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Arne Heise*

Has Germany Been Europeanised or Has Europe Become (too) Germanic?

The Consequences of EMU without a Proper European Economic Governance System

It has often been argued that European monetary unification must basically be seen as a device to Europeanise re-unified Germany. For the Germans it seemed to be the best possible way to prevent a German "Sonderweg" and end any German ambition for hegemony. For the rest of Europe, and particularly France, it seemed to be the best way to curb German monetary dominance and to secure a French imprint on EU policy-making. In this article, however, it is argued that the German impact on the economic governance regime of EMU and its fencing off the French proposal of a "gouvernement économique" is so substantial that the term "Germanic Europe" seems in fact to be appropriate. More importantly, the economic governance system of "Germanic Europe" has locked the European Union into a politics of disinflation which makes it difficult for the EU to prosper and reap the potential fruits of European integration.

It has often been argued that European monetary integration would not have been thinkable without the fall of the Berlin wall and the ensuing German unification at the end of the 1980s.¹ Although European Monetary Union (EMU) had been set *en route* by the Single European Act (SEA) as early as 1986 – i.e. prior to the peaceful revolution in Eastern Europe and the German Democratic Republic – as a child of *Euro-phoria* after a long phase of economic well-being in Europe in the 1980s, it is far from clear whether EMU along the Maastricht Treaty route would have enjoyed a better fate than the Werner plan for monetary union in the late 1960s if it were not for one over-arching reason: to embed re-unified Germany into a strong and (politically) constraining European Union, as it was feared that Germany would otherwise explode the European Community by its sheer size and its potential German *Sonderweg*. If not for this challenge, the overcoming of national prerogatives in monetary

and exchange-rate policies in an ultimate, irreversible way – particularly after the crisis of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in the early 1990s – would have been very difficult to achieve.

A "Europeanised Germany" was definitely in the minds of the most powerful propagators and proponents of European monetary integration: Chancellor Helmut Kohl and President Francois Mitterrand and all the other public officials involved in European affairs on the French and German sides. What was enshrined in German post-war public opinion and unrivalled in German policy-making with respect to European relations ("*Ein starkes Deutschland nur in einem starken Europa*"), was also part of the French

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¹ The literature list is long and the subtle diversity of the arguments is impressive. Cf. for example K. Middlemas: *Orchestrating Europe*, New York 1995; W. Sandholtz: *Choosing Union: Monetary Politics and Maastricht*, in: *International Organization*, Vol. 47, No.1, 1993, pp. 31-34; J. Grieco: *The Maastricht Treaty, Economic and Monetary Union and the Neo-Realist Research Programme*, in: *Review of International Studies*, Vol. 21, 1995, pp. 21-40; G. Garrett: *The Politics of Maastricht*, in: *Economics and Politics*, Vol. 5, No. 2, 1993, pp. 105-124; E. Pond: *Beyond the Wall: Germany's Road to Unification*, Washington 1993.

political economy of EMU: it was seen as the best way to break German monetary dominance – which in the form of the *Franc fort* policy (pegging the French franc to the Deutschmark since 1983) was made responsible for France’s poor economic performance since the early 1980s – and to keep a French imprint on European politics, if not to strengthen France’s position in the world economy (e.g. by reducing London’s financial dominance). Although it was inconceivable that Germany would join a monetary union not based on a “sound money” culture (including central bank independence and a price stability doctrine), it was regarded as much better to have a French central banker on the board of the European Central Bank than to have none on the board of the Bundesbank.

A “Europeanised Germany” in a monetarily integrated Europe was also seen as compatible with the French political culture of *dirigisme* – even in liberal and conservative political circles in France, the government is considered to have a responsibility not only for the general regulative framework but also for growth and employment and industrial policy. Therefore, joining EMU with *gouvernement économique* was seen not only as “taming unified Germany” but also as maintaining a French style of policy-making in a wider European context.

