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George Ross

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ECONOMIC AND MONETARY UNION TWENTY YEARS AFTER MAASTRICHT: CASE STUDIES IN EUROPEAN UNION INTERGOVERNMENTALISM

George Ross^{*}

The Maastricht Economic and Monetary Union (EMU) negotiations and European Union (EU) responses to today's Euro-zone crisis have one thing in common: beyond their focus on monetary matters, they are both cases of EU intergovernmentalism. Maastricht was an intergovernmental conference to change the EU treaties to create EMU. Decision-making concerning the Euro-zone crisis nearly two decades later has been done by the intergovernmental Euro-group, Ecfin, and the European Council, constantly negotiating about which courses to follow. As close observers of the EU know, there are and always have been many different kinds of EU intergovernmentalism, depending on policy areas and treaty specifications about decision-making. In the two decades since Maastricht, however, there has been a general turn toward more EU intergovernmental decision-making. The Maastricht Treaty contained several new areas for Europeanization beyond EMU's common monetary policy, including foreign and defense policy and, under the rubric of Justice and Home Affairs, matters like transnational criminality, asylum and immigration policies, and parts of civil law. The 2009 *Lisbon Treaty* underlines and confirm the EU's general shift in more intergovernmental directions. A comparative examination of EMU dealings at Maastricht and the Euro-zone crisis as case studies two decades apart will not reveal everything about EU intergovernmentalism, but it may lead to significant conclusions.

EU intergovernmentalism differs from that in conventional international organizations. In the latter, unlike in the EU, sovereignty is rarely pooled among countries, while clashing national preferences often leads to an absence of agreement, whatever the problems at hand. On the other hand, EU members are tied together in a wide range of joint policy areas in which negotiated solutions are required. In addition, regular institutional mechanisms to promote agreement exist. Nonetheless, a wary analyst would anticipate that EU-intergovernmentalism suffers from some of the large problems inherent to all multilateral negotiating situations. These include slow processes and suboptimal outcomes. The following study aims to assess these problems in the case of Maastricht and the Euro-zone crisis.

I. Intergovernmentalism I: EMU and the *Maastricht Treaty*

EMU, first discussed in the early 1970s, was a product of the EU's "golden age". After the mid-1980s, Jacques Delors' European Commission, backed by a

^{*} Chaire Jean Monnet, Science Politique, Université de Montréal et Centre d'Excellence sur l'Union Européenne, Université McGill-Université de Montréal.

strong Franco-Germanic alliance, furthered integration through cascading changes that began with the single market program¹. Establishing a single currency and common monetary policy was advertised as one logical consequence to the single market, but the real motivations came from persistent difficulties between France and Germany around the workings of the European Monetary System (EMS), founded in 1978. Germany, with its solid Deutschemmark, successful economy, and well-managed Bundesbank, was the lynchpin of the EMS. Germany's economic management philosophies dominated changes in EMS parity arrangements in ways that provoked disagreement with France and Italy, however. The French thus initially proposed EMU in the late 1980s. Delors himself chaired the committee that set out initial blueprints. Wary German financial elites understood that EMU was meant, in part, to seize power from them and they opposed the plans². It took the end of the Cold War and German unification to change this. The Kohl government, sensing that it needed to make a large European gesture to overcome widespread anxiety about increased German power in Europe related to unification, overruled the financial establishment and, in 1990 opened the door to the Maastricht negotiations³.

The Maastricht EMU Intergovernmental Conference (IGC) was a remarkable spectacle. The Germans insisted on holding parallel negotiations related to "political union" that would include EU foreign and security policy, justice and home affairs (transborder legal issues such as criminality, asylum and immigration, and civil law that followed from the Schengen treaty to open internal European borders), and a greater role for the European Parliament. German financial elites still tried to block EMU, arguing against a hard deadline for its establishment in the hope of putting it off indefinitely. The French nonetheless managed to negotiate a deadline that made EMU inevitable. . Germany, in return, insisted that if there were to be an EMU, its institutions, mechanics, and mandates would have to be based on German preferences⁴. At Maastricht, and later in the *Stability and Growth Pact*⁵ of 1997(SGP), The EMU would thus follow a German *ordnungs politik* (rule-ordered economic

¹ George Ross, *Jacques Delors and European Integration* (New York: Oxford University Press, 1995) and Nicolas Jabko, *Playing the Market: A Political Strategy for Uniting Europe 1985-2005* (Ithaca: Cornell University Press, 2006).

