

EPIC Proposal:
Making EMU Ideas Domestically Viable

With this research I intend to investigate in detail domestic versions of the politics of Economic and Monetary Union (EMU) on the example of Germany and Italy which, as it will be explained below, form matched cases. More precisely, I analyze how domestic consensus in favour of EMU formed in the two countries. In spite of huge objective differences between the German and the Italian economy, both countries entered the first wave of EMU on January 1, 1999. A cross-national comparison allows to assess under what circumstances participation to stage three of EMU was thought viable and hence put into action in two countries with such different economic histories. In both of them, the collective association of supply-side economics with the European Union (EU), a process started in the 1980s, allowed political *elites* to sell Government economic policy for the sake of Europe. However, there may be something else at stake. This enquiry addresses this puzzle. Is europhilia a sufficient explanation to European monetary integration? What is the nature of consensus on the Euro in the two countries? How was the issue articulated in both countries? In the background are two fundamental assumptions: (1) that perceptions of EMU changed from country to country and contributed to shaping the terms of reference in the national debates accordingly; (2) that the executive was strong enough to neutralize potential internal and external opposition to the project.

The two cases investigated (Germany and Italy) have a similar starting point. Both had the option of participating to stage three of EMU scheduled for 1999. They were affected by a common challenge and it was in their hands to either take it or leave it. In Italy, political *elites'* preferences were clear-cut. Participation to the Euro-zone was a "must" and it was presented as such almost in normative terms. There was uncertainty only about the Government's capacity to meet the fiscal and budgetary criteria imposed as a condition for entry in the Treaty. Even in Germany, the case for EMU was not entirely straightforward. In fact, the Government possessed the instruments for a potential opt-out. At the time when the Maastricht Treaty had to be ratified, the German Federal Constitutional Court obtained that transition to stage three ought not to proceed automatically, as the TEU envisaged, but that both houses, the Bundestag and the Bundesrat, retained the right to review the plans before 1999. Given this initial sketch, my purpose is to determine why Germany and Italy decided for entry or, put down in different words, how they managed to secure consensus in favour of EMU membership. What was the nature of consensus in Germany and Italy? The answer lays certainly in domestic politics and structures. Set in this research context, my task is to describe domestic versions of the EMU politics.

Traditional cost-benefit analyses are not entirely satisfying because they underestimate the role of domestic structures and cultures during the implementation of an economic policy. In addition, the commitment epitomized in the signing of the Maastricht Treaty has limited explanatory power taken by itself. True, in February 1992, European Heads of Government

signed the Treaty on the European Union (TEU) with its provisions on the three-phased EMU. However, facts in 1992/3, the collapse of the ERM and the constantly changing face of the unified Germany, deprived EMU of any sense of inevitability (Sandholtz 1996). Until 1997, there were doubts about Italy being able to meet the convergence criteria set out in the Treaty Protocol. In 1993, the German Constitutional Court ruled out automatic transition to EMU. As a result, the period analysed in this research is 1992/3-1998, i.e. from after national ratification processes had been completed to when countries qualifying for EMU were selected in May 1998. This period was characterized, in most EU Member States, by the internalization of the economic objectives spelled out in the Treaty, being the final goals budgetary consolidation and greater economic convergence in the Euro-zone. With those purposes in mind, the Italian and German Governments started working on the fulfillment of the convergence criteria, a set of five reference values concerning inflation, interest rate, public deficit and debt, and monetary stability. It is this time span, one characterized by the politics of convergence and of EMU implementation, available literature seems to have granted little attention. With the aim of covering this gap, the present research shifts the focus from the European to the domestic dimensions of EMU policy-making.

Both economists and political scientists have widely conceptualized on EMU. There is a great amount of literature on the economics of it and, in political approaches, attention has been devoted mainly to the negotiation process at EU level. A majority of them has measured European Governments' performance at the negotiation table. They have looked at issues of power structure, at whom proved stronger and whom weaker, i.e. at what country's economic policy preferences were reflected in the package agreed at Maastricht in 1992. Less exists on the politics of implementation, on the phase in which European objectives are translated into domestic structures. If a few have studied the implementation of EU legislation, they have done so discussing how the *acquis* has been implemented and why, in most cases, this has not happened in a straightforward manner (Richardson 1996). However, more rare are analytical discussions on what happens, at a macro-level, once national political *elites* take results from interstate bargaining back home. What is the nature of consensus in favour of European integration in the individual countries? Given the scarcity of EU literature on the topic, the question ought to be tackled by means of general political theories relative to consensus-building. A clarification is necessary. There can be a consent at the *elite* level between coalition partners or between the ruling party and the opposition, and a creation of a more general consent between the Government in power and civil society. When looking at mainstream studies on discourse analysis, there the distinction is between coordinative discourse, for the first circumstance, and communicative discourse when at stake is the ruling parties' packaging of politics for the general public (Schmidt 2000a, 2001b).