EMU and a European Economic Governance System – Some Normative Aspects

EMU is unique in European integration history as it is the most advanced example of “positive integration”, i.e. “common European policies to shape the conditions under which markets operate”,² where a whole policy area – namely monetary policy – has been completely supra-nationalised and handed over to a genuinely European institution: the European Central Bank (ECB). Except under neoliberal or Hayekian premises,³ it was clear to social scientists as well as political actors (such as central bankers who shaped the “economist advocacy position”) that growing market integration in general, and monetary unification in particular, meant increasing “stress” for national public goods provision (or “policy-making”

as it is ordinarily termed). Due to externalities (e.g. competitive pressures due to social policy measures impinging upon unit labour costs) that can no longer be compensated for by exchange-rate movements, or to spillover effects (e.g. the demand spillover effects of Keynesian type intervention policies), all those national public goods that need to be provided at a central level will lose in efficiency and legitimacy. And also the increasing “exit options” for economic actors provided by cross-border mobility offer very unevenly distributed chances of escaping financial burdens. As far as experience goes,⁴ the result of this inefficiency is a mixture of the under-provision of public goods (but not complete social dumping for example), a growing lack of distributional justice, a democracy deficit (loss of sovereignty) and the commodification of meritoric goods (in terms of the privatisation of network goods or “natural monopolies” such as public utilities or education). This, of course, is exactly what (neo-)liberal and conservative scientists, political advisors and actors, at least in Germany, were hoping for, as they believed the post-war welfare and interventionist state to be the Leviathan image of grand-scale government failure.⁵

In order to overcome these problems, two paths are conceivable.

- A supra-national policy-maker, endowed with legal rights and financial resources, takes over the provision of public goods from the national governments (as the ECB has taken over from the national central banks) – some form of “European Republic”.⁶
- Some form of cooperation between the national governments is initiated. Although both possibilities are often seen as mutually exclusive, it appears that an appropriate governance system will in fact be a mixture of supra-national agencies and institutions and hard and softly coordinated national poli-

² F. W. Scharpf: Negative and Positive Integration in the Political Economy of European Welfare States, in: G. Marks, F. W. Scharpf, P. C. Schmitter, W. Streeck: Governance in the European Union, London 1996, pp. 15-39, here p. 15.

³ Cf. F. W. Scharpf: Games Real Actors Play. Actor-Centered Institutionalism in Policy Research, Boulder 1997, p. 210.

⁴ P. Genschel: Globalization, Tax Competition and the Welfare State; in: Politics and Society, Vol. 30, No. 2, 2002, pp. 245-272.

⁵ Cf. for example M. E. Streit, W. Mussler: The Economic Constitution of the European Community: From “Rome” to “Maastricht”, in: European Law Journal, Vol. 1, 1995, pp. 5-30; S. Sinn: Taming the Leviathan: Competition among Governments, in: Constitutional Political Economy, Vol. 3, 1993, pp. 177-221; N. Berthold, M. Neumann: Sozialsysteme im Wettbewerb – das Ende der Umverteilung?, in: W. Müller et al. (eds.): Regeln für den europäischen Systemwettbewerb, Marburg 2001, pp. 253-286.

⁶ Cf. S. Collignon: European Republic. Reflections on the Political Economy of a Future Constitution, London 2003; P. C. Schmitter: Imagining the Future of the Euro-Polity with the Help of New Concepts, in: G. Marks, F. W. Scharpf, P. C. Schmitter, W. Streeck, op. cit., pp. 121-150.

cies – depending on whether or not there are policy interdependencies and whether or not the national governments pursue common goals.⁷ The problem, of course, is that the more interdependent the polities (means) with conflicting goals (ends), the less likely self-organised coordination becomes – or cooperation must be institutionalised either by supra-nationalisation or by hard forms of cooperation providing the necessary incentives to overcome the rationality trap known as the “prisoner’s dilemma”. And again, agreement on such supra-nationalised or hard forms of cooperation would imply the basic, and highly contestable, assumption of common national goals and perceptions of European integration and EMU.