² David Marsh, *The Euro: The Politics of the New Global Currency* (New Haven: Yale University Press, 2010) [Marsh].

³ Frédéric Bozo, *Mitterrand, The End of the Cold War, and German Unification* (New York: Berghahn, 2009)

⁴ On this topic, see Marsh, *supra* note 2, chapters 6 to 8; Otmar Issing, *The Birth of the Euro* (Cambridge: Cambridge University Press, 2008), chapters 2 and 3; Kenneth Dyson, "Germany and the Euro: Redefining EMU, Handling Paradox, and Managing Uncertainty and Contingency" in Kenneth Dyson, ed, *European States and the Euro: Europeanization, Variation and Convergence* (Oxford: Oxford University Press, 2002) at 173; Kenneth Dyson and Kevin Featherstone, *The Road to Maastricht: Negotiating Economic and Monetary Union* (Oxford: Oxford University Press, 2000), chapter 6.

⁵ See the documents constituting the pact: EC, *Resolution of the European Council on the Stability and Growth Pact Amsterdam*, [1997] OJ, C 236/1; EC, *Council Regulation on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies*, [1997] OJ, L 209/1; EC, *Council Regulation on Speeding up and Clarifying the Implementation of the Excessive Deficit Procedure*, [1997] OJ, L 209/6.

liberalism) logic⁶. There would be a European Central Bank (ECB), modeled on the *Bundesbank*, to ensure price stability. In terms of fiscal policy, rules were set out in the EMU “convergence criteria” concerning the responsibilities of governments that wished to join. Inflation was to be brought down, annual deficits were not to exceed 3 %, and aggregate national debts were not to be greater than 60 % of annual GDP. No strong enforcement mechanisms were built into the new treaty, however, with the exception of the ECB’s power to adjust interest rates. Macroeconomic policy coordination would take place through annual Broad Economic Policy Coordination (BEPC) procedures organized by the European Commission. Governments whose policies did not conform to BEPC criteria could then face Commission “naming and shaming” and, if their annual deficits exceeded 3%, be recommended to the Council of Ministers for “excessive deficit” procedures. The Council might then make policy recommendations and the concerned countries would be expected to change their ways. Maastricht proposed sanctions for deficit recidivism, but they proved too broad to be applied. Beyond this, EMU contained no mechanisms to provide assistance in case of particular national problems and bailouts for troubled members were explicitly forbidden. The Treaty and the SGP assumed that EMU members would comply with the convergence criteria and other rules and that over time there would be growing economic convergence among them.

The Maastricht IGC was paradoxical. It happened because “softer-currency” European countries, led by France, wanted to get back some of the financial power that Germany had gained in the earlier EMS. The Germans did not want this, and tried to block EMU until unexpected world events obliged them to accept. But the German government then made absolutely sure that EMU would be a German-style monetary union and not an “economic union”. The French wanted a constraining “economic government” to complement a monetary union that could shape EMU member state macroeconomic policies. The Germans believed that strict adherence to *ordo-liberal* practices that they had long used themselves should be enough.⁷

Jacques Delors reported to the European Parliament, a few days after Maastricht, that EMU was a “Bankers’ Union.” His subtext was that the new EMU would be flawed because of German insistence on imposing a German model.⁸ EMU’s first decade showed these flaws, even if key actors did little to correct them. Many of the ten original EMU members cut corners to meet the Maastricht convergence criteria, for example, but were nonetheless allowed in. Belgium and Italy were admitted for political reasons, despite the fact that their general aggregate national debt was well above 60 %. Greece, refused in 1998, was allowed to join in 2001 despite widespread knowledge of its bad financial practices and statistical manipulations. Next, the EMU created a low one-size-fits-all interest rate that encouraged vast new capital flows to poorer member states, with the financial sector

⁶ Sebastian Dullien and Ulrike Guérot, *The Long Shadow of Ordoliberalism: Germany's Approach to the EuroCrisis* (London: European Council on Foreign Relations, 2012) online: <http://ecfr.eu/page/-/ECFR49_GERMANY_BRIEF.pdf>.

⁷ For detailed history see Harold James, *Making the European Monetary Union* (Cambridge: Harvard University Press, 2012).

