The Economic and Monetary Union
In the Framework of a United Europe

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Ladies and gentlemen,

Work is now well under way on the edifice of Economic and Monetary Union, with the requisite decisions being adopted by governments within the EU’s Council of Ministers, most recently on 13 April, in Verona. They deal with everything from the actual operation of the system to the appearance of the new banknotes and coins which will be in circulation from the year 2002. The latest round of Council decisions has enhanced the credibility of the project on the financial markets.

I will spare you the technical problems raised by Economic and Monetary union. Today, I should like to take a three-dimensional look at this exercise:

- first, as a decisive step towards the economic integration envisaged from the outset in the 1957 Treaty of Rome.
- second, as a strategic cornerstone of greater European political integration in the years to come,
- and third, in terms of the preconditions for success both before and after the key date of 1 January 1999, when the final stage of Economic and Monetary Union is due to come into effect.

I. EMU as the culmination of economic integration

Observers of the financial markets and economic experts took a keen interest in the European Community’s efforts from the early 1980s to drag itself out of the crisis into which it had slipped as a result of important differences among the Member States. The achievement of its 1992 Single Market objective restored its credibility in US political and economic circles. Today, however, questions are again being asked.
Objective 1992: the Single Market

In January 1985, I proposed to the Member States that we create a true single market without internal frontiers. The idea was accepted, and in six months we had put in pace a reform of the Treaty, the Single European Act, designed to ease decision-making by allowing greater scope for qualified majority voting. For let us not forget that giving effect to the principle of free movement of people, goods, services and capital involved some 300 pieces of legislation. On the whole we managed to meet the deadlines, which in turn generated a climate of optimism enabling Europe’s economies to progress on two fronts:

First, a return to reasonably strong growth, with increased investment and the creation of some nine million jobs between 1985 and 1991.

And second, thanks to the discipline of the European monetary System, a degree of economic convergence and a very significant decrease in inflation.

By 1998, the mood in Europe was again sufficiently good for us to run our attention to the next stage – the creation of a single currency.

The three pillars of the European Community

The agenda in the years from 1985 to 1992 was not solely devoted to our approach to the single market, via deregulation and harmonisation.

The Single Act also provided the blueprint for a European model based on the three principles of competition, cooperation and solidarity, making this somewhat different from other past or present attempts at regional union, but also underscoring the essentially political ultimate aim of our collective enterprise.
The stimulus of competition, the mutual strengthening of cooperation and the bonds of solidarity go to make up a new, continuously evolving yet always contingent political formula. Notably, the so-called structural policies succeed in helping the least developed regions in the Community.

This structure, essentially market-based as it is, nevertheless requires the cement of a single currency. The success of the Euro in such a context is no less dependent on the sound management of the individual national economies than on the machinery set up to narrow development gaps and pave the way for real economic convergence.

**EMU as a the logical step forward**

In this sense EMU can be seen as a simple extension of the process set in train in 1985 with the Single Market programme.

The setbacks to European integration since 1992 in fact confirm this view.

In the first place there were the two violent attacks and speculation against the European Monetary System. The targets in September 1992 were primarily sterling, the lira, the peseta and the escudo. They were caused by objective reasons: the economies of the UK, Italy, Spain and Portugal were again lagging behind, or failing to converge quickly enough on, the “good” core economies. In future, given the constraints of the single currency, the authorities in charge of EMU will no longer accept this degree of divergence.

The second wave of speculation, in July 1993, was rather different. There, speculators targeted the franc despite the fact that France had successfully followed the virtuous path of price stability. The logic of the markets, however, was that politically, France would be unable to tolerate such a level of unemployment and would therefore take the British way out – competitive devaluation. That did not happen, and with solid backing from the central banks, France resumed its position within a reformed European Monetary System allowing a broader band of exchange rate fluctuation. And of course, once we
have an Economic and Monetary Union it will be impossible to play one European currency against another.

Over the same period, however, the European economy slowed down, missing out on the worldwide growth cycle powered by the United States and the emergent economies. Europe’s poor showing can be put down to a number of factors, including failure to press on with structural changes, the aftermath of German reunification, successful as that was, and, significantly the inability of the hard core of “good” European economies to steady their currencies against the dollar and the devalued currencies of other EU members – yet another reason to go for the single currency.

II. Economic and Monetary Union as a factor in strategic policy

The idea of a European currency already has a turbulent history. A first initiative in the early 1970s, produced a report from a committee of experts chaired by Luxembourg Prime Minister, Pierre Werner which included the main features of the present design. External events, however – the floating of the dollar and the end of the Bretton Woods system of fixed parities, coupled with the oil price shock – conspired to sink the project.

Nevertheless the advocates of close monetary coordination stuck to their guns and gave us the “snake” – which also had its ups and downs.

Ultimately the key initiative, which came from Roy Jenkins, then President of the Commission, and acquired political sponsors in Chancellor Helmut Schmidt and President Valéry Giscard d’Estang, was the creation of the European Monetary System (EMS), with a system of quasi-fixed exchange rates monitored by the Governors of the Central Banks.

As we have seen, the EMS was the indispensable trial run which, in addition to its intrinsic benefits, provide invaluable experience for those who would go on to lay the foundations for Economic and Monetary Union. It cannot be too strongly
emphasised that we make progress towards European integration by increments – sometimes, admittedly, the one step forward and two steps back – but all these concrete measures, succeed or fail, prepare the ground for more ambitious initiatives and serve as a learning experience.

**EMU and the spill-over effect**

In dwelling on this methodological point I have in mind the wealth of political research carried out into the still brief history of European integration.