French and German Ideas about EMU and Economic Governance

I have already touched upon the different approaches to EMU taken by France and Germany. While in Germany deepening European integration is a policy goal in itself, and any concrete initiative – in this case taken by the European Commission under President Jacques Delors – falls on fertile ground in this respect, this does not mean that the Germans would have accepted EMU on any terms. The link between an overall positive stance towards EMU and possible reservations about unfavourable terms was, of course, the “economist advocacy position”: monetary unification as the ultimate coronation of real and nominal integration, i.e. when not only the internal market has been achieved, but nominal developments (prices, interest rates, wages) have also converged and common economic policy perspectives been established (*Politikkultur* such as a stability culture with respect to low inflation). That was definitely the position of the Bundesbank, but also of most politicians and economists. The lever to strengthen that position in bilateral and intergovernmental negotiations was the knowledge of German negotiators that Germany’s participation in EMU was not only central but also indispensable. Although, following the failure of the Werner plan in the early 1970s due to the lack of a definite time horizon and any automatism in the event of economic crisis, the “approach” to EMU was not a viable strategy if EMU were not to be postponed indefinitely, it gave Ger-

many a rather strong negotiating position. It is also important to notice that almost all the political actors involved – the political parties, the Bundesbank, the Chancellery, the Finance and Economics Ministries, the trade unions, the employers associations – favoured EMU, but on very different, even contradictory grounds. While trade unions and the left-wing parties hoped that EMU would create the room for manoeuvre of a re-invented Keynesian-type interventionist economic policy that seemed ever more unviable at a national level in the age of globalisation and Bundesbank autonomy,⁸ the conservative and (neo-)liberal political spectrum including the employers’ organisations openly favoured EMU on the expectations of growth and employment gains from lower transaction costs and the ultimate exchange-rate stability so important for the “export champion” Germany. More secretly, it was made clear that they hoped for structural effects (labour market flexibilisation, welfare state retrenchment, fiscal prudence) to be triggered by EMU (almost as a hidden agenda).⁹

The French position was straightforward and united the French elite:¹⁰

- breaking German monetary dominance without giving up a “sound money” policy stance entirely and without breaking with the traditional French state-led interventionism
- re-enforcing the French position within the EU and in the world economy.

⁸ Only very few progressive social scientists and economists were openly critical of EMU or, at least, named the pre-conditions under which EMU was expected to be beneficial to wage earners; see e.g. K. Busch: Europäische Integration und Tarifpolitik: lohnpolitische Konsequenzen der Wirtschafts- und Währungsunion, Cologne 1994; A. Heise, H. Küchle: Globalisierung, Sozialkonkurrenz und Europäische Integration; in: WSI-Mitteilungen, No. 4, 1996, pp. 237-244. Interestingly, it was a Keynesian economist, Prof. Bofinger, who was at the forefront of EMU support and who organised the public counter-attack after conservative economists launched a late attack against EMU in 1998!

⁹ This hidden agenda can be inferred from a) the bilateral and intergovernmental negotiations, b) the underlying neo-classical economic model and c) the fact that those conservative economists opposing EMU did so on exactly the same grounds – only they feared that EMU would not be strong enough to exert such pressure!

¹⁰ Cf. for example A. Moravcsik: The Choice for Europe. Social Purpose and State Power from Messina to Maastricht, Ithaca 1998; K. Dyson, K. Featherstone: The Road to Maastricht. Negotiating Economic and Monetary union, Oxford 1999; J. Pisani-Ferry: France and EMU: Economic and Political Economy Issues, in: J. Pisani-Ferry, C. Hefeker, A. J. Hughes Hallett: The Political Economy of EMU: France, Germany and the UK, CEPS Paper No. 69, Brussels 1997, pp. 5-38; D. Howarth: The French State in the Euro-Zone: ‘Modernization’ and Legitimizing Dirigisme; in: K. Dyson (ed.): European States and the Euro. Europeanization, Variation, and Convergence, Oxford 2002, pp. 145-172.