⁸ Ross, *supra* note 1 at 188-193.

beatifically believing that richer members would stand behind the new debtors if problems arose. The low common interest rate was received by many member states as a windfall and it created large new incentives to credit growth, often in terms of housing and construction bubbles. Then, when the collapse of the dot-com boom in 2001-2002 caused widespread deficit and violations of the 3 % EMU deficit rule there was a flood of “excessive deficit” rulings from the Commission. France and Germany, among the violators, responded by engineering a change to the rules so that their misdeeds would pass unsanctioned.⁹ The EMU, which had been aimed at promoting a “culture of rules”, lost credibility as a result. As well, any notion of the EMU creating economic convergence around higher productivity and financial rectitude, in *ordnungs politik* style, was exposed as illusory. Richer northern EMU members resembled each other economically, as they had for most of the 1990s, while the economies of the Southern and peripheral members grew on dangerous grounds on the basis of high debt and financial manipulation. Finally, the Maastricht bargain prevented financial solidarity amongst its members. There was a no-bailout rule, the ECB was forbidden from monetizing EMU members’ debts, and there were no provisions for coping with economic emergencies¹⁰.

II. Intergovernmentalism II: The Euro-Zone Crisis

The background of the Euro-zone crisis was the global financial collapse after the Lehman Brothers bankruptcy in 2008. Growth levels and tax revenues both declined precipitously while state spending increased, creating new debt. International strategies of crisis response that were pursued by the EU coordinated stimulus plans to stop downward economic spirals and while these measures worked, they also increased debt. Countries with public and private debts and unusually high deficits saw bond interest rates rise, and many of these were poorer EMU members. The Euro-zone crisis per se began after the socialist Prime Minister of the newly elected Greek government announced that his predecessors had lied about Greece’s budget deficit in the fall of 2009. The annual deficit had been reported to be a high 6 %. However, in reality, it amounted to 12 %. Outside experts quickly recalculated the annual deficit and established it as being over 14 %¹¹. Bond markets quickly determined that these numbers indicated that Greece might not be able to pay back its debts. This led bond-related interest rates to rise very rapidly, making the possibility of repayment even gloomier. In December of 2009, European leaders like Fredrik Reinfeldt, the Swedish Prime Minister and the head of the EU rotating Presidency, announced that there would be no bailouts for Greece. Assumptions about EU financial solidarity with the Greeks were shattered, feeding talks about the EMU collapsing and big drops in global stock markets¹².

⁹ Dermot Hodson, *Governing the Euro Area in Good Times and Bad* (Oxford: Oxford University Press, 2011) chapter 4.

¹⁰ Barry Eichengreen, “European Monetary Integration with Benefit of Hindsight” (2012) *Journal of Common Market Studies* 123.

¹¹ Carlo Bastasin, *Saving Europe: How National Policies Nearly Destroyed the Euro* (Washington: Brookings, 2012) chapter 9 [Bastasin].

¹² For an excellent and concise review of the crisis as a whole, see Jean Pisani-Ferry, *Le réveil des démons : la crise de l’euro et comment nous en sortir* (Paris: Fayard, 2011).

These events sounded alarms for the EU. The Eurogroup, Ecfin (the Council of finance Ministers), and the European Council, were called upon to respond. These institutions were all intergovernmental. It would be up to governments dealing with one another to solve the Greek problem, therefore. They would ultimately decide whether to help Greece or allow Greece to default, save the Euro-zone, and perhaps even to prevent another global disaster. Fighting short run fires would be hard enough, particularly with volatile financial markets feeding the flames, but the basic architecture of EMU would also have to be reformed. Therefore, member states would have to move on two fronts simultaneously.

Making decisions about new common policies involved hard bargaining among EMU and EU members. Each had national preferences that would need to be reconciled, and doing so was bound to take time. Some were to be heard more than others. Germany, the strongest Euro-zone country and EU economy and the largest EU member in terms of population and wealth, was predestined to be the most important player. However, it would have to work closely with France, not only because the “Franco-German couple” traditionally worked together, but also because France was the second largest economy in the EMU. Something dramatic had happened to the Franco-German rapport since Maastricht, however. For much of EU history, France had been able to insist on its preferences because Germany needed to prove loyal Europeanism to rebuild its post-war international legitimacy. After all, Germany had not wanted the EMU prior to Maastricht and had only accepted it under French pressure as part of a huge international compromise. Conversely, during the Euro-zone crisis, Germany was in a much more advantageous position to call key shots, because of its relative economic power and new post-unification legitimacy. France could be relegated to a supportive, secondary role.

