95 show that nearly 70% of the German public supported a European policy of monetary stability. The SGP would assure the public that their currency would remain stable under EMU. However, as it was originally conceived, the SGP was supposed to be a rather toothless pact. To the public, it was to appear strong enough that it would placate a riled-up electorate, yet it was designed so as not to impose too large a constraint upon fiscal policy in Germany. The means through which this toothless pact acquired its bite will be dealt with in the following chapter (Kastrop/Heipertz 2007; European Commission).

4.3 Conclusion

In the aftermath of German reunification, public support in Germany for European integration reached all-time highs. From that point on, however, public support quickly eroded as skepticism over the benefits and fears of the disadvantages grew. The SGP was designed to counter this precipitous drop in support by allaying fears that EMU would lead to economic instability within Germany. According to Agenda Theory, this is a clear example of the voters utilizing their policy agenda building role to put their concerns about European integration on the political parties' agendas. As noted in Chapter 1, public opinion is also

intrinsically connected to the media's agenda setting role. We will therefore examine this interplay as well as the overall role of the media in the next chapter.

5 Media

Having analyzed the majority of the actors who influenced the German position during the SGP negotiations, we turn now to the one remaining actor, who is involved in nearly every issue considered by the public: the media. Because they do not stand for a single opinion or policy preference, the motives of this actor are more difficult to pigeonhole than those of the previous actors we have examined. At the same time, they are subject to their own rules, due to the media competition that produces conditions like acceleration, entertainment, and news on demand (Meckel 2003: 278), which guide their economic aspirations.

“Mass media became an integral part of the glasses through which we view reality-together with the mass media itself.” (Meyer 2001: 11)

5.1 Media democracy

Media Democracy, along with other terms such as Mediocracy or Audience Democracy, is a concept with which media and communication scientists have tried to describe the modified relation between politics and media. In order to analyze the evolution of the SGP in media democracies, the overarching goal of this paper, it is important to clarify the various meanings of the term.

Media democracy basically refers to the form of political decision-making in which the mass media and their communication rules take over a crucial position within the political process. “Media democracy is not a community in which the media merely play a role comparable to the other actors. It is rather the colonization of the political system through the media system” (Meyer 2001: 242). According to this view, the process would be completed when the media's rules encroach upon the political system and eventually override that system's rules. This process is already well underway, as indicated by the following three tendencies: the increasing Americanization of election campaigns, the personalization of political messages, and the professionalization of political communication.

The similar term ‘mediocracy’ goes even further, linguistically abolishing the “*demos*” from the previous term and thereby emphasizing the disempowerment of the real sovereigns, the citizens. This concept goes back to the studies of media scientist Thomas Meyer, who pins his hopes on civil society prevailing against the media powers through the democratic process. Furthermore, one could argue that the loss of the parties’ importance signifies simultaneously the shrinking importance of the citizens, changing the original form of participative democracy into an “audience democracy” (Manin 1997: 218, “*democratie du public*”) – by rendering the citizens to the role of mere observers of the political debate in the media, no longer able to actively intervene. This new form of governance is mainly characterized by personality-driven political campaigns and the rise in the number of practitioners and the importance of political spin and public relations over substantive communication (Kriesi 2003: 208).

With the terms now defined and the media democracy criteria established, we return to the behavior of the various actors during the SGP negotiations in the mid-1990s.

5.2 SGP negotiation

5.2.1 Coverage during the SGP negotiations

The awareness that the development of the EMU also occurred in the climate of a mediocracy provides the necessary sensitivity when observing the media’s statements during this period, as we will undertake below. The very first realization one makes when observing the media coverage of the SGP negotiations during the defined period (1995-1997) is that the overwhelming majority of the coverage deals broadly with the euro. Very rarely does one find media coverage specifically concerning the impending entry into the third stage of the economic and monetary union (EMU), which would be most relevant for our purposes. As this appears to be a common characteristic of the German press reporting on the subject, we will refer only to a small selection of the journals when talking about media in this chapter. Looking into the extended debate over the European integration process and Germany’s difficult position therein, we examined articles from the following newspapers, which represent a wide area of the German political spectrum: *Die Welt* (conservative), *Die Zeit* (intellectual/liberal), *Süddeutsche* (critical/liberal) and the news magazine *Spiegel* (critical/impartial). In addition, the German populist newspaper *Bild* (conservative, business-friendly) will be taken into consideration due to its large circulation, because of which it can not be