⁷ A. Heise: European Economic Governance – Wirtschaftspolitik jenseits der Nationalstaaten, in: Wirtschaftsdienst, Vol. 85, No. 4, 2005, pp. 230-237.

Or, as Andrew Moravcsik puts it, "...the more symmetrical EMU appeared to offer advantages over the more asymmetrical EMS, including lower risk premia and exchange-rate volatility, greater political legitimation, and, above all, more symmetrical obligations *vis-à-vis* Germany, which would translate into looser constraints on macroeconomic policy. ... the French government, like French business, maintained the traditional French support for monetary union on 'monetarist' terms – that is, with looser convergence criteria, greater political control over the ECB, a relatively large number of members, an explicit mandate to target employment and growth, and a weaker European currency than favoured by Germany".¹¹ Altogether, the French position sounded very much like the hopes of the German left-wing EMU proponents and the French were confident enough that they would finally carve out EMU on their own terms – which would include a Europeanised Germany. Since socialist Finance Minister Berezovoy's legacy, the French response to Germany's demand for an independent central bank was a *gouvernement économique*. Although it has nowhere been made entirely explicit what exactly is meant by a *gouvernement économique*,¹² the intention was to counter-balance autonomous, de-politicised (technocratic) monetary policy by politically controlled fiscal policy¹³ and this idea has been embraced by all French political actors ever since as a corner-stone of the French way of taming the Germanic approach to Europe.

EMU and European Economic Governance – Some Positivistic Aspects

Before we try to answer the question of whether EMU and the present European economic governance system can be seen as a Europeanisation of

Germany or, rather, as a Germanic moulding of the European Union, let us take a closer look at the way in which EMU has been institutionalised and practised.

Concerning the status of the ECB, Bundesbank officials – particularly its then President Hans Tietmeyer¹⁴ – and Finance Ministry officials – particularly then CDU junior minister Horst Köhler¹⁵ – pressed for a one-to-one copy of the Bundesbank model: complete legal and personal autonomy of the ECB from any national or EU institutions or political bodies and a clear priority for price stability in its policy goals. Or to put it differently: like the Bundesbank, the European Central Bank has been freed from any obligation to pursue – probably competing or even conflicting – goals other than price stability (such as economic growth for example). And, again according to the Bundesbank model, the ECB heads the European System of Central Banks (ESCB) with the Executive Board of the ECB having a strong position as compared to the presidents of the national central banks represented in the Governing Council: a system of centralised decentralisation rather than the decentralised centralisation which might have been expected in a European Union comprising strong nation-states. Proposals for strong accountability (to national governments and/or the European parliament) had been watered down, never played more than a secondary role in the IGC and had no impact on the ECB's abilities to conduct monetary policy.¹⁶

Although it looked as if the Germans had obtained what they wanted in terms of the monetary constitution, the Bundesbank was unhappy with the sloppy nature of the convergence criteria of the Maastricht Treaty and particularly the fiscal criterion for budg-

¹¹ A. Moravcsik, *op. cit.*, here p. 411.

¹² Under the heading "Nous voulons un gouvernement économique au service de la croissance et un vrai budget pour l'Europe" the liberal UDF defines: "Ce gouvernement économique serait à la fois un soutien et un contrepoids à la Banque Centrale Européenne, tout en préservant son interdépendance. Il s'agit de coordonner les politiques monétaires et budgétaires de l'Union, de rapprocher les politiques de change avec l'objectif de lutte contre l'inflation. Surtout, un gouvernement économique fort pourra prendre des mesures sur la fiscalité des entreprises, pour lutter contre le dumping social". Union pour la Démocratie Française (UDF): Nous avons besoin d'Europe, Conseil national, 15 May 2004, p. 17.