Germany’s preferences for the EMU were founded on ordo-liberal German ideas. They had, if anything, been sharpened after the election of the Schroeder SPD-Green government in 1998. Confronted with huge unification costs, the Red-Green coalition and German elites decided that Germany should never again be the EU’s cheque-writer of last resort. In addition, the coalition’s later tough reforms of social policies had nourished the “we were willing to impose tough sacrifices on ourselves to climb out of our own economic holes, now it is your turn” national outlook. Immediate electoral and political concerns provided additional structural elements¹³. The CDU-CSU, Chancellor Angela Merkel’s party, faced a string of regional elections in 2010-2011 that would determine the balance of power in the *Bundesrat*, Germany’s upper house, that could help or hinder the government’s ability to legislate. In addition, much of German public opinion stood behind “no help for those feckless Greeks”, positions that were promoted in the tabloids¹⁴. The governmental coalition itself was contentious. The liberal Free Democrats were rapidly losing voter support and were eager to capitalize on any deviations from Germany’s traditional EMU positions, placing Merkel and the CDU-CSU in a delicate negotiating position

¹³ Ulrike Guérot and Jacqueline Hénard, *What Does Germany Think about Europe?* (London: European Council on Foreign Relations, 2011) online: <http://www.ecfr.eu/page/-/ECFR36_GERMANY.pdf>.

¹⁴ Bastasin, *supra* note 11 at chapters 10, 11 and 12.

with regards to the Greek crisis. Finally, the German Constitutional Court fastidiously oversaw Germany's legal commitments to Europe and was certain to call into question any action that moved away from Maastricht's treaty commitments¹⁵.

France, the other EMU "giant", had shrunk when compared to Germany. At the beginning of the crisis, French leaders argued for a rapid bailout of Greece. They feared that the entire Euro-zone, along with heavily exposed French banks, might be in peril. France also restated its original Maastricht EMU preferences regarding the need for an 'economic government' to provide stronger European-level constraints on national fiscal and budgetary practices. These proposals had a certain general plausibility, but their appeal was compromised by traditional French Gaullism. France often urged broadening Europe, but then insisted on intergovernmental methods that would ensure that it retained a veto, muddying negotiating waters. France's ability to shape Euro-zone negotiations was further complicated by economic and institutional issues. After Maastricht, France had weakened economically, while Germany eventually emerged from unification as a powerful global export machine. France, had not run a balanced budget since 1974, leading to high accumulated debt levels. The country was also slowly de-industrializing, had vulnerable banks, and persistent high unemployment. France needed a smoother crisis landing than Germany did, therefore, and this situation would tempt the Germans to insist more strongly on their *ordo-liberal* priorities. Politically, France was centralized and had an unusually strong presidency. This seemed to endow the country with great bargaining flexibility than Germany, but the Euro-zone crisis coincided with an impending presidential election campaign in which Nicolas Sarkozy, the incumbent, was far down in the polls. As became clear, Sarkozy was more concerned with the electoral returns he could derive from crisis co-leadership with Chancellor Merkel than with any specific French policy position, and the Germans knew this.

The Franco-German duo, with its greater resources and organization, overshadowed other EMU members throughout crisis negotiations. These "others" were not without significance, however. The "P.I.I.G.S" countries, as labelled by the press, were the most vulnerable Euro-zone members (Portugal, Ireland, Italy, Greece, and Spain) and all needed help from wealthier Northern EMU members. The most vulnerable, beginning with Greece, recognized that their positions were weak because the potential costs of leaving the Euro-zone were inconceivably large. They would almost certainly have to accept draconian domestic economic retrenchment in exchange for Euro-zone help, therefore, and were left with little room to maneuver. The larger their economies, however, the greater their potential to maneuver, however. When, and if it came to forcing retrenchment on Spain and Italy, the bargaining situation would allow greater room for free riding. Finally, a few weaker Euro-zone countries, like newer members Slovenia and Slovakia, could hardly contribute to helping other members, as they had little to contribute.

Germany set the tone of the negotiations from the outset. Angela Merkel repeated that Germany would not allow a bailout and would refuse to allow the Euro-

¹⁵ *Ibid*, chapter 8.

zone and the EU to make one collectively. The Greeks had created their own problems, she said, and should fix them themselves. Germany also believed that the Greek crisis was not a matter of EU ‘solidarity’ and that the EMU was not a “transfer union”, a coded reference to the no-bailout clause in the *Maastricht Treaty*. When negotiations began, the February 2010 European Council concluded, in distinctly German tones, that the Greeks might be helped. Perhaps the Euro-zone was really in danger. In exchange, Greece would have to undertake enough austerity to reduce deficit levels to 3% by 2012, a virtually impossible condition¹⁶. Angela Merkel was adamant, however, that EU intervention would only happen as a “last resort”, without communicating what emergency actions might consist of and when they might be determined.