disregarded. The restriction of the press research to one medium (print journalism) is a result of parameters like accessibility and comparability. Based mainly on this selection during the respective period, various observations (without universal validity) are summarized in order to achieve insight into the SGP coverage.

Initially, the two opposing interests were stability versus economic interests (growth), as best exemplified by, on the one hand, Germany's insistence that any replacement for the D-Mark would absolutely need to be just as stable and, on the other hand, the primary French interest of raising exports. In the advanced stages, the catchword of the debates was "automated sanction mechanism", proposed by the German Finance Minister and refused by the French one, who was anxious to protect his country's political sovereignty when dealing with cases of a failure to fulfill deficit or new indebtedness criteria. Later, the media (and thereby the public) reduced the broad range of fiscal policy terms and interdependences into a personal battle between four, and even two, people: The ministers of economic and financial affairs in Germany and France, Theo Waigel versus Jean Athuis (later Strauss-Kahn), and these countries' heads of government, Helmut Kohl versus Jacques Chirac.

"Chirac: Die Franzosen nennen ihn (Helmut Kohl) 'Bulldozer'"(Bild, 05.05.1998).

"For weeks, Paris and Bonn had argued with each other over the Stability Pact. On Thursday, the emergency meeting of the finance ministers in Dublin turned into a sort of cultural struggle. (...) That the negotiations over the euro didn't collapse was due only to the intervention of others, especially Jean-Claude Juncker, the Luxembourgian Premier and Finance Minister. He worked for hours, massaging egos and finally proposing the compromise formula that Jacques and Helmut, the Tall One and the Fat One, sealed with a handshake the next day". (Zeit, 20.12.1996, authors' own translation)

Additionally, it has to be mentioned that this kind of personification was supported by one of the key actors, Chancellor Helmut Kohl. Called the father of integration (first because of his engagement for the reunification), he made no secret of the fact that the realization of the EMU is also a personal project of his. Although the issues were not suited for heightening the opposition parties' profiles, the media took on every opportunity where this might be attempted. This attitude sharpened the pressure which the government already was subject to (as described in 3.2).

"Nationales Thema entdeckt", SPD: Währungsunion – Wahlkampfhit (Spiegel 30.10.1995)

“Und dann gute Nacht” The SPD leadership believes they’ve discovered a campaign hit: citizens’ fears of the new euro currency. (Spiegel, 06.11.1995, authors’ own translation)

“Euro - die wichtigste Debatte im Bundestag”: Kohl wants to withstand all attacks, making the European unification “irreversible.” (Bild, 13.12.1996, authors’ own translation)

Generally speaking, the tabloid *Bild* can be singled out for its rather pro-euro coverage. Due to the relatively objective approach of the other newspapers when referring to the EMU in news reports, a clear categorization of them as for or opposed to EMU cannot conclusively be made. However, the term media democracy can now be seen from a new perspective. By examining the random sample of newspaper reports, one can observe all three tendencies (Americanization, personalization and professionalization of political communication) during the SGP negotiations, one can see evidence of all three having taken place, though this paper will be primarily concerned with the personalization of the political actors (or conflict) and the professionalizing of political communication (which will be looked at in more detail in 5.3.3.).