¹³ "Berezovoy remained a frustrated social radical who suspected that trying to negotiate EMU with Germany would only add to the constraints on French politics. Hence, later, he adopted with enthusiasm the idea of a strong "political pole" to balance the "monetary pole" of EMU (later rechristened *gouvernement économique* by the Elysee)" (K. Dyson, K. Featherstone, *op. cit.*, p. 175, italics in the original).

¹⁴ Former CSU undersecretary in the Finance Ministry and now a leading proponent of the ultra-liberal "Initiative New Social Market Economy".

¹⁵ Leading German negotiator in the Intergovernmental Conferences (IGC) and now President of the Federal Republic of Germany.

¹⁶ "..., an ECB has to attend to building and retaining a constituency of political support. In order to meet this requirement, arrangements for democratic accountability of the ECB take on a special importance. This point was grasped in the French Treasury as early as 1988, but played a very secondary role in the negotiations. ... The treaty negotiations were far more preoccupied with criteria of central bank independence than with criteria of transparency and accountability ... On such matters the Maastricht Treaty was unclear and undemanding" (K. Dyson, K. Featherstone, *op. cit.*, p. 786). For the impact of accountability on monetary policy see S. C. W. Eijffinger, M. M. Hoeberichts, E. Schaling: A Theory of Central Bank Accountability, CEPR Discussion Paper No. 2354, London 2000; G. M. Carporale, A. Cipollini: The Euro and Monetary Policy Transparency, in: Eastern Economic Journal, Vol. 28, No. 1, 2002, pp. 59-70.

etary deficits was seen as being still too excessive. According to the Maastricht Treaty, 3% of GDP was regarded as the average budgetary deficit reconcilable with the sustainability criterion for public debt, which was set at a maximum of 60% of GDP,¹⁷ i.e. considerable fiscal policy room for manoeuvre would be left. Under the heading of “preventing monetary bail-out” the German Finance Minister Theo Waigel¹⁸ pressed for a sharpening of the fiscal convergence criterion. The Waigel plan, which eventually become known as the European Stability and Growth Pact (ESGP), set the average public deficit target at “close to zero or above” with the 3% threshold as the ultimate upper limit that goes sanction-free. Up to now, no convincing theoretical backing has been provided for this fiscal policy rule and ongoing controversy about its viability in the light of the continuing non-compliance by the French and the Germans themselves has led to a minor revision of the ESGP, yet its restrictive impact on fiscal policy in Europe cannot seriously be denied¹⁹ and the possibility of sanctions makes it the only institution of “hard coordination” in European economic governance.

What happened to the French proposal of a *gouvernement économique*? After the almost complete success of German negotiators in that the principles of “sound money” and even “sound finance” were enshrined in the Amsterdam revision of the Maastricht Treaty and the ECB statute, it would have been most important for the French to strongly cling to their idea of a countervailing institutional setting. Alas, not much of that is left in the economic governance system operating today in the EU. Again, the Germans strongly opposed any institutionalised form of *gouvernement économique*, watering it down to the mere confession of the need for more coordination in economic policy: the Broad Economic Policy Guidelines (BEPG) and the Employment Policy Guidelines (EPG)

issued by the European Commission on a yearly basis after a long process of consultations with the national governments and social partners. This may be regarded as the acceptance of responsibilities for growth and employment enhancement assumed by the European Union (as against the German proposal of a wide interpretation of the subsidiarity principle), but their impact on actual economic policy-making is certainly rather weak: only very broad targets are set and almost no definite means are prescribed.²⁰ And although the Open Method of Coordination (OMC) which is operated in labour market and basic social policy areas²¹ and structural (market) reforms²² seems, at least, to lead to the convergence of policy agendas and perceptions in the EU, to increase information transparency (by benchmarking and best practice procedures) and to assert peer pressure on national policy-makers, it nevertheless only comprises exactly those policy areas that show the fewest coordination needs (no interdependencies and common goals) and are, thus, easiest to agree upon.²³