Bond markets concluded that Greece would have difficulty imposing austerity measures and that a bailout solution would take time if it happened at all. Greece’s bond costs rose to twice those of Germany. Intergovernmental bickering and confusion then extended through March and April, with more vague announcements and commitments. The ECB provided assistance in the meantime, by announcing that it would accept Euro-zone members’ bonds as collateral even if ratings agencies had downgraded them. By early May, however, after Standard and Poor’s had lowered Greece’s credit rating three more grades and the global stock market had taken another large hit, leaders finally had to act¹⁷. The Commission had proposed a large program of loans coming from the creation of European bonds, a position close to what the French wanted¹⁸. The Germans had ruled them out, fearing the German Constitutional Court’s reaction, as “Eurobonds” would encourage moral hazard while also affecting the credit rating of virtuous EMU members. Instead, Euro-group leaders created a new “European Financial Stability Facility” (EFSF), a bailout body that would provide €440 billion in conditional loans from EU countries, €60 billion from the EU budget, and a further €250 million from the IMF, bringing the total to €750 billion¹⁹.

The first use of the new EFSF measures was €110 million allocated to Greece, in exchange for yet another (the fourth) Greek austerity program. Faced with impending disaster, had Germany realized that the situation could not be resolved by preaching about greater economic virtue alone. Even so, the compromise was defined in German terms, involving bilateral loans contingent on the recipients accepting harsh austerity conditions, and no bailouts that committed EMU members to “transfers”. The fact that stringent austerity measures might prevent the economic growth needed to pay back loans seemed not to matter. Finally, Germany and other countries believed that the new EFSF would be large enough to cover any future

¹⁶ Peter Ludlow “A View on Brussels, In the Last Resort: The European Council and the euro crisis,” (2010) 7: 718 *Eurocomment* (briefing note); EC, *Statement by the Heads of State or Governments of the European Union* (11 February 2010), online: Consilium.europa.eu <http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/112856.pdf>[*European Union Statement*].

¹⁷ Matthew Lynn, *Bust: Greece, the Euro and the Sovereign Debt Crisis* (New York: John Wiley & Sons, 2010), particularly chapter 8.

¹⁸ *European Union Statement*, *supra* note 16.

¹⁹ Bastasin, *supra* note 11 at chapter 11.

emergency situations, thereby calming bond markets once and for all. This was another doubtful calculation and in the summer of 2010, the troubles returned.

Ireland's difficulties began in the private banking sector and a housing bubble rather than in public budgets (as was the case in Greece). When the Great Recession pushed Ireland into economic decline in the fall of 2008, the government guaranteed the debts and deposits of the country's six largest banks. This left the state on the hook for \$650 billion and abruptly raised the annual deficit to over 30 %. What had been a private sector problem became one of sovereign debt. Bond market agitation and credit rating downgrades then brought the Euro-zone and EU back to full alert. The Irish, like the Greeks before them, would borrow from the EFSF. Afterwards, hypothetically, the markets would calm. The Irish themselves did not want to take this course, claiming that they had cash on hand to cover debt interest for several months²⁰. EU and Euro-zone heavyweights, including the ECB, concerned about bond market contagion, obligated them to take €85 billion anyway. Portugal was targeted next and forced to borrow €78 billion in April 2011.

By this point the ways in which the Franco-German couple's crisis decision-making actually worked were clear. When the two disagreed, Germany carried the day. The 'Eurobond' and "haircuts" stories were more examples. France and others proposed Eurobonds again during debate concerning the new European Stability Mechanism (ESM) that was to succeed the temporary EFSF. As was the case earlier, Germany blocked Eurobonds, and was supported by smaller and wealthier Northern countries like Austria, the Netherlands, and Finland. As a result, the new ESM would be built from grouped national loans, like the EFSF before it. EFSF bailouts were proving unable to compensate for EMU discrepancies, as was demonstrated by the Greek situation. The 2010 loan worsened Greece's problems by increasing its debts beyond any reasonable expectations of its ability to repay. As such, the country was constrained to pursue gruelling austerity measures that blocked new growth and fueled public anger that verged on insurrection. By the spring of 2011, there had to be discussions concerning another €110 billion loan. Germany proposed plans to restructure existing loans that included Greek bondholders accepting "haircuts". A July 2011 summit deal resulted in the plan being accepted. It included rollovers for older loans, longer maturity dates for new ones, and reduced final bond payouts. These implied technical defaults on some Greek debt. Originally, Germany insisted that this restructuring be obligatory, scaring the ECB (worried about a large "credit event") and led the French to broker "voluntary" acceptance²¹. "Haircuts" turned out to be a tactical mistake, prompting bond markets to return to their worries. They lead to a contagion of fear spreading to Spain and Italy's markets.