5.2.2 Public opinion during SGP negotiations

The initial mood of the public regarding the impending adoption of the euro in Germany was mainly one of anxiety. Germans feared that by discarding their strong D-Mark in favor of the common euro, they might potentially also be discarding the stability and prosperity that they had long associated with their currency. Their deep connection to the D-Mark can certainly be understood and even justified; after the losses and uncertainties of the post-war period (including the monetary uncertainties), the strong and growing German economy, based on a stable currency, had over the previous half-century become an integral part of the German identity. The German adherence to the DM can be understood as a logical consequence of historical imprinting. In this context, the strong emotions fueled by the imminent arrival of the euro can be appreciated. Survey data show that in 1996, about 55 percent disapprove of the Euro while only 38 percent approve, whereas the European average lies around a 54 percent pro-Euro sentiment (Focus survey, 04.03.96). It is therefore by no means astonishing that there was a strong public outcry in the same year to hold a referendum upon the adoption of the euro, which suggests that people had taken some lessons with them from the (in their eyes) poorly executed reunification several years earlier (Focus survey, 30.12.96).

Taking these figures, which demonstrate the generally negative attitude of Germany's public opinion towards the euro, in combination with the findings of chapter four provides a basis from which one can further understand the public reception to the SGP's development in particular. It is plainly evident that the main desire of the German public with regard to the new currency, namely a guarantee of continued stability, was in perfect compliance with the German government's official position at the European level. It is interesting to note that this aspect of monetary policy was not only being discussed by bodies of experts, but also by ordinary citizens at all levels. According to experts' statements¹¹, it was primarily the SGP that brought such issues out of the ivory towers and into the neighborhood pubs.

5.3 Media and Agenda Theory

5.3.1 Approach to the theory

Originally arising out of scientific communication research, the Agenda Theory has been expanded and modified within different disciplines to suit the particular needs of the field. For that reason, different assumptions regarding the functioning of the actors need to be understood. In this chapter, we have thus far analyzed the media's role in the political process via a political-economic view of the theory. We will now briefly examine the precursors to the Agenda Theory from the point of view of the communications sciences, which is where they were originally conceived of and developed.

The first assumption regarding the agenda effect and simultaneously the theoretical base for all further research on this matter was the thesis of Bernard C. Cohen (Cohen 1963: 13) who famously stated: "The mass media may not be successful in telling us what to think, but they are stunningly successful in telling us what to think about." Hardly ten years later, Maxwell E. McCombs and Donald Shaw confirmed his thesis empirically. During the 1968 presidential elections in Chapel Hill (North Carolina, USA), they were able to demonstrate the agenda setting effect in an experiment known as the "Chapel Hill study." Undecided voters were asked to outline the key issues of the election as they perceived them. Researchers also analyzed the issues that received the most print and airtime in the mass media. The nearly perfect correlation between the predominant issues on the media agenda and the public's

¹¹ Personal interview conducted by the authors with Christian Kastrop and Martin Heipertz, 11.01.2007.

agenda led them to the conclusion that “while the mass media may have little influence on the direction or intensity of attitudes, it is hypothesized that the mass media set the agenda for each political campaign, influencing the salience of attitudes toward the political issue” (McCombs/Shaw 1972: 177). Since then, many scientists have further enhanced these findings (amongst others McCombs/Shaw 1993) by focusing on different actors in the interrelation between policy, media and the public opinion – depending on the research field. One of these, which deals with the emergence of the media’s agenda, is the agenda-building process. At present, the communication science research indicates that issues are intensified and settled in both processes, through the media via agenda setting and the parties via agenda building (Nieland 2003: 134). Both processes are included in the comprehensive Agenda Theory, which, given the political science and economic leanings of its originators, expanded further to include policy agenda setting and policy agenda building functions. The interplay between the three interrelated actors (media, political parties, and voters/lobbies), as structured within three of these four agenda processes, will be considered in the following observations of the media’s role during the debate over the SGP in Germany. (Policy agenda building, the fourth Agenda Theory process will not be covered in this chapter, as the media is not directly involved in this process.)