To put it as bluntly as necessary: the French succeeded in getting some symbolic notions right. They managed to persuade the Germans to call BEPG and EPG “guidelines” instead of the softer German version of “orientations” and, anyway, insisted on the acceptance of EU responsibilities for growth and employment instead of merely for price stability. They also implanted the vision of “growth” into the Waigel plan and, thus, re-named the Stability Pact to Stability and Growth Pact. But at the end of the day the German impact was much more substantial and deeper. They not only transformed EMU into a “sound money” and “sound finance” area completely on their own terms and institutionalised it in a way which will make future revisions very difficult and unlikely indeed: while the Bundesbank autonomy could have been abolished by a simple legislative act in the Bundestag, abandoning the ECB’s autonomy would need the unanimous acceptance of all the EMU member states. The same is true for a revision of the ESGP. But they also prevented any counter-balancing, effective governance structure worth the name.

¹⁷ The Domar formula of sustainable public deficits produces 3% under the assumption of stabilising 60% of public debts (over the business cycle) and an average nominal GDP growth rate of 5%. In this scenario, 3% is clearly not the upper limit of public deficits but the average over the business cycle; see e.g. A. Heise: Einführung in die Wirtschaftspolitik. Grundlagen, Institutionen, Paradigmen, Munich 2005.

¹⁸ Deputy chair of the Bavarian sister party of the CDU, the Christian Social Union (CSU), which signalled reluctance towards EMU if budgetary policy were not tightened.

¹⁹ This is particularly true, as the “excessive deficit” of Germany and France is not due to massive public expenditure (i.e. active fiscal policy) but to shortfalls in public incomes because of tax redemption programmes and a slack economy (i.e. passive fiscal deficit); see e.g. A. Heise: Optimal public debts, sustainable deficits, and budgetary consolidation; in: Empirica, No. 2, 2002, pp. 319-332.

²⁰ Cf. for example A. Heise: Boosting Employment through Macro Policies?, in: L. Witte (ed.): Work and Welfare in the Enlarging Euro-land, Bonn 2002, pp. 63-74.

²¹ Which has become known as the “Luxembourg process”.

²² Which has become known as the “Cardiff process”.

²³ Cf. A. Heise: European Economic Governance – Wirtschaftspolitik jenseits der Nationalstaaten, op. cit.

Getting Europe off the German Hook

The 1990s have seen the European-wide (if not worldwide) focus of attention on price stabilisation and fiscal restriction: inflation rates have converged at very low levels, and the end of the decade has even seen many countries with several years of public budget surpluses. These developments were definitely not entirely due to the pressure stemming from monetary integration (as they went beyond the EMU borders) but also from a worldwide process of framing an economic outlook and building and setting an economic policy agenda in a very particular (often described as “neo-liberal”) way. Despite this seeming agreement on economic policy programmes within the EU, the acceptance of a European economic governance system entirely on the terms of German conservatism is far from obvious and certainly a strong “achievement” of the German side. To accept central bank independence, for instance, is not a step to be taken as easily by many EU members as it might seem from a German perspective but, rather, a fundamental break with traditional policy-making in most EU member states.²⁴ France is only the most explicit candidate which might have placed all its political and economic weight on rendering EMU less Germanic – and, with the greatest probability, capitalising on Germany’s multilateralism and overt avoidance of becoming “hegemonic”.²⁵

It is difficult to decide what really paved the way for the very Germanic approach to European economic governance: the outstanding reputation of the Bundesbank and the immodest behaviour of its representatives on the German IGC negotiating board; the idea of institutionally pre-determining as little as possible in order to keep the EMU door open to late-comers such as the UK; or the French “monetarist advocacy position” which seems to favour action (i.e. establishing EMU) to consistent structure (i.e. an adequate governance system) and relying on future amendments to the governance system once problems come up. And it is also true that some Ger-

man demands – especially a stronger mentioning of supply-side policies (e.g. labour market deregulation) in the official papers²⁶ – were not approved. But indisputably, the conservative German governments of the Kohl era (1983 – 1998) were able to advance the kind of disinflationary, balanced-budgetary macro-economic pressure that they were relying on to discipline and reform the “German model”²⁷ at home to the EMU level – and even introduced institutional (almost constitutional) safeguards that go far beyond what they would have been able to achieve at the national level.