²⁰ David Lynch, *When the Luck of the Irish Ran Out: The World's Most Resilient Country and Its Struggle to Rise Again* (New York: Palgrave MacMillan, 2010), chapters 7 and 8; The Economist, "Briefing: Ireland's economy," November 20, 2010, at 79-81.

²¹ Financial Times, "Dogmatists raise the costs of the Eurozone crisis," May 16, 2011; "Eurozone: Frankfurt's Dilemma," May 24, 2011; "Europe: Four steps to fiscal union," August 11, 2011; Peter Boone and Simon Johnson, *Europe on the Brink* (Washington: Peterson Institute for International Economics, 2011) online: <<http://www.iie.com/publications/pb/pb11-13.pdf>>.

The inevitable response was another summit on October 26, 2011, the fifteenth since Greek difficulties emerged. This one produced solemn pledges that a 50 % haircut would be limited to Greek debt, in the hopes of forestalling investor concerns about all Euro-zone bonds facing haircuts. It also promised a fourfold multiplication of EFSF funding, acting as a “firewall” against bond market contagion to Italy and Spain. In addition, a mandatory 9 % EU bank capitalization to block systemic bank problems, and new (but again empty!) pledges from Berlusconi were put into place in order to cut Italy’s debt²². The bond markets calmed briefly, but resumed their anxiety quickly once discrepancies between the pledges of the summit’s communiqué and concrete proposals became clear. Commentators then began discussing the prospects of the ECB being the provider of massive new firepower for the ESM and EMU lender of last resort. Germany was adamantly against this, however.

George Papandreou’s proposal concerning a national referendum on the second Greek bailout shattered any remaining optimism. At this point, German and French gloves came off. Papandreou, in Greece, and Berlusconi, in Italy, both resigned under strong pressure and were quickly replaced by skilled technocrats well versed in EU ways. Lucas Papademos was from the ECB and Mario Monti was a distinguished former Commissioner. The operation looked very much as if France and Germany were placing Greece and Italy under trusteeship.

As the seasons changed to winter 2012, there were a few weeks of calm after the ECB spent €1 trillion buying large amounts of debt, mainly from banks, to ensure sufficient liquidity (Long Term Refinancing Operation, or LTRO). The calm did not last, however. Spain, with a budget under control and serious austerity programs, fell under threats from the bond markets because of the perilous state of its private sector banks following the collapse of the real estate bubble. Afterwards, there was considerable pressure to put more money in the ESM “firewall” that which the Germans refused outright. The French presidential and Greek legislative elections in May opened the situation again. The new French socialist President François Hollande had campaigned, in his mild-mannered way, for new European programs to promote growth. These programs would override the recessionary logic of harsh austerity plans that the Euro-zone crisis had produced to that point. His appeal joined a wave of indignation and fear in several countries, including Italy. They feared that Europe was punishing itself with years of high unemployment and political unrest, unless policies were to change. The Greek legislative elections provided another shock. Support for the two centrist parties that had exchanged power over decades collapsed. More strident anti-austerity parties, on Left and Right, profited and no new government coalition could be formed. It began to look like Greece might renounce its loan and austerity contracts with the Euro-zone, default on its debts, leave the EMU, and leave the Euro-zone crisis much worse. New elections were called for June 2012 which brought the centre-Right New Democracy party back to power at the head of a precarious coalition.

²² European Council, *European Council conclusions on completing EMU*, October 18, 2011, online : <http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132986.pdf>.