5.3.2 Agenda-Setting

The agenda is the instrument through which the media are able to exert the most influence over the public. Communicating certain political issues through the press or via broadcast as well as deciding the relative importance of the topics to be discussed gives the mass media access to the individual mind and particularly to the public mind, with the effect of shaping public opinion on (policy) preferences.

“Das Ende der Mark?” Germans don’t want to accept it, but the common European currency is coming. (Spiegel, 11.07.1994, authors’ own translation)

Regarding the development of the SGP, this process needs to be supported with political background information. As pointed out in the previous chapter, the emergence of the so-called Waigel Plan came during a period marked by Euroskepticism. German politicians responded to this domestic pressure with the SGP. Having perceived the population’s sensitivity to the loss of their D-Mark, they responded with a proposal for an

intergovernmental agreement, complementary to the Maastricht criteria and calling for common and mutually binding criteria, in order to secure a stable currency. Seeing the pact from this slightly exaggerated point of view as a mere public pacification measure transforms our perception of each article and television report into part of a political plan. Interviews with politicians, generally seen as being in the common public interest, could now be regarded as mere platforms for politicians to sound off. A *Spiegel* Interview (30.12.1997) with Wolfgang Schäuble, former head of CDU/CSU party in parliament, exemplifies this:

(Sp)The chancellor and the finance minister consistently say that the euro will be just as stable as the D-Mark. Is it possible to keep this promise? (Sc) It is an observable fact: the average inflation rate for all EU Member States has been reduced well more than half since the signing of the Maastricht Treaty. The Stability Pact, which was approved in Dublin in mid-December after much debate and negotiation, markedly improves the chances for stability even further. (Sp) Citizens could decide to invest their savings in Swiss francs or the dollar or a similar currency in order to avoid the risk from the euro. (Sc) So far we've seen few signs of that. There's a relatively large confidence in the stability of the European currency. (Authors' own translation)

When politicians make their political statements and give their policy opinions, it is an indication that we have entered the policy agenda process (5.3.3.). Here the objective is the pacification of the public's fears, for which the media is being used by the political actors.

5.3.3 Policy agenda setting

Policy agenda setting is not related to mass communication research on public agenda setting. However, Walter Lippmann, Bernard Cohen, Maxwell McCombs, Donald Shaw and Shanto Iyengar, forerunners of agenda setting, had turned their attention to policy agenda setting in addition to their research on the influential role played by the mass media (Dearing & Rogers 1996). This theory was mainly developed by political scientists and sociologists. Policy agenda setting presumes the media's impact on political parties by informing them about public opinion and thereby positioning issues from the public and/or media agenda on to the policy agenda. (Dearing and Roger identified three constituent parts of this process, distinguishing between media, public, and policy agendas.) Consequently, an issue, when placed on the policy agenda, eventually prompts the government to address or to solve a social problem.

Regarding the effect the media had on the behavior of political parties during the French-German dispute over the SGP, various studies (mentioned in 5.2.2) commissioned by media companies can provide a first approach to this interplay. Highlighting and consistently repeating the Germans' fears and refusal with respect to the new currency and the EMU generally was one commonly used approach.

“Angst vor Populisten:” Almost no one in Bonn still believes that a common currency will be achieved in 1999, because the political and economic risks are too high. (...) Furthermore, Germans desire additional rules to ensure stable budget policies in all Member States. (Spiegel, 02.10.1995, authors' own translation)

The public's demand for a referendum at the national level concerning the implementation of the euro made this impression even more apparent. The political actors took this attitude seriously and released the Waigel Plan as a measure to positively influence the voters. This plan eventually evolved into the SGP after years of debate.

5.3.4 Agenda building

Of course all this occurs within a very tight interplay which makes the parties involved mutually dependent. Hence, it is consistent that political actors also try to influence the priority of the media's agenda issues via public statements, broadcasted discussion groups or printed interviews in highly circulated journals. This is exactly what happened during the negotiations over the pact (compare also Spiegel, Schäuble Interview, 41/1996), though much more so after the SGP has already been established.