Whether this is best summed up as “EMU – a neo-liberal project”²⁸ or whether such a notion should be rejected – as Kenneth Dyson argues²⁹ – purely on the grounds that Social Democratic governments nowadays successfully pursue a similar type of policy, must not be decided here. More important is that Europe needs to get off the German hook if it wants to prosper.

- The Germanic impact on the European economic governance system tailors a macro-economic coat which is too narrow for overall economic growth and locks EMU into a politics of disinflation.
- The inappropriateness of the European economic governance system also shows in a competition of regulatory, social and tax systems which is a “zero-sum game” for the whole of Europe.

²⁴ D. Howarth, *op. cit.*

²⁵ Dyson even argues that a “key motive of the German Foreign Ministry in taking the lead role in agenda-setting on EMU in 1988 had been to put a final end to German hegemony within the EMS and thereby to put European unification on a more secure political footing.” K. Dyson: *The Politics of the Euro-Zone. Stability or Breakdown?*, Oxford 2000, p. 255. However, my argument would rather be that Germany has succeeded in lifting up its ideational “hegemonic position” from a fragile system of cooperation (within EMS) to a well established institutional regime (EMU).

²⁶ K. Dyson, K. Featherstone, *op. cit.*, p. 428.

²⁷ The “German model” comprises highly corporatist employers’ and employees’ organisations, consensual industrial relations, centralised collective bargaining and an interventionist Keynesian welfare state resulting in comparatively high levels of productivity growth, low inflation and unemployment and, to the detriment of real and human capital owners, rather low wage and income dispersion. It seems that it was exactly this outcome which the policies of “sound money” and “sound finance” targeted, while leaving German industrial relations and collective bargaining institutions (the foundation of German success in high-skilled, high-productivity industries) nearly unaltered (see e.g. A. Heise: *The Political Economy of Meritocracy*; in: *Political Economy*, Fasc. 6, 2000, pp. 109-136; and A. Heise: *Grenzen der Deregulierung. Institutioneller und struktureller Wandel in Grossbritannien und Deutschland*, Berlin 1999, for the institutional stability in Germany under the conservative-liberal Kohl administrations as compared to the radical changes of the British labour market system under Margaret Thatcher).

²⁸ T. Hueglin: *Government, Governance, Governmentality. Understanding the EU as a project of universalism*, in: B. Kohler-Koch, R. Eising (eds.): *The Transformation of Governance in the European Union*, London/New York 1999, pp. 249-266, here p. 264.

²⁹ K. Dyson: *Conclusions: European States and Euro Economic Governance*; in: K. Dyson (ed.): *European States and the Euro*, *op. cit.*, p. 359f.

- Finally, Germany is not only suffering equally under the wrong-headed economic policy but, due to the cost of German unification which still amounts to (annually and net) 4% of GDP, is suffering even more than any other EMU member.

This is, probably, why the European economic governance system is not more often addressed as “Germanic”, as one might expect the Germans to gain from a policy that its government forced on the Europeans. Yet, this reasoning would portray economic policy to be too *zweckrational* in a social welfare sense instead of being driven by the material interests of societal groups or classes.³⁰ However, if Germany is locked into economic stagnation, the European Union will find it difficult to expand.³¹

There have been a lot of arguments, particularly among progressive social scientists and leftist politicians, that run as follows: “If the essence of the European social model can be embodied in pan-European policy-making, and if the sustainability of national systems can be reinforced by a combination of supranational steering and subsidiary national bargains, then ... the possibility that the new stability-biased macroeconomic regime will also be welfare-enhancing will be increased”.³² Yes, indeed, if everything turns out to be good, everything will be good.³³ Unfortunately, the hopes for the better have not yet been fulfilled and, as Dyson realised,³⁴ the Germanic economic governance system has proved structurally resilient to changes in agenda-setting and instrumental polity.