As to my research, in order to determine why both Italy and Germany decided to take part in stage three in the late 1990s, I shall use a theoretical model which, adopted in the past by P. Hall (1989), acknowledges that certain economic policy ideas become a component of policy when policy-makers mark them out as being economically, politically and administratively viable. This condition qualifies the "political power of economic ideas" (Hall 1989). National differences between Germany and Italy can be partly justified with reference to the relative viability of the project in the two countries. This model is useful to understand, first of all, why a policy-maker commits to a certain economic-policy idea. In my example, viability is sufficient to give a reason why European Heads of Government engaged (or not) with EMU in 1992. As for Germany and Italy, their political *elites* accepted the principle of a single currency because they thought that the project was feasible. After 1992, things slightly changed. When adjustment to EMU had to be concretely undertaken in the Member States,

then its domestic viability, being it economic, political or administrative, may have not been entirely there.

According to what just said and in the light of my research results, it is here suggested that Hall's theoretical model should be slightly revised and a distinction between policy phases operated. When Hall exposed his theoretical framework, he was looking at the process of policy formulation. In the example of EMU, this applies to the decision to commit to the project in the TEU. I intend to borrow his conceptualization and adapt it to a later phase, policy implementation. It is at this stage that the viability of an economic project is tested in the operational environment. Even if policy-makers accept an economic idea, this may turn out being quite problematic, once taken back home; something the "viability-model" does not seem to explore. In my paper, it is argued that, when economic adjustment encounters difficulties relative to its viability (hence also legitimacy), then viabilities are created. In Germany, political strategies have been used to make EMU acceptable. On the other side, Italian *elites* had to actively engage to create consensus in favour of few major reforms necessary to meet the Maastricht convergence criteria which, in theory highly unpopular, were nonetheless accepted.

To sum up, I shall discuss how domestic consent in favour of EMU formed in Italy and Germany. As it has been presented so far, "creating viabilities" is too vague a notion. What my research addresses in concrete are strategies used by EU Governments to minimize potential opposition. The latter was likely to originate from trade unions, whose preference would have been, in theory, to avoid wage moderation; political parties representing these categories, i.e. the labour force; and opposition parties willing to submit a political agenda in contrast to the one of the ruling party. In Germany, 1996 elections gave Kohl's Christian Democratic Union (CDU) a major boost; the opposition Social Democratic Party (SPD) failed to politicized anti-EMU vote; in addition, since then, the Government's position on EMU has fundamentally changed. From a project instrumental to achieve political union, EMU became Germany's major EU programme (Rehman 1997, 410-11). What objective and discursive measures has the German Government applied to reach this status quo? In Italy, serious doubts had been expressed with reference to the national system's capacity to sustain a drastic reorganization of public finances. However, from 1996, the Prodi Government undertook the run to EMU with great determination. This was successfully completed when, in May 1998, the country qualified for membership. What Government's strategies were responsible for this success? Was it a strong Chancellor of Exchequer; the social consensus; and/or a "thick" legitimising discourse *vis-à-vis* unions and public opinion which made it possible? Here, I make a distinction between measures necessary to guarantee concrete economic viability, almost all reducible to budget design, and other political tools *strictu sensu*, e.g. bargaining between parties, interests groups' lobbying, etc. As some literature has already observed, these measures are likely to be complemented by coordinative and communicative discourses (Schmidt 2000). Coordinative discourses tend to prevail in multi-actor systems, whereas single-actor systems are more likely to make use of "thick"¹ communicative discourses. They exercise a legitimizing function and aim to secure democratic legitimacy of Government economic policy.

¹ A reference has been made earlier to a "thin" communicative discourse, see Schmidt 2001a.