“Theo hat alles gegeben”: Europe just took a step closer to a common currency: at their conference in Dublin, the heads of government agreed to a Stability Pact that, according to the Germans, is necessary in order to make the euro stable. (Spiegel, 16.12.1996, authors' own translation)

"Euro Die Wunderdroge": The euro is effective against inflation, against budget deficits and also against unemployment? Yes, it creates one monetary and one economic area from Lapland to Algarve, and the economic cycle booms everywhere-including here. Wonder-Euro, Euro-Wonder. (Bild, 27.02.98, authors' own translation)

Additionally, opinion makers in this process attempted to support the proposal by making use of the media platform.

"Bundesbank: Niedrigstzinsen kein Hindernis für mehr Beschäftigung": Quotes by the German Central Bank president Hans Tietmeyer that extremely low interest rates do not contribute to unemployment, but to favorable investment conditions. "This is also an important contribution for a good start to the Euro." (Bild, 19.02.97, authors' own translation)

This procedure has particular significance during election campaigns, where the topics, presented by candidates and their parties, are given more consideration than usual. Here, the media agenda becomes a political instrument with outstanding importance, affecting public opinion even more when the agenda-theoretical assumption that voters have only incomplete information is taken into account. During the negotiations over the criteria in the third stage of the EMU, this process could also be observed (see chapter 3.2). The SPD, the main opposition party, had just achieved success in the state elections in Baden-Württemberg by campaigning on an anti-Euro platform.

5.4 Conclusion

The deeply interwoven relations between the relevant Agenda Theory actors (parties, media, and voters) help to explain the very causally determined outcomes. Summing up the processes that led to the establishment of the Stability and Growth Pact as viewed through the prism of the Agenda Theory, one can distinguish between two periods: (1) before Waigel's proposal for a European stability pact in Dublin in late 1995 and (2) after this event.

(1) With the deadline for implementation of the euro drawing ever closer, the German public's fear and rejection increased. Rarely perceptible before the European monetary integration, their apprehension of the threats posed by the adoption of a new currency placed the outcome of the entire integration process in doubt. The media responded to this fear by attending to its duty and publicizing the issue. The intense and diverse media reports concerning this issue only served to reinforce the public awareness and skepticism (agenda-setting). The domestic pressure on the government (see chapter 3.2. on political parties) was enforced through this public pressure, which in turn was communicated by the media (policy agenda setting). (2) Once Waigel made his proposal, it was then the policy agenda which influenced the media and thereby the public agenda. The message of the SGP's effect as a currency-stabilizing measure had to be communicated to the public via the media (agenda-building).

Finally, we can integrate the role of the media into the pact's development. The general growth of the media's importance in a media democracy can be seen first by its role in prompting Waigel to initially propose a stability pact for Europe. Furthermore, it has been made quite clear that this proposal, which would become the Stability and Growth Pact, was well-received by the media and the public, which again reinforced and reaffirmed each other's view, placing pressure on the government to push this pact through at the European level.

6 Conclusion

Returning to our initial research question, the following ideas, interests, and ideologies were identified during the creation and development of the Stability and Growth Pact in Germany: Germany's principal ideas of monetary stability and the absolute adherence to the timetable for the entry to stage three of EMU heavily biased the negotiation process. With the establishment of the European Central Bank, the Member States were deprived of their sovereignty over monetary policy, while fiscal policy remained in the hands of the States and could therefore not be sufficiently controlled at the European level. Consequently, via the criteria of the Stability and Growth Pact, Germany wanted to push through its interest in the stability-oriented coordination of Member States' fiscal policies. Furthermore, Germany wanted to ensure that excessive budgetary deficits and free-riding by poorer Member States would be avoided. These German ideas and interests were shaped by two underlying ideologies, namely D-Mark patriotism and ordoliberalism. The historical success of the German model resulted in Germany's strong position during the negotiations on the SGP. Using a domestic politics approach, Germany's dominating role can be explained by the ideas, ideologies and interests of domestic actors. This paper focused on the impact of the *Bundesbank*, the political parties, the academics, the trade unions and employers association, the public opinion and the media on the German national debate. Below, these actors' individual positions are summarized in light of the Agenda Theory.