- Even after Germany and France had elected left-wing governments in 1997/1998, the narrow “window of opportunity” quickly closed before the European Macro-Dialogue (EMD) set up in early 1999 at the Cologne summit could have been made effective.³⁵ After the resignation of German Finance

Minister Oskar Lafontaine (labelled as “the most dangerous man in Europe” by one British tabloid) in the first half of 1999, any initiative to bring the idea of *gouvernement économique* back on the agenda again lost momentum.³⁶ And as the logic of the EMD (*ex ante* coordination) was opposed to the logic of the ESGP (implicit coordination or assignment), the institutionally hard³⁷ form of coordination of the ESGP clearly outperformed the institutionally soft form of the EMD (not even part of OMC).

- Although the usefulness and economic feasibility of the ESGP has been increasingly questioned with every day of its existence,³⁸ no major revision has yet been achieved. The recent amendment, rather, proved its fatal stability.³⁹

For the very different nature of welfare regimes and different political cultures in Europe, a truly European system of the welfare state will have to be developed. In order to do so in a healthy economic environment and in a public opinion setting which does not exclusively identify the EU with negatively connotative notions such as “competition”, “retrenchment” or “welfare loss”, the Germanic design of the existing European economic governance system will have to be corrected and developed into something which combines the ability to produce interventionist public goods (particularly social policy and stabilising policies) more effectively, the unquestioned need for price stability and the public demand for legitimacy.⁴⁰ All this can only be realised once the national actors take a more European, less national perspective.

³⁰ Cf. footnote 27.

³¹ This may look different from the perspective of a single country, but is definitely true for the whole of Europe. And it sometimes looks very odd when the country most dependent on Germany – namely Austria – pleads for Germany to pursue an even more restrictive fiscal policy stance.

³² M. Rhodes: Why EMU is – or may be – good for European Welfare States; in: K. Dyson (ed.): European States and the Euro, op. cit., p. 333.

³³ Of course, one must admit that Rhodes’ statement was made only very shortly after monetary union started, i.e. without the years of experience that we have now.

³⁴ K. Dyson: Conclusions: European States and Euro Economic Governance, op. cit., p. 341.

³⁵ For an introduction to the history, working and shortcomings of the EMD read an insider-report: W. Koll: Macroeconomic Dialogue – development and intentions, in: E. Hein, T. Niechoj, T. Schulten, A. Truger (eds.): Macroeconomic policy coordination in Europe and the role of the trade unions, Brussels 2005, pp. 175-212.

³⁶ Lafontaine’s resignation symbolised the defeat of a clear policy shift towards more interventionist policies. Thereafter, “third way politics” or, as it has been called, “left supply-side politics” (see B. Priddat: Linke Angebotspolitik?, in: W. Schroeder (ed.): Neue Balance zwischen Markt und Staat?, Schwalbach/Ts. 2001, pp. 99-115) dominated the political agenda in Germany and the German approach to economic policy-making at EU level.

³⁷ Including non-credible material and more effective immaterial sanctions such as a loss of reputation.

³⁸ For a most recent and very detailed account of the arguments see the symposium “Reforming Fiscal Policy Co-ordination under EMU: What Should Become of the Stability and Growth Pact”, in: Journal of Common Market Studies, Vol. 42, No. 5, 2004, pp. 1023-1059.

³⁹ Cf. European Council: Report of ECOFIN on “Improving the implementation of the Stability and Growth Pact” to the European Council, 7423/05, Brussels 2005.

⁴⁰ Cf. K. Dyson: The Politics of the Euro-Zone, op. cit., pp. 251 ff.