III. Conclusions: EU Intergovernmentalism reconsidered

Two and a half years of intergovernmental negotiations have not “solved” the Euro-zone crisis – far from it! A succession of perilous episodes have nonetheless brought an accretion of reforms²³. In partial answer to the long running argument on whether a single currency area could succeed without serious constraints on national fiscal autonomy, many crisis reparative measures to the EMU point to this direction. Change began in 2010 with the new European System of Financial Supervisors and the “six pack” of directives and regulations, all strengthening the supervision of national fiscal practices²⁴. As it has been noted, Euro-zone members agreed that a European Stability Mechanism (ESM) would take over from the temporary EFSF as of mid-2012. This, even if, at the time of creation, they are still debating about funding levels high enough to confront future challenges. Beginning in 2011, the EU implemented its first “European Semester”, during which national budget peer reviews and the development of the EU’s Broad Economic Policy Guidelines were executed in temporal sequence. The March 2011 European Council adopted a “Euro Plus Pact”. The signatories (Euro-zone countries plus six others) committed to new procedures that would foster competitiveness, employment, sustainable public finances, and financial stability²⁵. Finally, EU member states (excepting the UK and the Czech Republic) signed a new “fiscal compact” treaty in 2012 (officially called the “*Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*”)²⁶, that, once ratified, will be effective in January 2013 (only twelve Euro-zone members are needed to ratify it and those who do not will be ineligible for ESM). Its distinctly Germanic “fiscal compact” sections will oblige EMU governments to budgetary balances or surpluses and to inscribe balanced budget commitments in their constitutions. Monitoring and supervision will be enhanced, excessive deficit procedures sharpened. The European Commission will be able to refer violators who fail to adopt balanced budget clauses to the ECJ, and violation penalties will be assessable by a qualified majority. Finally, in autumn 2012 there were new proposals for a “banking union” in which the ECB would become regulator and supervisor of Eurozone banks.

Such a long list of actions could result in virtuous changes. One must remember, however, that the EU is constantly making declarations, creating new procedures, and establishing new institutions. Not all see the light of day and, of these, not all accomplish what they are set out to. Within the Euro-zone crisis, strong incentives exist to promote their effectiveness, but forces that could lead them to fall

²³ European Commission, “The EU’s Comprehensive Policy Response to the Crisis,” Directorate-General for Economic and Financial Affairs (2011) 10:2 Quarterly Report on the Euro Area.

²⁴ European Commission, “Communication from the Commission. Reinforcing Economic Policy Coordination,” Com (2010) 250 final, (Brussels, EC 2010).

²⁵ *Ibid*, chapter 1.

²⁶ European Council, *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, Draft (Brussels European Council, 2012), online: <<http://www.european-council.europa.eu/media/579087/treaty.pdf>>.

short are also strong. Whatever the changes amount to, it is worth noting that most of them have been aimed at calming and establishing greater confidence in financial markets by establishing greater confidence. They have, so far, failed to do so.

In terms of the ways in which EU intergovernmentalism has happened during these crisis conditions, it is clear that the Euro-zone and the broader EU have not been able to avoid classic dilemmas of multilateralism. These include slow decision-making and less than optimal outcomes. Two and a half years of what can only be called dithering did not bring the crisis closer to a conclusion. Instead, a series of ineffective stopgap responses that fell short of confronting real problems were produced. These measures were more aimed at buying time at a low cost to key EU member states and, as such, turned out to be suboptimal in resolving the crisis. In fact, this series of Euro-zone crisis bargains not only have not resolved problems, they have also repeatedly stimulated new bond market fears.

The Maastricht EMU bargain was an imperfect deal, as many knew at the time. In its complicated ways, however, it was leap forward into an unknown future produced by EU intergovernmentalism, dominated by the traditional Franco-Germanic association. France took the lead, with some allies, in promoting the idea of economic and monetary union. Germany resisted this idea, but past situations intervened to change their minds. Once the Germans became players, they became the lead architects of the Maastricht deal. The result, monetary union without much advance toward genuine political federalism, was a risky bet. EU member states were unwilling to make large new federal steps forward in 1991. In the aftermath of Maastricht, leaders hoped that the flaws of the Maastricht agreement might become an incentive to new actions being taken to transcend some of the EMU's dilemmas. Instead, the EU retreated toward greater, and perhaps more nationally-selfish, intergovernmentalism, stimulated by national "Euro-fatigue". This relative withdrawal stemmed primarily from the EU's rapid policy expansion, at the end of the Cold War in a massive new EU enlargement, globalization and economic changes, internal tensions within national EU political arenas, and growing citizen skepticism about European integration. In retrospect, it was not surprising that negotiating new collective decisions for a threatened Euro-zone was not a win-win situation among cooperative neighbouring countries.

Maastricht, however flawed, was a moment of new commitment to European integration, largely fostered by the EU's traditional French and German leaders. So far, emergencies, the interplay of national preferences, relative bargaining power, and, perhaps most important, flagging national commitments to European integration have shaped negotiation outcomes in the Euro-zone crisis. Initially, with the EMU perched at the edge of a Greek economic 'cliff', strong German preferences and disagreements within the Franco-Germanic association stalled the search for timely responses. Five inconclusive months passed before Germany backed away from its refusal to aid Greece. The result was the EFSF formula, tailored to German criteria. This proved inadequate when Spain and Italy fell under bond-market siege. Germany shifted again to accept a larger permanent emergency loan-bailout "firewall" (the ESM). It also accepted certain elements of the "economic government", defined in highly

technocratic ways that it had earlier refused to discuss. However, once again, Germany did not relinquish overall control. German beliefs that Euro-zone problems stemmed almost exclusively from budgetary imprudence prevailed, as did the notion that the only real remedy was harsh austerity.