One product of this research is the “spill-over” theory, which sheds light on some of the ways in which the European concept has been advanced in spite of the huge obstacles placed in its way by the very nature of our venerable nations. The theory is particularly relevant in considering the economic approach to integration, given that all purely political initiatives, from the European Defence Community (1953-54) and the 1953 draft constitution to the first and second Fouchet Plans backed by General de Gaulle in 1960, have so far failed.

Hence the economic route chosen by Jean Monnet and Robert Schuman, initially with their plan for the European Coal and Steel Community and subsequently by them and the other Founding Fathers with the Treaty of Rome, essentially economic in substance.

I myself took the same line, failing a consensus on any of the other possible ways on the institutional or defence fronts. Between 1985 and 1988, therefore, we launched the 1992 Single Market programme (1985), the Single European Act (1987) and the financial constitution adopted in March 1988 reformulating the common policies.

As a result, many senior officials and observers have pinned all their hopes on the extrapolation of this approach through the completion of Economic and Monetary Union. Unsure about the scope afforded by the Maastricht Treaty on the strictly political front, they are banking on the 1999 deadline and the
expectation that, in spite of the inevitable problems, the experience of joint sovereignty in the monetary sphere will bring about a quantum leap in the direction of truly political integration.

This is a point worth enlarging on.

**The background to EMU**

The whole history of the Maastricht Treaty would appear to confirm the spill-over theory. The report submitted by the committee of experts including central bank governors which I had been asked to chair the previous year was adopted by the Madrid Europe Summit in June 1989.

It led to a certain amount of argument among the more pro-European Member States. Germany, struggling with the problems of reunification, was reluctant to commit itself to anything beyond acceptance of the experts’ report, while France and the Benelux counties were keen for a detailed timetable of measures. German leaders were mindful of their citizens’ attachment to the mark; others wanted a Germany firmly locked into Europe – a European Germany – fearing that once reunification was complete, this country might otherwise embrace another strategy.

The spill-over effect works. Within eighteen months, decisions had been taken convening an intergovernmental conference on Economic and Monetary Union, setting out a timetable, and looking ahead to another conference dealing with “political” issues such as foreign policy and defence.
To me the message is clear. Initiatives to speed up or advance European integration cannot be considered solely in terms of their own specific features or merits, but must be placed in the wider context of the move towards a political union in Europe.

**Economic and Monetary Union in action**

**Requirements for success**

I am not going to make predictions about the 1999 deadline, though my personal view is that it will be met. More important, I believe, is to consider what is required for EMU to survive, prosper and bring its expected benefits.

**Economic requirements**

This is a key issue being discussed by governments, treasuries and central banks.

The main concern is to bring about sustainable long-term convergence between the individual national economies, since a single currency implies that all members of EUM would become liable for the debts of a single country. In addition to multilateral supervision by members, the independent Central Bank will be asked to report regularly on the degree of economic consistency.

The idea would be not only to issue recommendation, for example to a member whose level of indebtedness was getting out of hand, but to impose financial penalties using the Community budget machinery.

Nobody is in any doubt that membership of a European and Monetary Union includes giving up the use of exchange rates as a tool for adjustment, which is why the German finance minister Theo Waigel has suggested a stability pact laying down a number of rules and penalties. This proposal was accepted by the other Member States.

As regards the relationship between EU Member States inside and outside the EMU, the issues are somewhat different. Countries remaining outside EMU will
not be able to resort to competitive devaluation, which would undermine the Single Market. The Council has therefore decided to set up an EMS-type arrangement linking the “ins” and “outs” within bands of fluctuation which could differ according to the country concerned.

And finally, of course, there is the UK, which not only wants to remain outside the EMU but also refuses to abide by the idea of the “new European monetary System”.

**Political and institutional requirements**

This is a more controversial topic which neither the EU Council of Ministers nor the European Council summits have discussed as yet.

The balance has to be struck not only between the economic and monetary aspects but also between the political and the monetary. The European Central Bank, like the central band of any country, must work in tandem with a form of economic “government” able to formulate and implement certain common economic and social development objectives. The creation of such an entity is more a matter of political will than of any radical institutional innovations, since the Maastricht Treaty already provides for the necessary institutional arrangements. More streamlined, open and accountable discussion and decision-making would also help get our message across to public opinion.

But we really have to ask ourselves whether the successful launch of EMU in 1999 does not in fact depend partly on some solid progress now in coordinating economic policies and Community measures.

Unemployment is an absolutely central issue in Europe today. Opponents of a single currency claim it can only be achieved at the expense of jobs. This dichotomy is as politically dangerous as it is economically untrue. Supporters of EMU need to counter these claims not only by pointing to the benefits of the single currency but by taking positive action.
This is the idea behind the proposal for a confidence pact the current President of the Commission, Jacques Santer, and I put forward in March. This would again place political and social goals at the heart of European integration, framing a cooperative strategy for growth (a positive sum game), and giving effect to the White Paper on competitiveness, growth and employment which was adopted by the European Council in December 1993 at my insistence.

Those are in my view the real tasks for the months and years ahead.

**External implications of EMU**

For the countries in EMU, and even for the EU Member States as a whole, the benefits to be derived from a single currency and a common growth strategy are obvious, but what about relations with the rest of the world, and in particular the United States?

We have no ambitions to see the Euro become the main international reserve currency. We hope simply that it will help improve the working of the currency markets and make a pragmatic contribution to greater systemic stability.

This, of course, would still fall short of the agenda set in Bretton Woods fifty years ago of ensuring that exchange parities did not get in the way of sound competition on world markets and condemn certain countries to poverty and backwardness.

I hope I have managed to persuade you of the importance of Economic and Monetary Union for the future of European integration, without concealing any of the difficulty of the task ahead or the conditions I believe necessary for the success of the venture. Indeed ‘adventure’ might well be a fairer description of the quest of Europe’s historic nations to remain a power to be reckoned with by joining forces and cooperating more closely.

Thank you.