The German *Bundesbank*, long recognized as the guarantor of price stability, was the most important actor in the conceptualization period of the SGP, thanks in large part to its widely accepted credibility. Its influence on public opinion and its resultant informal veto position were factors that could not be ignored by the German government and the Federal Ministry of

Finance. The political costs of a negative statement by the *Bundesbank* would have been extremely high, due to its elevated status in the public opinion. Therefore, the government decided to incorporate the bank as an advisor in the process of establishing and negotiating the SGP. In terms of the Agenda Theory, the *Bundesbank* influenced the media by stating the need for a stability-oriented fiscal policy, which then set that issue on the agenda. Hans Tietmeyer, in particular, was an influential representative of the *Bundesbank*, and his frequent interviews and statements to the media certainly influenced the public discussion.

The political parties in Germany played an important role in providing ideologies for the voters on which they could rely on. Chancellor Helmut Kohl had tied the politics of his party (CDU) to the ideal of European integration in pushing forward EMU. In close cooperation with the *Bundesbank*, Kohl and his finance minister, Theo Waigel, were able to impose the German stability culture on the other Member States at the European level and reassure the Euroskeptical tendencies of their party-coalition. The voters were newly ideologically bound to the European project of the government, owing to the governing parties' promotion of the SGP as a means of furthering fiscal stability in the EU. The attacks of the opposition could thus be absorbed as being empty populist rhetoric, since all parties were generally in favor of EMU. Nevertheless, it is to the SPD's merit that the missing "stability organ" was put on the agenda of the domestic political discussion.

Academics in Germany were able to influence the agenda building process by getting certain issues and their interpretations of them into the media and thereby making them publicly available. The manifestos as well as the annual reports of the German Council of Economic Advisors shaped ideas – and therefore also influenced the public opinion. However, although academics contributed to the public debate and were effective at promoting German ordoliberalism, they were unable to influence the political decision-making process.

Within the agenda-theoretical framework, trade unions and employer associations can be interpreted as lobbies that are able to influence the process of policy agenda building. In this process, voters attempt, via the assistance of lobbies, to let their opinion be known to the political parties. During the negotiations for the SGP, the influence of the German trade unions was not very strong, while employer associations and business interest groups tried to "piggyback" on the *Bundesbank*. Therefore, any potential influence they may have exerted

upon the process cannot be adequately evaluated due to these groups' nearly complete overlap with the *Bundesbank's* positions. Suffice it to say that their role was minor.

Turning to the prevailing public opinion in Germany, we now take a look at the opposite side of the Agenda process. In the mid-1990s, the German public was very skeptical about EMU and the introduction of a common currency. The SGP was designed to overcome this skepticism. This is a clear example of voters utilizing their policy agenda building role to put their concerns about European integration on the political parties' agendas. Therefore, German public opinion did indeed play a role and exert an influence on the German position during the negotiations.

Finally, integrating the role of the media in the pact's development, it can be concluded that the media, being involved in three out of four Agenda Theory processes, serve as the communicational forum for all the actors in Germany. The media took up the public fears that led to the domestic political pressure that ultimately resulted in the formulation of a stability pact. The interplay of the media and the German public can therefore be interpreted as the driving force behind Germany's position. Not only was the public opinion displayed in and formed by the media, but also the different actors were represented by the media's agenda setting.

Returning to the initial question, the evolution of the SGP can quite adequately be explained by the aforementioned ideas, interests and ideologies of the German media democracy. As we have shown, many actors who may not have directly influenced the political decision-making process were nonetheless crucial in shaping the public debate. Therefore, as regards Germany's role in the negotiations, the Stability and Growth Pact can be interpreted as a political response to the various actors' economic opinions, the public's skepticism toward the European integration process, and the media coverage that amplified these sentiments.

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