German power and the obduracy of the Merkel government have been widely interpreted as a proof of recent changes in German national interests. Joschka Fischer, the former SPD Foreign Minister, asserted (when speaking about Angela Merkel) that “Frau Germany has become Madame Europe”. Jürgen Habermas added that “the current German elites are enjoying the return to normality as a nation state. Having reached the end of a ‘long path to the West’, they are certified democrats and can once again be ‘just like the others’”²⁷. The kernels of truth in these observations help explain changes to the Franco-German couple during the crisis. A Germany “just like the others” has insisted on making the others, France included, conform to German policy preferences. Changes in German outlooks were not the only story, however. In the demanding conditions of the Euro-zone crisis, divergent national economic strategies, which had grown larger over the first decade of the EMU, made productive compromise between national preferences more difficult. Confronting the crisis head on to save the Euro-zone would have involved greater commitment to integration and much more willingness to create something new. The first condition did not exist and this has rendered the second condition unfeasible. Member states, Germany included, were unwilling to take the necessary steps. These steps would have been too costly both economically and politically: economically, many EMU members could not afford them, and politically few were willing to move towards new federalism that they would involve. These observations indicated that their willingness to cooperate had lessened and that underlying pressures toward integration across Europe had also declined. For those in need of Euro-zone help, not only Greece, the dramatic demands for austerity coming from the Germans were perceived as excessive, unhelpful, unwelcome, unrealistic and, where possible, to be circumvented.

The Euro-zone crisis, whatever its ultimate outcome, has already led to several very important, and probably lasting, changes. The imposition of harsh austerity programs on peripheral and poorer Euro-zone countries and the effects of debt-reduction orthodoxies on wealthier ones puts great pressure on a range of public policies and on EU citizens. The implications will depend, in large part, on the performance of the global economy and on what ultimately happens in the Euro-zone. Bad economic luck, however, coupled with medium-term cutbacks and reforms in most EU member states is almost certain to result in lower average European growth for some time (even if a few member states may do slightly better). The present political predominance of centre-right national governments and the neo-liberalism of

²⁷ Jürgen Habermas, “Germany and the Euro-Crisis”, *The Nation*, 9 June 2010, online: The Nation.com <<http://www.thenation.com/article/germany-and-euro-crisis#>>; William A. Patterson, “The Reluctant Hegemon? Germany Moves Center Stage in the European Union” in Nathaniel Copsey and Tim Haughton, eds, *The JCMS Annual Review of the European Union* (Oxford: Wiley-Blackwell, 2011), 57.

the European Commission indicate that these austerity policies will have more severe consequences than they might otherwise have supposed.

Recent history tells us that it is difficult to reform pensions, rebuild educational systems, control healthcare costs, and reconfigure labour markets in the absence of growth to reward actors for potential losses. Such growth will be difficult to find in the EU's years to come. Resistance, protest, and more volatile electoral politics have already contributed to reversing governments in the EMU's worst hit countries like Greece, Portugal, Ireland, Spain, and Italy. The phenomenon of evicting incumbents has already occurred in the United Kingdom, Netherlands, Denmark, and France. Germany itself, with federal elections scheduled for 2013, may not be exempt. Such ambient political discontent has also fed Europe's rapidly growing far-right xenophobic populisms.

This essay began by suggesting that the EMU and its contemporary troubles could be useful in order to examine the workings of EU intergovernmentalism. This was based on the premise that recent EU evolution had rendered intergovernmental modes of decision-making, as opposed to the more semi-supranational "community method", more prominent. The EU's intergovernmental mechanisms as well as their costs and benefits will obviously vary considerably depending on policy area. European integration may be better served, for example, with the existence of concrete European foreign and security policies. Their absence underlines present limitations to combining sovereignty in specific areas but it does not constitute a huge threat to the entire integration project. That being said, the ways in which EU intergovernmentalism has worked in the EMU, and particularly in the Euro-zone crisis, clearly indicates that European integration faces serious problems. Worse still, the evidence is EU member states have not had, and probably will not have, the will to work any differently.